

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 20-F

April 28, 2015

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

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**FORM 20-F**

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2014**

**OR**

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

**OR**

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

Commission file number 1-31994

**Semiconductor Manufacturing International Corporation**  
(Exact name of Registrant as specified in its charter)

**Not Applicable**  
(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

**Mr. Gao Yonggang, Chief Financial Officer**

**Telephone: (8621) 3861-0000**

**Facsimile: (8621) 3895-3568**

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

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

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

| Title of each class                   | Name of each exchange on which registered |
|---------------------------------------|---|
| Ordinary Shares, par value US\$0.0004 | The Stock Exchange of Hong Kong Limited*  |
| American Depositary Shares            | The New York Stock Exchange, Inc.         |

Securities registered or to be registered pursuant to Section 12(g) of the Act. **None**

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

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

As of December 31, 2014, there were 35,856,096,167 ordinary shares, par value US\$0.0004 per share, outstanding, of which 1,096,664,550 ordinary shares were held in the form of 21,933,291 American Depositary Shares (ADSs). Each ADS represents 50 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

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

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**INTRODUCTION**

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- ADSs refers to American Depositary Shares;
- Average selling price of wafers refers to simplified average selling price which is calculated as total revenue divided by total shipments;
- Board refers to our board of directors;
- China or the PRC refers to the People's Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- Company, SMIC, Registrant, we, our and us refers to Semiconductor Manufacturing International Corporation, a Cayman Islands company;
- Directors refers to the members of the Board;
- EUR refers to Euros;
- Global Offering refers to the initial public offering of our ADSs and our ordinary shares, which was completed on March 18, 2004;
- Group refers to SMIC and all of its subsidiaries;
- HK\$ refers to Hong Kong dollars;

- IFRS refers to International Financial Reporting Standards as issued by the International Accounting Standards Board;
- Rmb, rmb or RMB refers to Renminbi, the legal currency of China;
- NYSE or New York Stock Exchange are to the New York Stock Exchange, Inc.;
- SEC refers to the U.S. Securities and Exchange Commission;
- SEHK, HKSE or Hong Kong Stock Exchange refers to The Stock Exchange of Hong Kong Limited;
- U.S. GAAP refers to generally accepted accounting principles in the United States; and
- US\$ or USD refers to U.S. dollars.
- The Glossary of Technical Terms contained in Annex A of this annual report sets forth the description of certain technical terms and definitions used in this annual report.

All references in this annual report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer, 45 nanometer and 28 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state 0.25 micron process technology, that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies and 0.18 micron process technology also includes 0.17 micron and 0.16 micron technologies.



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All references to our ordinary shares in this annual report gives effect to the 10-for-1 share split we effected in the form of a share dividend immediately prior to the completion of the Global Offering on March 18, 2004. All references to price per ordinary share and price per preference share reflect the share split referenced above

We prepare our consolidated financial statements in accordance with IFRS. Our consolidated financial statements presented in our annual reports for the years ended prior to December 31, 2011 were prepared in accordance with U.S. GAAP.

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**FORWARD-LOOKING STATEMENTS**

This annual report contains, in addition to historical information, forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current assumptions, expectations and projections about future events. We use words like believe, anticipate, intend, estimate, expect, project and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the judgment of our senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause our actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others:

- risks associated with cyclicity and market conditions in the semiconductor industry;
- intense competition;
- timely wafer acceptance by our customers;
- timely introduction of new technologies;
- our ability to ramp new products into volume;
- supply and demand for semiconductor foundry services;
- industry overcapacity;
- shortages in equipment, components and raw materials;
- availability of manufacturing capacity;

- our anticipated capital expenditures;
- our anticipated investments in research and development, anticipated changes to our liability for unrecognized tax benefits; and
- financial stability in end markets.

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

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**Part I**

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

Not applicable.

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

Not applicable.

**Item 3. Key Information**

**A. Selected Consolidated Financial Data**

We started to prepare our annual consolidated financial statements in accordance with IFRS for the first time as of and for the year ended December 31, 2012. Prior to this, we prepared our annual consolidated financial statements in accordance with U.S. GAAP. We adjusted our consolidated financial statements as of and for the year ended December 31, 2011 in accordance with IFRS and therefore, financial information set forth in this annual report as of and for the year ended December 31, 2011 may differ from information published in our annual report for the year ended December 31, 2011.

The selected consolidated financial data presented below as of and for the years ended December 31, 2012, 2013 and 2014 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with our audited consolidated financial statements, including the related notes, included elsewhere in this annual report.

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|   | For the year ended December 31,                    |             |             |             |
|---|--|-------------|-------------|-------------|
|   | 2011   | 2012        | 2013        | 2014        |
|   | (in US\$ thousands, except for earnings per share) |             |             |             |
| <b>Revenue</b>  | 1,319,466  | 1,701,598   | 2,068,964   | 1,969,966   |
| <b>Cost of sales</b>  | (1,217,525)  | (1,352,835) | (1,630,528) | (1,486,514) |
| <b>Gross profit</b>   | 101,941  | 348,763     | 438,436     | 483,452     |
| <b>Research and development expenses, net</b>                             | (191,473)  | (193,569)   | (145,314)   | (189,733)   |
| <b>Sales and marketing expenses</b>                                       | (32,559)   | (31,485)    | (35,738)    | (38,252)    |
| <b>General and administration expenses</b>                                | (57,435)   | (107,313)   | (138,167)   | (139,428)   |
| <b>Other operating income (expense)</b>                                   | (11,190)   | 19,117      | 67,870      | 14,206      |
| <b>Profit (loss) from operations</b>                                      | (190,716)  | 35,513      | 187,087     | 130,245     |
| <b>Interest income</b>  | 4,724  | 5,390       | 5,888       | 14,230      |
| <b>Finance costs</b>  | (21,903)   | (39,460)    | (34,392)    | (20,715)    |
| <b>Foreign exchange gains or losses, net</b>                              | 17,589   | 3,895       | 13,726      | (5,993)     |
| <b>Other gains or losses</b>  | 6,709  | 6,398       | 4,010       | 18,210      |
| <b>Share of profits of associates</b>                                     | 4,479  | 1,703       | 2,278       | 2,073       |
| <b>Profit (loss) before tax</b>   | (179,118)  | 13,439      | 178,597     | 138,050     |
| <b>Income tax benefit (expense)</b>                                       | (82,503)   | 9,102       | (4,130)     | (11,789)    |
| <b>Profit (loss) for the year from continuing operations</b>              | (261,621)  | 22,541      | 174,467     | 126,261     |
| <b>Discontinued operations</b>  |  |             |             |             |
| <b>Profit for the year from discontinued operations</b>                   | 14,741   |             |             |             |
| <b>Profit (loss) for the year</b>   | (246,880)  | 22,541      | 174,467     | 126,261     |
| <b>Other comprehensive income</b>   |  |             |             |             |
| <b>Exchange differences on translating foreign operations</b>             | 4,938  | 70          | 731         | (324)       |
| <b>Total comprehensive income (expense) for the year</b>                  | (241,942)  | 22,611      | 175,198     | 125,937     |
| <b>Profit (loss) for the year attributable to:</b>                        |  |             |             |             |
| <b>Owners of the Company</b>  | (246,817)  | 22,771      | 173,177     | 152,969     |
| <b>Non-controlling interests</b>  | (63)   | (230)       | 1,290       | (26,708)    |
|   | (246,880)  | 22,541      | 174,467     | 126,261     |
| <b>Total comprehensive income (expense) for the year attributable to:</b> |  |             |             |             |
| <b>Owners of the Company</b>  | (241,879)  | 22,841      | 173,908     | 152,645     |
| <b>Non-controlling interests</b>  | (63)   | (230)       | 1,290       | (26,708)    |
|   | (241,942)  | 22,611      | 175,198     | 125,937     |
| <b>Earnings (loss) per share</b>  |  |             |             |             |
| <b>From continuing and discontinued operations</b>                        |  |             |             |             |
| <b>Basic</b>  | \$ (0.01)  | \$ 0.00     | \$ 0.01     | \$ 0.00     |
| <b>Diluted</b>  | \$ (0.01)  | \$ 0.00     | \$ 0.01     | \$ 0.00     |
| <b>From continuing operations</b>   |  |             |             |             |
| <b>Basic</b>  | \$ (0.01)  | \$ 0.00     | \$ 0.01     | \$ 0.00     |
| <b>Diluted</b>  | \$ (0.01)  | \$ 0.00     | \$ 0.01     | \$ 0.00     |

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|  | For the year ended<br>December 31,<br>2010(1)<br>(in US\$ thousands,<br>except for per share<br>and per ADS data) |
|--|---|
| Sales  | 1,532,449   |
| Cost of sales  | 1,229,266   |
| Gross profit   | 303,183   |
| Operating expenses (income):   |   |
| Research and development   | 191,046   |
| General and administrative   | 41,387  |
| Selling and marketing  | 29,087  |
| Impairment loss of long-lived assets   | 5,138   |
| Loss from sale of equipment and other fixed assets   | 97  |
| Other operating income   | (16,493)  |
| Total operating expenses, net  | 250,262   |
| Income from operations   | 52,921  |
| Other income (expense):  |   |
| Interest income  | 4,086   |
| Interest expense   | (22,563)  |
| Change in the fair value of commitment to issue shares and warrants                        | (29,815)  |
| Foreign currency exchange gain   | 5,101   |
| Others, net  | 6,534   |
| Total other expense, net   | (36,657)  |
| Income from continuing operations before income tax and equity investment                  | 16,264  |
| Income tax benefit   | 4,818   |
| Gain from equity investment  | 285   |
| Income from continuing operations  | 21,367  |
| Loss from discontinued operations net of tax effect  | (7,356)   |
| Net income   | 14,011  |
| Accretion of interest to non-controlling interest  | (1,050)   |
| Loss attributable to non-controlling interest  | 140   |
| Net income attributable to Semiconductor Manufacturing International Corporation           | 13,100  |
| Deemed dividends on convertible preferred shares   |   |
| Net income attributable to holders of ordinary shares                                      | 13,100  |
| Net income   | 14,011  |
| Other comprehensive loss:  |   |
| Foreign currency translation adjustment  | (706)   |
| Comprehensive income   | 13,305  |
| Comprehensive loss attributable to non-controlling interest                                | (910)   |
| Comprehensive income attributable to Semiconductor Manufacturing International Corporation | 12,395  |
| Earnings per ordinary share, basic   | \$ 0.00   |
| Earnings per ordinary share, dilute  | \$ 0.00   |
| Weighted average shares used in computing basic earnings per ordinary share                | 24,258,437,559  |
| Weighted average shares used in computing diluted earnings per ordinary share              | 25,416,597,405  |

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(1) Prepared under U.S. GAAP.

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|   | 2011                  | As of December 31,<br>2012<br>(in US\$ thousands) |  | 2013                  | 2014                  |
|---|-----------------------|---|--|-----------------------|-----------------------|
| <b>Statements of Financial Position Data:</b> |                       |   |  |                       |                       |
| Property, plant and equipment                 | 2,516,578             | 2,385,435   |  | 2,528,834             | 2,995,086             |
| Prepaid land use rights                       | 77,231                | 73,962  |  | 136,725               | 135,331               |
| <b>Total non-current assets</b>               | <b>2,866,416</b>      | <b>2,803,173</b>                                  |  | <b>2,960,151</b>      | <b>3,471,120</b>      |
| Inventories                                   | 207,308               | 295,728   |  | 286,251               | 316,041               |
| Prepayment and prepaid operating expense      | 52,805                | 46,986  |  | 43,945                | 40,628                |
| Trade and other receivables                   | 200,905               | 328,211   |  | 379,361               | 456,388               |
| Other financial assets                        | 1,973                 | 18,730  |  | 240,311               | 644,071               |
| Restricted cash                               | 136,907               | 217,603   |  | 147,625               | 238,051               |
| Cash and cash equivalents                     | 261,615               | 358,490   |  | 462,483               | 603,036               |
| Assets classified as held-for-sale            |                       | 4,239   |  | 3,265                 | 44                    |
| <b>Total current assets</b>                   | <b>861,513</b>        | <b>1,269,987</b>                                  |  | <b>1,563,241</b>      | <b>2,298,259</b>      |
| <b>Total assets</b>                           | <b>3,727,929</b>      | <b>4,073,160</b>                                  |  | <b>4,523,392</b>      | <b>5,769,379</b>      |
| <b>Total non-current liabilities</b>          | <b>230,607</b>        | <b>688,622</b>                                    |  | <b>991,673</b>        | <b>1,311,416</b>      |
| <b>Total current liabilities</b>              | <b>1,251,324</b>      | <b>1,108,086</b>                                  |  | <b>938,537</b>        | <b>1,150,241</b>      |
| <b>Total liabilities</b>                      | <b>1,481,931</b>      | <b>1,796,708</b>                                  |  | <b>1,930,210</b>      | <b>2,461,657</b>      |
| Ordinary shares \$0.0004 par value            | 10,995                | 12,800  |  | 12,845                | 14,342                |
| Non-controlling interest                      | 1,182                 | 952   |  | 109,410               | 359,307               |
| <b>Total equity</b>                           | <b>2,245,998</b>      | <b>2,276,452</b>                                  |  | <b>2,593,182</b>      | <b>3,307,722</b>      |
| <b>Shares issued and outstanding</b>          | <b>27,487,676,065</b> | <b>32,000,139,623</b>                             |  | <b>32,112,307,101</b> | <b>35,856,096,167</b> |

|                                       | As of December 31,<br>2010(1)<br>(in US\$ thousands) |
|---------------------------------------|--|
| <b>Balance Sheet Data:</b>            |  |
| Cash and cash equivalents             | 515,808  |
| Restricted cash                       | 161,350  |
| Accounts receivable, net of allowance | 206,623  |
| Inventories                           | 213,404  |
| <b>Total current assets</b>           | <b>1,179,102</b>                                     |
| Prepaid land use rights               | 78,798   |
| Plant and equipment, net              | 2,351,863  |
| <b>Total assets</b>                   | <b>3,902,693</b>                                     |
| <b>Total current liabilities</b>      | <b>1,399,345</b>                                     |
| <b>Total long-term liabilities</b>    | <b>294,806</b>                                       |
| <b>Total liabilities</b>              | <b>1,694,152</b>                                     |
| Ordinary shares \$0.0004 par value    | 10,934   |
| Non-controlling interest              | 39,004   |
| <b>Total equity</b>                   | <b>2,169,537</b>                                     |
| <b>Shares issued and outstanding</b>  | <b>27,334,063,747</b>                                |

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(1) Prepared under U.S. GAAP

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**B. Capitalization and Indebtedness**

Not Applicable

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

Not Applicable

**D. Risk Factors**

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

**We may not be able to achieve or maintain a level of profitability, primarily due to the possibility of increasing fixed costs and market competition reflected in price erosion in the average selling prices of our products.**

Our profit totaled US\$126.3 million in 2014 and US\$174.5 million in 2013. However, with the offsetting impact of such profits, we still have net accumulated losses of US\$1,540.9 million as of the end of 2014. We may not be able to achieve or maintain profitability on an annual or quarterly basis, primarily because our business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. We will continue to incur capital expenditures and depreciation expenses as we equip and ramp-up additional fabs and expand our capacity at our existing fabs. This may result in an increase of our fixed costs and possibly reduce our chances of achieving or maintaining profitability.

In addition, we are competing in the same technology environment as a number of other foundries and our competitors who operate these foundries often use price as a means of securing business, resulting in erosion of the average selling price of our product portfolio, which adversely affects our ability to achieve or maintain profitability.



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

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

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

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

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

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

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

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

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

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

In addition, certain loan agreements of the Group contain, and any future loan agreements may contain, cross-default clauses whereby a default under one of the loan agreements may constitute an event of default under the other loan agreements. We may also be required to satisfy and maintain specified financial ratios and other financial covenants (see Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Bank borrowing for details). The Group's ability to meet such financial ratios and other covenants can be affected by various events, and we cannot assure you that we will meet these ratios and comply with such covenants in the future. A breach of any of these covenants would result in a default under the existing loan agreements of the Group, which may allow the lenders to declare all amounts outstanding thereunder to be due and payable after the lapse of the relevant grace period and terminate all commitments to extend further credit, any of which could result in an event of default under the terms and conditions of the loan agreement.

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

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

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

The demand for foundry services by IDMs, fabless semiconductor companies and systems companies has been increasing. We have made significant investments in anticipation of the continuation of this trend and, as such, any reversal of this trend will likely result in a lower rate of return on our investments. During an industry slowdown, IDMs may allocate a smaller portion of their fabricating needs to foundry service providers and perform a greater amount of foundry services for system companies and fabless semiconductor companies in order to maintain their equipment's utilization rates. As a result, our business and operating results could be adversely affected.

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

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

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

Due to the factors noted above and other risks discussed in this section, year-to-year comparisons cannot be relied upon to predict our future performance. Unfavorable changes in any of the above factors may adversely affect our business and operating results. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods.

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

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

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

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

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

Over the next several years, we plan to increase our production capacity through expansion of existing and new production sites. We expect to add capital equipment and increase our headcount with future increases in production capacity. If we fail to develop and maintain management and administrative systems and resources sufficient to keep pace with our planned growth, we may experience difficulties managing our growth and our business and operating results could be adversely affected.

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

Our success depends on the continued service of our key management team members, and in particular, Mr. Zhou Zixue, Chairman of our Board and Executive Director as well as Dr. Tzu-Yin Chiu, Chief Executive Officer and Executive Director. We do not carry full key person insurance. If we lose the services of any of our key executive officers, it could be very difficult to find, relocate and integrate adequate replacement personnel into our operations. As a result, our operations and the growth of our business could be seriously harmed.

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

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

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

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

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

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**If we do not consistently anticipate trends in technology development, we will not be able to maintain or increase our business and operating margins.**

The semiconductor industry is developing rapidly and the related technologies are constantly evolving. We must be able to anticipate the trends in technology development and rapidly develop and implement new and innovative technologies that our customers require to produce sufficiently advanced products at competitive prices and within the time window of market opportunities. To do this, we must make long- term investments, develop or obtain appropriate intellectual property and commit significant resources based on forecasts. If there is large variation between our forecasts and the actual outcome, our long- term investments will not yield satisfactory results and our business and operations will be adversely affected.

Further, as the life cycle for a process technology matures, the average selling price falls. Accordingly, unless we continually upgrade our capability to manufacture new products that our customers design, our customers may use the services of our competitors instead of ours. This can result in the average selling prices of our wafers falling, which could adversely affect our business and operating margins.

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

We have been dependent on a small number of customers for a substantial portion of our business. For the years ended December 31, 2013 and 2014, our five largest customers accounted for 52.3% and 51.1% of our total sales, respectively. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our sales. Sales generated from these customers, individually or in the aggregate, may not reach our expectations or historical levels in any future period. Our sales could be significantly reduced if any of these customers cancels or reduces its orders, significantly changes its product delivery schedule, or demands lower prices, which could have an adverse effect on our results of operations.



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

In 2014, our capital expenditures totaled approximately US\$1 billion and we currently expect our capital expenditures for foundry operations in 2015 to total approximately US\$1.4 billion, subject to adjustment based on market conditions. The planned 2015 capital expenditures for foundry operations are mainly for 1) the expansion of capacity in the 12-inch fab of Semiconductor Manufacturing North China (Beijing) Corporation ( SMNC ) and the new 8-inch fab in Shenzhen and 2) research and development equipment, mask shops and intellectual property acquisition. We also have budgeted approximately US\$100 million as the 2015 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. We plan to rent or sell these living quarters to employees in the future. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, customer requirements or interest rates. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet our growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

Our operating cash flows may not be sufficient to meet our capital expenditures requirements. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing, as we did in 2014 with our bond offerings and ordinary shares issuances. Our ability to obtain external financing is subject to a variety of uncertainties, including:

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

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

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**Expansion of our production sites is subject to certain risks that could result in delays or cost overruns, which could require us to expend additional capital and adversely affect our business and operating results.**

We plan to increase our production capacity through expansion of existing production sites and construction of new sites, such as Shenzhen, our wholly-owned subsidiary, SMNC, our majority-owned subsidiary in Beijing and SJ Semiconductor (Jiangyin) Corp, our majority-owned subsidiary in Jiangyin. There are a number of events that could delay these expansion projects or increase the costs of building and equipping these or future projects in accordance with our plans. Such potential events include, but are not limited to:

- shortages and late delivery of building materials and facility equipment;
- delays in the delivery, installation, commissioning and qualification of our manufacturing equipment;
- delays in securing financing for the expansion projects;
- disagreements with partners involved in the expansion projects;
- seasonal factors, such as extended periods of adverse weather that limit construction;
- labor disputes;
- design or construction changes with respect to building spaces or equipment layout;
- delays in securing necessary government approvals or land use rights; and
- changes in technology, capacity, or other changes in our plans for new fabs necessitated by changes in market conditions.

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

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

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

The worldwide semiconductor foundry industry is highly competitive. We compete with other foundries, such as Taiwan Semiconductor Manufacturing Company Ltd., or TSMC, United Microelectronics Corporation, or UMC, and Global Foundries, as well as the foundry services offered by some IDMs, such as Fujitsu Limited and Samsung Electronics Co. Ltd. We also compete with smaller semiconductor foundries in China, Korea, Malaysia and other countries. While different players in the wafer foundry market may compete on factors such as technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, yields, customer service and price, we seek to compete on the basis of process technology capabilities, performance, quality, service and price. The level of competition differs according to the process technology involved. Some of our competitors have greater access to capital and substantially higher capacity, longer or more established relationships with their customers, superior research and development capability, and greater marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

Some of our competitors have established operations in mainland China in order to compete for the growing domestic market in China. TSMC has its own fab in Shanghai and UMC has its majority-owned fab in Suzhou. Also, UMC was approved recently by Taiwan government authorities to invest in a 12-inch joint venture fab in Xiamen. In these cases, we understand that the ability of these fabs to manufacture wafers using certain more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

In addition, various other factors such as import and export controls, foreign exchange controls, exchange rate fluctuations, interest rate fluctuations and political developments affect our ability to compete successfully. If we cannot compete successfully in our industry or are unable to maintain our position as a leading foundry in China, our results of operations and financial condition will be adversely affected.

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

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

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

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements to enable us to manufacture certain advanced wafers. As of December 31, 2014, we had been granted 4,669 patents worldwide, of which, 60 were in Taiwan, 444 were in the U.S., 4,144 were in China and 21 were in other jurisdictions. In comparison, we believe our competitors and other industry participants have been issued numerous more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors.

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

There is frequent intellectual property litigation in our industry, involving patents, copyrights, trade secrets, mask works and other intellectual property subject matters. In some cases, a company attempts to avoid or settle litigation on favorable terms if it possesses patents that can be asserted against the plaintiff. The limited size of our current patent portfolio is unlikely to place us in such a favorable bargaining position. Moreover, some of our technology license agreements with our major technology partners do not provide for us to be indemnified in the event that the processes we license pursuant to such agreements infringe third party intellectual property rights. We could be sued for infringing one or more patents as to which we will be unable to obtain a license and unable to design around. As a result, we would be prohibited from manufacturing or selling the products which are dependent upon such technology, which could have a material adverse effect on our business. We may litigate the issues of whether these patents are valid or infringed, but in the event of a loss we could be required to pay substantial monetary damages and be enjoined from further production or sale of such products. Please refer to our historical litigation with TSMC on page 20 for details.

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

Enhancing our process technologies is critical to our ability to provide high quality services for our customers. One way we are using to enhance our process technologies is forming technology alliances with other companies and leveraging our appropriate technology partners to advance our portfolio of process technologies to lower development risk and development cycle. We currently have joint technology development arrangements and technology sharing arrangements with several companies and research institutes. If we are unable to continue our technology alliances with these entities or maintain mutually beneficial terms on our other joint development arrangements, research and development alliances and other similar agreements or enter into new technology alliances with other leading developers of semiconductor technology, we may not be able to continue providing our customers with leading edge process technology on time, which could adversely affect our competitive position and operating results.



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

External factors such as potential terrorist attacks, acts of war, financial crises, the global economic crisis, or political, geopolitical and social turmoil in those parts of the world that serve as markets for our products could significantly adversely affect our business and operating results in ways that cannot presently be predicted. These uncertainties could make it difficult for our customers and us to accurately plan future business activities. For example, we purchase raw materials and other services from numerous suppliers, and, even if our facilities were not directly affected by such events, we could be affected by interruptions at such suppliers. Such suppliers may be less likely to be able to quickly recover from such events and may be subject to additional risks such as financial problems that limit their ability to conduct their operations. We cannot assure you that we will have insurance to adequately compensate us for any of these events. More generally, these geopolitical, social and economic conditions could result in increased volatility in worldwide financial markets and economies that could adversely impact our sales. We are not insured for losses and interruptions caused by terrorist acts or acts of war. Therefore, any of these events or circumstances could adversely affect our business and operating results.

**The recurrence of an outbreak of the H7N9 and H5N1 strain of flu (Avian Flu), the H1N1 strain of flu (Swine Flu), Severe Acute Respiratory Syndrome (SARS), or an outbreak of any other similar epidemic could, directly or indirectly, adversely affect our operating results.**

Concerns about the spread of the H7N9 strain of flu (Avian Flu) in China and outbreaks of the H1N1 virus (Swine Flu) in North America, Europe and Asia in the past have caused governments to take measures to prevent spread of the virus. The spread of epidemics could negatively affect the economy. For example, past occurrences of epidemics such as SARS have caused different degrees of damage to the national and local economies in China. If any of our employees are identified as a possible source of spreading Swine Flu, Avian Flu or any other similar epidemic, we may be required to quarantine employees that are suspected of being infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected premises, which could cause a temporary suspension of our manufacturing capacity, thus adversely affecting our operations. A recurrence of an outbreak of Swine Flu, SARS, Avian Flu or other similar epidemic could restrict the level of economic activities generally and/or slow down or disrupt our business activities which could in turn adversely affect our results of operations.

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

Our financial statements are prepared in U.S. dollars. The majority of our sales are denominated in U.S. dollars and our manufacturing costs and capital expenditures are generally denominated in U.S. dollars, Japanese Yen, Euros and Renminbi. Although we enter into foreign currency forward exchange contracts to partially hedge our exposure to exchange rate fluctuations, we are still affected by fluctuations in exchange rates between the U.S. dollar and each of the Japanese Yen, the Euros and the Renminbi. Any significant fluctuations among these currencies may lead to an increase in our costs, which could adversely affect our operating results. See Item 3.D - Risk Factors - Risks Related to Conducting Operations in China Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results for a discussion of risks relating to the Renminbi.

Fluctuations in the exchange rate of the Hong Kong dollar against the U.S. dollar will affect the U.S. dollar value of the ADSs, since our ordinary shares are listed and traded on the Hong Kong Stock Exchange and the price of such shares are denominated in Hong Kong dollars. While the Hong Kong government has continued to pursue a pegged exchange rate policy, with the Hong Kong dollar trading in the range of HK\$7.7500 to HK\$7.7656 per US\$1.00 for 2014, we cannot assure you that this policy will be maintained. Exchange rate fluctuations also will affect the amount of U.S. dollars received upon the payment of any cash dividends or other distributions paid in Hong Kong dollars and the Hong Kong dollar proceeds received from any sales of ordinary shares. Therefore, such fluctuations could also adversely affect the value of our ADSs.



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**If we fail to maintain an effective system of internal control, we may not be able to achieve the business objectives in operations, financial reporting integrity, and compliance with applicable laws and regulations.**

We are required to comply with various PRC, Hong Kong and U.S. laws and regulations. For example, we are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring public companies to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports, compliance with applicable laws and regulations, and to effectively achieve our operation objectives. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal controls, including any failure to implement required new or improved controls, or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, our operating results could be harmed, and investors could lose confidence in the reliability of our financial statements. As a result, our business and the trading price of our securities could be negatively impacted.

**Security breaches and other disruptions could compromise our information and systems, which would cause our business and reputation to suffer.**

We store sensitive data, including intellectual property and proprietary business information belonging to our company, our customers, our suppliers and our business partners. The secure maintenance of this information is critical. Despite our security measures, our information technology and infrastructure may be vulnerable to breaches by hackers, employee error, malfeasance or other disruptions such as natural disasters, power losses or telecommunication failures. Any such breach could compromise our networks and the information stored, possibly resulting in legal and regulatory actions, disruption of operations and customer services, and otherwise harming our business and future operations.

**Our tangible and intangible assets may be written down when impaired, any impairment charges may adversely effect on our net income.**

Under IFRS, we are required to assess our assets to determine whether an asset may be impaired. An impairment loss exists and is recorded in our books when the carrying value of an asset exceeds its recoverable value. With the exception of goodwill and certain intangible assets for which an annual impairment test is required, we are required to conduct impairment tests where there is an indication of impairment of an asset.

At the end of each reporting period, we are required to assess whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the impairment loss will be reversed up to the newly estimated recoverable amount, not to exceed the original value recorded. Goodwill impairment will not be reversed. As of December 31, 2014, the carrying amount of property, plant and equipment was US\$2,995.1 million and the carrying amount of intangible assets was US\$207.8 million.

Currently we are not able to estimate the amount of impairment loss or when the loss will occur for future years. Any potential changes of the business assumptions, such as forecasted sales, selling prices and utilization, may have a material adverse effect on our net income.

See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies for a discussion of how we assess if an impairment charge is required and, if so, how the amount is determined.

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

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

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

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

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

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

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

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

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

**Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.**

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the applicable professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to regularly evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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**Proceedings instituted by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.**

In December 2012, the SEC brought administrative proceedings against the Big Four accounting firms, including our independent registered public accounting firm, in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud.

On January 22, 2014, an initial administrative law decision, or Initial Decision, was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The accounting firms filed a Petition for Review of the Initial Decision to the SEC.

On February 6, 2015, the Big Four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms' audit documents via the China Securities Regulatory Commission, or the CSRC. If future document productions fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the accounting firms depending on the nature of the failure. While we cannot predict if the SEC will further review the four China-based accounting firms' compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with the SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with the SEC requirements could ultimately lead to the delisting of our ADSs from the NYSE or the termination of the registration of our ADSs under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

**The SEC's conflict minerals rule has caused us to incur additional expenses, could limit the supply and increase the cost of certain minerals used in manufacturing our products, and could make us less competitive in our target markets.**

On August 22, 2012, the SEC adopted a rule requiring disclosure by public companies of the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires companies to obtain sourcing data from suppliers, engage in supply chain due diligence, and file annually with the SEC a specialized disclosure report on Form SD covering the prior calendar year. The rule could limit our ability to source at competitive prices and to secure sufficient quantities of certain minerals used in the manufacture of our products, specifically tantalum, tin, gold and tungsten, as the number of suppliers that provide conflict-free minerals may be limited. We may incur material costs associated with complying with the rule, such as costs related to the determination of the origin, source and chain of custody of the minerals used in our products, the adoption of conflict minerals-related governance policies, processes and controls, and possible changes to products or sources of supply as a result of such activities. Within our supply chain, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the data collection and due diligence procedures that we implement, which may harm our reputation. Furthermore, we may encounter challenges in satisfying those customers that require that all of the components of our products be certified as conflict free, and if we cannot satisfy these customers, they may choose a competitor's products. We continue to investigate the presence of conflict materials within our supply chain.



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**Risks Related to Manufacturing**

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

Our manufacturing processes are highly complex, require advanced and costly equipment, demand a high degree of precision and may have to be modified to improve yields and product performance. Dust and other impurities, difficulties in the fabrication process or defects with respect to the equipment or facilities used can lower yields, because quality control problems interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. As a result, we may experience production difficulties, which could significantly increase our costs and delay product shipments to our customers. For products that cannot meet the quality, standards of our customers, we may suffer indemnification losses in addition to the production cost.

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

We may experience difficulty in ramping up production at new or existing facilities. This could be due to a variety of factors, including hiring and training new personnel, implementing new fabrication processes, recalibrating and re-qualifying existing processes and the inability to achieve required yield levels.

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

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

In July 2004, we announced an agreement with Toppan Printing Co., Ltd., to establish Toppan SMIC Electronics (Shanghai) Co., Ltd., a joint venture in Shanghai, to manufacture color filters and micro-lenses for CMOS image sensors.

In December 2013, we lost control of Brite Semiconductor Company and its subsidiaries ( Brite ), but still have significant influence over it. We recorded our ownership interest of Brite as investment in associate. Brite is principally engaged in development and design of integrated circuits.

The results of our joint ventures which we do not have control are reflected in our operating results to the extent of our ownership interest, and gains of the joint ventures could impact our operating results. As integration of assets and operations being contributed by each partner will involve complex activities that must be completed in a short period of time, the joint ventures may face numerous challenges to successful operation, including all operational risks that customarily relate to manufacturing, sales, service, marketing, and corporate functions, which, if unsuccessful, may adversely impact, our business and operating result.



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

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices and in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers, almost all of which are sourced from outside China. We currently purchase approximately 73.0% of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced from outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or disrupted; if there are significant increases in their prices; or if the lead times for the supply of raw materials and necessary spare parts are extended, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.

We outsource certain wafer manufacturing, assembly and testing services to third parties. Any delay or interruption in the provision of supplies and/or services could result in our inability to meet customer demand or fulfill contract terms, damage our reputation and customer relationships and adversely affect our business.

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

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

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

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes in addition to requiring extensive amounts of fresh water and a stable source of electricity. The occurrence of natural disasters such as the March 2011 earthquake in Japan may disrupt this required access to goods and services provided by our suppliers as well as access to fresh water and electricity. As a result of such risk, our production could be limited or delayed due to the disruption of access to required supplies, in addition to possible damage caused to our manufacturing equipment and related infrastructure, which could adversely affect our business and operating results.



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

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

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

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

**Any new regulations or customer requirements related to climate change or environmental protection could negatively impact our operating results.**

There is global concern that an increase in global average temperatures due to emissions of greenhouse gases (GHG) and other human activities have or will cause significant changes in weather patterns, including natural disasters. Such climate change creates risks, such as the physical risks of increased sea levels or extreme weather events, and the financial risks of causing adverse effects on our operations, financial condition, supply chain, increased manufacturing costs, or reduced demand for products believed to contribute to climate change.

We may become subject to legislation, regulation, or treaty obligations designed to address global climate change, Chinese air quality, and other environmental concerns. Compliance with any new rules could be difficult and costly, causing us to incur additional energy and environmental costs, as well as costs for defending and resolving legal claims.

Furthermore, continued serious air pollution in Chinese cities where we operate could pose long-term health risks to our employees and make recruiting and retaining employees more difficult.



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**Risks related to Our New Investment Fund**

**Our performance may be affected by the performance of our new investment fund and we may incur losses as a result of ineffective investment.**

On February 27, 2014, our wholly owned subsidiary, Semiconductor Manufacturing International (Shanghai) Corporation, or SMIC Shanghai, established a wholly-owned investment fund in Shanghai which is called China IC Capital Co., Ltd, or the Fund. The Fund has an initial capital of RMB500 million, all funded by SMIC Shanghai. With an operating period of 15 years from the date of the issuance of its business license, the Fund will be operated and managed by an equity investment management company named China Fortune-Tech Capital Co., Ltd, and established by SMIC Shanghai and an independent third party on February 27, 2014.

The Fund will invest primarily in the integrated circuits industry but will also invest in other strategic emerging industries such as energy saving and environmental protection, information technology and new energy as well as some other traditional industries. While we generally expect China's integrated circuits industry to develop rapidly in the next decade and we believe that the other industries we will invest in also have a promising prospect of development, uncertainties due to the slow recovery of the world economy, the global market demand and consumption behaviors may lead to weak market demand in the industries in which we may choose to invest and our investees may not be able to execute their business strategies as successfully as they expect.

As a result, there is no assurance that our investment will be successful. We may incur losses in our investments through the Fund and our overall financial results may be adversely affected by such failure in the Fund's investment activities.

**Risks Related to Conducting Operations in China**

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

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

In addition, the Chinese government and provincial and local governments have provided, and continue to provide, various incentives to domestic companies in the semiconductor industry, including our company, in order to encourage the development of the industry. Such incentives include tax rebates, reduced tax rates, favorable lending policies, and other measures. Any of these incentives could be reduced or eliminated by governmental authorities at any time, which would adversely affect our business and operating results.

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**We face uncertainty from PRC's Circular on Strengthening the Management of Enterprise Income Tax Collection of Income Derived by Non-resident Enterprises from Equity Transfers.**

The State Administration of Taxation of PRC issued the Public Notice of the State Administrative of Taxation Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises ( Circular No.7 ) on 3 February 2015, which further regulates and enhances the administration of CIT on indirect transfer of the equity interest in a China Tax Resident Enterprise, or China TRE, and other properties in China by non-TREs. Please be reminded that Circular No. 7 takes effect from its issuance date (3 February 2015). And the unsettled tax matters before the effective date shall follow the instructions of Circular No. 7.

Under Article 1 in Circular No. 7, where a Non-TRE indirectly transfers the equity interest in a China TRE and other properties in China through the implementation of a scheme without a reasonable commercial purpose and resulting in the avoidance of CIT liability, such indirect transfer should be re-characterized as a direct transfer of the equity interest in the TRE and other properties in China. In addition, under Circular No. 7, the indirect transfer of taxable properties in China should refer to the Non-TRE, through the transfer of the equity and other similar rights ( the equity ) of an overseas enterprise (not including overseas incorporated Chinese TREs) ( Overseas Enterprise ) which directly or indirectly owns taxable properties in China, generates the same or similar substantive outcome as compared with a direct transfer of taxable properties in China, including change in shareholder of an Overseas Enterprises resulting from restructurings of the Non-TRE. The Non-TRE who indirectly transfers taxable properties in China is referred as the Equity Transferor .

We do not believe that the transfer of our ordinary shares or ADSs by our non-PRC shareholders should be treated as an indirect transfer of equity interests in our PRC subsidiaries subject to Circular No. 7, as the share transfer is carried out for listing purpose and not carried for the main purposes of avoiding PRC taxes. However, Circular No.7 is relatively new and there is uncertainty as to the interpretation and application of Circular No.7 by the PRC tax authorities in practice. If you are required to pay PRC withholding tax on the transfer of our ordinary shares or ADSs, your investment in us may be materially and adversely affected. In addition, we cannot predict how Circular No.7 will affect our financial conditions or operations. For example, we may be required to expend valuable resources on complying with Circular No. 7 or establishing that we should not be taxed under Circular No.7, any of which could have an adverse effect on our financial condition and results of operations.

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

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





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

The growth of our business depends on the ability of our suppliers to export and our ability to import, into China, equipment, materials, spare parts, process know-how and other technologies and hardware. Any burdensome new restrictions placed on the import and export of these items could adversely impact our growth and substantially harm our business. In particular, the international export control regime led by the United States requires our suppliers and us to obtain licenses to export and import, as applicable, certain of the above items. If we or our suppliers are unable to obtain such licenses in a timely manner, our business and operating results could be adversely affected.

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

The value of the Renminbi is subject to changes in China's governmental policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to U.S. dollar exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation. On July 21, 2005, the PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. The central parity rate of the U.S. Dollar to Renminbi was set at 6.1190 on December 31, 2014 compared with 6.0969 on December 31, 2013 by the PBOC. The cumulative depreciation of the Renminbi against the U.S. dollar in 2014 was approximately 0.36%. There still remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant fluctuation of the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile and could have an adverse effect on our business and operating results.

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

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. For the year ended December 31, 2014, approximately 23.8% of our sales were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we may not be able to meet our foreign currency payment obligations.



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

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

Our activities in China will be subject to administrative review and approval by various national and local Chinese government agencies. Because of the changes occurring in China's legal and regulatory structure, we may not be able to timely secure the requisite governmental approval for our activities, which would adversely affect our business and operating results.

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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**Item 4. Information on the Company**

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

We were established as an exempted company under the laws of the Cayman Islands on April 3, 2000. Our legal name is Semiconductor Manufacturing International Corporation. Our principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203; telephone number: (86) 21-3861-0000. Our registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Since March 18, 2004, we have been listed on the New York Stock Exchange under the symbol SMI and the Stock Exchange of Hong Kong under the stock code 0981.HK. CT Corporation System is our agent in the United States of America and its address is 818, West 7th street, 2nd Floor, Los Angeles, CA 90017, U.S.A.

We are now the largest and most advanced semiconductor foundry in mainland China. We operate wafer fabrication facilities in China, including facilities at Beijing, Shanghai, Tianjin and Shenzhen, with an aggregate capacity of up to 247,500 8-inch wafer equivalents per month. Prior to 2013, we managed and operated a 300mm wafer fab in Wuhan owned by Wuhan Xinxin Semiconductor Manufacturing Corporation (Wuhan Xinxin arrangement). The Wuhan Xinxin arrangement ended in the first quarter of 2013, and we no longer manage or operate the wafer fab in Wuhan.

We spent approximately US\$499 million, US\$770 million and US\$1,014 million to construct, equip and ramp up our fabs in 2012, 2013 and 2014, respectively. Currently, the planned capital expenditures in 2015 for foundry operations are approximately US\$1.4 billion, which are mainly for 1) the expansion of capacity in the 12-inch fab of SMNC and the new 8-inch fab in Shenzhen and 2) research and development equipment, mask shops and intellectual property acquisition. In addition, we have budgeted approximately US\$100 million as the 2015 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. We plan to rent or sell these living quarters to employees in the future. The primary sources of capital resources and liquidity include funds generated from a combination of cash from operations, bank borrowings and debt or equity issuances and other forms of financing.

Semiconductor Manufacturing International (Shenzhen) Corporation (SMIC Shenzhen), which is principally engaged in, among others, the testing, development, design, manufacturing, packaging and sale of integrated circuits and is expected to establish and build up significant manufacturing capacity, had reached an installed capacity of 10,000 wafers per month but had not entered into mass production at the end of 2014. It also targets to reach an installed capacity of 20,000 wafers per month by the end of 2015.

On August 8, 2014, Jiangsu Changjiang Electronics Technology Co., Ltd (JCET), the largest packaging service provider in China and we, jointly issued a press release in relation to the formation of a joint venture for 12-inch bumping and related testing, pursuant to the previously signed joint venture agreement by and between JCET and us on February 20, 2014. On November 25, 2014, SJ Semiconductor (Jiangyin) Corp. (SJ Jiangyin) was established in Jiangyin National High-Tech Industrial Development Zone (JOIND), in Jiangsu province, China. SJ Jiangyin is a wholly-owned subsidiary of SJ Semiconductor (HK) Limited and SJ Semiconductor (HK) Limited is a wholly-owned subsidiary of SJ Semiconductor Corporation (SJ Cayman), which is the joint venture of JCET and us. Under the joint venture agreement, JCET and we have contributed 49% and 51%, respectively, of the share capital of SJ Cayman.



On December 22, 2014, (i) SilTech Shanghai, our indirectly wholly-owned subsidiary; (ii) JCET, and (iii) National Integrated Circuit Industry Investment Fund Co., Ltd., a company incorporated under PRC law, entered into a co-investment agreement to form an investment consortium in connection with the proposed acquisition of STATS ChipPAC, a leading provider of advanced semiconductor packaging and test services in the world and a company incorporated in the Republic of Singapore, shares of which are listed on the SGX-ST. As of April 28, 2015, the proposed acquisition is under review pending approval and has not been completed.

Table of Contents**B. Business Overview**

We provide integrated circuit (IC) foundry and technology services at 0.35-micron to 28-nanometer. Headquartered in Shanghai, China, we position ourselves as the most advanced and diversified foundry in mainland China to address the mainland China semiconductor needs. Currently, we have a 300mm wafer fabrication facility (fab) and a 200mm mega-fab in Shanghai, a 300mm mega-fab and a second majority owned 300mm fab under development for advance nodes in Beijing, a 200mm fab in Tianjin, and a 200mm fab in Shenzhen.

We also have customer service and marketing offices in the U.S., Europe, Japan, and Taiwan, and a representative office in Hong Kong.

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

| Number and Type of fab                                       | SMIC Shanghai        |                      | SMIC Beijing         | SMIC Tianjin        | SMIC Shenzhen                     | SMNC                              |
|--|----------------------|----------------------|----------------------|---------------------|-----------------------------------|-----------------------------------|
|  | mega-fab             | 12-inch fab          | mega-fab             | 8-inch fab          | 8-inch fab                        | 12-inch fab                       |
| Wafer size   | 200mm                | 300mm                | 300mm                | 200mm               | 200mm                             | 300mm                             |
| Current most advanced technology for volume production       | 0.11 micron          | 0.028 micron         | 0.055 micron         | 0.15 micron         | 0.11 micron                       | 0.028 micron                      |
| Production, supporting, testing and maskshop clean room size | 34,020m <sup>2</sup> | 11,095m <sup>2</sup> | 26,276m <sup>2</sup> | 9,740m <sup>2</sup> | (Planned)<br>19,735m <sup>2</sup> | (Planned)<br>28,124m <sup>2</sup> |
|  |                      |                      |                      |                     | (Planned)                         | (Planned)                         |

In addition to wafer fabrication, our service offerings include a comprehensive portfolio consisting of IC design libraries, circuit design blocks, design support, mask-making, wafer probing and gold/solder bumping. We have a majority owned factory for 300mm wafer bumping and testing services under development in Jianguyin. We also work with our partners to provide IC assembly and testing services.

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

**Our Products and Services*****Manufacturing of Wafers and Our Manufacturing Capacity***

We currently manufacture silicon wafers based on proprietary designs provided by our customers or third party designers.

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The following table sets forth the historical capacity and utilization rate of our wafer fabrication and facilities (all output and capacity data is provided as 8-inch wafers or 8-inch wafer equivalents per month):

| <b>Fab</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> |
|--|-------------|-------------|-------------|
| Wafer fabrication capacity as of year-end(1)               |             |             |             |
| Shanghai mega-fab  | 90,000      | 90,000      | 96,000      |
| Shanghai 12-inch fab                                       | 13,500      | 27,000      | 31,500      |
| Beijing mega-fab   | 78,750      | 81,000      | 81,000      |
| Tianjin fab  | 37,000      | 36,000      | 39,000      |
| Total monthly wafer fabrication capacity as of year-end(3) | 219,250(2)  | 234,000(2)  | 247,500(2)  |
| Wafer Fabrication capacity utilization                     | 88.3%       | 90.7%       | 91.0%       |

(1) Conversion of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25.

(2) Mega fab structure includes copper inter connects in the total monthly capacity.

(3) Our 8-inch fab in Shenzhen reached an installed capacity of 10,000 wafers per month but had not entered into mass production at the end of 2014.

Our factories manufacture the following types of semiconductors:

- Logic (including Baseband, Application Processor, SoC, MCU, Touch Controller IC, DSP and ASIC/ASSP);
- Mixed-Signal and RF (including Wi-Fi, Bluetooth, RF, Fingerprint Sensor, Demodulator and Tuner IC);
- Power IC (including Power Management, LED Driver, Display Driver, and High Voltage IC);
- Memory (including SRAM, EEPROM, NAND Flash, NOR Flash, eEEPROM and eFlash);
- CIS (including FSI and BSI CMOS Image Sensors);
- Others (including MEMS, TSV, IPD, 3DIC and Bumping).



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The following table sets forth a percentage breakdown of wafer sales by process technology for the years ended December 31, 2012, 2013 and 2014 and each of the quarters in the year ended December 31, 2014:

| Process Technologies | For the year ended       |                   | For the three months ended |               |                    | December 31, 2014 | For the year ended December 31, 2014 |
|----------------------|--------------------------|-------------------|----------------------------|---------------|--------------------|-------------------|--------------------------------------|
|                      | December 31, 2012        | December 31, 2013 | March 31, 2014             | June 30, 2014 | September 30, 2014 |                   |                                      |
|                      | (based on sales in US\$) |                   |                            |               |                    |                   |                                      |
| <b>0.045 micron</b>  | 1.06%                    | 12.06%            | 9.75%                      | 13.27%        | 10.42%             | 10.84%            | 11.12%                               |
| <b>0.065 micron</b>  | 31.98%                   | 27.91%            | 21.26%                     | 26.29%        | 24.32%             | 24.67%            | 24.23%                               |
| <b>0.09 micron</b>   | 8.69%                    | 4.90%             | 4.35%                      | 3.38%         | 3.55%              | 4.21%             | 3.85%                                |
| <b>0.13 micron</b>   | 14.39%                   | 10.83%            | 12.87%                     | 12.08%        | 11.45%             | 9.93%             | 11.56%                               |
| <b>0.15 micron</b>   | 0.80%                    | 0.57%             | 0.52%                      | 0.58%         | 0.43%              | 0.49%             | 0.51%                                |
| <b>0.18 micron</b>   | 37.49%                   | 39.38%            | 46.30%                     | 39.63%        | 45.24%             | 45.05%            | 43.96%                               |
| <b>0.25 micron</b>   | 0.29%                    | 0.33%             | 0.25%                      | 0.25%         | 0.36%              | 0.26%             | 0.28%                                |
| <b>0.35 micron</b>   | 5.30%                    | 4.02%             | 4.70%                      | 4.52%         | 4.23%              | 4.55%             | 4.49%                                |
| <b>Total</b>         | 100.00%                  | 100.00%           | 100.00%                    | 100.00%       | 100.00%            | 100.00%           | 100.00%                              |

***Our Integrated Solutions***

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

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

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(1) A portion of this work is outsourced to our service partners.

(2) A portion of these services are outsourced to our service partners.

***Design Support Services***

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

***Libraries and Intellectual Property***

As part of the fundamental building blocks for our customers' integrated circuit designs, we have a dedicated team of engineers who work with our research and development department to develop, license or acquire from third parties selected key libraries and

intellectual property so that our customers can quickly design sophisticated integrated circuits that utilize our new process technologies. These include standard cell, I/O, memory compilers, embedded memory, high-speed interface, peripheral controllers, and embedded processors, among others, using 0.35 micron down to 28 nanometer process technologies. They have been developed primarily through our third party alliances, as well as by our internal research and development team, to facilitate easy design and fast integration into the overall design system. Our library partners include ARM, Synopsys, Inc., VeriSilicon, and InnoPower.

### ***Mask-making Services***

While most of our mask-making services are for customers who use our wafer fabrication services, we also produce masks for other domestic and overseas fabs as a separate revenue-generating service.

Our mask-making facility, which is located in Shanghai, includes a 4,000 square meters clean room with up to class I specifications. At present, our mask shop offers both five-inch by five-inch, six-inch by six-inch and seven-inch circular reticles. Our facility is capable of producing binary masks, optical proximity correction masks and phase shift masks. Our mask facility also offers mask repair services.



Table of Contents**Wafer Probing, Assembly and Testing Services**

We have our own probing facility in Shanghai that provides test program development, probe card fabrication, wafer probing, failure analysis, and failure testing. We also outsource these services to our partners.

Our probing facility in Shanghai occupies a clean room space of 3,000 square meters, which is rated at Class 1000 cleanliness and is equipped with advanced testers, probers and laser repair machines. We also have testing equipment for memory, logic and mixed signal applications.

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

**Customers and Markets**

Our customers include IDMs, fabless semiconductor companies and systems companies. The following table sets forth the breakdown of our sales by customer type for 2012, 2013 and 2014:

| Customer Type                          | 2012      |            | For the year ended December 31,<br>2013          |            | 2014      |            |
|--|-----------|------------|--|------------|-----------|------------|
|  | Sales     | Percentage | Sales<br>(in US\$ thousands, except percentages) | Percentage | Sales     | Percentage |
| <b>Fabless semiconductor companies</b> | 1,494,239 | 87.81%     | 1,814,221  | 87.69%     | 1,705,863 | 86.59%     |
| <b>Integrated device manufacturers</b> | 142,101   | 8.35%      | 127,471  | 6.16%      | 61,272    | 3.11%      |
| <b>Systems companies and others</b>    | 65,258    | 3.84%      | 127,272  | 6.15%      | 202,831   | 10.30%     |
| <b>Total</b>                           | 1,701,598 | 100.00%    | 2,068,964  | 100.00%    | 1,969,966 | 100.00%    |

We categorize our sales geographically based on the headquarters of customer operations and not related to shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for 2012, 2013 and 2014:

| Region | 2012  |            | For the year ended December 31,<br>2013          |            | 2014  |            |
|--------|-------|------------|--|------------|-------|------------|
|        | Sales | Percentage | Sales<br>(in US\$ thousands, except percentages) | Percentage | Sales | Percentage |

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|                                     |           |         |           |         |           |         |
|-------------------------------------|-----------|---------|-----------|---------|-----------|---------|
| <b>United States</b>                | 940,370   | 55.26%  | 1,002,699 | 48.47%  | 855,792   | 43.44%  |
| <b>Mainland China and Hong Kong</b> |           |         |           |         |           |         |
| <b>Kong</b>                         | 577,590   | 33.95%  | 836,771   | 40.44%  | 852,204   | 43.26%  |
| <b>Eurasia*</b>                     | 183,638   | 10.79%  | 229,494   | 11.09%  | 261,970   | 13.30%  |
| <b>Total</b>                        | 1,701,598 | 100.00% | 2,068,964 | 100.00% | 1,969,966 | 100.00% |

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\* Excluding Mainland China and Hong Kong

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We have a global and diversified customer base that includes IDMs, fabless semiconductor companies and systems companies. A significant portion of our sales is attributable to a relatively small number of our customers. For the year ended December 31, 2014, our five largest customers accounted for 51.1% of our total sales.

The following table sets forth a breakdown of our sales by application type for 2012, 2013 and 2014:

| Application Type         | 2012                                    |            | For the year ended December 31,<br>2013 |            | 2014      |            |
|--------------------------|---|------------|---|------------|-----------|------------|
|                          | Sales                                   | Percentage | Sales                                   | Percentage | Sales     | Percentage |
|                          | (in US\$ thousands, except percentages) |            |   |            |           |            |
| <b>Computing(1)</b>      | 33,448                                  | 1.97%      | 33,709                                  | 1.63%      | 51,645    | 2.62%      |
| <b>Communications(2)</b> | 779,614                                 | 45.82%     | 930,234                                 | 44.96%     | 828,405   | 42.05%     |
| <b>Consumer(3)</b>       | 741,456                                 | 43.57%     | 916,999                                 | 44.32%     | 905,609   | 45.97%     |
| <b>Others</b>            | 147,080                                 | 8.64%      | 188,022                                 | 9.09%      | 184,307   | 9.36%      |
| <b>Total</b>             | 1,701,598                               | 100.00%    | 2,068,964                               | 100.00%    | 1,969,966 | 100.00%    |

(1) Computing consists of integrated circuits such as hard disk drive controllers, DVD-ROM/CD-ROM driver, graphic processors and other components that are commonly used in desktop and notebook computers and peripherals.

(2) Communications consists of integrated circuits used in both wired and wireless data communications and telecommunications applications.

(3) Consumer consists of integrated circuits used for stand-alone DVD players, TV, set top box, game consoles, digital cameras, smart cards and toys.

### Intellectual Property, Patents

We have several thousand patents and patent applications, in addition to third party licenses. Research and development is important for us to maintain our competitiveness. We also have various trademark registrations worldwide. However, we are not dependent on any single patent, license, or trademark, or any group of related patents, licenses or trademarks. Please also see Research and Development, Patents and Licenses, etc. on page 71.

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**Competition and Marketing Channels**

We compete internationally and domestically in mainland China with dedicated foundry service providers, as well as with semiconductor companies that allocate a portion of their fabrication capacity to foundry operations. While different players in the wafer foundry market may compete on factors such as technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, yields, customer service and price, we seek to compete on the basis of process technology capabilities, performance, quality, service and price. The level of competition differs according to the process technology involved.

Our competitors are other pure-play foundries such as TSMC, UMC and Global Foundries. Another group of potential competitors consists of IDMs that have established their own foundry capabilities including Fujitsu Limited and Samsung Electronics Co., Ltd.

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

Some of our competitors have established operations in mainland China in order to compete for the growing domestic market in China. TSMC has its own fab in Shanghai and UMC has its majority-owned fab in Suzhou. Also, UMC was approved recently by Taiwan government authorities to invest in a 12-inch joint venture fab in Xiamen. In these cases, we understand that the ability of these fabs to manufacture wafers using certain more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

**Business Seasonality**

In general, semiconductor foundry business is subject to seasonal behavior patterns in which business normally would peak in the third quarter of a calendar year and bottom in the first quarter.

**Raw Materials**

Our fabrication processes uses many raw materials, primarily silicon wafers, chemicals, gases, and various types of precious and other metals. Raw material costs constituted 25%, 24% and 24% of our manufacturing costs in 2012, 2013 and 2014, respectively.

The three largest components of raw material costs - raw wafers, chemicals and gases - accounted for approximately 36%, 24%, and 10%, respectively, of our raw material costs in 2012, approximately 36%, 26%, and 10%, respectively, of our raw material costs in 2013, and approximately 36%, 27% and 9%, respectively, of our raw material costs in 2014. Most of our raw materials generally are available from several suppliers, but substantially all of our principal materials requirements must currently be sourced from outside China.

The most important raw material used in our production is silicon in the form of raw wafers. In 2014, we purchased approximately 73.0% of our overall raw wafer requirements from our three major raw wafer suppliers. The prices of our principal raw material are not considered to be volatile.

For 2014, our largest and five largest raw materials suppliers accounted for approximately 11.4% and 42.0%, respectively, of our overall raw materials purchases. For 2013, our largest and five largest raw materials suppliers accounted for approximately 12.2% and 40.7%, respectively, of our overall raw materials purchases. For 2012, our largest and five largest raw materials suppliers accounted for approximately 11.9% and 41.3%, respectively, of our overall raw materials purchases. Our largest raw materials supplier was the same in last three years. Most of our materials are imported free of value-added tax and import duties due to concessions granted to our industry in China.

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**Electricity and Water**

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

The semiconductor manufacturing process also uses extensive amounts of fresh water. We source our fresh water for our Shanghai mega-fab and 12-inch fab from Pudong Veolia Water Corporation Limited, for our Beijing mega-fab and 12-inch fab from Beijing Waterworks Group Co. Ltd., for our Tianjin fab from the Tianjin Municipal Water Department and for our Shenzhen facility from Grand Industrial Zone Water Company of Shenzhen. Because Beijing and Tianjin are subject to potential water shortages in the summer, our fabs in Beijing and Tianjin are equipped with back-up reservoirs. We have taken steps to reduce fresh water consumption in our fabs and capture rainwater for use at our Beijing and Tianjin facilities, and our water recycling systems in each of our fabs allow us to recycle up to 80% of the water used during the manufacturing process. The Beijing site is also equipped to use recycled/treated industrial waste water from the Beijing Economic and Technological Development Area for non-critical operations.

**Regulation**

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

***Preferential Industrial Policies Relating to ICPEs ( Integrated Circuit Production Enterprises )***

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

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

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*Encouragement of Domestic Investment in ICPEs*

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013 and March 10, 2015, the Chinese government encourages (i) the design of integrated circuits, (ii) the fabrication of integrated circuits with a line width of less than 0.11 micron (including 0.11 micron) and (iii) the advanced packaging and testing of BGA, PGA, CSP and MCM. Under the Interim Provisions, imported equipment that is used for a qualifying domestic investment project and that falls within such project's approved total investment amount is exempt from custom duties except for such equipment listed in the Catalogue of Import Commodities for Domestic Investment Projects Not Entitled to Tax Exemptions, as stipulated by the State Council and amended in 2006, 2008 and 2012, as well as in the General Administration of Customs' announcement on the relevant matters arising from the implementation of the Industrial Restructuring Guidance Catalogue (2011) by the customs (Announcement No. 36 [2011] of the General Administration of Customs) and the Notice of the State Council on Adjusting the Taxation Policies for Imported Equipment (Guo Fa [1997] No.37).

*Encouragement of Foreign Investment in ICPEs*

Pursuant to the Integrated Circuit Policies and the Guideline Catalogue of Foreign Investment Industries promulgated jointly by the State Development and Reform Commission and the Ministry of Commerce on March 10, 2015, the following foreign investment categories are encouraged:

- design of integrated circuits;
  
- fabrication of large scale integrated circuits with a line width of less than 28 nanometer (including 28 nanometer);
  
- fabrication of analog and analog digital integrated circuits with a line width of less than 0.11 micron (including 0.11 micron);
  
- advanced packaging and testing of BGA, PGA, CSP, MCM;
  
- MEMS and compound semiconductor integrated circuits.



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

*Preferential Taxation Policies*

SMIC is incorporated in the Cayman Islands and not currently subject to taxation in the Cayman Islands.

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

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Pursuant to Caishui Circular [2008] No. 1 ( Circular No. 1 ) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction of the tax for the following five years. Pursuant to Caishui Circular [2009] No. 69 ( Circular No. 69 ), the 50% reduction should be based on the statutory tax rate of 25%.

On January 28, 2011, the State Council of China issued Guofa [2011] No. 4 ( Circular No. 4 ), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No. 1 for the software and integrated circular enterprises.

On April 20, 2012, State Tax Bureau issued Cai Shui [2012] No. 27 ( Circular No. 27 ), stipulating the income tax policies for the development of integrated circuit industry.

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

*Preferential Policies Encouraging Research and Development*

The EIT Law and the Implementation Regulations of the EIT Law have provided tax incentives in relation to technologies as a means to encourage advancement and adoption of new technologies. The EIT Law provides an additional 50% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new techniques on the basis of the actual deductions when relevant enterprise has no intangible asset to be formed and calculated into the current gains and losses. R&D super deduction is subject to certain application with the in-charge tax bureau with other supporting documents (i.e. specialized R&D audit report, etc.).

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

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

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

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

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

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

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

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

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

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

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

***Registration of a Layout Design***

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

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

Under the Patent Law and the Implementing Regulations of the Patent Law, three years after a patent right is granted and four years after a patent application is filed, any person or enterprise that has made good faith reasonable proposals to the holder of proprietary rights seeking a license to such right, but has been unable to obtain such license after an extended period of time, may request the administrative department responsible for patents under the State Council to grant a compulsory license for the relevant patent, provided that the patent owner fails to exploit or fails to adequately exploit the patent without justified reasons. However, where a compulsory license involves semiconductor technology, the implementation of a compulsory license is restricted

to public and non-commercial uses, or to uses that counteract anti-competitive actions, as determined by judicial or administrative procedures.

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***PRC Tax for Resident Enterprises***

Under China's EIT Law, an enterprise established under the laws of non-PRC jurisdictions, but whose de facto management body is located in the PRC is treated as a resident enterprise for PRC tax purpose. If we are classified as a resident enterprise in China, we could be subject to unfavorable tax consequences to us and our non-PRC shareholders. The implementing rules of the EIT Law define de facto management bodies as management bodies that exercises substantial and overall management and control over the production and operations, personnel, accounting, and properties of the enterprise. In April 2009, the State Administration of Taxation further specified criteria for the determination of the location of de facto management bodies for foreign enterprises, which include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

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

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***Environmental Regulations***

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations promulgated by the central and local governments, for example, the Environmental Protection Law of the People's Republic of China, effective December 26, 1989 and amended on April 24, 2014, effective January 1, 2015, concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project's construction and operation phases.

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

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

**Enforceability of Civil Liabilities**

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

- political and economic stability;
  
- an effective judicial system;
  
- a favorable tax system;



- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

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

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

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

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

**C. Organizational Structure**

We operate primarily through SMIC Shanghai, SMIC Beijing, SMIC Tianjin and SMIC Shenzhen in China. The chart below sets forth also our other significant operating subsidiaries or affiliates, including their jurisdictions of incorporation and principal activities as of December 31, 2014:

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| Name of company  | Place and date of incorporation/establishment           | Direct or Indirect equity ownership held | Principal Activity   |
|--|---|--|--|
| Better Way Enterprises Limited ( Better Way )*                                       | Samoa April 5, 2000                                     | 100%                                     | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Shanghai) Corporation ( SMIC Shanghai )*# | People s Republic of China (the PRC ) December 21, 2000 | 100%                                     | Manufacturing and trading of semiconductor products  |
| SMIC, Americas   | United States of America June 22, 2001                  | 100%                                     | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Beijing) Corporation ( SMIC Beijing )*#   | PRC July 25, 2002                                       | 100%                                     | Manufacturing and trading of semiconductor products  |
| SMIC Japan Corporation   | Japan October 8, 2002                                   | 100%                                     | Provision of marketing related activities  |
| SMIC Europe S.R.L.   | Italy July 3, 2003                                      | 100%                                     | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Solar Cell) Corporation                   | Cayman Islands June 30, 2005                            | 100%                                     | Investment holding   |
| SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation) *# | PRC September 30, 2003                                  | 100%                                     | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Tianjin) Corporation ( SMIC Tianjin )*#   | PRC November 3, 2003                                    | 100%                                     | Manufacturing and trading of semiconductor products  |
| SMIC Development (Chengdu) Corporation#  | PRC December 29, 2005                                   | 100%                                     | Construction, operation and management of SMICD s living quarters, schools and supermarket |
| Semiconductor Manufacturing International (BVI) Corporation ( SMIC (BVI) )*          | British Virgin Islands April 26, 2007                   | 100%                                     | Provision of marketing related activities  |
| Admiral Investment Holdings Limited  | British Virgin Islands October 10, 2007                 | 100%                                     | Investment holding   |
| SMIC Shanghai (Cayman) Corporation   | Cayman Islands November 8, 2007                         | 100%                                     | Investment holding   |
| SMIC Beijing (Cayman) Corporation  | Cayman Islands November 8, 2007                         | 100%                                     | Investment holding   |
| SMIC Tianjin (Cayman) Corporation  | Cayman Islands November 8, 2007                         | 100%                                     | Investment holding   |
| SiTech Semiconductor Corporation   | Cayman Islands February 13, 2008                        | 100%                                     | Investment holding   |
| SMIC Shenzhen (Cayman) Corporation   | Cayman Islands January 21, 2008                         | 100%                                     | Investment holding   |
| SMIC Semiconductor Advanced Technology Research (Shanghai) Corporation#              | PRC October 28, 2014                                    | 100%                                     | Manufacturing and trading of semiconductor products  |
| SJ Semiconductor Corporation   | Cayman Islands August 19, 2014                          | 51%                                      | Investment holding   |
| SMIC Energy Technology (Shanghai) Corporation ( Energy Science)*#                    | PRC September 9, 2005                                   | 100%                                     | Manufacturing and trading of solar cells related semiconductor products                    |
| Magnificent Tower Limited  | British Virgin Islands January 5, 2006                  | 100%                                     | Investment holding   |
| SMIC Shanghai (HK) Company Limited   | Hong Kong December 3, 2007                              | 100%                                     | Investment holding   |
| SMIC Beijing (HK) Company Limited  | Hong Kong December 3, 2007                              | 100%                                     | Investment holding   |
| SMIC Tianjin (HK) Company Limited  | Hong Kong December 3, 2007                              | 100%                                     | Investment holding   |
| SMIC Solar Cell (HK) Company Limited   | Hong Kong December 3, 2007                              | 100%                                     | Investment holding   |
| SMIC Shenzhen (HK) Company Limited   | Hong Kong January 29, 2008                              | 100%                                     | Investment holding   |
| SiTech Semiconductor (Hong Kong) Corporation Limited                                 | Hong Kong March 20, 2008                                | 100%                                     | Investment holding   |
| Semiconductor Manufacturing International (Shenzhen) Corporation #                   | PRC March 20, 2008                                      | 100%                                     | Manufacturing and trading of semiconductor products  |
| SiTech Semiconductor Shanghai Corporation Limited#                                   | PRC March 3, 2009                                       | 100%                                     | Manufacturing and trading of semiconductor products  |
| Semiconductor Manufacturing North China (Beijing) Corporation ( SMNC )*              | PRC July 12, 2013                                       | 55%                                      | Manufacturing and trading of semiconductor products  |
| China IC Capital Co., Ltd #  | PRC January 17, 2014                                    | 100%                                     | Investment holding   |
| Shanghai Xinxin Investment Centre (Limited Partnership)                              | PRC August 5, 2014                                      | 99%                                      | Investment holding   |
| Shanghai Hexin Investment Management Limited Partnership                             | PRC August 1, 2014                                      | 99%                                      | Investment holding   |
|  | PRC August 5, 2014                                      | 99%                                      | Investment holding   |

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Shanghai Chengxin Investment Center  
(Limited Partnership)

|  |                             |  |
|--|-----------------------------|--|
| Shanghai Rongxin Investment Management Limited Partnership | PRC July 31, 2014           | 99% Investment holding                           |
| SJ Semiconductor (HK) Limited                              | Hong Kong September 2, 2014 | 51% Investment holding                           |
| SJ Semiconductor (Jiangyin) Corp.                          | PRC November 25, 2014       | 51% Bumping and circuit probe testing activities |

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\*For identification purposes only.

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

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

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

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

*Property*

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

| Location   | Size<br>(Land/Building)<br>(in square meters) | Primary Use       | Owned(1)or<br>Leased<br>(Land/Building) |
|--|---|-------------------|---|
| Zhangjiang High-Tech Park, Pudong New Area, Shanghai                     | 367,895/201,772                               | Wafer fabrication | owned/owned                             |
| Beijing Economic and Technological Development Area                      | 240,140/143,017                               | Wafer fabrication | owned/owned                             |
| Xiqing Economic Development Area, Tianjin                                | 215,733/70,578                                | Wafer fabrication | owned/owned                             |
| Shenzhen Export Processing Zone, Shenzhen Pingshan<br>NewArea, Guangdong | 200,060/na                                    | Wafer fabrication | owned/na                                |

|  |           |                                      |            |
|--|-----------|--------------------------------------|------------|
| Jiangyin National High-Tech Industrial Development Zone,<br>Jiangsu Province | na/14,245 | Bumping and<br>circuit probe testing | na/ leased |
| Japan  | na/35     | Marketing activities                 | na/leased  |
| USA  | na/2,092  | Marketing activities                 | na/leased  |
| Italy  | na/280    | Marketing activities                 | na/leased  |
| Taiwan   | na/500    | Marketing activities                 | na/leased  |
| Hong Kong(2)   | na/300    | Representative<br>Office             | na/owned   |

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

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

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The construction of our 8-inch fab in SMIC Shenzhen began in 2008 in an effort to expand our production capacity. SMIC Shenzhen is principally engaged in, among others, the testing, development, design, manufacturing, packaging and sale of integrated circuits and is expected to establish and build up significant manufacturing capacity. SMIC Shenzhen had reached an installed capacity of 10,000 wafers per month but had not entered into mass production at the end of 2014. SMIC Shenzhen targets to reach an installed capacity of 20,000 wafers per month by the end of 2015. See Item 3.D - Risk Factors - Risks Related to Our Financial Condition and Business.

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

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

## **Environmental Matters**

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

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

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

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

We are also proactively protecting the environment by implementing energy saving measures to reduce greenhouse gas emissions. In order to calculate our greenhouse gas output and to reach a reduction goal, all SMIC sites obtained ISO 14064 certification since 2010. ISO 14064 is an international standard against which greenhouse gas (GHG) emissions reports are voluntarily verified. Once the Shenzhen site is in mass production, it will undergo the ISO14064 certification too.



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**Item 4A. Unresolved Staff Comments**

Not applicable

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

We are dually listed on the New York Stock Exchange and Hong Kong Stock Exchange. In order to improve comparability with peers within semiconductor industry and reduce the cost of financial reporting under different accounting frameworks, we started to prepare our annual consolidated financial statements in accordance with IFRS as of and for the year ended December 31, 2012. Previously, we prepared our annual consolidated financial statements in accordance with U.S. GAAP. We have adjusted our consolidated financial information as of and for the year ended December 31, 2011 in accordance with IFRS and financial information set forth in this annual report as of and for the year ended December 31, 2011 may differ from information previously published.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes prepared in accordance with IFRS as described in Notes to Consolidated Financial Statements as of, and for the years ended, December 31, 2012, 2013 and 2014. This report contains forward-looking statements. See Forward-Looking Information. In evaluating our business, you should carefully consider the information provided under the caption Item 3.D - Key Information Risk Factors in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

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**A. Operating Results**

**Overview**

Our operations are primarily based in China. We continued to achieve profitability on a full-year basis in 2014. In 2014 we achieved total sales of US\$1,970.0 million, compared to US\$2,069.0 million in 2013. Revenue excluding wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Corporation (Wuhan Xinxin) was US\$1,970.0 million in 2014, compared to US\$1,961.6 million in 2013. We recorded annual profit of US\$126.3 million and generated US\$608.1 million in cash from operating activities in 2014, compared to annual profit of US\$174.5 million and US\$738.0 million in cash from operating activities in 2013.

Our China revenue contributed 43.3% of the overall revenue in 2014, compared to 40.4% in 2013. In particular, 50.6% of our advanced nodes (90nm and below) wafer revenue in 2014 was contributed by customers in China. In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below decreased from 44.9% in 2013 to 39.2% in 2014 and the revenue contribution percentage from 40/45nm technology decreased slightly from 12.1% in 2013 to 11.1% in 2014. On the other hand, revenue contribution percentage from 0.15/0.18um technology increased from 39.9% in 2013 to 44.5% in 2014. Furthermore, in December 2014, we announced, together with Qualcomm Incorporated, the successful fabrication of Qualcomm® Snapdragon 410 processors in our 28nm technology.

The major factors affecting our results of operations and financial condition are discussed below.

**Factors that Impact Our Results of Operations**

***Cyclicality of the Semiconductor Industry***

The semiconductor industry is highly cyclical due mainly to the cyclicality of demand in the markets of the products that use semiconductors. As these markets fluctuate, the semiconductor market also fluctuates. This fluctuation in the semiconductor market is exacerbated by the tendency of semiconductor companies, including foundries, to make capital investments in plant and equipment during periods of high demand since it may require several years to plan, construct and commence operations at a fab. Absent sustained growth in demand, this increase in capacity often leads to overcapacity in the semiconductor market, which in the past has led to a significant underutilization of capacity and a sharp drop in semiconductor prices. The semiconductor industry is generally slow to react to declines in demand due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of the planned expansion. See Item 3.D - Risk Factors Risks Related to Our Financial Condition and Business.

***Substantial Capital Expenditures***

The semiconductor foundry industry is characterized by substantial capital expenditures. This is particularly true for our company as we have recently constructed and equipped fabs and are continuing to construct and equip new fabs. In connection with the construction and ramp-up of our capacity, we incurred capital expenditures of US\$499 million, US\$770 million, and US\$1,014 million, in 2012, 2013 and 2014, respectively. We depreciate our manufacturing machinery and equipment on a straight-line basis over an estimated useful life of five to seven years. We recorded depreciation of US\$531.8 million, US\$501.9 million, and US\$506.4 million in 2012, 2013 and 2014, respectively.

The semiconductor industry is also characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, our research and development efforts are essential to our overall success. We spent approximately US\$193.6 million in 2012, US\$145.3 million in 2013 and US\$189.7 million in 2014 on research and development expenses, which represented 11.4%, 7.0% and 9.6%, respectively, of our sales for 2012, 2013 and 2014. Our research and development costs are partially offset by related government fundings and include the costs associated with the ramp-up of a new wafer facility.

We currently expect that our capital expenditures in 2015 for foundry operations will be approximately US\$1.4 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in the 12-inch fab of SMNC and the new 8-inch fab in Shenzhen and 2) research and development equipment, mask shops and intellectual property acquisition. In addition, we have budgeted approximately US\$100 million as the 2015 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. We plan to rent or sell these living quarters to employees in the future. Our actual expenditures may differ from our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, or customer requirements. We will monitor the global economy, the semiconductor industry, the demands of our customers, and our cash flow from operations and will adjust our capital expenditures plans as necessary.

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***Capacity Expansion***

We have expanded our production capacity in the past years, and plan to continue to expand through organic growth, joint ventures and acquisitions. An increase in capacity may have a significant effect on our results of operations, both by allowing us to produce and sell more wafers and achieve higher sales, and as a cost component in the form of acquisition costs and depreciation expenses. In 2015, most of our expansion will be on our Shenzhen site and on our majority-owned fab in Beijing. Our target, subject to market condition, is to reach 20,000 8-inch wafers per month installed capacity in our Shenzhen fab, and 10,000 12-inch wafers per month installed capacity in our majority-owned Beijing fab by the year end.

***Pricing***

We price our foundry services on either a per wafer or a per die basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer, and our capacity utilization. Since a majority of our costs and expenses are fixed or semi-fixed, fluctuations in the average selling prices of semiconductor wafers have historically had a substantial impact on our margins. The average selling price of the wafers we shipped decreased from US\$804 per wafer in 2013 to US\$770 per wafer in 2014.

***Change in Process Mix and Technology Migration***

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

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

***Capacity Utilization Rates***

Operations at or near full capacity utilization have a significant positive effect on our profitability because a substantial percentage of our cost of sales is of a fixed or semi-fixed nature. If we increase our utilization rates, the number of wafers we fabricate will increase, and therefore our average fixed costs per wafer will decrease. Therefore, our capacity utilization rates have a significant effect on our margins. Our capacity utilization rates have varied from period to period mainly due to the mix of wafers produced and

fluctuations in customer orders. Our capacity utilization rate was 88.3% in 2012, 90.7% in 2013 and 91.0% in 2014. Factors affecting capacity utilization rates are the overall industry conditions, the level of customer orders, the complexity of the wafers and of the mix of wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, and our ability to manage the production facilities and product flows efficiently.

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

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***Yield Rates***

Yield per wafer is the ratio of the number of functional dies on that wafer to the maximum number of dies that can be produced on that wafer. We continuously upgrade the process technologies that we use. At the beginning of each technology migration, the yield utilizing the new technology is generally lower, sometimes substantially lower, than the yield under the then-current technology. This is because it requires time to stabilize, optimize and test a new process technology. We do not ship wafers to a customer until we have achieved that customer's minimum yield requirements.

Yield is generally improved through the expertise and cooperation of our research and development personnel, process engineers, and equipment suppliers.

**Critical Accounting Policies**

We prepare our financial statements in conformity with IFRS, which requires us to make judgments, estimates and assumptions. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their applications and require us to make significant accounting estimates. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

**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. We estimate the recoverability for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions. If the NRV of an inventory item is determined to be below its carrying value, we record a write-down to cost of sales for the difference between the carrying cost and NRV.

The cost of inventories recognized as an expense (income) during the year in respect of inventory provision was US\$29.6 million (2013: US\$(0.1) million and 2012: US\$4.9 million).

### **Long-lived assets**

We assess 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 we consider in deciding when to perform an impairment review include, but are not limited to significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets.

An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or CGU. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. Currently we are not able to estimate the amount of impairment loss or when the loss will occur for future years. Any potential changes of the business assumptions, such as forecasted sales, selling prices, utilizations, may have a material adverse effect on our net income.

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We make 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. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of CGU to our 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 used for extrapolation purposes.

In order to remain technologically competitive in the semiconductor industry, we have entered into technology transfer and technology license arrangements with third parties in an attempt to advance our process technologies. The payments made for such technology licenses are recorded as an intangible asset or as a deferred cost and amortized on a straight-line basis over the estimated useful life of the asset. We routinely review the remaining estimated useful lives of these intangible assets and deferred costs. We also evaluate these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When the carrying amounts of such assets are determined to exceed their recoverable amounts, we 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 our option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. We estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. We use projected volatility rates based upon the Company's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect our calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly.

For further discussion on our share-based employee compensation plans see Item 6.E Directors, Senior Management and Employees Share Ownership.

## **Taxes**

As a company incorporated in the Cayman Islands, we are not subject to taxation in the Cayman Islands.

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



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. We established 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 us.

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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.

A deferred tax asset of nil and US\$0.5 million has been recognized in our consolidated statement of financial position as of December 31, 2013 and 2014, respectively, in relation to unused tax losses. 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. For further details on taxes see Note 10 to Consolidated Financial Statements .

## **Fair value measurements and valuation processes**

Some of our assets and liabilities are measured at fair value for financial reporting purposes.

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

We use valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

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

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

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

## **Foreign Currency Fluctuations**

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

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**Recent Accounting Pronouncements**

**IAS 19 Defined benefit plans: employee contributions**

This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

**IFRS 9 Financial instruments , addresses the classification, measurement and recognition of financial assets and financial liabilities**

The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ( OCI ) and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. We are yet to assess IFRS 9's full impact.

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**IFRS 15 Revenue from contracts with customers**

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. We are assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on us.

**Amendment to IFRS 11 on accounting for acquisitions of interests in joint operations**

The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business (as defined in IFRS 3, Business combinations. Specifically, an investor will need to:

- measure identifiable assets and liabilities at fair value;
- expense acquisition-related costs;
- recognize deferred tax; and
- recognize the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with IFRS 11.

The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

**Amendments to IFRS 10, IFRS 12 and IAS 28 on investment entities: applying the consolidation exception**

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10.

The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to IAS 28 allow an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture for their subsidiaries when applying the equity method.

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**Amendments to IAS 1 for the disclosure initiative**

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

**Amendments to IAS 16 and IAS 38 on clarification of acceptable methods of depreciation and amortization**

The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to IAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

**Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture**

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

**Amendment to IAS 27 on equity method in separate financial statements**

The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

### **Annual Improvements to IFRSs 2010 2012 Cycle**

The Annual Improvements to IFRSs 2010 2012 Cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 2 (i) clarify the definitions of vesting condition and market condition ; and (ii) add definitions for performance condition and service condition which were previously included within the definition of vesting condition . The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to IFRS 3 clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity. All non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics ; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.



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The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2010-2012 Cycle will have a material effect on our consolidated financial statements.

**Annual Improvements to IFRSs 2011 2013 Cycle**

The Annual Improvements to IFRSs 2011 2013 Cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and

(b) the transaction meets the definition of a business combination under IFRS 3.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2011-2013 Cycle will have a material effect on our consolidated financial statements.

#### **Annual Improvements to IFRSs 2012-2014 Cycle**

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below:

- IFRS 5, Non-current assets held for sale and discontinued operations

It clarifies that when an asset (or disposal group) is reclassified from held for sale to held for distribution, or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as held for sale or held for distribution simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as held for sale.

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- IFRS 7, Financial instruments: Disclosures

There are two amendments:

- i) Service contracts

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement.

There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.

- ii) Interim financial statements

It clarifies the additional disclosure required by the amendments to IFRS 7, Disclosure of offsetting financial assets and financial liabilities is not specifically required for all interim periods, unless required by IAS 34.

- IAS 19, Employee benefits

It clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

- IAS 34, Interim financial reporting

It clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. It also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information

**Incentives from the Chinese government**

The chart below sets forth a brief summary of the material incentives received by our Chinese subsidiaries as qualified integrated circuit production enterprises (ICPE) from the Chinese government. Our Shanghai, Beijing, and Tianjin subsidiaries are qualified as ICPEs under the Integrated Circuit Policies. Under these policies, ICPEs whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to the benefits listed below. For a more detailed discussion of these incentives, see Item 4.B-Information on the Company Business Overview Regulation.

| Incentive  | SMIC Shanghai; SMIC Beijing and SMIC Tianjin  |
|--|---|
| <b>Preferential Enterprise Income Tax Policies</b>                 | Five-year full exemption and five-year 50% reduction upon approval from the local tax bureau  |
| <b>Preferential Customs Duties and Import-related VAT Policies</b> | Exemption from customs duties and imported-related VAT with respect to its qualified spare parts, and raw materials pursuant to the Tax-Exemption Categories. |

Table of Contents**Operating Results**

The following table sets forth a summary of our consolidated results of operations for the periods indicated. We believe that period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

|   | For the year ended December 31,                    |             |             |
|---|--|-------------|-------------|
|   | 2012   | 2013        | 2014        |
|   | (in US\$ thousands, except for earnings per share) |             |             |
| <b>Revenue</b>  | 1,701,598  | 2,068,964   | 1,969,966   |
| <b>Cost of sales</b>  | (1,352,835)  | (1,630,528) | (1,486,514) |
| <b>Gross profit</b>   | 348,763  | 438,436     | 483,452     |
| <b>Research and development expenses, net</b>                             | (193,569)  | (145,314)   | (189,733)   |
| <b>Sales and marketing expenses</b>                                       | (31,485)   | (35,738)    | (38,252)    |
| <b>General and administration expenses</b>                                | (107,313)  | (138,167)   | (139,428)   |
| <b>Other operating income</b>   | 19,117   | 67,870      | 14,206      |
| <b>Profit from operations</b>   | 35,513   | 187,087     | 130,245     |
| <b>Interest income</b>  | 5,390  | 5,888       | 14,230      |
| <b>Finance costs</b>  | (39,460)   | (34,392)    | (20,715)    |
| <b>Foreign exchange gains or losses, net</b>                              | 3,895  | 13,726      | (5,993)     |
| <b>Other gains or losses</b>  | 6,398  | 4,010       | 18,210      |
| <b>Share of profits of associates</b>                                     | 1,703  | 2,278       | 2,073       |
| <b>Profit before tax</b>  | 13,439   | 178,597     | 138,050     |
| <b>Income tax benefit (expense)</b>                                       | 9,102  | (4,130)     | (11,789)    |
| <b>Profit for the year</b>  | 22,541   | 174,467     | 126,261     |
| <b>Other comprehensive income</b>   |  |             |             |
| <b>Exchange differences on translating foreign operations</b>             | 70   | 731         | (324)       |
| <b>Total comprehensive income for the year</b>                            | 22,611   | 175,198     | 125,937     |
| <b>Profit (loss) for the year attributable to:</b>                        |  |             |             |
| <b>Owners of the Company</b>  | 22,771   | 173,177     | 152,969     |
| <b>Non-controlling interests</b>  | (230)  | 1,290       | (26,708)    |
|   | 22,541   | 174,467     | 126,261     |
| <b>Total comprehensive income (expense) for the year attributable to:</b> |  |             |             |
| <b>Owners of the Company</b>  | 22,841   | 173,908     | 152,645     |
| <b>Non-controlling interests</b>  | (230)  | 1,290       | (26,708)    |
|   | 22,611   | 175,198     | 125,937     |
| <b>Earnings per share</b>   |  |             |             |
| <b>From continuing and discontinued operations</b>                        |  |             |             |
| <b>Basic</b>  | \$ 0.00  | \$ 0.01     | \$ 0.00     |
| <b>Diluted</b>  | \$ 0.00  | \$ 0.01     | \$ 0.00     |
| <b>From continuing operations</b>   |  |             |             |
| <b>Basic</b>  | \$ 0.00  | \$ 0.01     | \$ 0.00     |
| <b>Diluted</b>  | \$ 0.00  | \$ 0.01     | \$ 0.00     |

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**Revenue**

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

In 2014, fabless semiconductor companies accounted for 86.6%, IDMs accounted for 3.1% and systems and other companies accounted for 10.3%, respectively, of our sales. A significant portion of our net sales is attributable to a relatively small number of our customers. In 2012, 2013, and 2014 our five largest customers accounted for approximately 56.0%, 52.3% and 51.1%, respectively of our sales.

**Cost of sales**

Our cost of sales consists principally of:

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

**Income (expenses) and gains (loss) from operations**

- Research and development expenses. Research and development expenses consist primarily of salaries and benefits of research and development personnel, materials costs, depreciation and maintenance on the equipment used in our research and development efforts, contracted technology development costs, and the costs associated with the ramp-up of new fabs. Research and development expenses are partially offset by related government fundings.
- General and administrative expenses. General and administrative expenses consist primarily of salaries and benefits for our administrative support, finance and human resource personnel, commercial insurance, fees for professional services, city maintenance and construction tax expenses, educational surtax expenses and bad debt expenses.
- Selling and marketing expenses. Selling and marketing expenses consist primarily of salaries and benefits of personnel engaged in sales and marketing activities, costs of customer wafer samples, other marketing incentives and related marketing expenses.
- Other operating income (loss). Other operating income (loss) consist primarily of gains or losses arising from disposal of our living quarters, gains or losses arising from disposal of subsidiaries and impairment loss of long-lived assets.

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**Finance cost**

Our finance costs consist of:

- interest expenses, net of government fundings and capitalized portions, which have been primarily attributable to our bank loans, corporate bonds and the imputed interest rate on an outstanding interest-free convertible bonds, and;
- accretion of interest to preferred shareholders of subsidiaries.

**Other gains or losses**

Our other gains or losses mainly consist of:

- gains and losses from our schools, kindergartens and living quarters;
- the payment of land idling tax charged by the local government; and
- the changes of fair value and disposal gains or losses of the financial products sold by banks.

**Comparison of the Years Ended December 31, 2012, 2013 and 2014**

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

**Revenue**



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Revenue decreased by 4.8% from US\$2,069.0 million for 2013 to US\$1,970.0 million for 2014, primarily because there had been no wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Corporation ( Wuhan Xinxin ) since the first quarter of 2014. Revenue excluding wafer shipments from Wuhan Xinxin was US\$1,970.0 million in 2014, compared to US\$1,961.6 million in 2013. For the full year of 2014, the overall wafer shipments were 2,559,245 units of 8-inch equivalent wafers, down 0.6% year-on-year.

The average selling price of the wafers we shipped decreased from US\$804 per wafer in 2013 to US\$770 in 2014. The percentage of wafer revenues from advanced 40/45nm technologies slightly decreased from 12.1% in 2013 to 11.1% in 2014.

### **Cost of sales and gross profit**

Cost of sales decreased by 8.8% from US\$1,630.5 million for 2013 to US\$1,486.5 million for 2014, primarily due to 1) no wafer shipments from Wuhan Xinxin and 2) an increase of fab efficiency and cost saving. Out of the total cost of sales, US\$474.8 million and US\$436.1 million were attributable to depreciation and amortization for the year ended December 31, 2013 and 2014, respectively.

Our gross profit was US\$483.5 million for 2014 compared to US\$438.4 million for 2013, representing an increase of 10.3%. Gross margin was 24.5% in 2014 compared to 21.2% in 2013. The increase in gross margin was primarily because 1) there were no wafer shipments from Wuhan Xinxin which had lower gross margin since the first quarter of 2014 and 2) of improved fab efficiency in 2014.

### **Profit for the year from operations**

Profit from operations decreased from US\$187.1 million for the year ended December 31, 2013 to US\$130.2 million for the year ended December 31, 2014 primarily due to the combined effect of 1) an increase of gross profit in 2014, 2) an increase in R&D activities in 2014, 3) higher gain realized from the partial disposal of the living quarters in Shanghai in 2013 and 4) the gain arising from the disposal of our total ownership interest in SMIC (Wuhan) Development Corporation ( WHDM ) which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan in 2013.

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Research and development expenses increased by 30.6% from US\$145.3 million for the year ended December 31, 2013 to US\$189.7 million for the year ended December 31, 2014. The increase was mainly due to the increase in R&D activities.

General and administrative expenses increased by 0.9% from US\$138.2 million for the year ended December 31, 2013 to US\$139.4 million for the year ended December 31, 2014.

Sales and marketing expenses increased by 7.0% from US\$35.7 million for the year ended December 31, 2013 to US\$38.3 million for the year ended December 31, 2014.

Other operating income decreased by 79.1% from US\$67.9 million for the year ended December 31, 2013 to US\$14.2 million for the year ended December 31, 2014. The decrease was due to 1) the gains of US\$34.0 million realized from the partial disposal of our living quarters in 2013 higher than US\$14.6 million in 2014 and 2) the gain of US\$28.3 million arising from the disposal of our total ownership interest in WHDM in 2013.

As a result, our profit from operations decreased to US\$130.2 million for the year ended December 31, 2014 from US\$187.1 million for the year ended December 31, 2013.

**Profit for the Year**

Due to the factors described above, we recorded a profit of US\$126.3 million in 2014 compared to US\$174.5 million in 2013.

*Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*

**Revenue**

Revenue increased by 21.6% from US\$1,701.6 million for 2012 to US\$2,069.0 million for 2013, primarily due to successful ramping up of Shanghai 12-inch fab in 2013 and a significant increase in China sales. For the full year of 2013, the overall wafer shipments were 2,574,119 units of 8-inch equivalent wafers, up 16.1% from the prior year.

The average selling price of the wafers we shipped increased from US\$767 per wafer in 2012 to US\$804 in 2013. The percentage of wafer revenues from advanced 40/45 technologies increased from 1.1% in 2012 to 12.1% in 2013.

### **Cost of sales and gross profit**

Cost of sales increased from US\$1,352.8 million for 2012 to US\$1,630.5 million for 2013, primarily due to the increase of advanced node shipment with higher production cost. Out of the total cost of sales, US\$474.8 million and US\$403.0 million were attributable to depreciation and amortization for the years ended December 31, 2013 and 2012, respectively.

Our gross profit was US\$438.4 million for 2013 compared to US\$348.8 million in 2012, representing an increase of 25.7%. Gross margin was 21.2% in 2013 compared to 20.5% in 2012. The increase in gross margin was primarily due to higher overall utilization in 2013.

### **Profit for the year from operations**

Profit from operations increased from US\$35.5 million for the year ended December 31, 2012 to US\$187.1 million for the year ended December 31, 2013 primarily due to 1) an increase of gross profit in 2013, 2) shipment increase and high utilization in 2013, 3) Shanghai 12- inch fab successfully ramping up and reducing per wafer cost, 4) increase of fab efficiency and cost saving, 4) the gain arising from the disposal of part of the living quarters in Shanghai, and 5) the gain arising from the disposal of our total ownership interest in WHDM.

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Research and development expenses decreased by 24.9% from US\$193.6 million for the year ended December 31, 2012 to US\$145.3 million for the year ended December 31, 2013. The decrease was mainly due to the Shanghai 12-inch fab commencing volume production in the fourth quarter of 2012 after which the related fab expense was recorded in cost of sales.

General and administrative expenses increased by 28.8% from US\$107.3 million for the year ended December 31, 2012 to US\$138.2 million for the year ended December 31, 2013. The increase was primarily due to an increase in employee bonus, city maintenance and construction tax expenses and extra charges for education in 2013.

Sales and marketing expenses increased by 13.5% from US\$31.5 million for the year ended December 31, 2012 to US\$35.7 million for the year ended December 31, 2013. The increase was primarily due to an increase in employee bonus.

Other operating income was US\$67.9 million and US\$19.1 million for the year ended December 31, 2013 and 2012, respectively, and the increase was due to 1) the gains of US\$34.0 million arising from the disposal of part of our living quarters in Shanghai in 2013 higher than US\$19.4 million in 2012, 2) the gain of US\$28.3 million arising from the disposal of our total ownership interest in WHDM which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan and 3) the gain of US\$5.4 million arising from the deconsolidation of Brite Semiconductor Corporation and its subsidiaries, or Brite, due to loss of control.

As a result, our profit from operations was US\$187.1 million for the year ended December 31, 2013 compared to US\$35.5 million for the year ended December 31, 2012.

**Disposal of SMIC (Wuhan) Development Corporation**

In 2013, we entered into a sale agreement with a third-party buyer to dispose of our 100% equity interest in WHDM. The disposal was completed on May 23, 2013, on which date we lost control of WHDM. The amount of the consideration was US\$60.4 million and we recorded a gain of US\$28.3 million. The consideration was fully settled by the buyer on July 26, 2013. WHDM was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan, which was not our major line of business. Therefore, the disposal of WHDM was not classified as a discontinued operation.

**Deconsolidation of Brite Semiconductor Corporation and Its Subsidiaries**

On December 30, 2013, all the directors of Brite, a company in which we hold a 48.7% equity interest, adopted and approved by unanimous written consent the amended and restated articles of association, the amended and restated investor rights agreement and the amended and restated voting agreement of Brite. As a result, we lost control of Brite but still have significant influence over it. There was no cash consideration associated with this change. We recorded our ownership interest of Brite as investment in associate and recognized a deconsolidation gain due to loss of control of US\$5.4 million. Brite is mainly engaged in design service, which is not our major line of business. Therefore, the deconsolidation of Brite due to loss of control was not classified as a

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discontinued operation.

**Profit for the Year**

Due to the factors described above, we recorded a profit of US\$174.5 million in 2013 compared to US\$22.5 million in 2012.

Table of Contents**B. Liquidity and Capital Resources**

We anticipate our working capital to be sufficient for our present requirements. We will require access to significant capital to fund our future capital expenditures and capacity expansion requirements, which are difficult to plan in the rapidly changing semiconductor manufacturing industry. In 2014, we entered into the subscription agreements in respect of the issue of US\$204 million zero coupon convertible bonds, US\$500 million corporate bonds and 2,590,000,000 ordinary shares with net proceeds of approximately US\$197.2 million in June and 938,111,417 ordinary shares with net proceeds of approximately US\$72.6 million in November 2014.

On February 12, 2015, we entered into the share purchase agreement with China Integrated Circuit Industry Investment Fund Co., Ltd. ( China IC Fund ). Pursuant to the share purchase agreement, we proposed to issue 4,700,000,000 new ordinary shares (the Placing of New Shares ) to the China IC Fund at the consideration of approximately HK\$3,098.71 million. The Placing of New Shares shall be completed no later than four months after the signing of the share purchase agreement (or such later date as may be agreed by the parties).

Each of Datang Holdings (Hongkong) Investment Company Limited ( Datang ) and Country Hill Limited ( Country Hill ) delivered an irrevocable notice to us on March 2, 2015 that they would be exercising their pre-emptive rights in respect of the Placing of New Shares. We will also enter into share purchase agreements with Datang and Country Hill in relation to any issue of new shares to Datang and Country Hill. Our entering into of the share purchase agreements with Datang and Country Hill and the transactions contemplated thereunder constitute connected transactions of the Company under the Hong Kong Listing Rules and are thus subject to independent shareholders' approval requirement.

We anticipate that the cash on hands, cash flows from operations in 2015 and the proceeds from the above new ordinary shares issued will be sufficient to meet our capital expenditures requirement. If necessary, we will also explore other external financing.

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

|  | 2012      | For the Years Ended December 31, |             |
|--|-----------|----------------------------------|-------------|
|  |           | 2013                             | 2014        |
|  |           | (in US\$ thousands)              |             |
| <b>Cash Flow Data:</b>   |           |                                  |             |
| <b>Profit for the year</b>   | 22,541    | 174,467                          | 126,261     |
| <b>Non-cash adjustment to reconcile profit to net operating cash flow:</b> |           |                                  |             |
| <b>Depreciation and amortization</b>                                       | 566,899   | 546,910                          | 549,468     |
| <b>Net cash from operating activities</b>                                  | 435,166   | 738,016                          | 608,102     |
| <b>Payments for property, plant and equipment</b>                          | (400,291) | (650,160)                        | (653,134)   |
| <b>Net cash used in investing activities</b>                               | (522,277) | (807,467)                        | (1,144,123) |
| <b>Net cash from financing activities</b>                                  | 184,101   | 173,458                          | 676,683     |
| <b>Net increase in cash and cash equivalents</b>                           | 96,990    | 104,007                          | 140,662     |

*Operating Activities*

As of December 31, 2014, we had US\$603.0 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2014 was US\$608.1 million, which was primarily due to the net profit of US\$126.3 million, an increase of US\$89.2 million in trade and other receivables and the add-back of US\$549.5 million in depreciation and amortization.

As of December 31, 2013, we had US\$462.5 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2013 was US\$738.0 million, which was primarily due to the net profit of US\$174.5 million, an increase of US\$33.4 million in trade and other receivables and the add-back of US\$546.9 million in depreciation and amortization.

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As of December 31, 2012, we had US\$358.5 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2012 was US\$435.2 million, which was primarily due to the net profit of US\$22.5 million, an increase of US\$112.4 million in trade and other receivables, an increase of US\$93.3 million in inventories and the add-back of US\$566.9 million in depreciation and amortization.

*Investing Activities*

Our net cash used in investing activities was US\$1,144.1 million in 2014, US\$807.5 million in 2013 and US\$522.3 million in 2012. These amounts were primarily attributable to purchases of plant and equipment for our fabs in Shanghai, Beijing, Tianjin and Shenzhen.

*Financing Activities*

Our net cash from financing activities in 2014 was US\$676.7 million. This was primarily derived from US\$376.6 million in the proceeds from borrowings, US\$952.4 million in the repayment of borrowings, US\$203.8 million in the proceeds from issuance of convertible bonds, US\$492.3 million in the proceeds from issuance of corporate bonds, US\$270.2 million in the proceeds from issuance of ordinary shares and US\$276.8 million in the capital contribution from non-controlling interest.

Our net cash from financing activities in 2013 was US\$173.5 million. This was primarily derived from US\$905.1 million in the proceeds from borrowings, US\$1,008.7 million in the repayment of borrowings, US\$195.8 million in the proceeds from issuance of convertible bonds, US\$108.0 million in the capital contribution from non-controlling interest and US\$30.0 million in the repayment of promissory notes.

Our net cash from financing activities in 2012 was US\$184.1 million. This was primarily derived from US\$1,541.5 million in the proceeds from borrowings, US\$1,328.0 million in the repayment of borrowings and US\$30.0 million in the repayment of promissory notes.

*Capital Expenditures*

We incurred capital expenditures of US\$499 million, US\$770 million and US\$1,014 million in 2012, 2013 and 2014, respectively. We currently expect our capital expenditures in 2015 for foundry operations to be approximately US\$1.4 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in the 12-inch fab of SMNC and the new 8-inch fab in Shenzhen and 2) research and development equipment, mask shops and intellectual property acquisition. In addition, we have budgeted approximately US\$100 million as the 2015 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. We plan to rent or sell these living quarters to employees in the future. We plan to finance our substantial capital expenditure requirements through funds generated from a



combination of cash from operations, bank borrowing, and debt or equity issuances.

The construction in progress balance of approximately US\$1,060.7 million as of December 31, 2014, primarily consisted of US\$580.1 million and US\$137.9 million of the manufacturing equipment acquired to further expand the production capacity at our two 12" fabs in Beijing and one 12" fab in Shanghai, respectively, and US\$259.7 million of the manufacturing equipment acquired to further expand the production capacity at the 8" fab in Shenzhen. In addition, US\$83.0 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2015.

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

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*Commitments*

As of December 31, 2014, we had commitments of US\$211.7 million for facilities construction obligations in connection with our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities. We had commitments of US\$292.9 million to purchase machinery and equipment for our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs and US\$14.1 million to purchase intellectual property. For additional information, see Item 5.A Operating and Financial Review and Prospects - Operating Results . As of December 31, 2014, our outstanding long-term loans primarily consisted of US\$221.5 million in secured bank loans and US\$81.7 million in unsecured bank loans, which are repayable in installments starting in June 2015, with the last payment due in February 2018.

*Bank Borrowing*

*2012 USD Loan (SMIC Shanghai)*

In March 2012, Semiconductor Manufacturing International (Shanghai) Corporation ( SMIC Shanghai ) entered into a loan facility in the aggregate principal amount of US\$268 million from a consortium of international and Chinese banks. This three-year bank facility was used to finance the working capital for SMIS 's 8-inch fab. The facility was secured by the manufacturing equipment located in the SMIS 8-inch fabs, buildings and land use right of SMIC Shanghai. SMIC Shanghai had drawn down US\$268 million and repaid the outstanding balance on this loan facility in advance by December 2014. As of December 31, 2014, SMIC Shanghai had no outstanding balance of the facility. The interest rate on this loan facility ranged from 3.6% to 3.9% in 2014.

*2013 USD Loan (SMIC Shanghai)*

In August 2013, SMIC Shanghai entered into a loan facility in the aggregate principal amount of US\$470 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIC Shanghai 's 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIC Shanghai 12-inch fabs and buildings of SMIC Shanghai. As of December 31, 2014, SMIC Shanghai had drawn down US\$260 million and repaid US\$38.5 million on this loan facility in advance by December 2014. The outstanding balance of US\$221.5 million is repayable from August 2015 to February 2018. SMIC Shanghai repaid US\$200 million on this loan facility in advance in the first quarter of 2015. The interest rate on this loan facility ranged from 4.3% to 4.9% in 2014.

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

1. (Short-term Loans + Long-term Debt Current Portion + Long-term Bank Loans)/Total Equity is more than 70%; or

2. (Net profit + Depreciation + Amortization + Income Tax Provision + Financial Expenses)/Financial Expenses is less than 550% in 2014, and less than 1000% after 2014; or

3. (Total Equity - Acquired Intangible Assets Net) is less than US\$800 million in 2014, and less than US\$1,000 million after 2014.

SMIC Shanghai was in compliance with these covenants as of December 31, 2014.

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*2012 USD Loan (SMIC Beijing)*

In March 2012, Semiconductor Manufacturing International (Beijing) Corporation ( SMIC Beijing ) entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of US\$600 million, with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to expand the capacity of SMIC Beijing 's 12 inch fabs. The facility was secured by the manufacturing equipment located in the SMIC Beijing and Semiconductor Manufacturing International (Tianjin) Corporation ( SMIC Tianjin ) 's fabs, and 100% equity pledge of SMIC Beijing and SMIC Tianjin. As of December 31, 2014, SMIC Beijing had drawn down US\$260 million and repaid the outstanding balance on this loan facility in advance by September 2014. The interest rate on this loan facility ranged from 5.8% to 5.9% in 2014.

*2013 EXIM USD Loan (SMIC Beijing)*

In June 2013, SMIC Beijing entered into the new USD loan, a twenty-six-months working capital loan facility in the principal amount of US\$60 million with The Export-Import Bank of China, which is unsecured. This twenty- six-months bank facility was used for working capital purposes. As of December 31, 2014, SMIC Beijing had drawn down US\$40 million on this loan facility. The principal amount is repayable in August 2015. The interest rate on this loan facility ranged from 3.3% to 3.4% in 2014.

*2013 CIC RMB Entrust Loan (SMIC Beijing)*

In June 2013, SMIC Beijing entered into the new RMB loan, a two-year working capital entrust loan facility in the principal amount of RMB70 million with China Investment Development Corporation through China CITIC Bank, which is unsecured. This two-year entrust loan facility was used for working capital purposes. As of December 31, 2014, SMIC Beijing had drawn down RMB70 million (approximately US\$11.5 million) and repaid RMB55 million (approximately US\$9.0 million) on this loan facility. The outstanding balance of RMB15 million (approximately US\$2.5 million) is repayable in June 2015. The interest rate on this loan facility is 12% in 2014.

*2014 EXIM RMB Loan (SMIC Beijing)*

In December 2014, SMIC Beijing entered into the new RMB loan, a two-year working capital loan facility in the principal amount of RMB240 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2014, SMIC Beijing had drawn down RMB240 million on this loan facility. The principal amount is repayable in December 2016. The interest rate on this loan facility is 3.9% in 2014.

*Short-term Credit Agreements*

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As of December 31, 2014, we had 21 short-term credit agreements that provided total credit facilities of up to US\$882.5 million on a revolving credit basis. As of December 31, 2014, we had drawn down US\$115.1 million under these credit agreements and US\$767.4 million was available for future trading and borrowing. All the outstanding borrowings under the credit agreements are unsecured. The interest rate ranged from 1.9% to 4.2% in 2014.

In May 2012, SMIC Shanghai entered into a four-year strategic framework credit facility in the aggregate amount of RMB5 billion with China Development Bank. The 2013 USD loan (SMIC Shanghai) described above constituted part of this strategic framework credit facility.

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

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

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

Our research and development activities are principally directed toward the development and implementation of new process technology. We spent US\$193.6 million, US\$145.3 million and US\$189.7 million, respectively in 2012, 2013 and 2014 on research and development expenses, which represented 11.4%, 7.0% and 9.6% respectively, of our sales in those respective years. Our research and development costs were partially offset by related government fundings of US\$31.0 million, US\$26.9 million and US\$37.4 million in 2012, 2013 and 2014, respectively, and included the costs associated with the ramp-up of a new wafer facility. We plan to continue to invest significant amounts in research and development in 2015.

The R&D efforts were focused primarily on advanced logic and value-added specialty technologies. We achieved many significant milestones in 2014. In the area of advanced logic technologies, the PolySiON R&D programs on the 28nm node had successfully demonstrated several customer products as planned. In addition, we had achieved a major milestone in fabrication of 28nm PolySiON Qualcomm Snapdragon 410 processors. Early R&D work on 14nm FinFET process technologies had begun and established process baselines.

In the area of non-volatile memory technologies, the first Chinese domestic dual-interface financial IC card based on our eEEPROM platform gained CC EAL4+ security certification. Being world's 1st 55nm eflash in production, two smart cards products ramped up smoothly. More New Tape Outs (NTOs) include NFC, JAVA and USB IC are scheduled for production in 2015. 38nm NAND entered mass production in the third quarter as planned. Recent R&D progress was also achieved in the area of silicon sensor technology. Our 1.4um pixel BSI platforms had entered mass production enabling customers' small form factor 5M and 8M pixel CIS products. We also rolled out our leading-edge CMOS integrated MEMS device fabrication and TSV-based wafer level packaging technologies, which enabled the industry's smallest packaged commercial 3-axis accelerometer chip designed by a customer.

The building and strengthening of our technology R&D organization continued in 2014 through further optimizations on organization structure and resource distribution to improve operational efficiency and to address the growing demands on advanced technologies as well as specialty technology enhancements. During 2014, we achieved over 1,900 patent filings as a result of its technology R&D activities..

As of December 31, 2014, we had been granted 4,669 patents worldwide, of which, 60 were in Taiwan, 444 were in the U.S., 4,144 were in China, and 21 were in other jurisdictions.

**D. Trend Information**

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

**E. Off-Balance Sheet Arrangements**

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

Table of Contents**F. Tabular Disclosure of Contractual Obligations**

Set forth in the table below are the aggregate amounts, as of December 31, 2014, of our future cash payment obligations (excluding estimated interest payment obligations) under our existing contractual arrangements on a consolidated basis:

| Contractual obligations(3)           | Total     | Payments due by period<br>(consolidated, in US\$ thousands) |           |           |               |
|--------------------------------------|-----------|---|-----------|-----------|---------------|
|                                      |           | Less than 1<br>year   | 1 3 years | 3 5 years | After 5 years |
| <b>Short-Term Borrowings(1)</b>      | 115,084   | 115,084   |           |           |               |
| <b>Long-Term Loans(1)</b>            | 303,170   | 46,970  | 211,200   | 45,000    |               |
| <b>Convertible bonds</b>             | 379,394   |   | 379,394   |           |               |
| <b>Bonds payable</b>                 | 491,579   |   |           | 491,579   |               |
| <b>Purchase Obligations(2)</b>       | 518,672   | 518,672   |           |           |               |
| <b>Total Contractual Obligations</b> | 1,807,899 | 680,726   | 211,200   | 915,973   |               |

(1) These amounts represent outstanding borrowings. Refer to F-73, *Borrowings* for a description of the short-term and long-term borrowings.

(2) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.

(3) Please refer to F-87, *Financial instruments* for our non-derivative financial liabilities with both estimated interest and principal.



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

Members of our Board are elected by our shareholders. As of March 31, 2015, our Board consists of ten directors, and one alternate director.

Our executive officers are appointed by, and serve at the discretion of, our Board. The following table sets forth the names, ages and positions of our directors and executive officers as of March 31, 2015.

| <b>Name</b>              | <b>Age</b> | <b>Position</b>  |
|--------------------------|------------|--|
| <b>Directors</b>         |            |  |
| Zhou Zixue               | 58         | Chairman and Executive Director  |
| Tzu-Yin Chiu             | 58         | Chief Executive Officer and Executive Director   |
| Gao Yonggang             | 50         | Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director               |
| Chen Shanzhi             | 46         | Non-Executive Director   |
| Zhou Jie                 | 47         | Non-Executive Director   |
| Lip-BuTan                | 55         | Independent Non-Executive Director   |
| Frank Meng               | 54         | Independent Non-Executive Director   |
| William Tudor Brown      | 56         | Independent Non-Executive Director   |
| Sean Maloney             | 58         | Independent Non-Executive Director   |
| Carmen I-Hua Chang       | 67         | Independent Non-Executive Director   |
| Li Yonghua               | 40         | Alternate Director to Chen Shanzhi   |
| <b>Senior Management</b> |            |  |
| Tzu-Yin Chiu             | 58         | Chief Executive Officer and Executive Director   |
| Gao Yonggang             | 50         | Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director               |
| Haijun Zhao              | 51         | Chief Operating Officer and Executive Vice President   |
| Shiuh-Wuu Lee            | 67         | Executive Vice President, Technology Development   |
| Jyishyang Liu            | 62         | Executive Vice President, Engineering & Services   |
| Li Zhi                   | 51         | Executive Vice President, Legal/Human Resources/Public Affairs/General Administration                      |
| Mike ReKuc               | 65         | Executive Vice President, Worldwide Sales & Marketing  |
| Gareth Kung              | 50         | Executive Vice President, Investment and Strategic Business Development and Finance, and Company Secretary |

Datang Telecom Technology & Industry Holdings Co., Ltd., or Datang Telecom, has the right to nominate two members of our board of directors pursuant to the Share Purchase Agreement between us and Datang Telecom dated November 6, 2008, and Country Hill Limited ( "Country Hill" ), a wholly-owned subsidiary of Bridge Hill Investments Limited which is a subsidiary controlled by China Investment Corporation ( "CIC" ), has the right to nominate one member of our board of directors pursuant to the Share Subscription Agreement between us and Country Hill dated April 18, 2011. Save as disclosed above, no other shareholder has a contractual right to designate a person to be elected to our board of directors.

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



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**Board of Directors**

**Zhou Zixue**

**Chairman of the Board, Executive Director**

Dr. Zhou Zixue joined SMIC in 2015 and is currently the Chairman of the Board. Dr. Zhou received a master degree in management engineering from The University of Electronic Science and Technology of China and a Ph.D in Economic History from Central China Normal University. Prior to joining the Company, Dr. Zhou had served as Chief Economist in the Ministry of Industry and Information Technology of China ( MIIT ) since April 2009. He was the Director-General in the Department of Finance of MIIT from 2008 to 2009. Dr. Zhou had worked as Director-General and Deputy Director-General in the Ministry of Information Industry of China and Deputy Director-General of the Ministry of Electronics Industry ( MEI ) and had served in other different divisions of the MEI and the Ministry of Machinery and Electronics Industry. Dr. Zhou had previously worked in Beijing State-Owned Dongguangdian Factory, one of the then largest semiconductor enterprises in China, responsible for accounting, marketing, etc. Dr. Zhou is also the secretary general of the China Information Technology Industry Federation, the executive deputy director of the Standing Committee of Electronic Science and Technology Commission of China, a member of the National Informatization Expert Advisory Committee, a director of Chinese Accounting Association, the executive director and vice chairman of the board of directors of the China Institute of Electronics, the vice president of China Electronic Chamber of Commerce, the executive director of China Association of Chief Financial Officers and the president of its electronic branch and an Adjunct Professor of each of Beihang University, Beijing Institute of Technology, Renmin University of China, Nanjing University of Science and Technology, Zhejiang University, University of Electronic Science and Technology, etc.

**Tzu-Yin Chiu**

**Chief Executive Officer & Executive Director**

Dr. Tzu-Yin Chiu has over 30 years' experience in the semiconductor industry and a track record of managing successful semiconductor manufacturing companies at the executive level. Dr. Chiu's expertise spans technology research, business development, operations and corporate management. He began his career in the United States as a research scientist at AT&T Bell Laboratories in Murray Hill, New Jersey, rising to become the department head of its High Speed Electronics Research Department and Silicon Research Operations Department. He then joined Taiwan Semiconductor Manufacturing Corporation (TSMC), where he served as Senior Director of Fab Operations. Subsequently, Dr. Chiu became Senior Vice President of Shanghai Operations for Semiconductor Manufacturing International Corporation (SMIC). He then served as Senior Vice President and Chief Operating Officer of Hua Hong International Management and President of Hua Hong Semiconductor International in Shanghai, China. He was then appointed President and COO of Silterra Malaysia, before joining Hua Hong NEC as President and CEO in February 2009. Dr. Chiu also served as the Vice President and Chief Operating Officer of Shanghai Huali Microelectronics Corporation from 2010 to 2011. From 2005 to 2009, he was an Independent Director of Actions Semiconductor Co., Ltd. Dr. Chiu returned to SMIC in August 2011 as CEO and Executive Director. He is also Vice Council Chairman of China Semiconductor Industry Association (CSIA), a board member of Global Semiconductor Alliance (GSA), the chairman of the board of directors of each of Semiconductor Manufacturing North China (Beijing) Corporation, Brite Semiconductor Corporation, SiTech Semiconductor (Shanghai) Corporation Limited, Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International (Shenzhen) Corporation, Semiconductor Manufacturing International (Beijing) Corporation and Semiconductor Manufacturing International (Tianjin) Corporation.

Dr. Chiu earned his bachelor's degree in electrical and systems engineering at Rensselaer Polytechnic Institute in New York, and his doctorate in electrical engineering and computer science at the University of California, Berkeley. He has also earned an executive MBA degree from Columbia University in New York. Dr. Chiu was honored as the 2014 Distinguished Alumni Award by the Department of EECS at the University of California, Berkeley on February 13, 2014. Dr. Chiu received the Outstanding EHS Achievement Award from SEMI on March 18, 2014. Dr. Chiu holds 47 semiconductor technology patents with 40 additional patents still pending. He is a senior member of the IEEE and has published over 30 technical articles.

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**Gao Yonggang**

**Chief Financial Officer, Executive Vice President, Strategic Planning & Executive Director**

Dr. Gao Yonggang, a non-executive Director since 2009, has been appointed as Executive Vice President, Strategic Planning of the Company and has been re-designated as an executive Director since June 17, 2013. He has been appointed as the Chief Financial Officer of the Company since February 17, 2014. Dr. Gao remains as a director of three subsidiaries of the Company, namely Semiconductor Manufacturing North China (Beijing) Corporation, Semiconductor Manufacturing International (Beijing) Corporation and Semiconductor Manufacturing International (Shenzhen) Corporation. He is also the executive director of China Fortune-Tech Capital Co., Ltd, the Company's joint venture with an independent third party. Dr. Gao has more than 20 years of experience in the area of financial management and has worked as Chief Financial Officer or person in charge of finance in various industries, including commercial, industrial, and municipal utilities, and in various types of organizations, including state-owned enterprises, private companies, joint ventures, and government agencies. Dr. Gao was the Chief Financial Officer of the China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group), the chairman of Datang Capital (Beijing) Co., Ltd. and Datang Telecom Group Finance Co., Ltd., and an executive director of Datang Hi-Tech Venture Capital Investment Co., Ltd. He was also a director and the Senior Vice President of Datang Telecom Technology & Industry Holdings Co., Ltd. Dr. Gao is a standing committee member of Accounting Society of China. Dr. Gao graduated from Nankai University with a Ph.D. in management. He has conducted studies in the field of financial investment, and has been involved in a number of key research projects and publications in this area. Dr. Gao is also a Fellow of the Institute of Chartered Accountants in Australia.

**Chen Shanzhi**

**Non-executive Director**

Dr. Chen Shanzhi has been a non-executive Director since 2009. Dr. Chen is currently the SVP and CIO of the China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group). He is also the SVP of Datang Telecom Technology & Industry Holdings Co., Ltd., where he is responsible for strategy development, technology and standards development, corporate IT, strategic alliances and cooperation, investment budget management, and external Industrial Investment. Dr. Chen received his bachelor's degree from Xidian University, his master's degree from the China Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications, and his Ph.D. from Beijing University of Posts and Telecommunications. Dr. Chen has 20 years of experience in the field of information and communication technology, during which he has been involved in research and development, technology and strategy management. Dr. Chen has made important contributions to the industrialization of TD-SCDMA 3G and the development of TD-LTE-Advanced 4G international standards.

Dr. Chen is currently an Expert Advisory Group member of National Science and Technology Platform, the chairman of Chinese high-tech Industrialization Association for Information Technology Committee, a director of The Chinese Institute of Electronics, an executive director of China Institute of Communications, a director of China Communications Standards Association (CCSA) and a senior member of IEEE. Dr. Chen was a member of the IT Experts Panel of the National 863 Program and a member of the Programming Group of the major project of The New-generation Broadband Wireless Mobile Communications Network .

Dr. Chen has published 3 monographs and more than 150 papers in domestic and foreign academic conferences and publications, of which more than 70 were published by SCI and EI. Many of his papers have received awards. At present, he has applied for more than 10 national invention patents.

Dr. Chen received the first prize for the 2012 National Science and Technology Progress Award, the second prize for the 2001 National Science and Technology Progress Award, the Ninth Guanghai Engineering Science and Technology Award, the first prize for the 2012 China Institute of Communications Science and Technology Award and the first prize for the 2009 National Enterprise Management Modernization Innovation Achievement Award and other honors.

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**Zhou Jie**

**Non-Executive Director**

Mr. Zhou Jie has been Director since 2009. Mr. Zhou is an executive director and the president of Shanghai Industrial Investment (Holdings) Company Limited ( SIIC ) and an executive director, the vice chairman and the chief executive officer of Shanghai Industrial Holdings Limited ( SIHL ). He is a non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd.. He is also a director of certain subsidiaries of SIIC and SIHL. Mr. Zhou graduated from Shanghai Jiaotong University with a master's degree in management science and engineering. He was the deputy general manager of the investment banking head office of Shanghai Wanguo Holdings Ltd. (now Shenyin & Wanguo Securities Co., Ltd.) and held the positions of the chairman and general manager of Shanghai S.I. Capital Co., Ltd. He has over 20 years' experience in corporate management, investment banking and capital markets operation.

**Frank Meng**

**Independent Non-Executive Director**

Mr. Frank Meng has been a Director since 2011. Mr. Meng has been in the telecommunications and semiconductor industries for over 20 years. He received his BS degree in microwave and fiber optics from the Beijing University of Posts and Telecommunications and his MSEE degree from the Polytechnic University of New York. Mr. Meng joined 21Vianet Group, Inc. as President in July 2013, where he is responsible for the company's strategic planning, branding and marketing, government affairs and strategic initiatives. Prior to joining 21Vianet, Mr. Meng served as Senior Vice President and President of Greater China for Motorola Mobility, LLC, a wholly owned subsidiary of Google Inc., where he managed all the aspects of the company's business and sales operations in mainland China, Hong Kong and Taiwan. From September 2002 to April 2010, Mr. Meng served as Senior Vice President and President of Greater China of Qualcomm Inc. Prior to joining Qualcomm, he was the Chief Operating Officer of Tecom Asia Group in Beijing, and he had held various senior posts at Asia.com Inc. and Leyou.com Inc., in Beijing, Infocomm International Corp., in Taipei and Allen Telecom Inc., in Cleveland, Ohio. Mr. Meng is a member of the Expert Committee for Telecommunication Economy (ECTE) of China's Ministry of Industry and Information Technology.

**Lip-Bu Tan**

**Independent Non-Executive Director**

Mr. Lip-Bu Tan has been a Director since 2001 and is also a director of a subsidiary of the Company. Mr. Tan is the Founder and Chairman of Walden International, a leading venture capital firm managing over US\$2.0 billion in committed capital. He concurrently serves as President and Chief Executive Officer of Cadence Design Systems, Inc., and has been a member of the Cadence Board of Directors since 2004. He also serves on the boards of Ambarella Corp., SINA, the Global Semiconductor Alliance and several other private companies. Mr. Tan received his B.S. from Nanyang University in Singapore, his MBA from the University of San Francisco, and his M.S. in Nuclear Engineering from the Massachusetts Institute of Technology.

**Sean Maloney**

**Independent Non-Executive Director**

Mr. Sean Maloney has been a Director since 2013. Mr. Maloney spent over 30 years at Intel Corporation. He is known within the high tech industry as a visionary whose hard work and strategic planning contributed to the unprecedented global growth of the company. From August 2011 to January 2013, Mr. Maloney served as Chairman of Intel China where he was responsible for overseeing and developing the company's strategy. Prior to this appointment, Mr. Maloney was an Executive Vice President at Intel and Co-General Manager of the corporation's Intel Architecture Group (IAG). He was responsible for architecting, developing, and marketing Intel's platform solutions for all computing segments including: data centers, desktops, laptops, netbooks/net-tops, handhelds, embedded devices, and consumer electronics. In this capacity, Mr. Maloney focused on business and operations with over one half of the company reporting to him. He also previously ran the company's Communications Group. Over the years, Mr. Maloney has been recognized for his keen understanding and abilities globally in sales and marketing as well as strategic planning. He served as the Chief of Sales and Marketing Worldwide for the company. Mr. Maloney is currently on the board of directors of Compal Electronics, Netronome and Acumulus9.



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**William Tudor Brown**

**Independent Non-Executive Director**

Mr. William Tudor Brown has been a Director since 2013. He is a Chartered Engineer, a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He holds a MA (Cantab) Degree in Electrical Sciences from Cambridge University. Mr. Brown was one of the founders of ARM Holdings plc, a British multinational semiconductor and software design company listed on London Stock Exchange and NASDAQ. In ARM Holdings plc, he served as President during the period from July 2008 to May 2012. His previous roles include Engineering Director and Chief Technology Officer, EVP Global Development and Chief Operating Officer. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. Before joining ARM Holdings plc, Mr. Brown was Principal Engineer at Acorn Computers and worked exclusively on the ARM R&D programme since 1984. Mr. Brown served as a director at ARM Holdings plc from October 2001 to May 2012. He was also a director of ARM Ltd. From May 2005 to Feb 2013, he was a director of ANT Software PLC (a company listed on AIM of London Stock Exchange). Mr. Brown served on the UK Government Asia Task Force until May 2012. He sat on the advisory board of Annapurna Labs until the sale of the company in 2015. Currently Mr. Brown is a director of Tessera Technologies, Inc. (a company listed on NASDAQ), an independent non-executive director and a member of each of the Audit Committee and the Compensation Committee of Lenovo Group Limited (a company listed on Main Board of The Stock Exchange of Hong Kong Limited) and an independent non-executive director of P2i Limited, a world leader in liquid repellent nano-coating technology.

**Carmen I-Hua Chang**

**Independent Non-Executive Director**

Ms. Carmen I-Hua Chang has been an independent non-executive Director since September 2014. Ms. Chang has been involved in seminal cross border transactions between China and the US including the earliest investments by Goldman Sachs in China Netcom and the key transactions of companies such as Lenovo, Foxconn, Google, Tencent, Netease, CEC, China Mobile, Spreadtrum and SMIC. In 2012, Ms. Chang joined New Enterprise Associates (NEA), a venture fund with over US\$14 billion dollars under management, where she serves as Partner and Managing Director, Asia (Ex-India). Prior to joining NEA, she was a partner at a SiliconValley law firm, where she headed up its China practice. She is an affiliate of the Center for International Security and Cooperation at Stanford University Stanford University's main research organization on international issues as well as a fellow at the Stanford Business School and Stanford Law School's Rock Center for Corporate Governance. Ms. Chang also serves as an Independent Non-Executive Director of AAC Technologies Holdings Inc. (SEHK: 2018). Ms. Chang is also on the board of directors for Ruizhang Technologies, Airtake and Availink. Ms. Chang received a graduate degree in modern Chinese history from Stanford University and a Juris Doctor degree from Stanford Law School.

**Li Yonghua**

**Alternate Director to Dr. Chen Shanzhi**

Mr. Li Yonghua has been an alternate Director to Dr. Chen Shanzhi, a non-executive Director of the Company, since October 2013. Mr. Li is currently General Legal Consultant of the China Academy of Telecommunications Technology. Since August 2010 till now, Mr. Li has been a director of Datang Telecom Technology Co., Ltd. (a company listed on Shanghai Stock Exchange). Respectively from June 2011 and December 2011 till now, Mr. Li is also General Legal Consultant and Vice President and General Manager of

Operation Management of Datang Telecom Technology & Industry Holdings Co., Ltd.. Mr. Li has been the chairman of the board of directors of Datang Mobile Communications Equipment Co., Ltd. and an executive director of Datang Liancheng Information System Technology Co., Ltd. since September 2014. Mr. Li served in Dongming County People's Procuratorate of Shandong Province as a civil servant from 1996 to 2005. He was Chief Law Officer of Hanwang Technology Co., Ltd. He was also Vice Legal General Manager, General Manager and Supervisor of Datang Telecom Technology & Industry Holdings Co., Ltd. from 2008 to 2010. Mr. Li holds a Bachelor of Law degree from Shandong Normal University and a Master of Law degree from Peking University.

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Mr. Wenyi Zhang has no longer served as a Board member and Chairman of the Board since March 6, 2015 due to his advancing age, and has been succeeded by Dr. Zixue Zhou. Mr. Wenyi Zhang has become Honorary Chairman of the Company, and will continue to advise the Company in its future development. Professor Lawrence Juen-Yee Lau resigned his post as non-executive Director on December 31, 2014 since he no longer held a post within CIC group and thus ceased to represent CIC at the Board. Professor Lau's alternate Director Dr. Datong Chen correspondingly ceased to be an alternate Director upon Professor Lau's resignation becoming effective on December 31, 2014.

**Senior Management**

**Tzu-Yin Chiu**

**Chief Executive Officer and Executive Director**

Biographical details are set out in the above Board of Directors section.

**Gao Yonggang**

**Chief Financial Officer, Executive Vice President, Strategic planning & Executive Director**

Biographical details are set out in the above Board of Directors section.

**Haijun Zhao**

**Chief Operating Officer and Executive Vice President**

Dr. Haijun Zhao joined SMIC in 2010, and was named Vice President of North Operations in September 2011. In June 2012 he was promoted to Senior Vice President, and on April 25, 2013, he took on the roles as Executive Vice President and Chief Operating Officer. He has 21 years of experience in semiconductor operations and technology development, most recently as a vice president of technology development, product engineering and Greater China business at ProMOS Technologies in Taiwan. He also previously held management positions at TECH Semiconductor Singapore. Dr. Zhao received his B.S. and Ph.D. from Tsinghua University, and his MBA from the University of Chicago. He holds two US semiconductor technology patents, with two pending, and has nine published technical papers.

**Shiuh-Wuu Lee**

**Executive Vice President, Technology Development**

Dr. Shih-Wuu Lee joined SMIC in 2010, and was named Vice President of Technology Development in September 2011. In June 2012 he was promoted to Senior Vice President, and on April 25, 2013, he took on the role as Executive Vice President. Dr. Lee has over 30 years of experience in the semiconductor industry. Prior to arriving at SMIC, he distinguished himself at Intel Corporation and AT&T Bell Laboratories, where he was engaged in logic technology development and developed state-of-the-art tools for microprocessor design. He twice received the Distinguished Technical Achievement award at Bell Labs, served as a technical director at Intel and was elected an Intel Fellow in 2004, the company's highest technical honor. Dr. Lee received his Ph.D. from the University of Michigan. He is actively involved in semiconductor technology conferences, and he has 54 published technical journal and conference papers. He is the holder of three patents.

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**Jyishyang Liu**

**Executive Vice President, Engineering & Services**

Dr Jyishyang Liu joined SMIC in 2001. He became Vice President of Central Engineering & Services in 2010, and has been Acting Vice President of Central Operations since September 2011. In June 2012 he was promoted to Senior Vice President, and on April 25, 2013, he took on the role as Executive Vice President. He has 28 years of experience in the international semiconductor industry, beginning with research & development work at Motorola and Bell Laboratories, as well as operations management at UMC. Dr. Liu received his BS and MS degrees from National Tsing Hua University and completed his Ph.D. in Materials Science and Engineering at the Massachusetts Institute of Technology. He has seven published technical papers and holds two patents.

**Mr. Zhi Li**

**Executive Vice President, Legal/Human Resources/Public Affairs/General Administration**

Mr. Zhi Li joined SMIC in March 2013 as Vice President and was promoted to Executive Vice President in November 2014. He is currently responsible for overseeing legal, human resources, public affairs and general administration. He has over 30 years of engineering, management and operations experience in the electronics and semiconductor industry. In his previous roles, he was the Deputy-Director Secretary of the President's office of the China Electronic Information Industry Group, Deputy-Director Secretary of the Ministry of Electronics Industry, head of General Management Department at Beijing Hua Hong NEC IC Design Co. Ltd., President's Assistant and head of administrative legal department of Beijing Hua Hong IC Design Co. Ltd., Board Secretary of Hua Hong Semiconductor Company (Shanghai Hua Hong NEC Electronics Co. Ltd.), Director of the Board Office (Board Secretary) of Shanghai Hua Hong (Group) Co. Ltd., Executive Vice President, Board Member and CEO of Shanghai Belling Co. Ltd., Vice President of Shanghai Integrated Circuit Industry Association. Mr. Li holds a Bachelor's degree in Engineering from Beijing University of Aeronautics and Astronautics, and an EMBA from the University of Texas at Arlington. He also serves as the Vice President of the China Electronic Information Association.

**Mike Rekuc**

**Executive Vice President, Worldwide Sales and Marketing**

Mike Rekuc joined SMIC in 2011 as President of SMIC Americas. In November 2012, he was promoted to Senior Vice President, initially overseeing Worldwide Sales. As of March 2013, he oversees Worldwide Sales and Marketing and on April 25, 2013, he took on the role as Executive Vice President. Mr. Rekuc is a distinguished industry veteran with four decades of semiconductor experience in both the United States and Asia. Before joining SMIC, he was President of Grace Semiconductor USA for Shanghai-based foundry Grace Semiconductor. Before Grace, he was Senior Vice President of Sales and Marketing and President of the Americas Region for Singapore-based Chartered Semiconductor (now part of GlobalFoundries) from 1999 to 2010. Prior to joining Chartered, Mr. Rekuc spent 23 years at Motorola, rising from a district sales engineer in Motorola's semiconductor sector to become Vice President and Global Sales Director of its World Wide Wireless Subscribers Group. Mr. Rekuc began his career working for the United States Navy as a civilian semiconductor specialist. He holds a Bachelor of Science degree in Electrical Engineering from Lawrence Technological University.

**Gareth Kung**

**Executive Vice President, Investment and Strategic Business Development and Finance, Company Secretary**

Mr. Gareth Kung joined SMIC in July 2012. He works as Executive Vice President, Investment and Strategic Business Development and Finance and Company Secretary. Mr. Kung has over 25 years work experience working as a chief financial officer in publicly listed companies, private equity investment manager, banker and auditor. Between 2003 and 2009, Mr. Kung worked at SMIC as the Group Treasurer and Group Controller and from July 2012 to February 2014 as the Company's Chief Financial Officer. Mr. Kung holds a MBA from the University of Western Ontario and a bachelor's degree in accounting from the National University of Singapore. Mr. Kung is a Certified Public Accountant in Hong Kong, Australia and Singapore and a fellow member of the Association of Chartered Certified Accountants. In addition, he is a Chartered Financial Analyst.

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

Details of the emoluments paid or payable by us to our directors, including Tzu-Yin Chiu, our chief executive officer and executive director and Gao Yonggang, our chief financial officer and executive director, in 2014 are set out as below:

|  | Salaried and<br>wages | Employee settled<br>share-base<br>payment<br>(in US\$ thousands) | Total<br>remuneration |
|--|-----------------------|--|-----------------------|
| <b>Executive Directors:</b>                      |                       |  |                       |
| Zhang Wenyi                                      | 524                   | 124  | 648                   |
| Tzu-Yin Chiu                                     | 973                   | 442  | 1,415                 |
| Gao Yonggang                                     | 307                   | 399  | 706                   |
| <b>Non-executive directors:</b>                  |                       |  |                       |
| Chen Shanzhi                                     | 61                    | 3  | 64                    |
| Lawrence Juen-Yee Lau                            | 51                    | 82   | 133                   |
| Zhou Jie   |                       |  |                       |
| Li Yonghua (Alternate to Chen Shanzhi)           |                       |  |                       |
| Chen Datong (Alternate to Lawrence Juen-Yee Lau) |                       |  |                       |
| <b>Independent non-executive directors:</b>      |                       |  |                       |
| William Tudor Brown                              | 57                    | 90   | 147                   |
| Sean Maloney                                     | 62                    | 87   | 149                   |
| Lip-Bu Tan                                       | 92                    | 1  | 93                    |
| Frank Meng                                       | 76                    | 18   | 94                    |
| Carmen I-Hua Chang                               | 13                    | 59   | 72                    |
| Total remuneration                               | 2,216                 | 1,305  | 3,521                 |

The remuneration paid or payable by us to our senior management personnel, including Tzu-Yin Chiu and Gao Yonggang during the year are as follows:

|                      | Year ended 12/31/14<br>USD 000 |
|----------------------|--------------------------------|
| Short-term benefits  | 3,658                          |
| Share-based payments | 2,070                          |
| Total                | 5,728                          |

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

In 2014, we have granted options to purchase an aggregate of 14,644,735 ordinary shares under our 2014 Stock Option Plan and awarded an aggregate of 5,387,292 restricted share units under our 2014 Equity Incentive Plan to certain of our executive officers. Both our 2014 Stock Option Plan and the 2014 Equity Incentive Plan are described below. The exercise price of the options granted to our executive officers in 2014 to purchase ordinary shares under the 2014 Stock Option Plan range from US\$0.08 to US\$0.11 per share. The expiration dates of these options range from June 11, 2024 to November 16, 2024.





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

Our board of directors consists of ten Directors and one alternate Director. Directors may be elected to hold office until the expiration of their respective terms upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of our issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of shareholders, or AGM. Each class of Director (including all non-executive Directors) will serve a term of three years.

- The Class I Directors are Dr. Zhou Zixue, Dr. Tzu-Yin Chiu, Dr. Gao Yonggang and Mr. William Tudor Brown. All Class I Directors (except Dr. Zhou) were re-elected for a term of three years at the 2014 AGM to hold office until the 2017 AGM. Dr. Zhou, whose initial appointment as Director took effect from March 6, 2015, shall retire from office at the 2015 AGM pursuant to Article 126 of the Company's Articles of Association. Dr. Zhou will, being eligible, offer himself for re-election as a Class I Director at the 2015 AGM to hold office until the 2017 AGM.
- The Class II Directors are Dr. Chen Shanzhi, Mr. Frank Meng, Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang. All Class II Directors (except Ms. Chang) were re-elected for a term of three years at the 2012 AGM to hold office until the 2015 AGM. Ms. Chang, whose initial appointment as Director took effect from September 1, 2014, shall retire from office at the 2015 AGM pursuant to Article 126 of the Company's Articles of Association while all other Class II Directors shall retire from office at the 2015 AGM pursuant to Article 90 of the Company's Articles of Association. Each Class II Director will, being eligible, offer himself/herself for re-election as a Class II Director at the 2015 AGM for a term of three years to hold office until the 2018 AGM.
- The Class III Directors are Mr. Zhou Jie and Mr. Sean Maloney. Mr. Zhou was re-elected for a term of three years at the 2013 AGM to hold office until the 2016 AGM. Mr. Maloney, whose initial appointment as Director took effect on June 15, 2013, retired from office and was re-elected as a Class III Director at the 2014 AGM pursuant to Article 126 of the Company's Articles of Association to hold office until the 2016 AGM.

The following table sets forth the names, classes and appointment commencement dates of our current Directors:

| Name of Director    | Position  | Class | Appointment Commencement Date |
|---------------------|---|-------|-------------------------------|
| Zhou Zixue          | Chairman and Executive Director   | I     | 2015/3/6                      |
| Tzu-Yin Chiu        | Chief Executive Officer and Executive Director  | I     | 2011/8/5                      |
| Gao Yonggang        | Chief Financial Officer, Executive Vice President, Strategic Planning, Executive Director | I     | 2009/6/23                     |
| William Tudor Brown | Independent Non-executive Director  | I     | 2013/8/8                      |
| Chen Shanzhi        | Non-executive Director  | II    | 2009/6/23                     |
| Lip-Bu Tan          | Independent Non-executive Director  | II    | 2001/11/3                     |

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|                    |                                    |     |            |
|--------------------|------------------------------------|-----|------------|
| Frank Meng         | Independent Non-executive Director | II  | 2011/8/23  |
| Carmen I-Hua Chang | Independent Non-executive Director | II  | 2014/9/1   |
| Zhou Jie           | Non-executive Director             | III | 2009/1/23  |
| Sean Maloney       | Independent Non-executive Director | III | 2013/6/15  |
| Li Yonghua         | Alternate Director to Chen Shanzhi |     | 2013/10/22 |

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

**Committees of Our Board of Directors**

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

**Audit Committee.**

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

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

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of our independent auditor;
- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;
- pre-approving all non-audit services to be provided by our independent auditor;
- approving the remuneration and terms of engagement of our independent auditor;
- reviewing reports from our independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or

investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between us and the independent auditor;

- pre-approving the hiring of any employee or former employee of our independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor for senior positions regardless of whether that person was a member of our audit team;
  
- reviewing our annual and interim financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of our disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
  
- reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of our internal audit department, the quality, adequacy and effectiveness of our internal controls (including financial, operational and compliance controls) and any significant deficiencies or material weaknesses in the design or operation of internal controls;
  
- considering the adequacy of resources, staff qualifications and experience, training programmes and budget of our accounting and financial reporting function;
  
- reviewing our risk assessment and management policies;
  
- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of our legal and regulatory compliance procedures;
  
- establishing procedures for the treatment of complaints received by us regarding financial reporting, internal control or possible improprieties in other matters; and
  
- obtaining and reviewing reports from management, our internal auditor and our independent auditor regarding compliance with applicable legal and regulatory requirements.

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During the year ended December 31, 2014, the audit committee reviewed:

- our budget for 2014;
  
- the financial reports for the year ended and as of December 31, 2013 and the six month period ended and as of June 30, 2014;
  
- the quarterly earnings releases and any updates thereto;
  
- the report and management letter submitted by our outside auditors summarizing the findings of and recommendations from their audit of the Company's financial reports;
  
- the findings and recommendations of our outside auditors regarding our compliance with the requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act );
  
- the effectiveness of our internal control structure in operations, financial reporting integrity and compliance with applicable laws and regulations;
  
- the findings of our compliance office, which ensures compliance with our Corporate Governance Code and Insider Trading Policy;
  
- the reports of our ethics hotline;
  
- the change of our outside auditors;
  
- the report on share price performance and shareholders composition;

- the audit fees for our outside auditors; and
- our outside auditors' engagement letters.

The audit committee reports its work, findings, and recommendations to the Board regularly. In addition, the audit committee meets in person with our external auditor at least twice a year.

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

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

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**Compensation Committee**

The members of our compensation committee currently consist of Mr. Lip-Bu Tan (chairman of the compensation committee), Mr. Sean Maloney and Mr. Zhou Jie. None of these members of the compensation committee has been an executive officer or employee of ours or any of our subsidiaries.

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

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

The compensation committee shall have the delegated authority to determine the remuneration packages of individual executive Directors and the Company's executive officers/senior management, and make recommendations to the Board on the remuneration of non-executive Directors. During the year ended December 31, 2014, in addition to reviewing the remuneration of executive directors and the members of our management, the compensation committee reviewed:

- the remuneration policy for employees for the year 2014;

- the profit-sharing and bonus policies;
- the long term compensation strategy, including the granting of stock options and restricted share units pursuant to our option plan and equity incentive plan;
- the attrition rate;
- the award documents for 2014 Stock Option Plan and 2014 Equity Incentive Plan; and
- the proposed compensation package of Ms. Carmen I-Hua Chang, a newly-appointed independent non-executive Director.

The compensation committee reports its work, findings and recommendations to the Board during each quarterly Board meeting.



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

**Nomination Committee**

The members of our nomination committee currently consist of Dr. Zhou Zixue (chairman of the nomination committee), Mr. Frank Meng and Mr. Lip-Bu Tan. The responsibilities of the nomination committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement our corporate strategy;
  
- monitoring the implementation of the Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensuring that appropriate disclosures are made regarding board diversity in the Corporate Governance Report set out in the Company's Hong Kong annual report;
  
- identifying individuals suitably qualified to become members of the Board and making recommendations to the Board on the selection of individuals nominated for directorships;
  
- assessing the independence of independent non-executive directors; and
  
- making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of our board of directors and our Chief Executive Officer.

The nomination committee meets at least once a year and on such other occasions as may be required to discuss and vote upon significant issues relating to board composition. The Company Secretary assists the chairman of the nomination committee in preparing the agenda for meetings and assists the committee in complying with the relevant rules and regulations. The relevant papers for the nomination committee meetings were dispatched to committee members in accordance with relevant rules and regulations applicable to us. Members of the nomination committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the nomination committee meeting, minutes are circulated to the committee members for their comment and review prior to their approval of the minutes at the following or a subsequent committee meeting. During the year

ended December 31, 2014, the nomination committee:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- set criteria, searched and identified suitable independent non-executive Directors;
- evaluated the independence of our independent non-executive directors; and
- reviewed the re-election of Directors.

Table of Contents**D. Employees**

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

| Function         | As of December 31, |       |        |        |
|------------------|--------------------|-------|--------|--------|
|                  | 2011               | 2012  | 2013   | 2014   |
| Managers         | 898                | 922   | 951    | 930    |
| Professionals(1) | 4,297              | 4,164 | 4,440  | 4,988  |
| Technicians      | 3,910              | 4,650 | 4,751  | 5,116  |
| Clerical staff   | 347                | 238   | 304    | 351    |
| Total(2)         | 9,452              | 9,974 | 10,446 | 11,385 |

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

(2) Includes 1, 3, 3 and 14 temporary and part-time employees in 2011, 2012, 2013, and 2014 respectively.

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

| Location of Facility | As of December 31, |       |        |        |
|----------------------|--------------------|-------|--------|--------|
|                      | 2011               | 2012  | 2013   | 2014   |
| Shanghai             | 5,555              | 6,037 | 6,626  | 6,896  |
| Beijing              | 2,253              | 2,491 | 2,272  | 2,518  |
| Tianjin              | 1,321              | 1,354 | 1,454  | 1,511  |
| Chengdu              | 12                 | 11    | 11     | 10     |
| Shenzhen             | 36                 | 23    | 43     | 405    |
| Wuhan                | 236                | 17    |        |        |
| United States        | 17                 | 18    | 20     | 25     |
| Europe               | 6                  | 8     | 6      | 6      |
| Japan                |                    |       | 1      | 2      |
| Taiwan Office        | 11                 | 11    | 10     | 9      |
| Hong Kong            | 5                  | 4     | 3      | 3      |
| Total                | 9,452              | 9,974 | 10,446 | 11,385 |

Our employees are not covered by any collective bargaining agreements.

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The table below sets forth the ordinary shares beneficially owned by each of our Directors and options to purchase ordinary shares as of December 31, 2014:

| Board Member                              | Number of Ordinary Shares Held | Derivatives   |               | Aggregate Interest | Percentage of Aggregate Interests to Total Issued Share Capital of the Company(1) |
|---|--------------------------------|---------------|---------------|--------------------|---|
|   |                                | Share Options | Other         |                    |   |
| <b>Executive Director</b>                 |                                |               |               |                    |   |
| Zhang Wenyi                               |                                | 21,746,883(2) | 4,320,093(3)  | 26,066,976         | 0.073%  |
| Tzu-Yin Chiu                              | 22,219,852                     | 86,987,535(4) | 18,640,186(5) | 127,847,573        | 0.357%  |
| Gao Yonggang                              |                                | 19,640,054(6) | 2,910,836(7)  | 22,550,890         | 0.063%  |
| <b>Non-executive Director</b>             |                                |               |               |                    |   |
| Chen Shanzhi                              |                                | 3,145,319(8)  |               | 3,145,319          | 0.009%  |
| Lawrence Juen-Yee Lau                     |                                | (9)           |               |                    |   |
| Zhou Jie                                  |                                |               |               |                    |   |
| <b>Independent Non-executive Director</b> |                                |               |               |                    |   |
| William Tudor Brown                       |                                | 4,492,297(10) |               | 4,492,297          | 0.013%  |
| Sean Maloney                              |                                | 4,490,377(11) |               | 4,490,377          | 0.013%  |
| Frank Meng                                |                                | 4,471,244(12) |               | 4,471,244          | 0.013%  |
| Lip-Bu Tan                                |                                | 4,634,877(13) |               | 4,634,877          | 0.013%  |
| Carmen I-Hua Chang                        |                                | 4,887,303(14) |               | 4,887,303          | 0.014%  |
| <b>Alternate Director</b>                 |                                |               |               |                    |   |
| Datong Chen                               |                                |               |               |                    |   |
| Li Yonghua                                |                                |               |               |                    |   |

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Notes:

(1) Based on 35,856,096,167 Ordinary Shares in issue as at December 31, 2014.

(2) On September 8, 2011, Mr. Zhang was granted options to purchase 21,746,883 Ordinary Shares at a price of HK\$0.455 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(3) On September 8, 2011, Mr. Zhang was granted an award of 9,320,093 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2004 Equity Incentive Plan. These Restricted Share Units, 25% of which vest on each anniversary of June 30, 2011, shall fully vest on June 30, 2015. As of December 31, 2014, 75% of Mr. Zhang's Restricted Share Units were vested, among which a total of 5,000,000 Restricted Share Units were settled in cash.

(4) On September 8, 2011, Dr. Chiu was granted options to purchase 86,987,535 Ordinary Shares at a price of HK\$0.455 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(5) On September 8, 2011, Dr. Chiu was granted an award of 37,280,372 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2004 Equity Incentive Plan. These Restricted Share Units, 25% of which vest on each anniversary of August 5, 2011, shall fully vest on August 5, 2015. As of December 31, 2014, 75% of Dr. Chiu's Restricted Share Units were vested and 18,640,186 Restricted Share Units were settled, and thus 18,640,186 Ordinary Shares were issued to Dr. Chiu.

(6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 3,145,319 Ordinary Shares at a price of HK\$0.64 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 13,608,249 Ordinary Shares at a price of HK\$0.624 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 2,886,486 Ordinary Shares at a price of HK\$0.64 per Ordinary Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(7) On November 17, 2014, Dr. Gao was granted an award of 2,910,836 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2014 Equity Incentive Plan, consisting of (a) 2,401,456 Restricted Share Units, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017, and (b) 509,380 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. As of December 31, 2014, 600,364 Restricted Share Units were vested but none of these Restricted Share Units were settled.

(8) On May 24, 2010, Dr. Chen was granted options to purchase 3,145,319 Ordinary Shares at a price of HK\$0.64 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(9) On September 6, 2013, Professor Lau was granted options to purchase 4,492,297 Ordinary Shares at a price of HK\$0.562 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, a total of 1,123,074 options were vested and exercised; and the unvested portion of 3,369,223 options was forfeited in full following Professor Lau's resignation as a Director becoming effective from December 31, 2014.

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(10) On September 6, 2013, Mr. Brown was granted options to purchase 4,492,297 Ordinary Shares at a price of HK\$0.562 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(11) On June 17, 2013, Mr. Maloney was granted options to purchase 4,490,377 Ordinary Shares at a price of HK\$0.624 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(12) On November 17, 2011, Mr. Meng was granted options to purchase 4,471,244 Ordinary Shares at a price of HK\$0.4 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of November 16, 2021 or 120 days after termination of his service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(13) These options comprise (a) options granted to Mr. Tan on September 29, 2006 to purchase 500,000 Ordinary Shares at a price per share of US\$0.132 pursuant to the 2004 Stock Option Plan which fully vested on May 30, 2008 and will expire on the earlier of September 28, 2016 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on February 17, 2009 to purchase 1,000,000 Ordinary Shares at a price of HK\$0.27 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 16, 2019 or 120 days after termination of Mr. Tan's service as a Director to the Board, and (c) options granted to Mr. Tan on February 23, 2010 to purchase 3,134,877 Ordinary Shares at a price of HK\$0.77 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of Mr. Tan's service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

(14) On November 17, 2014, Ms. Chang was granted options to purchase 4,887,303 Ordinary Shares at a price of HK\$0.85 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of November 16, 2024 or 120 days after termination of her service as a Director to the Board. As of December 31, 2014, none of these options were exercised.

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

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

The compensation committee has issued to each of our executive officers options to purchase ordinary shares pursuant to our 2001 Regulation S Stock Option Plan, 2001 Regulation S Preference Shares Stock Plan, the 2004 Stock Option Plan and 2014 Stock Option Plan, as applicable, and restricted share units that represent rights to receive ordinary shares pursuant to our 2004 Equity Incentive Plan and 2014 Equity Incentive Plan. The exercise price of the options ranges from US\$0.03 to US\$0.15. The options expire between May 15, 2017 and November 16, 2024. The majority of the options and restricted share units are subject to a four-year vesting period. Each executive officer owns less than 1% of the total outstanding shares.

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

*Type of Awards.* Stock options, including incentive stock options, or ISOs, or non-qualified stock options, or NSOs, under the 2001 Stock Plan, and NSOs under the 2001 Regulation S Stock Plan.

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

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



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

*Termination.* The 2001 Stock Plan and 2001 Regulation S Stock Plan terminate on December 4, 2013 but maybe terminated earlier by the Board.

As of December 31, 2014, there were 55,262,975 ordinary shares subject to outstanding stock options under the 2001 Stock Plan and the 2001 Regulation S Stock Plan. We have not issued stock options under the 2001 Stock Plan or the 2001 Regulation S Stock Plan since March 18, 2004 and our board has elected not to grant any further options under these plans.

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**Stock Incentive Schemes**

**2004 Stock Incentive Plans**

**2004 Stock Option Plan**

Our shareholders adopted on February 16, 2004 a 2004 Stock Option Plan which then became effective on March 18, 2004 and further amended it on June 23, 2009. The number of our Ordinary Shares that may be issued pursuant to our 2004 Stock Option Plan and our 2004 Employee Stock Purchase Plan shall not, in the aggregate, exceed 2,434,668,733 Ordinary Shares.

In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding stock option granted under this 2004 Stock Option Plan or any of our other stock option plans or any outstanding purchase right granted under our 2004 Employee Stock Purchase Plan or any other of our employee stock purchase plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time. Stock options issued under the 2004 Stock Option Plan may be issued in the form of Ordinary Shares or American depository shares. For purposes of determining the number of our Ordinary Shares available under the 2004 Stock Option Plan, the issuance of an American depository share is deemed to equal fifty underlying Ordinary Shares. In addition, Ordinary Shares or American depository shares subject to stock options under the Company's 2004 Stock Option Plan are again available for grant and issuance under our 2004 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depository shares being issued.

Our 2004 Stock Option Plan authorizes the award of incentive stock options (ISOs) within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, non-qualified stock options and director options.

Director options are non-qualified options granted to non-employee members of the Board, or non-employee Directors. The terms of director options may vary among non-employee Directors and the 2004 Stock Option Plan does not impose any requirement to grant director options subject to uniform terms.

Our 2004 Stock Option Plan is administered by our compensation committee or by our board of directors acting in place of our compensation committee. The compensation committee has the authority to construe and interpret our 2004 Stock Option Plan, grant stock options and make all other determinations necessary or advisable for the administration of the plan.

Our 2004 Stock Option Plan provides for the grant of options to our employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2004 Stock Option Plan) for the benefit of those individuals eligible to participate in the 2004 Stock Option Plan; provided that, ISOs may be granted only to our employees. The total number of Ordinary Shares underlying stock granted pursuant to the 2004 Stock Option Plan or any of our other stock option plans to, and the total number of Ordinary Shares that may be purchased under one or more purchase rights granted under our 2004 Employee Stock Purchase Plan or any of our other employee stock

purchase plans by, a participant (including both exercised and outstanding stock options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1% in the case of an independent non-executive Director (as that term is used in the Hong Kong Stock Exchange Listing Rules) of the then issued and outstanding Ordinary Shares subject to such changes from time to time to applicable Hong Kong Stock Exchange Listing Rules.

The exercise price of stock options must be at least equal to the fair market value of our Ordinary Shares on the date of grant.

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In general, options granted under the 2004 Stock Option Plan vest over a four-year period. Options may vest based on time or achievement of performance conditions. Our compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable with any Ordinary Shares or American depositary shares issued on exercise being subject to our right of repurchase that lapses as the shares vest. The maximum term of options granted under our 2004 Stock Option Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by our compensation committee. Unless otherwise permitted by our compensation committee, stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's family members or to a trust or partnership established for the benefit of such family members. Options granted under our 2004 Stock Option Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by our compensation committee. Options granted under our 2004 Stock Option Plan generally may be exercised for a period of ninety days after the termination of the optionee's service to us, except that director options may be exercised for a period of one hundred and twenty days after the termination of the non-employee Director's service to us. Options whether or not vested generally terminate immediately upon termination of employment for cause.

The number and kind of our Ordinary Shares or American depositary shares authorized for issuance under the various limits set forth in the 2004 Stock Option Plan, the number of outstanding stock options and the number and kind of shares subject to any outstanding stock options and the exercise price per share, if any, under any outstanding stock option are equitably adjusted (including by payment of cash to a participant) by our compensation committee in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the 2004 Stock Option Plan.

Our 2004 Stock Option Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of our then-outstanding shares entitled to vote in the election of the Board, the complete dissolution of the Company, consolidation, merger, or similar transaction involving the Company, the sale of all or substantially all of the assets of us or the consolidated assets of us and our subsidiaries, a substantial change in the composition of the Board or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, our compensation committee determines how to treat each outstanding stock award. The compensation committee of the Company may:

- shorten the period during which the stock options are exercisable;
  
- accelerate the vesting of the stock options or waive, in whole or in part, any performance conditions to such vesting;
  
- arrange for the assumption or replacement of stock options by a successor corporation;
  
- adjust stock options or their replacements so that such stock options are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction;

- cancel the stock option prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the stock option.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding stock options immediately terminate.

Our 2004 Stock Option Plan was terminated on November 15, 2013. The stock options granted before such termination remain outstanding and continue to vest and become exercisable in accordance with, and subject to, the terms of the 2004 Stock Option Plan.

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**2004 Employee Stock Purchase Plan**

Our shareholders adopted on February 16, 2004 a 2004 Employee Stock Purchase Plan and further amended it on June 23, 2009 in order to enable eligible employees to purchase our Ordinary Shares in the form of American depositary shares at a discount. Purchases are accomplished through participation in discrete offering periods. Our 2004 Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. The number of our Ordinary Shares that may be issued pursuant to the 2004 Employee Stock Purchase Plan and our 2004 Stock Option Plan shall not, in the aggregate, exceed 2,434,668,733 Ordinary Shares. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding purchase right granted under this 2004 Employee Stock Purchase Plan or any of our other employee stock purchase plans or any outstanding stock option granted under our 2004 Stock Option Plan or any of our other stock option plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Hong Kong Stock Exchange Listing Rules. All shares purchased under the 2004 Employee Stock Purchase Plan shall be issued in the form of American depositary shares. For purposes of determining the number of the Company's Ordinary Shares available under the 2004 Employee Stock Purchase Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares.

Our compensation committee administers our 2004 Employee Stock Purchase Plan. Our employees generally are eligible to participate in our 2004 Employee Stock Purchase Plan; our compensation committee may impose additional eligibility conditions upon the employees of one of the Company's subsidiaries or exclude employees of a subsidiary from participation. Employees who are 5% stockholders, or would become 5% stockholders as a result of their participation in the Company's 2004 Employee Stock Purchase Plan, are ineligible to participate in the Company's 2004 Employee Stock Purchase Plan. In addition, to comply with the Hong Kong Stock Exchange Listing Rules, unless otherwise allowed under such rules, no employee can be granted a right to purchase American depositary shares, or a purchase right under the 2004 Employee Stock Purchase Plan if such purchase right would permit the employee to purchase Ordinary Shares or American depositary shares under all employee stock purchase plans or other option plans of the Company granted to the employee in any twelve-month period to exceed one percent (1%) of the then issued and outstanding Ordinary Shares.

Under our 2004 Employee Stock Purchase Plan, eligible employees are able to acquire our American depositary shares by accumulating funds through payroll deductions. Our compensation committee determines the maximum amount that any employee may contribute to his or her account under the 2004 Employee Stock Purchase Plan during any calendar year. We also have the right to amend or terminate our 2004 Employee Stock Purchase Plan at any time and our 2004 Employee Stock Purchase Plan was terminated on November 15, 2013.

New participants are required to enroll in a timely manner as specified by the Company's compensation committee. Once an employee is enrolled, participation is automatic in subsequent offering periods. The length of each offering period shall be no shorter than six months and no longer than twenty-seven months. The Company's compensation committee determines the starting and ending dates of each offering period. An employee's participation automatically ends upon termination of employment for any reason.

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No participant has the right to purchase our American depositary shares in an amount, when aggregated with purchase rights under all our employee stock purchase plans that are also in effect in the same calendar year(s), that has a fair market value of more than \$25,000, determined as of the first day of the applicable purchase period, for each calendar year in which that right is outstanding. On the first business day of each offering period, a participant shall be granted a purchase right, determined by: (i) dividing (A) the product of \$25,000 and the number of calendar years during all or part of which the purchase right shall be outstanding by (B) the fair market value of the American depositary shares on the first business day of the offering period, and (ii) subtracting from the quotient (A) the number of American depositary shares the participant purchased during the calendar year in which the first business day of the applicable offering period occurs under the 2004 Employee Stock Purchase Plan or under any of our other employee stock purchase plans which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended, plus (B) the number of American depositary shares subject on the first business day of the applicable offering period to any outstanding purchase rights granted to the participant under any of our other employee stock purchase plans which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended. If application of this formula would result in the grant of purchase rights covering, in the aggregate, more than the number of American depositary shares that the compensation committee has made available for the relevant offering period, then the compensation committee shall adjust the number of American depositary shares subject to the purchase right in order that, following such adjustment, the aggregate number of American depositary shares subject to the purchase right shall remain within the applicable limit.

The purchase price for shares of our American depositary shares purchased under our 2004 Employee Stock Purchase Plan shall be 85% of the lesser of the fair market value of our American depositary shares on (i) the first business day of the applicable offering period and (ii) the last day of the applicable offering period.

We have never granted any purchase right under our 2004 Employee Stock Purchase Plan before it was terminated on November 15, 2013.

**Amended and Restated 2004 Equity Incentive Plan**

Our shareholders adopted an Amended and Restated 2004 Equity Incentive Plan that became effective on June 3, 2010. The aggregate number of the Ordinary Shares that may be issued pursuant to the Amended and Restated 2004 Equity Incentive Plan may not exceed 1,015,931,725 Ordinary Shares. Awards issued under the Amended and Restated 2004 Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Ordinary Shares available under the Amended and Restated 2004 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares may become available for issuance under the Company's Amended and Restated 2004 Equity Incentive Plan:

- Ordinary Shares or American depositary shares forfeited or withheld from issuance to settle an award;
  
  - Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award;
- and

- Ordinary Shares or American depositary shares subject to awards granted under our Amended and Restated 2004 Equity Incentive Plan that otherwise terminate or lapse without ordinary shares or American depositary shares being issued.

Our Amended and Restated 2004 Equity Incentive Plan authorizes the award of restricted share awards (RSAs), stock appreciation rights (SARs), restricted share units (RSUs), and other equity-based or equity-related awards based on the value of the Ordinary Shares. Cash payments based on criteria determined by the compensation committee may also be awarded under the Amended and Restated 2004 Equity Incentive Plan.



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Our Amended and Restated 2004 Equity Incentive Plan is administered by our compensation committee or by the Board acting in place of our compensation committee. The Company's compensation committee has the authority to construe and interpret our Amended and Restated 2004 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

Our Amended and Restated 2004 Equity Incentive Plan provides for the grant of awards to our employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the Amended and Restated 2004 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the Amended and Restated 2004 Equity Incentive Plan.

An RSA is an award of the Ordinary Shares or American depositary shares that are granted for no consideration other than the provision of services (or such minimum payment as may be required under applicable law). The price (if any) of an RSA is determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting ceases on the date the participant no longer provides services to us and unvested shares are forfeited to or repurchased by us. Performance-based RSAs that vest based on the attainment of one or more performance goals over a period of time that the compensation committee determines may also be awarded under the Amended and Restated 2004 Equity Incentive Plan.

Stock appreciation rights provide for a payment, or payments, in cash, Ordinary Shares or American depositary shares, to the holder based upon the difference between the fair market value of the Ordinary Shares or American depositary shares on the date of exercise and the stated exercise price up to a maximum amount of cash or number of Ordinary Shares or American depositary shares. SARs may vest based on time or achievement of performance conditions. The compensation committee may determine whether SARs may be granted alone or in tandem with a stock option granted under our 2004 Stock Option Plan or another award.

Restricted share units represent the right to receive the Ordinary Shares or American depositary shares at a specified date in the future, subject to forfeiture of that right because of termination of employment or failure to achieve certain performance conditions. If an RSU has not been forfeited, then on the date specified in the RSU agreement, we deliver to the holder of the restricted share unit the Ordinary Shares (which may be subject to additional restrictions) or American depositary shares, cash or a combination of the Ordinary Shares and cash or our American depositary shares and cash.

The number and kind of the Ordinary Shares or American depositary shares under the various limits set forth in the Amended and Restated 2004 Equity Incentive Plan, the number of outstanding awards and the number and kind of shares subject to any outstanding award and the purchase price per share, if any, under any outstanding award shall be equitably adjusted (including by payment of cash to a participant) by the compensation committee in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the Amended and Restated 2004 Equity Incentive Plan.

Awards granted under our Amended and Restated 2004 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by our compensation committee.



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Our Amended and Restated 2004 Equity Incentive Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of our then-outstanding shares entitled to vote in the election of the Board, the complete dissolution of the Company, consolidation, merger, or similar transaction involving the Company, the sale of all or substantially all of the assets of the Company or the consolidated assets of us and our subsidiaries, a substantial change in the composition of the Board or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee of the Company determines how to treat each outstanding award. The compensation committee may:

- shorten the period during which the awards may be settled;
- accelerate the vesting of the award or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of an award by a successor corporation;
- adjust awards or their replacements so that such awards are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction; or
- cancel the award prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the award.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding awards immediately terminate.

Our Amended and Restated 2004 Equity Incentive Plan was terminated on November 15, 2013. The awards granted before such termination remain outstanding and continue to vest in accordance with, and subject to, the terms of the Amended and Restated 2004 Equity Incentive Plan.

**2014 Stock Incentive Plans**

**2014 Stock Option Plan**

We adopted a 2014 Stock Option Plan that became effective on November 15, 2013 when the 2014 Stock Option Plan was registered with the PRC State Administration of Foreign Exchange. The number of Ordinary Shares that may be issued pursuant to the 2014 Stock Option Plan and the 2014 Employee Stock Purchase Plan (if adopted) shall not, in the aggregate, exceed 3,207,377,124 Ordinary Shares. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding stock option granted under this 2014 Stock Option Plan or any of our other stock option plans or any outstanding purchase right granted under the 2014 Employee Stock Purchase Plan (if adopted) or any other of our employee stock purchase plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Hong Kong Stock Exchange Listing Rules. Stock options issued under the 2014 Stock Option Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of our Ordinary Shares available under the 2014 Stock Option Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, Ordinary Shares or American depositary shares subject to stock options under the 2014 Stock Option Plan will again be available for grant and issuance under the 2014 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depositary shares being issued.

Our 2014 Stock Option Plan authorizes the award of incentive stock options (ISOs) within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, non-qualified stock options and director options.

Director options are non-qualified options granted to non-employee members of the Board, or non-employee Directors. The terms of director options may vary among non-employee Directors and the 2014 Stock Option Plan does not impose any requirement to grant director options subject to uniform terms.

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Our 2014 Stock Option Plan will be administered by our compensation committee or by our board of directors acting in place of the compensation committee. The compensation committee will have the authority to construe and interpret the 2014 Stock Option Plan, grant stock options and make all other determinations necessary or advisable for the administration of the plan.

Our 2014 Stock Option Plan will provide for the grant of options to our employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2014 Stock Option Plan) for the benefit of those individuals eligible to participate in the 2014 Stock Option Plan; provided, that, ISOs may be granted only to our employees. The total number of Ordinary Shares underlying stock granted pursuant to the 2014 Stock Option Plan or any of our other stock option plans to, and the total number of Ordinary Shares that may be purchased under one or more purchase rights granted under the 2014 Employee Stock Purchase Plan (if adopted) or any of our other employee stock purchase plans by, a participant (including both exercised and outstanding stock options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1% in the case of an independent non-executive Director (as that term is used in the Hong Kong Stock Exchange Listing Rules) of the then issued and outstanding Ordinary Shares subject to such changes from time to time to applicable Hong Kong Stock Exchange Listing Rules.

The exercise price of stock options must be at least equal to the fair market value of our Ordinary Shares on the date of grant.

In general, options will vest over a four-year period. Options may vest based on time or achievement of performance conditions. Our compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable with any Ordinary Shares or American depositary shares issued on exercise being subject to our right of repurchase that lapses as the shares vest. The maximum term of options granted under the 2014 Stock Option Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by the compensation committee. Unless otherwise permitted by our compensation committee, stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's guardian or legal representative. Options granted under the 2014 Stock Option Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by our compensation committee. Options granted under the 2014 Stock Option Plan generally may be exercised for a period of ninety days after the termination of the optionee's service to us, except that director options may be exercised for a period of one hundred and twenty days after the termination of the non-employee Director's service to us. Options generally terminate immediately upon termination of employment for cause.

The number and kind of our Ordinary Shares or American depositary shares authorized for issuance under the various limits set forth in the 2014 Stock Option Plan, the number of outstanding stock options and the number and kind of shares subject to any outstanding stock options and the exercise price per share, if any, under any outstanding stock option will be equitably adjusted (including by payment of cash to a participant) by the compensation committee in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the 2014 Stock Option Plan.

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Our 2014 Stock Option Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of the Company's then-outstanding shares entitled to vote in the election of the Board, the complete dissolution of the Company, consolidation, merger, or similar transaction involving the Company, the sale of all or substantially all of the assets of the Company or the consolidated assets of the Company and its subsidiaries, a substantial change in the composition of the Board or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee of the Company will determine how to treat each outstanding stock award. The compensation committee of the Company may:

- shorten the period during which the stock options are exercisable;
- accelerate the vesting of the stock options or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of stock options by a successor corporation;
- adjust stock options or their replacements so that such stock options are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction;
- cancel the stock option prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the stock option.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding stock options will immediately terminate.

Our 2014 Stock Option Plan will terminate ten years from the date of registration of the Plan with the PRC State Administration of Foreign Exchange, unless it is terminated earlier by the Board. The Board may amend or terminate the 2014 Stock Option Plan at any time. If the Board amends the 2014 Stock Option Plan, it does not need to ask for shareholders approval of the amendment unless required by applicable law.

**2014 Equity Incentive Plan**

We adopted a 2014 Equity Incentive Plan that became effective on November 15, 2013 when the 2014 Equity Incentive Plan was registered with the PRC State Administration of Foreign Exchange. The aggregate number of the Ordinary Shares that may be issued pursuant to the 2014 Equity Incentive Plan may not exceed 801,844,281 Ordinary Shares. Awards issued under the 2014

Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Company's Ordinary Shares available under the 2014 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares will again be available for grant and issuance under the 2014 Equity Incentive Plan:

- Ordinary Shares or American depositary shares subject to stock appreciation rights granted under the 2014 Equity Incentive Plan that cease to be subject to the stock appreciation right for any reason other than exercise of the stock appreciation right;
- Ordinary Shares or American depositary shares subject to awards granted under the Company's 2014 Equity Incentive Plan that are subsequently forfeited at the original issue price; including without limitation Ordinary Shares or American depositary shares withheld from issuance to settle an award and Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award; and
- Ordinary Shares or American depositary shares subject to awards granted under the 2014 Equity Incentive Plan that otherwise terminate or lapse without Ordinary Shares or American depositary shares being issued.

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Our 2014 Equity Incentive Plan authorizes the award of restricted share awards (RSAs), stock appreciation rights (SARs), restricted share units (RSUs) and other equity-based or equity-related awards based on the value of our Ordinary Shares. Cash payments based on criteria determined by the compensation committee may also be awarded under the 2014 Equity Incentive Plan.

Our 2014 Equity Incentive Plan will be administered by our compensation committee or by our board of directors acting in place of our compensation committee. The compensation committee will have the authority to construe and interpret the 2014 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

Our 2014 Equity Incentive Plan will provide for the grant of awards to our employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2014 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the 2014 Equity Incentive Plan.

An RSA is an award of our Ordinary Shares or American depositary shares that are granted for no consideration other than the provision of services (or such minimum payment as may be required under applicable law). The price (if any) of an RSA will be determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting will cease on the date the participant no longer provides services to us and unvested shares will be forfeited to or repurchased by us. Performance-based RSAs that vest based on the attainment of one or more performance goals over a period of time that the compensation committee determines may also be awarded under the 2014 Equity Incentive Plan.

Stock appreciation rights provide for a payment, or payments, in cash, Ordinary Shares or American depositary shares, to the holder based upon the difference between the fair market value of our Ordinary Shares or American depositary shares on the date of exercise and the stated exercise price up to a maximum amount of cash or number of Ordinary Shares or American depositary shares. SARs may vest based on time or achievement of performance conditions. The compensation committee may determine whether SARs may be granted alone or in tandem with a stock option granted under the 2014 Stock Option Plan or another award.

Restricted share units represent the right to receive our Ordinary Shares or American depositary shares at a specified date in the future, subject to forfeiture of that right because of termination of employment or failure to achieve certain performance conditions. If an RSU has not been forfeited, then on the date specified in the RSU agreement, we will deliver to the holder of the restricted share unit the Ordinary Shares (which may be subject to additional restrictions) or American depositary shares, cash or a combination of the Ordinary Shares and cash or the American depositary shares and cash.

The number and kind of our Ordinary Shares or American depositary shares under the various limits set forth in the 2014 Equity Incentive Plan, the number of outstanding awards and the number and kind of shares subject to any outstanding award and the purchase price per share, if any, under any outstanding award will be equitably adjusted (including by payment of cash to a participant) by the compensation committee of our company in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the 2014 Equity Incentive Plan.



Awards granted under the 2014 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the compensation committee.

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Our 2014 Equity Incentive Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of our then-outstanding shares entitled to vote in the election of our board of directors, the complete dissolution of the company, consolidation, merger, or similar transaction involving our company, the sale of all or substantially all of the assets of our company or the consolidated assets of our company and our subsidiaries, a substantial change in the composition of our board of directors or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee will determine how to treat each outstanding award. The compensation committee may:

- shorten the period during which the awards may be settled;
- accelerate the vesting of the award or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of an award by a successor corporation;
- adjust awards or their replacements so that such awards are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction; or
- cancel the award prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the award.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding awards will immediately terminate.

Our board of directors may amend or terminate our 2014 Equity Incentive Plan at any time. If our board of directors amends our 2014 Equity Incentive Plan, it does not need to ask for stockholder approval of the amendment unless required by applicable law.

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The following table sets forth information regarding the beneficial ownership as of December 31, 2014 of our ordinary shares, by each shareholder who is known by us to beneficially own 5% or more of our outstanding ordinary shares as of such date.

| Name of Shareholder   | Number of Ordinary Shares Held | Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company(1) | Derivatives    | Total Interest | Percentage of Total Interests to Total Issued Share Capital of the Company(1) |
|---|--------------------------------|--|----------------|----------------|---|
| Datang Telecom Technology & Industry Holdings Co., Ltd.<br>( Datang Telecom ) | 6,793,860,293(2)               | 18.95%   | 216,096,723(3) | 7,009,957,016  | 19.55%  |
| China Investment Corporation ( CIC )  | 3,874,532,995(4)               | 10.81%   | 313,437,589(5) | 4,187,970,584  | 11.68%  |

## Notes:

(1) Based on 35,856,096,167 Ordinary Shares in issue as at December 31, 2014.

(2) All such Ordinary Shares are held by Datang Holdings (Hongkong) Investment Company Limited ( Datang ) which is a wholly-owned subsidiary of Datang Telecom.

(3) The Company issued US\$22,200,000 zero coupon convertible bonds due 2018 ( Datang Pre-emptive Bonds ) to Datang on December 4, 2014 pursuant to the subscription agreement dated August 22, 2014 entered into between the Company and Datang. The Datang Pre-emptive Bonds are convertible into 216,096,723 Ordinary Shares (assuming full conversion at the initial conversion price of HK\$0.7965 per Ordinary Share). In this regard, Datang and Datang Telecom are deemed to be interested in these 216,096,723 underlying shares of the Company.

(4) All such Ordinary Shares are held by Country Hill Limited ( Country Hill ). Country Hill is a wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC.

(5) The Company issued US\$32,200,000 zero coupon convertible bonds due 2018 ( Country Hill Pre-emptive Bonds ) to Country Hill on May 29, 2014 pursuant to the subscription agreement dated December 18, 2013 entered into between the Company and Country Hill. The Country Hill Pre-emptive Bonds are convertible into 313,437,589 Ordinary Shares (assuming full conversion at the initial conversion price of HK\$0.7965 per ordinary Share).

As of March 31, 2015, 35,929,902,252 ordinary shares (including 21,737,251 ADSs representing 1,086,862,550 ordinary shares) of our company were outstanding. J.P. Morgan Chase Bank, the depositary under the deposit agreement, has advised us that, as of March 31, 2015, these 21,737,251 ADSs, representing 1,086,862,550 ordinary shares, were held of record by thirteen US registered shareholders. We have no further information as to shares held or beneficially owned by U.S. persons. Each ADS represents 50 ordinary shares.

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

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**B. Related Party Transactions**

The following disclosure is for the purpose of fulfilling disclosure requirements pursuant to the rules and regulations promulgated pursuant to the Exchange Act, only, and may contain disclosure of related party transactions not required to be disclosed in our financial statements under IFRS.

**Director Service Contracts**

We have entered into service contracts with indemnification provisions with each of our current directors. Except for the indemnification provisions, the service contracts as stated in the preceding sentence do not provide for benefits upon termination of service or employment.

**Datang Further Subscription Agreement (2011)**

Pursuant to the share purchase agreement dated November 6, 2008 between us and Datang Telecom, Datang Telecom has a pre-emptive right to subscribe for a pro-rata portion of those convertible preferred shares and warrants issued to Country Hill, a wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC, pursuant to the subscription agreement dated April 18, 2011 between Country Hill and us in connection with its subscription for (i) 360,589,053 convertible preferred shares and (ii) warrants to subscribe for up to 72,117,810 convertible preferred shares (subject to adjustment).

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

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

On June 4, 2012, the convertible preferred shares were converted to ordinary shares and the warrants were expired without being exercised.



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**Datang Subscription Agreement and Country Hill Subscription Agreement (2013)**

On December 18, 2013, we entered into a subscription agreement, or the Datang Subscription Agreement, with Datang, one of our substantial shareholders. Pursuant to the Datang Subscription Agreement, the Company conditionally agreed to issue and Datang conditionally agreed to subscribe for the zero coupon convertible bonds due 2018 in an aggregate principal amount of US\$54,600,000, or the Datang Pre-emptive Bonds, upon the exercise of the pre-emptive rights as specified in the share purchase agreement dated November 6, 2008 entered into between the Company and Datang Telecom which holds 100% equity interests of Datang. The Datang Pre-emptive Bonds are convertible into 531,481,129 Ordinary Shares (assuming full conversion of the Datang Pre-emptive Bonds at the initial Conversion Price of HK\$0.7965 per share).

On December 18, 2013, we also entered into a subscription agreement, or the Country Hill Subscription Agreement, with Country Hill, another one of our substantial shareholders. Pursuant to the Country Hill Subscription Agreement, we conditionally agreed to issue and Country Hill conditionally agreed to subscribe for the zero coupon convertible bonds due 2018 in an aggregate principal amount of US\$32,200,000, or the Country Hill Pre-emptive Bonds, upon the exercise of the pre-emptive rights by Country Hill pursuant to the share subscription agreement dated April 18, 2011 entered into between us and Country Hill. The Country Hill Pre-emptive Bonds are convertible into 313,437,589 Ordinary Shares (assuming full conversion of the Country Hill Pre-emptive Bonds at the initial Conversion Price of HK\$0.7965 per share).

As each of Datang and Country Hill is a substantial shareholder of the Company, the execution of the Datang Subscription Agreement and the Country Hill Subscription Agreement as well as the transactions contemplated thereunder (including the issue of the Datang Pre-emptive Bonds and the Country Hill Pre-emptive Bonds and the allotment and issue of any Ordinary Shares on conversion of any Datang Pre-emptive Bonds and Country Hill Pre-emptive Bonds) constituted non-exempt connected transactions under Chapter 14A of the Hong Kong Stock Exchange Listing Rules, and were subsequently approved by the independent shareholders at the extraordinary general meeting of the Company held on February 17, 2014.

The Datang Pre-emptive Bonds and the Country Hill Pre-emptive Bonds are non-interest bearing and will mature on November 7, 2018. We consider that the issue of the Datang Pre-emptive Bonds and the Country Hill Pre-emptive Bonds will strengthen the relationship between Datang, Country Hill and the Company and provide an additional source of funding for our needs beyond the capital raised through the Placed Bonds (See Item 10 Additional Information Material Contracts Issue of US\$200 Million Zero Coupon Convertible Bonds due 2018 ). The net proceeds (net of fees and expenses) from the issue of the Datang Pre-emptive Bonds and the issue of the Country Hill Pre-emptive Bonds were approximately US\$54,600,000 and US\$32,200,000, respectively. We used such net proceeds for our capital expenditures in capacity expansion associated with 12-inch manufacturing facilities. The completion of the issue of the Datang Pre-emptive Bonds and the Country Hill Pre-emptive Bonds took place on May 29, 2014.

**Datang Subscription Agreement and Country Hill Subscription Agreement (2014)**

On August 22, 2014, the Company entered into (i) a share subscription agreement ( Datang Pre-emptive Share Subscription Agreement ) with Datang, pursuant to which the Company conditionally agreed to issue, and Datang conditionally agreed to subscribe for, 669,468,952 Ordinary Shares ( Datang Pre-emptive Shares ) for a total cash consideration of HK\$401,681,371.20; (ii) a bond subscription agreement ( Datang Pre-emptive Bond Subscription Agreement ) with Datang, pursuant to which the Company conditionally agreed to issue, and Datang conditionally agreed to subscribe for, the zero coupon convertible bonds due 2018 in the aggregate principal amount of US\$22,200,000 ( Datang Pre-emptive Bonds ) for a total cash consideration of

US\$22,533,000 which is 101.5% of the aggregate principal amount of the Datang Pre-emptive Bonds; and (iii) a supplemental agreement ( Datang Supplemental Agreement ) with Datang and Datang Telecom, pursuant to which the parties agreed to amend the pre-emptive rights provision as specified in the share purchase agreement dated November 6, 2008 entered into between the Company and Datang Telecom in order to give effect to the parties' understanding of the purpose of the pre-emptive rights provision.

On August 22, 2014, the Company entered into a share subscription agreement ( Country Hill Pre-emptive Share Subscription Agreement ) with Country Hill, pursuant to which the Company conditionally agreed to issue, and Country Hill conditionally agreed to subscribe for, 268,642,465 Ordinary Shares ( Country Hill Pre-emptive Shares ) for a total cash consideration of HK\$161,185,479.00.



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The execution of the Datang Pre-emptive Share Subscription Agreement, the Datang Pre-emptive Bond Subscription Agreement, the Datang Supplemental Agreement and the Country Hill Pre-emptive Share Subscription Agreement, the issue of the Datang Pre-emptive Shares and the Datang Pre-emptive Bonds to Datang and the issue of the Country Hill Pre-emptive Shares to Country Hill were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on November 5, 2014 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules. The completion of the issue of the Datang Pre-emptive Shares, the Country Hill Pre-emptive Shares and the Datang Pre-emptive Bonds took place on November 21, 2014, November 27, 2014 and December 4, 2014, respectively.

**Framework Agreement with Datang Telecom**

On December 14, 2011, we entered into a Framework Agreement with Datang Telecom, or the Original Framework Agreement, pursuant to which we (including our subsidiaries) and Datang Telecom (including its associates) would engage in business collaboration including but not limited to foundry service. The term of the Original Framework Agreement is three years commencing from December 14, 2011. The pricing for the transactions contemplated under the Original Framework Agreement should be determined by reference to reasonable market price.

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

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

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

The aggregate revenues generated by us from the transactions entered into pursuant to the Original Framework Agreement were approximately US\$16.7 million for the year ended December 31, 2013, approximately US\$9.7 million for the year ended December 31, 2012, and approximately US\$4.8 million for the year ended December 31, 2011.

On February 18, 2014, we entered into a new Framework Agreement with Datang Telecom, or the Renewed Framework Agreement, pursuant to which we (including our subsidiaries) and Datang Telecom (including its associates) would engage in business collaboration including but not limited to foundry service. The term of the Renewed Framework Agreement is two years commencing from February 18, 2014. The pricing for the transactions contemplated under the Renewed Framework Agreement will be determined by reference to reasonable market price available from or to independent third parties in the ordinary and usual course of business based on normal commercial terms and on arm's length negotiation, or the price based on the actual production cost incurred plus a reasonable profit margin with reference to the general range of profit margins in the industry, and will be determined on terms not less favorable than those sold by independent third parties to us or our subsidiaries or sold by us or our subsidiaries to independent third parties (if any).

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

- US\$60 million for the year ending December 31, 2014, and
- US\$75 million for the year ending December 31, 2015.

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**Entrusted Loan Agreement with China Academy of Telecommunication Technology and Datang Telecom Group Finance Co., Ltd**

In November, 2012, our subsidiary SMIC Beijing entered into an entrusted loan arrangement with China Academy of Telecommunication Technology, or Lender, and Datang Telecom Group Finance Co., Ltd., as Arranger, under which SMIC Beijing was provided a 180 day revolving unsecured loan in the principal amount of RMB 500 million (approximately US\$80 million). This entrusted loan was used to finance the planned expansion for SMIC Beijing's 12-inch fab. SMIC Beijing repaid the loan in May 2013. The interest rate on the loan was 5.04% in 2013.

In December, 2013, our subsidiary SMIC Beijing entered into another entrusted loan arrangement with Lender and Arranger, under which SMIC Beijing was provided a two-month unsecured loan in the principal amount of RMB 400 million (approximately US\$66 million). This entrusted loan was used to finance the planned expansion for SMIC Beijing's 12-inch fab. SMIC Beijing repaid the loan in February 2014. The interest rate on the loan was 3%.

**Entrusted Loan Agreement with China Investment Development Corporation**

In June 2013, SMIC Beijing entered into the new RMB loan, a two-year working capital entrust loan facility in the principal amount of RMB70 million with China Investment Development Corporation through China CITIC Bank, which is unsecured. This entrusted loan was used for working capital purposes. As of December 31, 2014, SMIC Beijing has drawn down RMB70 million (approximately US\$11.5 million) and repaid RMB55 million (approximately US\$9.0 million) on this loan facility. The outstanding balance of RMB15 million (approximately US\$2.5 million) is repayable in June 2015. The interest rate on the loan is 12% in 2014.

**Issue of New Ordinary Shares**

On June 4, 2014, we, J.P. Morgan Securities (Asia Pacific) Limited, Deutsche Bank AG, Hong Kong Branch (the Placing Agents) and Datang entered into a placing and subscription agreement (the Placing and Subscription Agreement). Pursuant to the agreement, Datang appointed the Placing Agents to place 2.59 billion shares of the Company's common stock at a price of HK\$0.60 per share, which represented a discount of approximately 4.76% to the Company's closing price of HK\$0.63 per share as quoted on the Hong Kong Stock Exchange on June 4, 2014 (the Placing Price) (the Top-up Placing). Following the completion of the Top-up Placing, Datang applied to subscribe for 2.59 billion new ordinary shares (the Subscription Share(s)) at the price of HK\$0.60 per Subscription Share (which was the same as the Placing Price) according to the Placing and Subscription Agreement (the Top-up Subscription). The Top-up Subscription was completed with net proceeds of approximately US\$197.2 million on June 12, 2014.

**Other Related Party Transactions**

Please see Note 37 of Notes to the Consolidated Financial Statements for further information regarding the transactions between us and our related parties.

**C. Interests of Experts and Counsel.**

Not applicable.

**Item 8. Financial Information**

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

Please see Item 18. Financial Statements for our audited consolidated financial statements filed as a part of this annual report on Form 20-F.

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

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**Dividends and Dividend Policy**

At the end of 2014, our accumulated deficit decreased to US\$1,540.9 million from an accumulated deficit of US\$1,693.9million at the end of 2013. We have not declared or paid any cash dividends on the ordinary shares. We intend to retain any earnings for use in our business and do not currently intend to pay cash dividends on the ordinary shares. Dividends, if any, on the outstanding shares will be declared by and subject to the discretion of the Board and must be approved at the annual general meeting of shareholders. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

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

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

- recovery of losses, if any;

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

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

Table of Contents**B. Significant Changes**

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

**Item 9. The Offer and Listing**

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

The table below sets forth the high and low closing prices on the HKSE and the NYSE for the ordinary shares and ADSs representing such ordinary shares, respectively, since March 2004 and for the most recent six months.

|                     | Stock Exchange of Hong Kong      |            | New York Stock Exchange(1) |            |            |           |
|---------------------|----------------------------------|------------|----------------------------|------------|------------|-----------|
|                     | Closing price per ordinary share |            | Closing Price per ADS      |            |            |           |
|                     | High Price                       | Low Price  | High Price                 | Low Price  | High Price | Low Price |
| <b>Annual</b>       |                                  |            |                            |            |            |           |
| Fiscal year 2010    | HK\$ 1.060                       | HK\$ 0.480 | US\$ 6.670                 | US\$ 3.080 |            |           |
| Fiscal year 2011    | HK\$ 0.940                       | HK\$ 0.335 | US\$ 5.780                 | US\$ 2.120 |            |           |
| Fiscal year 2012    | HK\$ 0.445                       | HK\$ 0.239 | US\$ 2.860                 | US\$ 1.490 |            |           |
| Fiscal year 2013    | HK\$ 0.720                       | HK\$ 0.400 | US\$ 4.560                 | US\$ 2.560 |            |           |
| Fiscal year 2014    | HK\$ 0.860                       | HK\$ 0.580 | US\$ 5.460                 | US\$ 3.760 |            |           |
| <b>Quarterly</b>    |                                  |            |                            |            |            |           |
| First Quarter 2013  | HK\$ 0.520                       | HK\$ 0.400 | US\$ 3.370                 | US\$ 2.560 |            |           |
| Second Quarter 2013 | HK\$ 0.720                       | HK\$ 0.455 | US\$ 4.560                 | US\$ 2.880 |            |           |
| Third Quarter 2013  | HK\$ 0.660                       | HK\$ 0.520 | US\$ 4.160                 | US\$ 3.470 |            |           |
| Fourth Quarter 2013 | HK\$ 0.650                       | HK\$ 0.540 | US\$ 4.110                 | US\$ 3.490 |            |           |
| First Quarter 2014  | HK\$ 0.840                       | HK\$ 0.580 | US\$ 5.310                 | US\$ 3.770 |            |           |
| Second Quarter 2014 | HK\$ 0.680                       | HK\$ 0.580 | US\$ 4.380                 | US\$ 3.760 |            |           |
| Third Quarter 2014  | HK\$ 0.820                       | HK\$ 0.670 | US\$ 5.220                 | US\$ 4.260 |            |           |

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|                                     |      |       |      |       |      |       |      |       |
|-------------------------------------|------|-------|------|-------|------|-------|------|-------|
| Fourth Quarter 2014                 | HK\$ | 0.860 | HK\$ | 0.710 | US\$ | 5.460 | US\$ | 4.500 |
| First Quarter 2015                  | HK\$ | 0.750 | HK\$ | 0.670 | US\$ | 4.730 | US\$ | 4.100 |
| Monthly                             |      |       |      |       |      |       |      |       |
| October 2014                        | HK\$ | 0.840 | HK\$ | 0.750 | US\$ | 5.340 | US\$ | 4.730 |
| November 2014                       | HK\$ | 0.860 | HK\$ | 0.760 | US\$ | 5.460 | US\$ | 4.690 |
| December 2014                       | HK\$ | 0.790 | HK\$ | 0.710 | US\$ | 5.040 | US\$ | 4.500 |
| January 2015                        | HK\$ | 0.740 | HK\$ | 0.680 | US\$ | 4.680 | US\$ | 4.230 |
| February 2015                       | HK\$ | 0.730 | HK\$ | 0.670 | US\$ | 4.680 | US\$ | 4.280 |
| March 2015                          | HK\$ | 0.750 | HK\$ | 0.670 | US\$ | 4.730 | US\$ | 4.100 |
| April 2015 (through April 24, 2015) | HK\$ | 0.930 | HK\$ | 0.780 | US\$ | 6.060 | US\$ | 4.960 |



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On October 24, 2013, trading in our ADSs on the NYSE was suspended from 9:30 a.m., New York time, pending the release of our announcement regarding the launching of our US\$200 million zero coupon convertible bonds offering. Trading in our shares resumed at 9:30 a.m., New York time on October 25, 2013. There was no trading suspension on the HKSE because it was closed during the NYSE suspension period.

At our request, trading in our ADSs on the NYSE was suspended with effect from 9:30 a.m. on June 4, 2014, New York time, pending the release of our announcement regarding the placing of 2,590,000,000 new ordinary shares, the launching of our US\$95 million zero coupon convertible bonds offering and the potential pre-emptive issues to Datang and CIC. Pursuant to our application to the NYSE, trading in our ADSs resumed at 9:30 a.m., New York time on June 5, 2014.

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the first trading day in the 6 months immediately preceding our pre-emptive issues to Datang and Country Hill on May 29, 2014 are set forth below:

|                  | Stock Exchange of Hong Kong<br>Closing price per ordinary share |               | New York Stock Exchange(1)<br>Closing price per ADS |       |
|------------------|---|---------------|---|-------|
| November 1, 2013 | HK\$  | 0.560         | US\$  | 3.580 |
| December 2, 2013 | HK\$  | 0.630         | US\$  | 4.030 |
| January 2, 2014  | HK\$  | 0.630         | US\$  | 3.950 |
| February 3, 2014 |   | Market closed | US\$  | 4.820 |
| March 3, 2014    | HK\$  | 0.680         | US\$  | 4.370 |
| April 1, 2014    | HK\$  | 0.600         | US\$  | 3.930 |

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the first trading day in the 6 months immediately preceding our pre-emptive issues of (i) new ordinary shares to Datang and Country Hill on November 21, 2014 and November 27, 2014, respectively and (ii) US\$22.2 million zero coupon convertible bonds to Datang on December 4, 2014 are set forth below:

|                   | Stock Exchange of Hong Kong<br>Closing price per ordinary share |               | New York Stock Exchange(1)<br>Closing price per ADS |               |
|-------------------|---|---------------|---|---------------|
| May 1, 2014       |   | Market closed | US\$  | 4.140         |
| June 2, 2014      |   | Market closed | US\$  | 4.230         |
| July 1, 2014      |   | Market closed | US\$  | 4.260         |
| August 1, 2014    | HK\$  | 0.710         | US\$  | 4.480         |
| September 1, 2014 | HK\$  | 0.730         |   | Market closed |
| October 1, 2014   |   | Market closed | US\$  | 5.010         |

|                  |      |       |      |       |
|------------------|------|-------|------|-------|
| November 3, 2014 | HK\$ | 0.800 | US\$ | 5.110 |
|------------------|------|-------|------|-------|

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(1) Each ADS represents 50 ordinary shares

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The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the last trading day before our announcement dated December 18, 2013 of the pre-emptive issues to Datang and Country Hill are set forth below:

|                   | <b>Stock Exchange of Hong Kong</b>      |       | <b>New York Stock Exchange(1)</b> |       |
|-------------------|---|-------|-----------------------------------|-------|
|                   | <b>Closing price per ordinary share</b> |       | <b>Closing price per ADS</b>      |       |
| December 17, 2013 | HK\$                                    | 0.600 | US\$                              | 3.760 |

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the last trading day before our announcement dated August 22, 2014 of the pre-emptive issues to Datang and Country Hill are set forth below:

|                 | <b>Stock Exchange of Hong Kong</b>      |       | <b>New York Stock Exchange(1)</b> |       |
|-----------------|---|-------|-----------------------------------|-------|
|                 | <b>Closing price per ordinary share</b> |       | <b>Closing price per ADS</b>      |       |
| August 22, 2014 | HK\$                                    | 0.730 | US\$                              | 4.630 |

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on April 24, 2015 are set forth below:

|                | <b>Stock Exchange of Hong Kong</b>      |       | <b>New York Stock Exchange(1)</b> |       |
|----------------|---|-------|-----------------------------------|-------|
|                | <b>Closing price per ordinary share</b> |       | <b>Closing price per ADS</b>      |       |
| April 24, 2015 | HK\$                                    | 0.830 | US\$                              | 5.400 |

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(1) Each ADS represents 50 ordinary shares.

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**Item 10. Additional Information**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

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

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

**C. Material Contracts**

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

On May 12, 2011, we entered into a joint venture agreement and a memorandum with Hubei Science & Technology Investment Group Co., Ltd., or Hubei Science & Technology, a company incorporated in the PRC and wholly-owned by the Wuhan East Lake Hi-Tech Development Zone Administrative Committee, to invest in and manage Wuhan Xinxin 12-inch wafer production line, or the Wuhan JV Agreement.

Pursuant to the Wuhan JV Agreement, the parties shall establish Semiconductor Manufacturing International (Wuhan) Corp., a joint venture company to be established in Wuhan, Hubei Province, the PRC, or the Wuhan JV Company, for the purpose of further developing 12-inch wafer production facilities and implementing advanced technologies for the manufacturing of integrated circuits. Under the Wuhan JV Agreement, we and Hubei Science & Technology shall contribute 66.66% and 33.34%, respectively, of the registered capital of the Wuhan JV Company.

In April 2012, we had announced that we anticipated that the formation of the Wuhan JV Company would be delayed until the first half of 2013. In March 2013, we further announced that the formation of any business collaboration with Hubei Science & Technology would be further delayed due to changing market conditions in China and the status of the global economy. Furthermore, after having undergone a transition period in transferring responsibility to Wuhan Xinxin, we ceased to manage and operate Wuhan Xinxin's 12-inch fab.

*Joint Venture Agreement with ZDG and BIDIMC*

On June 3, 2013, we entered into a Joint Venture Agreement with SMIC Beijing, Beijing Industrial Developing Investment Management Co., Ltd ( BIDIMC ) and Zhongguancun Development Group ( ZDG ) in relation to the establishment of a joint venture which will principally engage in, among other things, the testing, development, design, manufacturing, packaging and sale of integrated circuits.

Pursuant to the Joint Venture Agreement, the parties established SMNC, a new company to be established in Beijing, for the purpose of establishing and building up significant manufacturing capacity with a focus on 45-nanometer and finer technologies, with a goal to reach a manufacturing capacity of 35,000 wafers per month. Under the Joint Venture Agreement, we and SMIC Beijing shall contribute 55% of the registered capital, and ZDG and BIDIMC shall contribute 45% of the registered capital. The registered capital of SMNC is US\$1.2 billion.

On December 8, 2014, the Joint Venture Agreement was revised and entered into by and between the Company, SMIC Beijing, ZDG, BIDIMC and Beijing Integrated Circuits Industrial Development Fund Manufacturing and Equipment Sub-Fund ( Sub-Fund ). Pursuant to the revised Joint Venture Agreement, we and SMIC Beijing shall still contribute 55% of the SMNC registered capital, and Sub-Fund, ZDG and BIDIMC shall contribute 45% of the SMNC registered capital.

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SMNC shared part of Group's advance-technology R&D expenses in the fourth quarter of 2014, which also caused the change in loss of year attributable to non-controlling interests.

*Issue of US\$200 Million Zero Coupon Convertible Bonds due 2018*

The Subscription Agreement related to US\$200 Million Zero Coupon Convertible Bonds due 2018 convertible into our ordinary shares, dated as of 24 October 24 2013 and entered into by us and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as the Joint Managers), includes among others, the following terms:

- 1) Agreement by each of the Joint Managers to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principal amount of US\$200 million (the Placed Bonds);
- 2) Based on the initial Conversion Price of HK\$0.7965 and assuming full conversion of the Bonds at the initial conversion price, the Bonds were convertible into 1,946,817,325 shares, representing (i) approximately 6.07% of the issued share capital of the Company on the last trading day before Bond issuance and (ii) approximately 5.72% of the issued share capital of the Company as enlarged by the issue of the conversion shares. The conversion shares were allotted and issued pursuant to the general mandate of the Company granted to the Directors at the annual general meeting held on 13 June 2013 and rank pari passu in all respects with the shares then in issue on the relevant conversion date. The issue of the Bonds was not subject to the approval of the shareholders;
- 3) Application was made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the conversion shares. An application was made to the Singapore Exchange for the listing of the Bonds;
- 4) The maturity date for the Bonds is 7 November 2018. Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each Bond at its principal amount on the maturity date. The Bonds will not bear interest;
- 5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds will be approximately US\$194.6 million;
- 6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds, for the Company's capital expenditure used for capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes.

*Datang and CIC Subscription Agreements (2013)*

Please see Item 7.B Related Party Transactions Datang and CIC Subscription Agreement (2013).

*Yizhuang Residential Project Investment and Development Agreement*

On June 15, 2012, SMIC Beijing, SMIC Shanghai, ZhongxinXiecheng Investment (Beijing) Co., Ltd., and China Investment Development Corporation entered into a cooperation agreement to jointly develop the SMIC Beijing Yizhuang residential area. The agreement covers development, construction management and other matters pertaining to Phase 2 of SMIC Beijing residential area and SMIC Private School Beijing Phase 2.

Under the agreement, ZhongxinXiecheng Investment (Beijing) Co., Ltd., the joint-venture formed by and between SMIC Shanghai and China Investment Development Corporation, is fully responsible for the investment planning, development, and construction of both the residential area and the school projects. ZhongxinXiecheng is also responsible for the day-to-day operations under the project management framework agreement. Pursuant to the agreement, profits derived from the residential area development project will be distributed between the parties.

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*SMIC Beijing Phase 2 Project Cooperative Framework Agreement*

On May 15, 2012, SMIC Beijing, Beijing Economic-Technological Development Area Management Committee (BDAC), and Beijing Municipal Commission of Economy and Information Technology (BJEIT) entered into a non-legally binding Cooperation Framework Agreement. Pursuant to the Cooperation Framework Agreement, BJEIT, BDAC and SMIC Beijing proposes the establishment of a joint venture company in Beijing with respect to the production of 45-20 nanometer integrated circuits with a goal of achieving eventual production capacity of about 70,000 12-inch wafers per month.

BJEIT, BDAC and SMIC Beijing agreed to negotiate in good faith with a view towards entering into a definitive agreement in respect of the proposed establishment of a joint venture company in Beijing.

*Land Lease Agreement*

On September 12, 2012, SMIC Beijing signed an agreement with Beijing Bodaxin Development and Construction Co., Ltd. (BDC) to lease land on which the fab for the BJ Phase 2 Project would be developed.

According to the agreement, BDC would make a one-time payment to SMIC Beijing of RMB 394,000 (approximately US\$63,246) for the lease. The term of the lease expired on June 30, 2013.

*SMIC Beijing Phase 2 Project Fab Construction Framework Agreement*

On October 15, 2012, SMIC Beijing signed an agreement with BDC, pursuant to which BDC will be responsible for the development of the fab for the BJ Phase 2 Project. BDC will contribute US\$ 340 million for the development and all costs in the development of the fab will be borne by BDC.

*Joint Venture Agreement with Jiangsu Changjiang Electronics Technology Co., Ltd.*

On August 8, 2014, the Company and Jiangsu Changjiang Electronics Technology Co., Ltd ( JCET ), the largest packaging service provider in China, jointly issued a press release in relation to the formation of a joint venture for 12-inch bumping and related testing, pursuant to the previously signed joint venture agreement by and between the Company and JCET on February 20, 2014. On October 17, 2014, the Company and Changjiang Electronics International (Hong Kong) Trading & Investing Limited, a wholly owned subsidiary of JCET, jointly established SJ Semiconductor Corporation, an exempted company incorporated with limited liability in the Cayman Islands, with a total capitalization of US\$50,000,000, subscribing for, respectively, 51% and 49% interest therein. On November 25, 2014, SJ Semiconductor (Jiangyin) Corp. ( SJ Jiangyin ), a wholly-owned subsidiary of SJ Semiconductor



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Corporation was established in Jiangyin National High-Tech Industrial Development Zone (JOIND), in Jiangsu Province, China.

*Issue of 2,590,000,000 New Ordinary Shares*

On June 9, 2014, the Company issued 2,590,000,000 new ordinary shares pursuant to the terms and conditions of the Placing and Subscription Agreement of the same date, and entered into by the Company and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as the Joint Placing Agents ) which included, among other things, the following terms:

- 1) a total of 2,590,000,000 new ordinary shares were successfully placed by the Joint Placing Agents to not fewer than six (6) independent placees, who are third parties independent of and not connected with the Company and its connected persons;

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- 2) None of the placees became substantial shareholder of the Company immediately after the completion of the placing.
- 3) The placing price was HK\$0.60 per share;
- 4) The allotted and issued 2,590,000,000 new ordinary shares represented approximately 7.44% of the issued share capital of the Company following the issuance of the 2,590,000,000 new shares.

*Issue of US\$95 million Zero Coupon Convertible Bonds Due 2018*

The Subscription Agreement related to US\$95 Million Zero Coupon Convertible Bonds due 2018 convertible into the Company's ordinary shares, dated as of June 24, 2014 and entered into by the Company and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as the Joint Managers), includes among others, the following terms:

- 1) Agreement by each of the Joint Managers to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principal amount of US\$95 million (the Placed Bonds);
- 2) Based on the initial Conversion Price of HK\$0.7965 and assuming full conversion of the Bonds at the initial conversion price, the Bonds were convertible into 924,738,230 shares, representing (i) approximately 2.65% of the issued share capital of the Company on the last trading day before the Bond issuance and (ii) approximately 2.59% of the issued share capital of the Company following the issuance of the conversion shares. The conversion shares were authorized and issued by a resolution passed at a meeting of the Board of Directors held February 17, 2014, and rank pari passu in all respects with the shares then in issue on the relevant conversion date. The issue of the Bonds was not subject to the approval of the shareholders;
- 3) Application was made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the conversion shares. An application was made to the Singapore Exchange for the listing of the Bonds;
- 4) The maturity date for the Bonds is November 7, 2018. Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each Bond at its principal amount on the maturity date. The Bonds will not bear interest;
- 5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds was approximately US\$94.2 million;

6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds, for the Company's capital expenditure used for capacity expansion associated with 8-inch and 12-inch manufacturing facilities, and general corporate purposes.

*Issue of US\$500 million 4.125% Bonds Due 2019*

The Subscription Agreement related to US\$500 Million 4.125% Bonds due 2019, dated as of September 25, 2014 and entered into by us and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as the Joint Lead Managers), includes among others, the following terms:

- 1) Agreement by each of the Joint Managers to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principal amount of US\$500 million (the Bonds);
- 2) The issue of the Bonds was authorised by a resolution passed at a meeting of the Board of Directors of the Company held on August 6, 2014;
- 3) Approval in principle was obtained from the Singapore Exchange for the listing and quotation of the Bonds;

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4) The maturity date for the Bonds is October 7, 2019. Unless previously redeemed, purchased, or cancelled, the Company will redeem each Bond at its principal amount on the maturity date. The Bonds will bear 4.125% interest per annum;

5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds was approximately US\$491.2 million;

6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds, for the Company's debt repayment and capital expenditure for capacity expansion associated with 8-inch and 12-inch manufacturing facilities, and general corporate purposes.

*Co-investment Agreement and Investment Exit Agreement in relation to Proposed Acquisition of STATS ChipPAC*

On December 22, 2014, (i) SilTech Shanghai, an indirectly wholly-owned subsidiary of the Company; (ii) JCET, the largest chip-packaging service provider in China; and (iii) National Integrated Circuit Industry Investment Fund Co., Ltd., a company incorporated under PRC law, entered into a co-investment agreement to form an investment consortium in connection with the proposed acquisition of STATS ChipPAC, a leading provider of advanced semiconductor packaging and test services in the world and a company incorporated in the Republic of Singapore, shares of which are listed on the SGX-ST.

Under such co-investment agreement, SilTech Shanghai, JCET and the IC Fund will make a total capital contribution of the RMB equivalent of US\$100 million, US\$260 million and US\$150 million, respectively to subscribe for, respectively, 19.61%, 50.98% and 29.41% equity interest in Suzhou Changdian Xinke Investment Co., Ltd., a company incorporated by JCET under PRC law. Suzhou Changdian Xinke Investment Co., Ltd. and the IC Fund will make a total capital contribution of the RMB equivalent of US\$510 million and US\$10 million respectively to subscribe for, respectively, 98.08% and 1.92% equity interest in Suzhou Changdian Xinpeng Investment Co., Ltd., a company incorporated under PRC law. The IC Fund is committed to providing Suzhou Changdian Xinpeng Investment Co., Ltd. with a shareholder's loan of US\$140 million and is entitled, at any time after the third anniversary of the date on which Bidco becomes a shareholder of STATS ChipPAC, to convert its shareholder's loan into the equity of Suzhou Changdian Xinpeng Investment Co., Ltd. in accordance with the co-investment agreement. JCET-SC (Singapore) Pte. Ltd., a company incorporated and wholly owned by Suzhou Changdian Xinpeng Investment Co., Ltd. in the Republic of Singapore was established as a wholly-owned subsidiary of Suzhou Changdian Xinpeng Investment Co., Ltd. and will be the entity carrying out the proposed acquisition.

Furthermore, on December 22, 2014, in connection with the co-investment agreement, SilTech Shanghai, JCET and Jiangsu Xinchao Technology Group Co., Ltd., a company incorporated under PRC law and a substantial shareholder of JCET, entered into an investment exit agreement, pursuant to which JCET agreed to grant to SilTech Shanghai a put option to sell the shares it acquires pursuant to the co-investment agreement.

Under such investment exit agreement, at any time after the completion of the proposed acquisition, SilTech Shanghai has the option to sell all the option shares to JCET at an exercise price equivalent to SilTech Shanghai's capital contribution to Holdco A with an annualised effective compounded return rate of between 10% and 12%. SilTech Shanghai has the right to choose the

issuance of shares by JCET or cash or any other payment methods within the range permitted by China's securities regulatory authorities as JCET's payment method. JCET and SilTech Shanghai shall sign a relevant share transfer agreement within ninety (90) days from the date of SilTech Shanghai and JCET reaching consensus.

*Proposed Issue of 4,700,000,000 New Shares*

The Share Purchase Agreement related to the proposed issuance of 4,700,000,000 new shares (the *New Shares*), dated as of February 12, 2015, and entered into by us and China Integrated Circuit Industry Investment Fund Co., Ltd. (the *Investor*), includes among others, the following terms:

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- 1) The New Shares will be issued pursuant to the general mandate granted to the Directors to allot and issue up to 20% of the then issued share capital of the Company, being 6,966,266,242 Shares, by the Shareholders at the annual general meeting of the Company held on June 27, 2014. The issue of the New Shares is not subject to Shareholders' approval.
  
- 2) the Company conditionally agreed to allot and issue to the Investor, and the Investor conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 New Shares at the Subscription Price of HK\$0.6593 per New Share.
  
- 3) The aggregate consideration for the New Shares is HK\$3,098.71 million.
  
- 4) The New Shares represent approximately 13.10% of the existing issued share capital of the Company as at February 12, 2015, and approximately 11.58% of the issued share capital of the Company as enlarged by the issue of the New Shares.
  
- 5) The gross proceeds from the issue of the New Shares will be approximately HK\$3,098.71 million and the net proceeds will be approximately HK\$3,094.71 million (HK\$0.6584 per New Share). The Company intends to use the net proceeds from the issue of the New Shares, for the purpose of capital expenditure, debt repayment and general corporate purposes.

**D. Exchange Controls**

We receive government fundings and a portion of our sales in Renminbi, which is currently not a freely convertible currency. Approximately 13.9% of our sales for the year ended December, 31, 2012, approximately 19.3% of our sales for the year ended December, 31, 2013 and approximately 23.8% of our sales for the year ended December, 31, 2014 were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies.

**E. Taxation**

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

investment in our ADSs or ordinary shares, such as the tax consequences under state, local and non-U.S. tax laws.

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**United States Federal Income Taxation**

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

- banks;
  
- dealers in securities or currencies;
  
- financial institutions;
  
- real estate investment trusts;
  
- insurance companies;
  
- tax-exempt organizations;
  
- persons holding ADSs or ordinary shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle;
  
- traders in securities that have elected the mark-to-market method of accounting;
  
- persons liable for the alternative minimum tax;
  
- persons who have ceased to be U.S. citizens or to be taxed as resident aliens;



- persons who own or are deemed to own more than 10% of our voting shares; or
- U.S. persons whose functional currency is not the U.S. dollar.

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

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

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

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

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

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

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

- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; or
- a foreign corporation if its stock with respect to which a dividend is paid or its ADSs backed by such stock are readily tradable on an established securities market within the United States but does not include an otherwise qualified corporation that is a passive foreign investment company. We believe that we will be a qualified foreign corporation for so long as we are not a passive foreign investment company and the ordinary shares or ADSs are considered to be readily tradable on an established securities market within the United States. A U.S. Holder that exchanges its ADSs for ordinary shares may not be eligible for the reduced rate of taxation on dividends if the ordinary shares are not readily tradable on an established securities market within the United States. Our status as a qualified foreign corporation, however, may change.

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

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

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

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

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

**Medicare Tax.** US Holders who are individuals, estates or trusts may be required to pay up to an additional 3.8% tax on, among other things, dividends and capital gains. You are urged to consult your tax advisor regarding the potential tax consequences to you from the Medicare Tax, also called the Net Investment Income Tax.

**Passive Foreign Investment Company Rules.** We believe that we were not a passive foreign investment company for 2014. Based on the projected composition of our income, the timing of our anticipated capital expenditures and valuation of our assets, we do not expect to be a passive foreign investment company for 2015 and do not expect to become one in the future, although this may change.

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

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

period before such taxable year.

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

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

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

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

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

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



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**Cayman Islands Taxation**

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

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

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

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

**F. Dividends and Paying Agents**

Not applicable.

**G. Statements by Experts**

Not applicable.

**H. Documents on Display**

**Documents on Display**

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

**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

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



Table of Contents**Foreign Exchange Rate Fluctuation Risk**

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

To minimize these risks, we purchase foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in Renminbi, Japanese Yen or Euros, and do not qualify for hedge accounting. As of December 31, 2014, we had no outstanding foreign currency forward exchange contracts.

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

|        | Liabilities |          |          | Assets   |          |           |
|--------|-------------|----------|----------|----------|----------|-----------|
|        | 12/31/12    | 12/31/13 | 12/31/14 | 12/31/12 | 12/31/13 | 12/31/14  |
| EUR    | 1,345       | 3,037    | 2,488    | 3,249    | 2,595    | 480       |
| JPY    | 13,693      | 7,925    | 7,560    | 3,023    | 1,499    | 606       |
| RMB    | 254,750     | 133,177  | 221,336  | 456,271  | 766,960  | 1,148,146 |
| Others | 6,934       | 8,226    | 4,684    | 2,122    | 7,323    | 1,100     |

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

**Interest Rate Risk**

Our exposure to interest rate risks relates primarily to our long-term loans, which we generally assume to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the our debt obligations outstanding as of December 31, 2014. Our long-term loans are all subject to variable interest rates. The interest rates on our U.S. dollar-denominated loans are linked to the LIBOR. The interest rates on our RMB denominated loan is linked to People's Bank of China (PBOC) RMB Interest Rate. As a result, the interest rates on our loans are subject to fluctuations in the underlying interest rates to which they are linked.

|  | 2015                                    | 2016      |
|--|---|-----------|
|  | (Expected Maturity Date)                |           |
|  | (in US\$ thousands, except percentages) |           |
| US\$ denominated                       |   |           |
| Average balance                        | 1,119,542                               | 1,054,841 |
| Average interest rate                  | 3.16%                                   | 3.09%     |
| RMB denominated                        |   |           |
| Average balance                        | 40,395                                  | 37,160    |
| Average interest rate                  | 4.14%                                   | 3.90%     |
| Weighted average forward interest rate | 3.19%                                   | 3.12%     |

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**Item 12. Description of Securities Other Than Equity Securities**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

Table of Contents**D. American Depositary Shares*****Fees and Charges That An ADR Holder May Have To Pay***

## Category

| <b>(as defined by SEC)</b>   | <b>Depositary Actions</b>  | <b>Associated Fee</b>   |
|--|--|---|
| (a) Depositing or substituting the underlying shares                           | Each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions (as such terms are defined in paragraph (10) of the Deposit Agreement as filed with the SEC on March 10, 2004 which we are referred to herein as the Depositary Agreement )   | \$5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered   |
| (b) Receiving or distributing dividends  | Distribution of dividends  | \$0.02 or less per ADS (or portion thereof)   |
| (c) Selling or exercising rights   | Distribution or sale of securities   | Such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities   |
| (d) Withdrawing an underlying security   | Each person surrendering ADSs for withdrawal of Deposited Securities   | \$5.00 for each 100 ADSs (or portion thereof) surrendered.  |
| (e) Transferring, splitting or grouping receipts                               | Transfers, combining or grouping of depositary receipts  | \$1.50 per ADR  |
| (f) General depositary services, particularly those charged on an annual basis | Not applicable   | Not applicable  |
| (g) Expenses of the depositary   | Fees and expenses incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation. | The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or |

Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of

Deposited Securities on any applicable register in connection with the deposit or withdrawal of

Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), and (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency). These charges may be changed in the manner indicated in paragraph (16) of the Depositary Agreement

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

**DIRECT PAYMENTS**

We did not receive any direct payment from the depositary in 2014.

**INDIRECT PAYMENTS**

As part of its service to us, J.P. Morgan has agreed to waive US\$120,000 annually for on-going ADR program maintenance. The table below sets forth the fees that J.P. Morgan has agreed to waive and/or expenses that J.P. Morgan has agreed to pay in the year ended December 31, 2014.

| Category of Expenses               | <b>Amount Waived or Paid for Fiscal<br/>Year Ended December 31, 2014</b> |         |
|------------------------------------|--|---------|
| Third-party expenses paid directly | \$   |         |
| Fees waived                        | \$   | 120,000 |

**Part II**

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

None.

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

Not applicable.



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**Item 15. Controls and Procedures**

***Disclosure Controls and Procedures***

Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2014. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules, regulations and forms and to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

***Report by Management On Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS and includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of the internal control over financial reporting as of December 31, 2014 using criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, our management has concluded that the internal control over financial reporting was effective as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.



***Attestation Report of the Registered Public Accounting Firm***

The effectiveness of internal control over financial reporting as of December 31, 2014 has been audited by our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP as stated in its report (See F-2).

***Changes in Internal Control Over Financial Reporting***

There were no changes in the design in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents**Item 16A. Audit Committee Financial Expert**

Our board has determined that Mr. Lip-Bu Tan is an audit committee financial expert as defined under the applicable rules of the SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Mr. Tan is independent as such term is defined under Section 303A.02 of the New York Stock Exchange Listed Company Manual.

**Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct and Ethics which is applicable to all of our employees, including our Chief Executive Officer, Chief Financial Officer, and any other persons performing similar functions.

Our Code of Business Conduct and Ethics is available, free of charge, to any person who sends a request for a paper copy to us at Semiconductor Manufacturing International Corporation, 18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203, Attention: Investor Relations.

**Item 16C. Principal Accountant Fees and Services**

The following table sets forth the aggregate audit fees, audit-related fees, tax fees and all other fees we paid or incurred for audit services, audit-related services, tax services and other services rendered by our principal accountants during the fiscal years ended December 31, 2013 and December 31, 2014.

|   | 2013                | 2014        |
|---|---------------------|-------------|
|   | (in US\$ thousands) |             |
| Audit Fees  |                     |             |
| Deloitte Touche Tohmatsu  | US \$ 1,187         | US \$ 360   |
| PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP( PwC ) | US \$               | US \$ 1,208 |
| Tax Fees  |                     |             |
| PricewaterhouseCoopers Zhong Tian LLP                                   | US \$               | US \$ 94    |

Audit fees consist of the standard work associated with the statutory audit as well as audit of our annual financial statements including the review of our quarterly financial results and filings with the Securities and Exchange Commission, Hong Kong Stock Exchange and other regulators.

Audit fees also include services relating to our compliance with the requirements of the Sarbanes- Oxley Act and services relating to our resolution of SEC related comments.

On June 27, 2014, it was approved that the principal auditors of the Company was changed from Deloitte Touche Tohmatsu to PwC. The audit committee has also approved and will continue to consider, on a case-by-case basis, all non-audit services. According to the charter of our audit committee, before our principal accountants are engaged by us to render audit or non-audit services, the engagement, including the nature and scope of the work to be performed and the associated fees, must be approved by our audit committee. Our audit committee has not established any pre-approval policies and procedures.

**Item 16D. Exemptions from the Listing Standards of Audit Committees**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

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**Item 16F. Changes in Registrant's Certifying Accountant**

Following the resignation of Deloitte Touche Tohmatsu ( Deloitte ) as the auditors of us at the conclusion of the annual general meeting of the Company held on June 27, 2014 ( 2014 AGM ), PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP ( PwC ) were appointed as the auditors of us for Hong Kong financial reporting and U.S. financial reporting purposes, respectively at the 2014 AGM to fill the vacancy arising from the retirement of Deloitte.

The audit reports of Deloitte on our consolidated financial statements for the fiscal years ended December 31, 2012 and 2013 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. The audit report of Deloitte on the effectiveness of our internal control over financial reporting as of December 31, 2013 did not contain an adverse opinion or a disclaimer of opinion.

During the two fiscal years ended December 31, 2012 and 2013 and in the subsequent interim period from January 1, 2014 to June 27, 2014, there were no disagreements between Deloitte and us on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure and there were no reportable events as that term is defined in Item 16F(a)(1)(v) of Form 20-F.

We provided a copy of this disclosure to Deloitte and requested that Deloitte furnish us with a letter addressed to the SEC stating whether or not it agrees with the statements made above. A copy of Deloitte's letter dated April 28, 2015 has been filed with the SEC as an exhibit to this annual report.

During the two fiscal years ended December 31, 2012 and 2013 and in the subsequent interim period through the effective engagement date, neither we nor any of our subsidiaries consulted with PwC concerning (i) the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our consolidated financial statements and no written or oral advice was provided by PwC that was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement (as that term is used in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F) with Deloitte or a reportable event (as defined in Item 16F(a)(1)(v) of Form 20-F).

**Item 16G. Corporate Governance**

We are incorporated under the laws of the Cayman Islands. The principal trading market for our shares is the Hong Kong Stock Exchange. We have adopted a set of corporate governance guidelines in accordance with the applicable laws, rule and regulations, including our Corporate Governance Policy and our Code of Business Conduct and Ethics, each of which are posted on our website.

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Because our American Depositary Shares are registered with the SEC and are listed on the New York Stock Exchange, or the NYSE, we are also subject to certain U.S. corporate governance requirements, including many of the provisions of the Sarbanes-Oxley Act of 2002. However, because we are a foreign private issuer, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to us. We are permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of most of the corporate governance standards contained in the NYSE Standards.

Set forth below is a brief summary of the significant differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers:

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- The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not subject to this requirement, and we have not established a nominating/corporate governance committee. Instead, our Board has established a nomination committee to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, make recommendations on any proposed changes to the Board to complement our corporate strategy, identify individuals suitably qualified to become Board members consistent with criteria approved by the Board, assess the independence of independent non-executive Directors, make recommendations to the Board on the selection of individuals nominated for directorships, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the Chief Executive Officer. However, such nomination committee is not responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company and overseeing the evaluation of the Board and management.
- The NYSE Standards provide detailed tests that U.S. domestic issuers must use for determining independence of directors. While we may not specifically apply the NYSE tests, our Board assesses independence in accordance with Hong Kong Stock Exchange Listing Rules, and in the case of audit committee members in accordance with Rule 10A-3 under the Exchange Act, and considers whether there are any relationships or circumstances which are likely to affect such director's independence from management.
- We believe that the composition of our Board and its committees and their respective duties and responsibilities are otherwise generally responsive to the relevant NYSE Standards applicable to U.S. domestic issuers. However, the charters for our audit and compensation committees may not address all aspects of the NYSE Standards. For example, NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our compensation committee charter. We disclose the amounts of compensation of our directors on a named basis, remuneration payable to members of the senior management by band, and the five highest individuals on an aggregate basis in our annual report in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.
- The NYSE Standards require that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We comply with the requirements of Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in determining whether shareholder approval is required, and we do not take into consideration the NYSE's detailed definition of what are considered material revisions.

The above summary is not a detailed, item-by-item analysis of the differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic issuers, but rather is intended to provide our U.S. shareholders with a brief, general summary of the significant ways that our corporate governance practices differ from those of a U.S. domestic issuer.

**Item 16H. Mine Safety Disclosure**

Not applicable.



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**Part III**

**Item 17. Financial Statements**

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Item 18. Financial Statements**

See pages F-1 to F-104.

**Item 19. Exhibits**

Exhibit 1.1                      Eleventh Amended and Restated Articles of Association, as adopted at the Registrant's annual general meeting of shareholders on June 2, 2008 (1)

Exhibit 4.1                      Form of Indemnification Agreement, as adopted at the Registrant's annual general meeting of shareholders on May 6, 2005(2)

Exhibit 4.2                      Form of Service Contract between the Company and each of its executive directors (3)

Exhibit 4.3                      Form of Service Contract between the Company and each of its non-executive directors and independent non-executive directors (3)

Exhibit 4.4                      English language translation of Strategic Cooperation Agreement, dated December 24, 2008 by and between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd. (4)

Exhibit 4.5                      Placing Agreement dated July 8, 2010 by and between the Company as the Issuer and J.P. Morgan



(Asia Pacific) Limited and The Royal Bank of Scotland N.V., Hong Kong Branch as placing agents (5)

Exhibit 4.6 English language summary of Chinese language Syndicate Loan Agreement dated March 21, 2012, between Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and Bank of China, The Export-Import Bank of China, China Construction

Bank, Shanghai Pudong Development Bank, Cathay United Bank, Bank Sinopac, Taishin International Bank, EnTie Commercial Bank, Ta Chong Bank(3)

Exhibit 4.7 English language summary of Chinese language Syndicate Loan Agreement dated March 23, 2012, between Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and China Development Bank,, The Export-Import Bank Of China, China Construction Bank, Bank of Shanghai, Bank of Beijing(3)

Exhibit 4.8 Summary of Long-term Loan Agreement dated June 26, 2013, between Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International (Tianjin) Corporation, as guarantor, and The Export-Import Bank of China(6)

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Exhibit 4.9 Summary of Syndicate Loan Agreement dated August 7, 2013, between Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and Bank of China, The Export-Import Bank of China, China Development Bank, China Construction Bank and Bank of Shanghai(6)

Exhibit 4.10 Subscription Agreement related to US\$200 Million Zero Coupon Convertible Bonds due 2018, dated October 24, 2013 by and between the Company as the Issuer and Deutsche Bank AG, Hong Kong Branch and J.P.Morgan Securities PLC as the Manager(6)

Exhibit 4.11 English language summary of Chinese language Joint Venture Agreement dated June 3, 2013, among SMIC Beijing, SMIC, ZDG and BIDIMC(6)

Exhibit 4.12 The Subscription Agreement related to US\$95 Million Zero Coupon Convertible Bonds due 2018 convertible into our ordinary shares, dated as of June 4, 2014 and entered into by SMIC and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch

Exhibit 4.13 The Subscription Agreement related to US\$500 Million 4.125% Bonds due 2019, dated as of September 25, 2014 and entered into by SMIC and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch

Exhibit 4.14 The Placing and Subscription Agreement related to issue of 2,590,000,000 new ordinary shares, dated as of June 4, 2014 and entered into by SMIC, J.P. Morgan Securities PLC, Deutsche Bank AG, Hong Kong Branch and Datang Holdings (Hongkong) Investment Company Limited

Exhibit 4.15 The Share Purchase Agreement related to the proposed issuance of 4,700,000,000 new shares dated as of February 12, 2015, and entered into by the Company and China Integrated Circuit Industry Investment Fund Co., Ltd.

Exhibit 4.16 Form of Director Service Agreement (For Directors Appointed by the Board)

Exhibit 4.17 Form of Director Service Agreement (For Directors Elected or Re-elected by the Shareholders)

Exhibit 8.1 List of Subsidiaries

|              |   |
|--------------|---|
| Exhibit 12.1 | Certification of CEO under Section 302 of the U.S. Sarbanes-Oxley Act of 2002         |
| Exhibit 12.2 | Certification of CFO under Section 302 of the U.S. Sarbanes-Oxley Act of 2002         |
| Exhibit 13.1 | Certification of CEO and CFO under Section 906 of the U.S. Sarbanes-Oxley Act of 2002 |
| Exhibit 15.1 | Consent of PricewaterhouseCoopers Zhong Tian LLP                                      |
| Exhibit 15.2 | Consent of Deloitte Touche Tohmatsu   |
| Exhibit 16.1 | Deloitte Touche Tohmatsu Consent Letter on change of auditors                         |

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(1) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2007, filed June 27, 2008 and amended November 28, 2008.

(2) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2004, filed June 28, 2005. With respect to Exhibit 4.1, please refer to Item 8 Litigation in the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2008.

(3) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2012, filed April 15, 2013.

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(4) Previously filed as an exhibit to the Registrant's Form 6-K dated January 5, 2009. Portions of this exhibit were omitted and filed separately with the Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, concerning confidential treatment.

(5) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2010, filed June 28, 2011.

(6) Previously filed as an exhibit to the Registrant's Annual Report on Form 20F for the fiscal year ended December 31, 2013, filed April 14, 2014.

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

Date: April 28, 2015

By:

/s/ Dr. Tzu-Yin Chiu

Name: Dr. Tzu-Yin Chiu

Title: Chief Executive Officer and Executive  
Director

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Semiconductor Manufacturing International Corporation

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

April 28, 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Semiconductor Manufacturing International Corporation

We have audited the accompanying consolidated statements of financial position of Semiconductor Manufacturing International Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Semiconductor Manufacturing International Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

**/s/ Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 12, 2014



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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

|  | Notes | For the year ended December 31, |                 |                 |
|--|-------|---------------------------------|-----------------|-----------------|
|  |       | 2014<br>USD 000                 | 2013<br>USD 000 | 2012<br>USD 000 |
| Revenue  | 5     | 1,969,966                       | 2,068,964       | 1,701,598       |
| Cost of sales  |       | (1,486,514)                     | (1,630,528)     | (1,352,835)     |
| Gross profit   |       | 483,452                         | 438,436         | 348,763         |
| Research and development expenses, net                               |       | (189,733)                       | (145,314)       | (193,569)       |
| Sales and marketing expenses   |       | (38,252)                        | (35,738)        | (31,485)        |
| General and administration expenses                                  |       | (139,428)                       | (138,167)       | (107,313)       |
| Other operating income   | 7     | 14,206                          | 67,870          | 19,117          |
| Profit from operations   |       | 130,245                         | 187,087         | 35,513          |
| Interest income  |       | 14,230                          | 5,888           | 5,390           |
| Finance costs  | 8     | (20,715)                        | (34,392)        | (39,460)        |
| Foreign exchange gains or losses                                     |       | (5,993)                         | 13,726          | 3,895           |
| Other gains or losses  | 9     | 18,210                          | 4,010           | 6,398           |
| Share of profits of associates                                       |       | 2,073                           | 2,278           | 1,703           |
| Profit before tax  |       | 138,050                         | 178,597         | 13,439          |
| Income tax (expense) benefit   | 10    | (11,789)                        | (4,130)         | 9,102           |
| <b>Profit for the year</b>   | 11    | <b>126,261</b>                  | <b>174,467</b>  | <b>22,541</b>   |
| <b>Other comprehensive income (expense)</b>                          |       |                                 |                 |                 |
| <i>Items that may be reclassified subsequently to profit or loss</i> |       |                                 |                 |                 |
| Exchange differences on translating foreign operations               |       | (324)                           | 731             | 70              |
| <b>Total comprehensive income for the year</b>                       |       | <b>125,937</b>                  | <b>175,198</b>  | <b>22,611</b>   |
| Profit (loss) for the year attributable to:                          |       |                                 |                 |                 |
| Owners of the Company  |       | 152,969                         | 173,177         | 22,771          |
| Non-controlling interests  |       | (26,708)                        | 1,290           | (230)           |
|  |       | 126,261                         | 174,467         | 22,541          |
| Total comprehensive income (expense) for the year attributable to:   |       |                                 |                 |                 |
| Owners of the Company  |       | 152,645                         | 173,908         | 22,841          |
| Non-controlling interests  |       | (26,708)                        | 1,290           | (230)           |
|  |       | 125,937                         | 175,198         | 22,611          |
| <b>Earnings per share</b>  |       |                                 |                 |                 |
| Basic  | 14    | 0.00                            | 0.01            | 0.00            |
| Diluted  | 14    | 0.00                            | 0.01            | 0.00            |

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

|   | Notes | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---|-------|---------------------|---------------------|---------------------|
| <b>Assets</b>                             |       |                     |                     |                     |
| <i>Non-current assets</i>                 |       |                     |                     |                     |
| Property, plant and equipment             | 17    | 2,995,086           | 2,528,834           | 2,385,435           |
| Prepaid land use right                    |       | 135,331             | 136,725             | 73,962              |
| Intangible assets                         | 18    | 207,822             | 215,265             | 235,378             |
| Investments in associates                 | 20    | 57,631              | 29,200              | 21,636              |
| Deferred tax assets                       | 10    | 44,383              | 43,890              | 43,380              |
| Other assets                              | 22    | 30,867              | 6,237               | 43,382              |
| Total non-current assets                  |       | 3,471,120           | 2,960,151           | 2,803,173           |
| <i>Current assets</i>                     |       |                     |                     |                     |
| Inventories                               | 23    | 316,041             | 286,251             | 295,728             |
| Prepayment and prepaid operating expenses |       | 40,628              | 43,945              | 46,986              |
| Trade and other receivables               | 24    | 456,388             | 379,361             | 328,211             |
| Other financial assets                    | 21    | 644,071             | 240,311             | 18,730              |
| Restricted cash                           | 25    | 238,051             | 147,625             | 217,603             |
| Cash and cash equivalent                  |       | 603,036             | 462,483             | 358,490             |
|   |       | 2,298,215           | 1,559,976           | 1,265,748           |
| Assets classified as held-for-sale        | 16    | 44                  | 3,265               | 4,239               |
| Total current assets                      |       | 2,298,259           | 1,563,241           | 1,269,987           |
| <b>Total assets</b>                       |       | <b>5,769,379</b>    | <b>4,523,392</b>    | <b>4,073,160</b>    |

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

|   | Notes | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---|-------|---------------------|---------------------|---------------------|
| <b>Equity and liabilities</b>   |       |                     |                     |                     |
| <i>Capital and reserves</i>   |       |                     |                     |                     |
| Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized, 35,856,096,167, 32,112,307,101 and 32,000,139,623 shares issued and outstanding at December 31, 2014, 2013 and 2012, respectively | 26    | 14,342              | 12,845              | 12,800              |
| Share premium   | 26    | 4,376,630           | 4,089,846           | 4,083,588           |
| Reserves  | 27    | 98,333              | 74,940              | 46,148              |
| Accumulated deficit   | 28    | (1,540,890)         | (1,693,859)         | (1,867,036)         |
| Equity attributable to owners of the Company  |       | 2,948,415           | 2,483,772           | 2,275,500           |
| Non-controlling interests   |       | 359,307             | 109,410             | 952                 |
| Total equity  |       | 3,307,722           | 2,593,182           | 2,276,452           |
| <i>Non-current liabilities</i>  |       |                     |                     |                     |
| Borrowings  | 29    | 256,200             | 600,975             | 528,612             |
| Convertible bonds   | 30    | 379,394             | 180,563             |                     |
| Bonds payable   | 31    | 491,579             |                     |                     |
| Deferred tax liabilities  | 10    | 69                  | 167                 | 440                 |
| Deferred government funding   |       | 184,174             | 209,968             | 150,347             |
| Long-term financial liabilities   |       |                     |                     | 4,223               |
| Other liabilities   |       |                     |                     | 5,000               |
| Total non-current liabilities   |       | 1,311,416           | 991,673             | 688,622             |
| <i>Current liabilities</i>  |       |                     |                     |                     |
| Trade and other payables  | 32    | 794,361             | 393,890             | 423,952             |
| Borrowings  | 29    | 162,054             | 390,547             | 567,803             |
| Deferred government funding   |       | 62,609              | 26,349              |                     |
| Accrued liabilities   | 33    | 131,114             | 127,593             | 84,611              |
| Promissory notes  | 34    |                     |                     | 29,374              |
| Other financial liabilities   |       |                     |                     | 25                  |
| Current tax liabilities   | 10    | 103                 | 158                 | 2,321               |
| Total current liabilities   |       | 1,150,241           | 938,537             | 1,108,086           |
| Total liabilities   |       | 2,461,657           | 1,930,210           | 1,796,708           |
| Total equity and liabilities  |       | 5,769,379           | 4,523,392           | 4,073,160           |
| Net current assets  |       | 1,148,018           | 624,704             | 161,901             |
| Total assets less current liabilities   |       | 4,619,138           | 3,584,855           | 2,965,074           |

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In USD 000)

|  | Ordinary<br>shares<br>USD 000<br>(Note 26) | Convertible<br>Share<br>capital<br>USD 000<br>(Note 26) | Share<br>premium<br>USD 000<br>(Note 26) | Equity-<br>settle<br>employee<br>benefits<br>reserve<br>USD 000<br>(Note 27) | Foreign<br>currency<br>translation<br>reserve<br>USD 000<br>(Note 27) | Convertible<br>bonds<br>equity<br>reserve<br>USD 000<br>(Note 27) | Accumulated<br>deficit<br>USD 000<br>(Note 28) | Attributable<br>to owners<br>of the<br>Company<br>USD 000 | Non-<br>controlling<br>interest<br>USD 000 | Total<br>Equity<br>USD 000 |
|--|--|---|--|--|---|---|--|---|--|----------------------------|
| <b>Balance at<br/>January 1,<br/>2012</b>                          | 10,995                                     | 178   | 4,082,135                                | 37,469   | 3,846   |   | (1,889,807)                                    | 2,244,816   | 1,182                                      | 2,245,998                  |
| Profit for the<br>year   |  |   |  |  |   |   | 22,771   | 22,771  | (230)                                      | 22,541                     |
| Other<br>comprehensive<br>income for the<br>year                   |  |   |  |  | 70  |   |  | 70  |  | 70                         |
| Total<br>comprehensive<br>income for the<br>year                   |  |   |  |  | 70  |   | 22,771   | 22,841  | (230)                                      | 22,611                     |
| Exercise of<br>stock options                                       | 23   |   | 3,057                                    | (2,411)  |   |   |  | 669   |  | 669                        |
| Exercise of<br>convertible<br>preference<br>shares and<br>warrants | 1,782                                      | (178)   | (1,604)                                  |  |   |   |  |   |  |                            |
| Share-based<br>compensation  |  |   |  | 7,174  |   |   |  | 7,174   |  | 7,174                      |
| Subtotal   | 1,805                                      | (178)   | 1,453                                    | 4,763  |   |   |  | 7,843   |  | 7,843                      |
| <b>Balance at<br/>December 31,<br/>2012</b>                        | 12,800                                     |   | 4,083,588                                | 42,232   | 3,916   |   | (1,867,036)                                    | 2,275,500   | 952  | 2,276,452                  |
| Profit for the<br>year   |  |   |  |  |   |   | 173,177  | 173,177   | 1,290                                      | 174,467                    |
| Other<br>comprehensive<br>income for the<br>year                   |  |   |  |  | 731   |   |  | 731   |  | 731                        |
| Total<br>comprehensive<br>income for the<br>year                   |  |   |  |  | 731   |   | 173,177  | 173,908   | 1,290                                      | 175,198                    |
| Exercise of<br>stock options                                       | 45   |   | 6,641                                    | (3,457)  |   |   |  | 3,229   |  | 3,229                      |
| Share-based<br>compensation  |  |   |  | 16,402   |   |   |  | 16,402  |  | 16,402                     |
| Capital<br>contribution<br>from<br>non-controlling<br>interest     |  |   |  |  |   |   |  |   | 108,000                                    | 108,000                    |
|  |  |   | (383)                                    |  |   |   |  | (383)   | (178)                                      | (561)                      |

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|  |        |           |         |       |        |             |           |          |           |
|--|--------|-----------|---------|-------|--------|-------------|-----------|----------|-----------|
| Purchased additional shares of subsidiaries            |        |           |         |       |        |             |           |          |           |
| Deconsolidation of subsidiaries due to loss of control |        |           |         | (94)  |        | (94)        |           | (654)    | (748)     |
| Recognition of equity component of convertible bonds   |        |           |         |       | 15,210 |             | 15,210    |          | 15,210    |
| Subtotal   | 45     | 6,258     | 12,945  | (94)  | 15,210 |             | 34,364    | 107,168  | 141,532   |
| <b>Balance at December 31, 2013</b>                    | 12,845 | 4,089,846 | 55,177  | 4,553 | 15,210 | (1,693,859) | 2,483,772 | 109,410  | 2,593,182 |
| Profit for the year                                    |        |           |         |       |        | 152,969     | 152,969   | (26,708) | 126,261   |
| Other comprehensive income for the year                |        |           |         | (324) |        |             | (324)     |          | (324)     |
| Total comprehensive income for the year                |        |           |         | (324) |        | 152,969     | 152,645   | (26,708) | 125,937   |
| Issuance of ordinary shares                            | 1,411  | 268,362   |         |       |        |             | 269,773   |          | 269,773   |
| Exercise of stock options                              | 86     | 18,422    | (9,025) |       |        |             | 9,483     |          | 9,483     |
| Share-based compensation                               |        |           | 18,388  |       |        |             | 18,388    |          | 18,388    |
| Capital contribution from non-controlling interest     |        |           |         |       |        |             |           | 276,605  | 276,605   |
| Recognition of equity component of convertible bonds   |        |           |         |       | 14,354 |             | 14,354    |          | 14,354    |
| Subtotal   | 1,497  | 286,784   | 9,363   |       | 14,354 |             | 311,998   | 276,605  | 588,603   |
| <b>Balance at December 31, 2014</b>                    | 14,342 | 4,376,630 | 64,540  | 4,229 | 29,564 | (1,540,890) | 2,948,415 | 359,307  | 3,307,722 |

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## CONSOLIDATED STATEMENT OF CASH FLOWS

(In USD 000)

|  | For the year ended December 31, |                 |                 |
|--|---------------------------------|-----------------|-----------------|
|  | 2014<br>USD 000                 | 2013<br>USD 000 | 2012<br>USD 000 |
| Profit for the year  | 126,261                         | 174,467         | 22,541          |
| Adjustments for:   |                                 |                 |                 |
| Income tax expense (benefit)   | 11,789                          | 4,130           | (9,102)         |
| Amortization of intangible assets and land use right                             | 43,102                          | 44,987          | 35,076          |
| Depreciation of property, plant and equipment                                    | 506,366                         | 501,923         | 531,823         |
| Impairment loss of available-for-sale equipment                                  |                                 | 279             |                 |
| Expense recognized in respect of equity-settled share- based payments            | 18,388                          | 16,402          | 7,174           |
| Finance costs  | 20,715                          | 34,392          | 39,460          |
| Gain on disposal of property, plant and equipment                                | (13,904)                        | (33,996)        | (19,325)        |
| Gain on disposal of subsidiaries   |                                 | (28,304)        |                 |
| Loss (gain) on deconsolidation of subsidiaries                                   | 208                             | (5,419)         |                 |
| Interest income recognized in profit or loss                                     | (14,230)                        | (5,888)         | (5,390)         |
| Bad debt allowance on trade receivables  | 1,616                           | 617             | 4,615           |
| Impairment loss (reversed) recognized on inventory                               | 29,577                          | (141)           | 4,851           |
| Net (gain) loss arising on financial assets at fair value through profit or loss | (8,649)                         | 76              | 861             |
| Net gain arising on financial liabilities at fair value through profit or loss   |                                 | (25)            | (1,659)         |
| Reversal of bad debt allowance on trade receivables                              | (59)                            | (1,213)         | (2,095)         |
| Share of profit of associates  | (2,073)                         | (2,278)         | (1,703)         |
| Other non-cash expense   | (769)                           | (413)           | 635             |
|  | 718,338                         | 699,596         | 607,762         |
| Operating cash flows before movements in working capital:                        |                                 |                 |                 |
| Increase in trade and other receivables  | (89,232)                        | (33,375)        | (112,410)       |
| (Increase) decrease in inventories   | (59,367)                        | 8,595           | (93,270)        |
| Increase in restricted cash relating to operating activities                     | (41,637)                        | (5,944)         | (15,406)        |
| Decrease in prepaid operating expenses   | 1,129                           | 2,129           | 7,791           |
| (Increase) decrease in other assets  | (1,731)                         | 619             | (937)           |
| Increase (decrease) in trade and other payables                                  | 79,340                          | (24,311)        | 22,942          |
| Increase in deferred government funding  | 8,268                           | 85,972          | 25,010          |
| (Decrease) increase in accrued liabilities                                       | (3,768)                         | 42,264          | 36,951          |
| Cash generated from operations   | 611,340                         | 775,545         | 478,433         |
| Interest paid  | (16,087)                        | (43,239)        | (47,532)        |
| Interest received  | 14,239                          | 6,770           | 5,390           |
| Income taxes paid  | (1,390)                         | (1,060)         | (1,125)         |
| Net cash from operating activities   | 608,102                         | 738,016         | 435,166         |



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(In USD 000)

|  | For the year ended December 31, |             |             |
|--|---------------------------------|-------------|-------------|
|  | 2014                            | 2013        | 2012        |
|  | USD 000                         | USD 000     | USD 000     |
| <b>Investing activities</b>  |                                 |             |             |
| Payments to acquire financial assets   | (1,997,624)                     | (258,102)   | (43,638)    |
| Proceeds on sale of financial assets   | 1,602,513                       | 39,245      | 26,019      |
| Payments for property, plant and equipment   | (653,134)                       | (650,160)   | (400,291)   |
| Proceeds from disposal of property, plant and equipment                            | 52,911                          | 61,099      | 37,288      |
| Payments for intangible assets   | (49,285)                        | (45,425)    | (76,366)    |
| Payments for land use rights   | (1,123)                         | (76,032)    |             |
| Payments to acquire long-term investment   | (49,034)                        | (562)       |             |
| Change in restricted cash relating to investing activities                         | (48,411)                        | 71,933      | (65,289)    |
| Net cash inflow from disposal of subsidiaries                                      |                                 | 57,743      |             |
| Net cash outflow from deconsolidation of subsidiaries                              | (936)                           | (6,799)     |             |
| Others   |                                 | (407)       |             |
| Net cash used in investing activities  | (1,144,123)                     | (807,467)   | (522,277)   |
| <b>Financing activities</b>  |                                 |             |             |
| Proceeds from borrowings   | 376,554                         | 905,127     | 1,541,480   |
| Repayment of borrowings  | (952,383)                       | (1,008,698) | (1,328,048) |
| Proceeds from issuance of new shares   | 270,180                         |             |             |
| Proceeds from issuance of convertible bonds  | 203,763                         | 195,800     |             |
| Proceeds from issuance of corporate bonds  | 492,315                         |             |             |
| Proceeds from exercise of employee stock options                                   | 9,483                           | 3,229       | 669         |
| Repayment of promissory notes  |                                 | (30,000)    | (30,000)    |
| Proceeds from non-controlling interest capital contribution                        | 276,771                         | 108,000     |             |
| Net cash from financing activities   | 676,683                         | 173,458     | 184,101     |
| Net increase in cash and cash equivalent   | 140,662                         | 104,007     | 96,990      |
| Cash and cash equivalent at the beginning of the year                              | 462,483                         | 358,490     | 261,615     |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | (109)                           | (14)        | (115)       |
| Cash and cash equivalent at the end of the year                                    | 603,036                         | 462,483     | 358,490     |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Semiconductor Manufacturing International Corporation (the Company or SMIC ) was established as an exempt company incorporated under the laws of the Cayman Islands on April 3, 2000. The address of the principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. The registered address is at PO Box 309, Ugland House, Grand Cayman, KY1-1104 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 19.

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

**New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements**

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014.

***Amendment to IAS 32, Financial instruments: Presentation on offsetting financial assets and financial liabilities***

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group's financial statements.

***Amendments to IAS 36, Impairment of assets , on the recoverable amount disclosures for non-financial assets***

This amendment removed certain disclosures of the recoverable amount of cash-generating units ( CGUs ) which had been included in IAS 36 by the issue of IFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

***Amendment to IAS 39, Financial instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting***

This amendment considers legislative changes to over-the-counter derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group does not apply hedge accounting and there has been no significant impact on its financial statements as a result.

***Amendments to IFRS 10, 12 and IAS 27: Consolidation for investment entities***

These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an investment entity definition and which display particular characteristics. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.

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

**New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements** *(continued)*

***IFRIC 21, Levies***

The interpretation sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 Provision . It addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the Group is not significant.

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

In addition, the requirements of Part 9 Accounts and Audit of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Group's first financial year commencing on or after March 3, 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Group.

**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:

|                                      |   |
|--------------------------------------|---|
| Amendments to IAS 19                 | Defined Benefit Plans: Employee Contributions <sup>1</sup>                        |
| IFRS 9                               | Financial Instruments <sup>2</sup>  |
| IFRS 15                              | Revenue from contracts with customers <sup>5</sup>                                |
| Amendments to IFRS 11                | Accounting for acquisitions of interests in joint operations <sup>4</sup>         |
| Amendments to IFRS 10, 12 and IAS 28 | Investment entities: applying the consolidation exception <sup>4</sup>            |
| Amendments to IAS 1                  | Disclosure initiative <sup>4</sup>  |
| Amendments to IAS 16 and IAS 38      | Clarification of acceptable methods of depreciation and amortization <sup>4</sup> |
| Amendments to IFRS 10 and IAS 28     |   |

|                      |  |
|----------------------|--|
|                      | Sale or contribution of assets between an investor and its associate or joint venture <sup>4</sup> |
| Amendments to IAS 27 | Equity method in separate financial statements <sup>4</sup>  |
| Amendments to IFRSs  | Annual Improvements to IFRSs 2010 2012 Cycle <sup>3</sup>  |
| Amendments to IFRSs  | Annual Improvements to IFRSs 2011 2013 Cycle <sup>1</sup>  |
| Amendments to IFRSs  | Annual Improvements to IFRSs 2012 2014 Cycle <sup>4</sup>  |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**New or revised IFRSs in issue but not yet effective** *(continued)*

1. Effective for annual periods beginning on or after July 1, 2014
2. Effective for annual periods beginning on or after July 1, 2018
3. Effective for annual periods beginning on or after July 1, 2014, with limited exceptions
4. Effective for annual periods beginning on or after January 1, 2016
5. Effective for annual periods beginning on or after January 1, 2017

**IAS 19, *Defined benefit plans: employee contributions***

This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

**IFRS 9, *Financial instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities**

The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS

39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

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

**New or revised IFRSs in issue but not yet effective** *(continued)*

***IFRS 15, Revenue from contracts with customers***

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

***Amendment to IFRS 11 on accounting for acquisitions of interests in joint operations***

The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business (as defined in IFRS 3, Business combinations. Specifically, an investor will need to:

- measure identifiable assets and liabilities at fair value;
- expense acquisition-related costs;
- recognize deferred tax; and
- recognize the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with IFRS 11.



The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

***Amendments to IFRS 10, IFRS 12 and IAS 28 on investment entities: applying the consolidation exception***

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10.

The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to IAS 28 allow an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture for their subsidiaries when applying the equity method.

***Amendments to IAS 1 for the disclosure initiative***

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

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

**New or revised IFRSs in issue but not yet effective** *(continued)*

***Amendments to IAS 16 and IAS 38 on clarification of acceptable methods of depreciation and amortization***

The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to IAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

***Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture***

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

***Amendment to IAS 27 on equity method in separate financial statements***

The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

#### **Annual Improvements to IFRSs 2010 2012 Cycle**

The Annual Improvements to IFRSs 2010 2012 Cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 2 (i) clarify the definitions of vesting condition and market condition ; and (ii) add definitions for performance condition and service condition which were previously included within the definition of vesting condition . The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to IFRS 3 clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity. All non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**Annual Improvements to IFRSs 2010-2012 Cycle** *(continued)*

The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

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

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

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

**Annual Improvements to IFRSs 2011-2013 Cycle** *(continued)*

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

**Annual Improvements to IFRSs 2012-2014 Cycle**

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below:

- IFRS 5, Non-current assets held for sale and discontinued operations

It clarifies that when an asset (or disposal group) is reclassified from held for sale to held for distribution, or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as held for sale or held for distribution simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as held for sale.

- IFRS 7, Financial instruments: Disclosures

There are two amendments:

i) *Service contracts*

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement.

There is a consequential amendment to IFRS 1 to give the same relief to first time adopters.

ii) *Interim financial statements*

It clarifies the additional disclosure required by the amendments to IFRS 7, Disclosure of offsetting financial assets and financial liabilities is not specifically required for all interim periods, unless required by IAS 34.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**Annual Improvements to IFRSs 2012 2014 Cycle***(continued)*

- IAS 19, Employee benefits

It clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

- IAS 34, Interim financial reporting

It clarifies what is meant by the reference in the standard to information disclosed elsewhere in the interim financial report. It also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

3. Significant accounting policies

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with 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.

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3. Significant accounting policies (*continued*)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
  
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
  
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (*continued*)

**Basis of consolidation**

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;

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

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

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.

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3. Significant accounting policies (*continued*)

**Changes in the Group's ownership interests in existing subsidiaries**

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

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

**Investments in associates**

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

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

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.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies *(continued)*

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

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

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

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

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



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3. Significant accounting policies (*continued*)

**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.

**Revenue recognition**

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

***Sale of goods***

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

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

Customers have the right of return within one year pursuant to warranty provisions. The Group typically performs tests of its products prior to shipment to identify yield rate per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid by the customer or for the costs to return products and to ship replacement products to the customer. The Group estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects at customers that may exceed historical trends.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (*continued*)

**Gain on sale of real estate property**

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

**Interest income**

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

**Foreign currencies**

The United States dollar ( US dollar ), the currency in which a significant portion of the Group s transactions are denominated, is used as the functional and reporting currency of the Group.

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group s foreign operations are translated into United States dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in

other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

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

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3. Significant accounting policies *(continued)*

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

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

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

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

**Retirement benefits**

The Group's local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a main rate equal to 20% to 21% of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid. The costs are recognized in profit or loss when incurred.

#### **Share-based payment arrangements**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 35.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies *(continued)*

**Share-based payment arrangements** *(continued)*

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

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

**Taxation**

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

*Current tax*

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

*Deferred tax*

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

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



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3. Significant accounting policies *(continued)*

**Taxation** *(continued)*

*Deferred tax (continued)*

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

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

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

Current and deferred tax are recognized in profit or loss.

**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 of 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies *(continued)***Property, plant and equipment** *(continued)*

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  |

**Prepaid land use right**

Prepaid 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.

**Intangible assets**

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

**Impairment of tangible and intangible assets other than goodwill**

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

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

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3. Significant accounting policies *(continued)*

**Impairment of tangible and intangible assets other than goodwill** *(continued)*

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

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

**Cash and cash equivalents**

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

**Restricted cash**

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

**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.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (*continued*)

**Provisions**

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

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

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

**Financial instruments**

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

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

**Financial assets**

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

***Effective interest method***

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

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



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3. Significant accounting policies (*continued*)

**Financial assets** (*continued*)

***Financial assets at FVTPL***

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

- it has been acquired principally for the purpose of selling in the near term; or
  
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
  
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

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

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

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

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

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

The Group has AFS equity investments totaled at US\$15.1 million, US\$1.3 million and US\$3.8 million as of December 31, 2014, 2013 and 2012, respectively. For the US\$13.8 million AFS equity investment acquired in December 2014, the Group considers that the purchase price in December 2014 still represents the best estimated fair value of the equity interest. For the remaining parts of the AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and therefore has been measured at cost less any identified impairment losses at the end of each reporting period. The AFS equity investment is recorded in other assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (*continued*)

**Financial assets** (*continued*)

***Loans and receivables***

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

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

***Impairment of financial assets***

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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

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

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

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

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3. Significant accounting policies *(continued)*

**Financial assets** *(continued)*

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

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

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

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

**Derecognition of financial assets**

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

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

**Financial liabilities and equity instruments**

***Classification as debt or equity***

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies *(continued)*

**Financial liabilities and equity instruments** *(continued)*

***Equity instruments***

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

***Convertible Bonds***

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

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

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

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

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

***Financial liabilities***

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



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3. Significant accounting policies *(continued)*

**Financial liabilities and equity instruments** *(continued)*

**Financial liabilities** *(continued)* *Financial liabilities at FVTPL*

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item. Fair value is determined in the manner described in Note 36.

*Other financial liabilities*

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

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

*Derecognition of financial liabilities*

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

**Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 36.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

**Key sources of estimation uncertainty**

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

***Inventories***

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

***Long-lived assets***

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

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

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**Key sources of estimation uncertainty** (*continued*)

**Taxes**

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

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

As at December 31, 2014, a deferred tax asset of US\$0.5 million (December 31, 2013: nil and December 31, 2012: US\$0.4 million) in relation to unused tax losses recognized in the Group's consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place. Further details on taxes are disclosed in Note 10.

**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 36 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Table of Contents4. Critical accounting judgments and key sources of estimation uncertainty *(continued)***Key sources of estimation uncertainty** *(continued)****Impairment of trade and other receivable***

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group's trade and other receivable at the end of the reporting period is disclosed in Note 24.

## 5. Segment information

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

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

|                              | year ended | Revenue from<br>external customers | year ended |
|------------------------------|------------|------------------------------------|------------|
|                              | 12/31/14   | 12/31/13                           | 12/31/12   |
|                              | USD 000    | USD 000                            | USD 000    |
| United States                | 855,792    | 1,002,699                          | 940,369    |
| Mainland China and Hong Kong | 852,204    | 836,771                            | 577,591    |
| Eurasia*                     | 261,970    | 229,494                            | 183,638    |



**1,969,966**

2,068,964

1,701,598

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\* Not including Mainland China and Hong Kong

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Segment information *(continued)*

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.

|                | year ended<br>12/31/14<br>USD 000 | Property, plant and equipment<br>year ended<br>12/31/13<br>USD 000 | year ended<br>12/31/12<br>USD 000 |
|----------------|-----------------------------------|--|-----------------------------------|
| United States  | 124                               | 33   | 55                                |
| Europe         | 4                                 | 4  |                                   |
| Taiwan         | 9                                 | 14   | 19                                |
| Hong Kong      | 3,240                             | 3,440  | 3,640                             |
| Mainland China | 2,991,709                         | 2,525,343  | 2,381,721                         |
|                | <b>2,995,086</b>                  | <b>2,528,834</b>   | <b>2,385,435</b>                  |

## 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,              |                 |                 |
|            | 2014<br>USD 000         | 2013<br>USD 000 | 2012<br>USD 000 | 2014<br>USD 000           | 2013<br>USD 000 | 2012<br>USD 000 |
| Customer A | 483,430                 | 473,699         | 282,946         | 107,475                   | 109,778         | 57,865          |
| Customer B | 177,878                 | 270,230         | 383,626         | 23,831                    | 19,619          | 43,246          |
| Customer A | 25%                     | 23%             | 17%             | 25%                       | 31%             | 18%             |
| Customer B | 9%                      | 13%             | 23%             | 6%                        | 6%              | 13%             |

## 7. Other operating income (expense)

|  | year ended<br>12/31/14<br>USD 000 | year ended<br>12/31/13<br>USD 000 | year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
|  | 13,904                            | 33,996                            | 19,325                            |

|  |               |        |        |
|--|---------------|--------|--------|
| Gain on disposal of property, plant and equipment and assets classified as held-for-sale |               |        |        |
| Gain on disposal of subsidiaries (Note 7.1)  |               | 28,304 |        |
| (Loss) gain on deconsolidation of subsidiaries (Note 7.2)                                | (208)         | 5,419  |        |
| Others   | 510           | 151    | (208)  |
|  | <b>14,206</b> | 67,870 | 19,117 |

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2014, 2013 and 2012 was primarily from the sales of the staff living quarters in Shanghai and Beijing to employees.

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## 7. Other operating income (expense) (continued)

## 7.1 Disposal of subsidiaries

The gain on disposal of subsidiaries for the year ended December 31, 2013 arose from disposal of the Group's total ownership interest in SMIC (Wuhan) Development Corporation ( WHDM ). In May 2013, the Group entered into a sale agreement to dispose of its 100% equity interest in WHDM. The disposal was completed on May 23, 2013, on that date the Group lost control of WHDM. The amount of the consideration was US\$60.4 million and the Group recorded a gain of US\$28.3 million (details refer to below). The consideration was fully settled by the buyer on July 26, 2013. WHDM was mainly engaged in the construction, operation and management of the Group's living quarters and schools in Wuhan, which was not the major line of business of the Group and therefore, the disposal of WHDM was not classified as a discontinued operation.

|  | Year ended<br>12/31/13<br>USD 000 |
|--|-----------------------------------|
| <b>Analysis of asset and liabilities over which control was lost</b> |                                   |
| Total assets   | 39,039                            |
| Total liabilities  | (38,853)                          |
| Net assets disposed of   | 186                               |
| <b>Gain on disposal of subsidiaries</b>                              |                                   |
| Amount of the total consideration                                    | 60,408                            |
| Due from WHDM  | (31,196)                          |
| Business tax incurred in relation to the disposal                    | (722)                             |
| Net assets disposed of   | (186)                             |
| Gain on disposal   | 28,304                            |
| <b>Proceeds from disposal of subsidiaries</b>                        |                                   |
| Amount of the total consideration                                    | 60,408                            |
| Bank balances and cash disposal of                                   | (1,565)                           |
| Payment of business tax in relation to the disposal                  | (722)                             |
| Effect of the exchange rate changes on the consideration             | (378)                             |
| Net cash flow arising on disposal                                    | 57,743                            |
| <b>Cash flows from WHDM</b>  |                                   |
| Net cash outflows from operating activities                          | (268)                             |
| Net cash flows from investing activities                             | 25,580                            |
| Net cash outflows from financing activities                          | (26,162)                          |
| Net cash outflows  | (850)                             |

## 7.2 Disposal of subsidiaries due to loss of control

The gain on disposal of subsidiaries due to lost of control for the year ended December 31, 2013 arose from deconsolidation of Brite Semiconductor Corporation and its subsidiaries ( Brite ) on December 30, 2013. The gain at the date of deconsolidation of Brite was US\$5.4 million. The deconsolidation has no material impact on the consolidated financial statements.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. Finance costs

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Interest on:   |                                   |                                   |                                   |
| Bank and other borrowings  |                                   |                                   |                                   |
| wholly repayable within five years   | 19,245                            | 45,924                            | 54,712                            |
| not wholly repayable within five years   |                                   | 1,440                             |                                   |
| Interest on convertible bonds  | 9,614                             | 1,173                             |                                   |
| Interest on corporate bonds  | 5,554                             |                                   |                                   |
| Accretion of interest to preferred shareholders of a subsidiary                |                                   | 1,683                             | 1,206                             |
| Total interest expense for financial liabilities not classified as at<br>FVTPL | 34,413                            | 50,220                            | 55,918                            |
| Less: amounts capitalized  | 13,698                            | 15,828                            | 16,458                            |
|  | 20,715                            | 34,392                            | 39,460                            |

The weighted average effective interest rate on funds borrowed generally is 2.91% per annum (2013: 4.42% per annum and 2012: 4.97% per annum).

## 9. Other gains and losses

For the year ended December 31, 2014, other gains or losses were US\$18.2 million (2013: US\$4.0 million and 2012: US\$6.4 million), within which the changes of fair value of the financial products were US\$14.5 million (2013: US\$0.4 million and 2012: US\$0.3 million).

## 10. Income taxes

**Income tax recognized in profit or loss**

|                                   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Current tax-Enterprise Income Tax | 1,226                             | 957                               | 1,071                             |
| Deferred tax                      | (591)                             | (783)                             | (12,486)                          |

|   |               |       |         |
|---|---------------|-------|---------|
| Current tax-Land Appreciation Tax                             | <b>11,154</b> | 3,956 | 2,313   |
| Total income tax expense (benefit) raised in the current year | <b>11,789</b> | 4,130 | (9,102) |

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Table of Contents10. Income taxes *(continued)***Income tax recognized in profit or loss**

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

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Profit before tax  | 138,050                           | 178,597                           | 13,439                            |
| Income tax expense calculated at 15% (2013: 15% and 2012: 15%)                 | 20,708                            | 26,790                            | 2,016                             |
| Effect of expenses not deductible for tax purpose                              |                                   | 1,247                             |                                   |
| Effect of tax holiday and tax concession                                       | (12,032)                          | (3,045)                           | (3,045)                           |
| Tax losses for which no deferred tax assets were recognized                    | 20,134                            |                                   |                                   |
| Utilization of previously unrecognized tax losses and temporary differences    | (32,818)                          | (23,042)                          | (10,316)                          |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 6,387                             | (641)                             | (1,087)                           |
| Others   | (71)                              | (578)                             | 1,364                             |
| Land Appreciation Tax (after tax)  | 9,481                             | 3,399                             | 1,966                             |
| Income tax expense (benefit)   | 11,789                            | 4,130                             | (9,102)                           |

The tax rate used for the 2014, 2013 and 2012 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**

|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| <b>Current tax liabilities</b>           |                     |                     |                     |
| Income tax payable Land Appreciation Tax |                     | 73                  | 2,313               |
| Income tax payable Others                | 103                 | 85                  | 8                   |
|  | 103                 | 158                 | 2,321               |



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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:

|                          | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--------------------------|---------------------|---------------------|---------------------|
| Deferred tax assets      | 44,383              | 43,890              | 43,380              |
| Deferred tax liabilities | (69)                | (167)               | (440)               |
|                          | 44,314              | 43,723              | 42,940              |

|                                      | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--------------------------------------|---------------------|---------------------|---------------------|
| <b>Deferred tax assets</b>           |                     |                     |                     |
| Allowances and reserves              |                     |                     | 3,829               |
| Net operating loss carry forwards    | 524                 |                     | 372                 |
| Property plant and equipment         | 43,859              | 43,890              | 38,955              |
| Accrued expenses                     |                     |                     | 224                 |
| Deferred tax assets                  | 44,383              | 43,890              | 43,380              |
| <b>Deferred tax liabilities</b>      |                     |                     |                     |
| Capitalized interest                 | (69)                | (167)               | (373)               |
| Unrealized exchange gain             |                     |                     | (64)                |
| Depreciation for asset held for sale |                     |                     | (3)                 |
| Deferred tax liabilities             | (69)                | (167)               | (440)               |

**2014.12.31**

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

|        |     |        |
|--------|-----|--------|
| 43,723 | 591 | 44,314 |
|--------|-----|--------|

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## 10. Income taxes (continued)

**Deferred tax balances (continued)****2013.12.31**

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

**2012.12.31**

|  | Opening<br>balance<br>USD 000 | Recognized<br>in profit<br>or loss<br>USD 000 | Closing<br>balance<br>USD 000 |
|--|-------------------------------|---|-------------------------------|
| <b>Deferred tax (liabilities) assets in relation to:</b> |                               |   |                               |
| Property plant and equipment                             | 25,966                        | 12,989  | 38,955                        |
| Allowances and reserves                                  | 1,664                         | 2,165   | 3,829                         |
| Accrued expenses   | 2,390                         | (2,166)                                       | 224                           |
| Capitalized interest                                     | (1,266)                       | 893   | (373)                         |
| Unrealized exchange gain                                 | (67)                          | 3   | (64)                          |
| Depreciation for asset held for sale                     |                               | (3)   | (3)                           |
| Others   | 1,767                         | (1,395)                                       | 372                           |
|  | 30,454                        | 12,486  | 42,940                        |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Income taxes (*continued*)

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

Under the Law of the People's Republic of China on Enterprise Income Tax, or the EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

Semiconductor Manufacturing International Corporation is incorporated in the Cayman Islands, where it is not currently subject to taxation.

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

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

Pursuant to Caishui Circular [2008] No. 1 (Circular No. 1) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction of the tax for the following five years. Pursuant to Caishui Circular [2009] No. 69 (Circular No. 69), the 50% reduction should be based on the statutory tax rate of 25%.

On January 28, 2011, the State Council of China issued Guofa [2011] No. 4 (Circular No. 4), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No. 1 for the software and integrated circuit enterprises.

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On April 20, 2012, State Tax Bureau issued CaiShui [2012] No. 27 ( Circular No. 27 ), stipulating the income tax policies for the development of integrated circuit industry.

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

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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:

1) *Semiconductor Manufacturing International (Shanghai) Corporation ( SMIS ) and Semiconductor Manufacturing International (Tianjin) Corporation ( SMIT )*

Pursuant to the relevant tax regulations, SMIS began a 10-year tax holiday (five year full exemption followed by five year half reduction) from 2004 after utilizing all prior years' tax losses. The income tax rate for SMIS was 12.5% in 2013. The income tax rate is 15% since 2014.

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

2) *Semiconductor Manufacturing International (Beijing) Corporation ( SMIB )*

In accordance with Circular No. 43 and Circular No. 1, SMIB is 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. SMIB was in accumulative loss positions as of December 31, 2014 and the tax holiday has not begun to take effect.

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

**Unused tax losses**

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US\$532.8 million (December 31, 2013: US\$851.7 million and December 31, 2012: US\$1,199.2 million) due to the unpredictability of future profit streams, of which US\$86.1 million, US\$193.4 million, US\$153.9 million, US\$16.1 million and US\$83.3 million will expire in 2015, 2016, 2017, 2018 and 2019, respectively.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. Profit (loss) for the year

**Profit (loss) for the year has been arrived at after charging (crediting)****11.1 Impairment losses (reversal of impairment losses) on trade receivables**

|   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Allowance on trade receivables (see Note 24)        | 1,616                             | 617                               | 4,615                             |
| Reversal of allowance on doubtful trade receivables | (59)                              | (1,213)                           | (2,095)                           |
|   | <b>1,557</b>                      | <b>(596)</b>                      | <b>2,520</b>                      |

**11.2 Depreciation and amortization expense**

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Depreciation of property, plant and equipment        | 506,366                           | 501,923                           | 531,823                           |
| Amortization of intangible assets and land use right | 43,102                            | 44,987                            | 35,076                            |
| Total depreciation and amortization expense          | <b>549,468</b>                    | <b>546,910</b>                    | <b>566,899</b>                    |

**11.3 Employee benefits expense**

|   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Wages, salaries and social security contributions | 249,622                           | 233,025                           | 206,807                           |
| Bonus   | 50,157                            | 68,618                            | 28,048                            |
| Cash settled annual leave                         | 796                               | 541                               | 738                               |
| Non-monetary benefits                             | 17,231                            | 17,937                            | 12,880                            |



|  |         |         |         |
|--|---------|---------|---------|
| Termination benefits                             |         |         | 7       |
| Equity-settled share-based payments<br>(Note 35) | 18,388  | 16,402  | 7,174   |
| Total employee benefits expense                  | 336,194 | 336,523 | 255,654 |

**11.4 Royalties expense**

|                   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|-------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Royalties expense | 26,344                            | 32,546                            | 28,993                            |

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11. Profit (loss) for the year *(continued)*

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

### 11.5 Government funding

Government funding under specific R&D projects

The Group received government funding (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US\$57.3 million, US\$145.8 million and US\$54.1 million and recognized US\$37.4 million, US\$26.9 million and US\$31.0 million as reductions of certain R&D expenses in 2014, 2013 and 2012 for several specific R&D projects respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of R&D expenses until the milestones specified in the terms of the funding have been reached.

Government funding for specific intended use

The Group received government funding of US\$21.4 million, US\$7.1 million and US\$1.4 million and recognized US\$21.4 million, US\$7.1 million and US\$1.2 million as reduction of interest expense in 2014, 2013 and 2012 respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of interest expense until the requirements (if any) specified in the terms of the funding have been reached.

### 12. Directors remuneration

|                                     | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Salaries                            | 2,216                             | 1,756                             | 1,411                             |
| Equity-settled share-based payments | 1,305                             | 1,504                             | 1,113                             |
|                                     | <b>3,521</b>                      | <b>3,260</b>                      | <b>2,524</b>                      |

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

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The Group granted 7,773,789, 27,083,220 and nil options to purchase ordinary shares of the Company to the directors in 2014, 2013 and 2012, respectively. During the year ended December 31, 2014, 1,123,074 stock options were exercised and 3,369,223 stock options were expired. During the year ended December 31, 2013, 1,000,000 stock options were exercised and 4,634,877 stock options were expired. And during the year ended December 31, 2012, no stock option was exercised and 500,000 stock options were expired.

The Group granted 2,910,836, nil and nil RSUs to purchase ordinary shares of the Company to the directors in 2014, 2013 and 2012, respectively. During the year ended December 31, 2014, 12,250,480 RSUs automatically vested and no RSUs were forfeited. During the year ended December 31, 2013, 11,650,116 RSUs automatically vested and no RSUs were forfeited. And during the year ended December 31, 2012, 11,650,116 RSUs automatically vested and no RSUs were forfeited.

In 2014, 2013 and 2012, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In 2014, 2013 and 2012, no directors waived any emoluments.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Directors remuneration (*continued*)

## (a) Independent non-executive directors

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

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

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

|                    | Salaries<br>USD 000 | Employee<br>settle share-<br>base payment<br>USD 000 | Total<br>remuneration<br>USD 000 |
|--------------------|---------------------|--|----------------------------------|
| <b>2012</b>        |                     |  |                                  |
| Tsuyoshi Kawanishi | 45                  | 15   | 60                               |
| Lip-Bu Tan         | 65                  | 15   | 80                               |
| Frank Meng         | 52                  | 40   | 92                               |
|                    | <b>162</b>          | <b>70</b>  | <b>232</b>                       |

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil and 2012: Nil).



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## 12. Directors remuneration (continued)

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

|  | Salaries<br>and wages<br>USD 000 | Employee<br>settle share-<br>base payment<br>USD 000 | Total<br>remuneration<br>USD 000 |
|--|----------------------------------|--|----------------------------------|
| <b>2014</b>  |                                  |  |                                  |
| Executive directors:                                   |                                  |  |                                  |
| Zhang Wenyi#   | 524                              | 124  | 648                              |
| Tzu-Yin Chiu*  | 973                              | 442  | 1,415                            |
| Gao Yonggang   | 307                              | 399  | 706                              |
|  | 1,804                            | 965  | 2,769                            |
| Non-executive director:                                |                                  |  |                                  |
| Chen Shangzhi  | 61                               | 3  | 64                               |
| Lawrence Juen-Yee Lau**                                | 51                               | 82   | 133                              |
| Zhou Jie   |                                  |  |                                  |
| Li Yonghua (Alternate to Chen Shanzhi)                 |                                  |  |                                  |
| Chen Datong***<br>(Alternate to Lawrence Juen-Yee Lau) |                                  |  |                                  |
|  | 112                              | 85   | 197                              |

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12. Directors remuneration (continued)

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

|  | Salaries<br>and wages<br>USD 000 | Employee<br>settle share-<br>base payment<br>USD 000 | Total<br>remuneration<br>USD 000 |
|--|----------------------------------|--|----------------------------------|
| <b>2012</b>  |                                  |  |                                  |
| Executive directors:                                   |                                  |  |                                  |
| Zhang Wenyi#   | 188                              | 353  | 541                              |
| Tzu-Yin Chiu*  | 962                              | 642  | 1,604                            |
|  | 1,150                            | 995  | 2,145                            |
| Non-executive director:                                |                                  |  |                                  |
| Chen Shangzhi  | 52                               | 24   | 76                               |
| Gao Yonggang   | 47                               | 24   | 71                               |
| Lawrence Juen-Yee Lau**                                |                                  |  |                                  |
| Zhou Jie   |                                  |  |                                  |
| Chen Datong***<br>(Alternate to Lawrence Juen-Yee Lau) |                                  |  |                                  |
|  | 99                               | 48   | 147                              |

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

\*\* Lawrence Juen-Yee Lau resigned as a non-executive director with effect from December 31, 2014.

\*\*\* Datong Chen ceased to act as the alternate director to Lawrence Juen-Yee Lau with effect from December 31, 2014.

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

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

## 13. Five highest paid employees

The five highest paid individuals during the year included three (2013: two and 2012: one) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining two (2013: three and 2012: four) non-directors, highest paid individuals for the year are as follows:

|                             | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|-----------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Salaries and other benefits | 633                               | 955                               | 1,334                             |
| Bonus                       | 328                               | 386                               | 16                                |
| Stock option benefits       | 473                               | 566                               | 521                               |
|                             | <b>1,434</b>                      | <b>1,907</b>                      | <b>1,871</b>                      |

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Table of Contents13. Five highest paid employees *(continued)*

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

In 2014, 2013 and 2012, 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 |      |      |
|--|---------------------|------|------|
|  | 2014                | 2013 | 2012 |
| HK\$2,000,001 (US\$326,669) to HK\$2,500,000 (US\$408,337) |                     |      | 1    |
| HK\$3,000,001 (US\$490,004) to HK\$3,500,000 (US\$571,671) |                     |      | 1    |
| HK\$3,500,001 (US\$571,672) to HK\$4,000,000 (US\$653,339) |                     | 1    | 1    |
| HK\$4,500,001 (US\$735,006) to HK\$5,000,000 (US\$816,673) |                     |      | 1    |
| HK\$5,000,001 (US\$816,674) to HK\$5,500,000 (US\$898,341) | 1                   | 1    |      |
| HK\$5,500,001 (US\$898,342) to HK\$6,000,000 (US\$980,008) | 1                   | 1    |      |
|  | 2                   | 3    | 4    |

## 14. Earnings per share

|                            | Year ended<br>12/31/14<br>USD | Year ended<br>12/31/13<br>USD | Year ended<br>12/31/12<br>USD |
|----------------------------|-------------------------------|-------------------------------|-------------------------------|
| Basic earnings per share   | 0.00                          | 0.01                          | 0.00                          |
| Diluted earnings per share | 0.00                          | 0.01                          | 0.00                          |

**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:

|   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Profit for the year attributable to owners of the Company | 152,969                           | 173,177                           | 22,771                            |
|   | 152,969                           | 173,177                           | 22,771                            |

Earnings used in the calculation of basic earnings per share

|   |                       |                |                |
|---|-----------------------|----------------|----------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | <b>33,819,162,742</b> | 32,063,137,846 | 30,078,893,961 |
|---|-----------------------|----------------|----------------|

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Earnings per share *(continued)***Diluted earnings per share**

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

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Earnings used in the calculation of basic earnings per share   | 152,969                           | 173,177                           | 22,771                            |
| Interest expense from convertible bonds                        | 9,614                             | 1,173                             |                                   |
| Earnings used in the calculation of diluted earnings per share | 162,583                           | 174,350                           | 22,771                            |

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

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share   | 33,819,162,742                    | 32,063,137,846                    | 30,078,893,961                    |
| Employee option and restricted share units   | 343,030,318                       | 237,913,672                       | 64,712,749                        |
| Convertible preferred shares   |                                   |                                   | 1,899,048,145                     |
| Convertible bonds  | 2,931,293,510                     | 288,027,267                       |                                   |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | 37,093,486,570                    | 32,589,078,785                    | 32,042,654,855                    |

During the year ended December 31, 2014, the Group had 528,860,129 weighted average outstanding employee stock options and warrants which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

During the year ended December 31, 2013, the Group had 785,159,938 weighted average outstanding employee stock options and warrants which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

During the year ended December 31, 2012, the Group had 2,021,406,706 weighted average outstanding employee stock options and warrants which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

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## 15. Dividend

The Board did not recommend the payment of any dividend for the year ended December 31, 2014 (December 31, 2013: Nil and December 31, 2012: Nil).

## 16. Assets classified as held for sale

|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| Assets related to employee s living quarters | 44                  | 3,265               | 4,239               |

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

## 17. Property, plant and equipment

|                                  | Buildings<br>USD 000 | Plant and<br>equipment<br>USD 000 | Office<br>equipment<br>USD 000 | Construction<br>in progress<br>(CIP)<br>USD 000 | Total<br>USD 000 |
|----------------------------------|----------------------|-----------------------------------|--------------------------------|---|------------------|
| <b>Cost</b>                      |                      |                                   |                                |   |                  |
| Balance at December 31,<br>2011  | 319,891              | 7,003,714                         | 86,537                         | 624,648   | 8,034,790        |
| Transfer from (out) CIP          | 24,581               | 581,579                           | 18,029                         | (624,189)                                       |                  |
| Addition                         |                      |                                   |                                | 409,750   | 409,750          |
| Disposals                        | (4,088)              | (7,918)                           | (580)                          | (142)   | (12,728)         |
| Reclassified as held for<br>sale | (4,842)              |                                   | (32)                           |   | (4,874)          |
| Balance at December 31,<br>2012  | 335,542              | 7,577,375                         | 103,954                        | 410,067   | 8,426,938        |
| Transfer from (out) CIP          | 7,238                | 553,162                           | 9,610                          | (570,010)                                       |                  |
| Addition                         |                      |                                   |                                | 670,853   | 670,853          |
| Disposals                        | (20,698)             | (1,163)                           | (5,531)                        | (10,000)  | (37,392)         |
| Reclassified as held for<br>sale | (2,999)              |                                   | (2)                            |   | (3,001)          |
| Balance at December 31,<br>2013  | 319,083              | 8,129,374                         | 108,031                        | 500,910   | 9,057,398        |
| Transfer from (out) CIP          | 6,896                | 366,298                           | 13,652                         | (386,846)                                       |                  |
| Addition                         |                      |                                   |                                | 977,487   | 977,487          |

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|                                 |         |           |         |           |            |
|---------------------------------|---------|-----------|---------|-----------|------------|
| Disposals                       | (635)   | (23,486)  | (1,611) | (3,471)   | (29,203)   |
| Balance at December 31,<br>2014 | 325,344 | 8,472,186 | 120,072 | 1,088,080 | 10,005,682 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Buildings<br>USD 000 | Plant and<br>equipment<br>USD 000 | Office<br>equipment<br>USD 000 | Construction<br>in progress<br>(CIP)<br>USD 000 | Total<br>USD 000 |
|--|----------------------|-----------------------------------|--------------------------------|---|------------------|
| <b>Accumulated depreciation and impairment</b> |                      |                                   |                                |   |                  |
| Balance at December 31, 2011                   | 89,376               | 5,322,407                         | 73,741                         | 32,688  | 5,518,212        |
| Disposal                                       | (1,403)              | (4,850)                           | (579)                          |   | (6,832)          |
| Depreciation expense                           | 12,903               | 509,962                           | 8,958                          |   | 531,823          |
| Reclassified as held for sale                  | (1,671)              |                                   | (29)                           |   | (1,700)          |
| Balance at December 31, 2012                   | 99,205               | 5,827,519                         | 82,091                         | 32,688  | 6,041,503        |
| Disposal                                       | (3,030)              | (1,405)                           | (5,073)                        | (4,490)   | (13,998)         |
| Depreciation expense                           | 13,160               | 477,600                           | 11,163                         |   | 501,923          |
| Reclassified as held for sale                  | (862)                |                                   | (2)                            |   | (864)            |
| Balance at December 31, 2013                   | 108,473              | 6,303,714                         | 88,179                         | 28,198  | 6,528,564        |
| Disposal                                       | (170)                | (21,687)                          | (1,610)                        | (867)   | (24,334)         |
| Depreciation expense                           | 13,377               | 476,044                           | 16,945                         |   | 506,366          |
| Balance at December 31, 2014                   | 121,680              | 6,758,071                         | 103,514                        | 27,331  | 7,010,596        |

|                              | Buildings<br>USD 000 | Plant and<br>equipment<br>USD 000 | Office<br>equipment<br>USD 000 | Construction<br>in progress<br>(CIP)<br>USD 000 | Total<br>USD 000 |
|------------------------------|----------------------|-----------------------------------|--------------------------------|---|------------------|
| <b>Carrying value</b>        |                      |                                   |                                |   |                  |
| Balance at December 31, 2012 | 236,337              | 1,749,856                         | 21,863                         | 377,379   | 2,385,435        |
| Balance at December 31, 2013 | 210,610              | 1,825,660                         | 19,852                         | 472,712   | 2,528,834        |
| Balance at December 31, 2014 | 203,664              | 1,714,115                         | 16,558                         | 1,060,749                                       | 2,995,086        |

**Construction in progress**

The construction in progress balance of approximately US\$1,060.7 million as of December 31, 2014, primarily consisted of US\$580.1 million and US\$137.9 million of the manufacturing equipment acquired to further expand the production capacity at our two 12 fabs in Beijing and one 12 fab in Shanghai, respectively, and US\$259.7 million of the manufacturing equipment acquired to further expand the production capacity at the 8 fab in Shenzhen. In addition, US\$83.0 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2015.

Table of Contents17. Property, plant and equipment (*continued*)**Impairment losses recognized in the year**

In 2014, 2013 and 2012, the Group didn't record any impairment loss of property, plant and equipment.

**Assets pledged as security**

Property, plant and equipment with carrying amount of approximately US\$306 million (2013: approximately US\$1,000 million and 2012: approximately US\$1,064 million) have been pledged to secure borrowings of the Group (see Note 29). The plant and equipment have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

## 18. Intangible assets

|  | <b>Acquired<br/>intangible<br/>assets<br/>USD 000</b> |
|--|---|
| <b>Cost</b>                                    |   |
| Balance at December 31, 2011                   | 252,273   |
| Additions                                      | 89,636  |
| Balance at December 31, 2012                   | 341,909   |
| Additions                                      | 23,139  |
| Expired and disposal                           | (16,627)  |
| Balance at December 31, 2013                   | 348,421   |
| Additions                                      | 37,595  |
| Expired and disposal                           | (15,295)  |
| Balance at December 31, 2014                   | 370,721   |
| <b>Accumulated amortization and impairment</b> |   |
| Balance at December 31, 2011                   | 72,994  |
| Amortization expense for the year              | 33,537  |
| Balance at December 31, 2012                   | 106,531   |
| Amortization expense for the year              | 40,796  |
| Expired and disposal                           | (14,171)  |
| Balance at December 31, 2013                   | 133,156   |
| Amortization expense for the year              | 41,046  |
| Expired and disposal                           | (11,303)  |
| Balance at December 31, 2014                   | 162,899   |
| <b>Carrying value</b>                          |   |
| Balance at December 31, 2012                   | 235,378   |



|                              |         |
|------------------------------|---------|
| Balance at December 31, 2013 | 215,265 |
| Balance at December 31, 2014 | 207,822 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Subsidiaries

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

| Name of company   | Place of establishment and operation  | Class of shares held | Paid up registered capital | Proportion of ownership interest held by the Group | Proportion of voting power held by the Group | Principal activities   |
|---|---------------------------------------|----------------------|----------------------------|--|--|--|
| Better Way Enterprises Limited ( Better Way )#                                    | Samoa                                 | Ordinary             | US\$ 1,000,000             | Directly 100%                                      | 100%   | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Shanghai) Corporation ( SMIS )#        | People's Republic of China (the PRC ) | Ordinary             | US\$ 1,740,000,000         | Directly 100%                                      | 100%   | Manufacturing and trading of semiconductor products  |
| SMIC, Americas  | United States of America              | Ordinary             | US\$ 500,000               | Directly 100%                                      | 100%   | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Beijing) Corporation ( SMIB )#         | PRC                                   | Ordinary             | US\$ 1,000,000,000         | Directly 100%                                      | 100%   | Manufacturing and trading of semiconductor products  |
| SMIC Japan  | Japan                                 | Ordinary             | JPY 10,000,000             | Directly 100%                                      | 100%   | Provision of marketing related activities  |
| SMIC Europe S.R.L   | Italy                                 | Ordinary             | Euros 100,000              | Directly 100%                                      | 100%   | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Solar Cell) Corporation                | Cayman Islands                        | Ordinary             | US\$ 11,000                | Directly 100%                                      | 100%   | Investment holding   |
| SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation) | PRC                                   | Ordinary             | US\$ 800,000               | Directly 100%                                      | 100%   | Provision of marketing related activities  |
| Semiconductor Manufacturing International (Tianjin) Corporation ( SMIT )#         | PRC                                   | Ordinary             | US\$ 690,000,000           | Directly 100%                                      | 100%   | Manufacturing and trading of semiconductor products  |
| SMIC Development (Chengdu) Corporation  | PRC                                   | Ordinary             | US\$ 5,000,000             | Directly 100%                                      | 100%   | Construction, operation, and management of SMICD's living quarters, schools, and supermarket |
| Semiconductor Manufacturing   | British Virgin Islands                | Ordinary             | US\$ 10                    | Directly 100%                                      | 100%   | Provision of marketing related   |

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| International (BVI) Corporation ( SMIC (BVI) )#                         |                        |          |      |             |                         |      | activities  |
|---|------------------------|----------|------|-------------|-------------------------|------|---|
| Admiral Investment Holdings Limited                                     | British Virgin Islands | Ordinary | US\$ | 10          | Directly                | 100% | 100% Investment holding   |
| SMIC Shanghai (Cayman) Corporation                                      | Cayman Islands         | Ordinary | US\$ | 50,000      | Directly                | 100% | 100% Investment holding   |
| SMIC Beijing (Cayman) Corporation                                       | Cayman Islands         | Ordinary | US\$ | 50,000      | Directly                | 100% | 100% Investment holding   |
| SMIC Tianjin (Cayman) Corporation                                       | Cayman Islands         | Ordinary | US\$ | 50,000      | Directly                | 100% | 100% Investment holding   |
| SiiTech Semiconductor Corporation                                       | Cayman Islands         | Ordinary | US\$ | 10,000      | Directly                | 100% | 100% Investment holding   |
| SMIC Shenzhen (Cayman) Corporation                                      | Cayman Islands         | Ordinary | US\$ | 50,000      | Directly                | 100% | 100% Investment holding   |
| SMIC Semiconductor Advanced Technology Research (Shanghai) Corporation  | PRC                    | Ordinary | US\$ | 12,000,000  | Directly                | 100% | 100% Manufacturing and trading of semiconductor products                    |
| SJ Semiconductor Corporation  | Cayman Islands         | Ordinary | US\$ | 5,000       | Directly                | 51%  | 51% Investment holding  |
| SMIC Energy Technology (Shanghai) Corporation ( Energy Science )#       | PRC                    | Ordinary | US\$ | 10,400,000  | Indirectly              | 100% | 100% Manufacturing and trading of solar cell related semiconductor products |
| Magnificent Tower Limited   | British Virgin Islands | Ordinary | US\$ | 50,000      | Indirectly              | 100% | 100% investment holding   |
| SMIC Shanghai (HK) Company Limited                                      | Hong Kong              | Ordinary | HK\$ | 1,000       | Indirectly              | 100% | 100% investment holding   |
| SMIC Beijing (HK) Company Limited                                       | Hong Kong              | Ordinary | HK\$ | 1,000       | Indirectly              | 100% | 100% Investment holding   |
| SMIC Tianjin (HK) Company Limited                                       | Hong Kong              | Ordinary | HK\$ | 1,000       | Indirectly              | 100% | 100% Investment holding   |
| SMIC Solar Cell (HK) Company Limited                                    | Hong Kong              | Ordinary | HK\$ | 10,000      | Indirectly              | 100% | 100% Investment holding   |
| SMIC ShenZhen (HK) Company Limited                                      | Hong Kong              | Ordinary | HK\$ | 1,000       | Indirectly              | 100% | 100% Investment holding   |
| SiiTech Semiconductor (Hong Kong) Corporation Limited                   | Hong Kong              | Ordinary | HK\$ | 1,000       | Indirectly              | 100% | 100% Investment holding   |
| Semiconductor Manufacturing International (Shenzhen) Corporation        | PRC                    | Ordinary | US\$ | 127,000,000 | Indirectly              | 100% | 100% Manufacturing and trading of semiconductor products                    |
| SiiTech Semiconductor (Shanghai) Corporation Limited                    | PRC                    | Ordinary | US\$ | 12,000,000  | Indirectly              | 100% | 100% Manufacturing and trading of semiconductor products                    |
| Semiconductor Manufacturing North China (Beijing) Corporation ( SMNC )# | PRC                    | Ordinary | US\$ | 800,000,000 | Directly and indirectly | 55%  | 55% Manufacturing and trading of semiconductor products                     |
| China IC Capital Co., Ltd   | PRC                    | Ordinary | RMB  | 500,000,000 | Indirectly              | 100% | 100% Investment holding   |
|   | PRC                    | Ordinary | RMB  | 90,000,000  | Indirectly              | 99%  | 99% Investment holding  |

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|  |           |          |      |            |            |     |  |
|--|-----------|----------|------|------------|------------|-----|--|
| Shanghai Xinxin Investment Centre (Limited Partnership)    |           |          |      |            |            |     |  |
| Shanghai Hexin Investment Management Limited Partnership   | PRC       | Ordinary | RMB  | 15,900,000 | Indirectly | 99% | 99% Investment holding                           |
| Shanghai Chengxin Investment Center (Limited Partnership)  | PRC       | Ordinary | RMB  | 18,200,000 | Indirectly | 99% | 99% Investment holding                           |
| Shanghai Rongxin Investment Management Limited Partnership | PRC       | Ordinary |      |            | Indirectly | 99% | 99% Investment holding                           |
| SJ Semiconductor (HK) Limited                              | Hong Kong | Ordinary | HK\$ | 1,000      | Indirectly | 51% | 51% Investment holding                           |
| SJ Semiconductor (Jiangyin) Corp.                          | PRC       | Ordinary | US\$ | 49,500,000 | Indirectly | 51% | 51% Bumping and circuit probe testing activities |

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# Abbreviation for identification purposes.

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## 19. Subsidiaries (continued)

**Details of non-wholly owned subsidiaries that have material non-controlling interests**

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

| Name of company  | Place of establishment and operation | Proportion of ownership interests and voting rights held by non-controlling interests |          | Profit (loss) allocated to non-controlling interests |                     | Accumulated non-controlling interests |                     |
|--|--------------------------------------|---|----------|--|---------------------|---------------------------------------|---------------------|
|  |                                      | 12/31/14  | 12/31/13 | 12/31/14<br>USD 000                                  | 12/31/13<br>USD 000 | 12/31/14<br>USD 000                   | 12/31/13<br>USD 000 |
| Semiconductor Manufacturing North China (Beijing) Corporation ( SMNC ) | Beijing                              | 45.0%   | 45.0%    | (26,353)   | 1,410               | 359,216                               | 109,410             |
| Total  |                                      |   |          | (26,353)   | 1,410               | 359,216                               | 109,410             |

Semiconductor Manufacturing North China (Beijing) Corporation ( SMNC ), the Company's majority owned subsidiary in Beijing) shared part of Group's advance-technology R&D expenses in the fourth quarter of 2014, which also caused the change in loss of year attributable to non-controlling interests.

According to the joint venture agreement entered into by the Group and NCI, additional capital injection into SMNC has been completed in 2014. The additional capital injection from NCI was amounted to US\$252 million.

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

**SMNC**

|                         | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 |
|-------------------------|---------------------|---------------------|
| Current assets          | 659,596             | 243,719             |
| Non-current assets      | 550,859             |                     |
| Current liabilities     | (347,217)           | (586)               |
| Non-current liabilities | (118,667)           |                     |
| Net assets              | 744,571             | 243,133             |

|  |                |         |
|--|----------------|---------|
| Equity attributable to owners of the Company | <b>409,514</b> | 133,723 |
| Non-controlling interests                    | <b>335,057</b> | 109,410 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. Subsidiaries (continued)

**SMNC** (continued)

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 |
|--|-----------------------------------|-----------------------------------|
| Revenue  |                                   |                                   |
| Expense  | (65,058)                          | (709)                             |
| Other income   | 6,496                             | 3,843                             |
| Profit (loss) for the year   | (58,562)                          | 3,134                             |
| Profit (loss) attributable to owners of the Company                                | (32,209)                          | 1,724                             |
| Profit (loss) attributable to the non-controlling interests                        | (26,353)                          | 1,410                             |
| Profit (loss) for the year   | (58,562)                          | 3,134                             |
| Other comprehensive income attributable to owners of the Company                   |                                   |                                   |
| Other comprehensive income attributable to the non-controlling interests           |                                   |                                   |
| Other comprehensive income for the year  |                                   |                                   |
| Total comprehensive income (expense) attributable to owners of the Company         | (32,209)                          | 1,724                             |
| Total comprehensive income (expense) attributable to the non-controlling interests | (26,353)                          | 1,410                             |
| Total comprehensive income (expense) for the year                                  | (58,562)                          | 3,134                             |
| Dividends paid to non-controlling interests  |                                   |                                   |
| Net cash inflow from operating activities  | 7,758                             | 1,959                             |
| Net cash outflow from investing activities   | (436,449)                         | (164,810)                         |
| Net cash inflow from financing activities  | 560,000                           | 240,000                           |
| Net cash inflow  | 131,309                           | 77,149                            |

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## 20. Investments in associates

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

| Name of company  | Place of establishment and operation | Class of share held | Proportion of ownership interest and voting power held by the Group |          |          | Proportion of voting power held |
|--|--------------------------------------|---------------------|---|----------|----------|---------------------------------|
|  |                                      |                     | 12/31/14  | 12/31/13 | 12/31/12 |                                 |
| Toppan SMIC Electronic (Shanghai) Co., Ltd ( Toppan )                              | Shanghai, PRC                        | Ordinary            | 30.0%   | 30.0%    | 30.0%    | 30.0%                           |
| Zhongxin Xiecheng Investment (Beijing) Co., Ltd ( Zhongxin Xiecheng )              | Beijing, PRC                         | Ordinary            | 49.0%   | 49.0%    | 49.0%    | 49.0%                           |
| Brite Semiconductor Corporation  | Cayman Island                        | Ordinary            | 47.8%   | 48.7%    | NA       | 47.8%                           |
| China Fortune-Tech Capital Co., Ltd ( China Fortune-Tech )                         | Shanghai, PRC                        | Ordinary            | 45.0%   | NA       | NA       | 45.0%                           |
| BeiJing Wu Jin Venture Investment Center (Limited Partnership) ( WuJin )           | Beijing, PRC                         | Ordinary            | 32.6%   | NA       | NA       | 32.6%                           |
| Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-Fund | Beijing, PRC                         | Ordinary            | 25.4%   | NA       | NA       | 25.4%                           |

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



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Investments in associates *(continued)***Toppan**

|   | 12/31/14<br>USD 000               | 12/31/13<br>USD 000               | 12/31/12<br>USD 000               |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Current assets  | 44,538                            | 47,554                            | 44,987                            |
| Non-current assets                                    | 28,789                            | 22,660                            | 15,677                            |
| Current liabilities                                   | (311)                             | (2,117)                           | (1,608)                           |
| Non-current liabilities                               |                                   |                                   |                                   |
| Net assets  | 73,016                            | 68,097                            | 59,056                            |
|   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
| Total revenue   | 23,498                            | 23,796                            | 19,008                            |
| Profit for the year                                   | 5,493                             | 7,364                             | 5,585                             |
| Other comprehensive income for the year               |                                   |                                   |                                   |
| Total comprehensive income for the year               | 5,493                             | 7,364                             | 5,585                             |
| Dividends received from the associate during the year |                                   |                                   |                                   |

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

|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| Net assets of the associate                            | 73,016              | 68,097              | 59,056              |
| Proportion of the Group's ownership interest in Toppan | 30%                 | 30%                 | 30%                 |
| Carrying amount of the Group's interest in Toppan      | 21,905              | 20,429              | 17,717              |

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

|   | 12/31/14<br>USD 000               | 12/31/13<br>USD 000               |
|---|-----------------------------------|-----------------------------------|
| Current assets  | 24,394                            | 13,433                            |
| Non-current assets                                    | 5,295                             | 4,081                             |
| Current liabilities                                   | (13,165)                          | (10,816)                          |
| Non-current liabilities                               | (1,458)                           |                                   |
| Net assets  | 15,066                            | 6,698                             |
|   | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 |
| Total revenue   | 46,385                            | 41,742                            |
| Profit (loss) for the year                            | 556                               | (498)                             |
| Other comprehensive income for the year               |                                   |                                   |
| Total comprehensive income for the year               | 556                               | (498)                             |
| Dividends received from the associate during the year |                                   |                                   |

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

|   | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 |
|---|---------------------|---------------------|
| Net assets of the associate                           | 15,066              | 6,698               |
| Proportion of the Group's ownership interest in Brite | 47.8%               | 48.7%               |
| Other adjustment                                      | 2,291               | 1,375               |
| Carrying amount of the Group's interest in Brite      | 9,493               | 4,637               |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Investments in associates *(continued)***WuJin**

|                         | 12/31/14<br>USD 000 |
|-------------------------|---------------------|
| Current assets          | 10,894              |
| Non-current assets      | 4,083               |
| Current liabilities     |                     |
| Non-current liabilities |                     |
| Net assets              | 14,977              |

|   | Year ended<br>12/31/14<br>USD 000 |
|---|-----------------------------------|
| Total revenue   |                                   |
| Loss for the year                                     | (50)                              |
| Other comprehensive income for the year               |                                   |
| Total comprehensive loss for the year                 | (50)                              |
| Dividends received from the associate during the year |                                   |

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

|   | 12/31/14<br>USD 000 |
|---|---------------------|
| Net assets of the associate                           | 14,977              |
| Proportion of the Group's ownership interest in WuJin | 32.6%               |
| Carrying amount of the Group's interest in WuJin      | 4,883               |

Table of Contents20. Investments in associates *(continued)***Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-Fund**

|                         | 12/31/14<br>USD 000 |
|-------------------------|---------------------|
| Current assets          | 63,987              |
| Non-current assets      |                     |
| Current liabilities     |                     |
| Non-current liabilities |                     |
| Net assets              | 63,987              |

|   | Year ended<br>12/31/14<br>USD 000 |
|---|-----------------------------------|
| Total revenue   |                                   |
| Loss for the year                                     | (350)                             |
| Other comprehensive income for the year               |                                   |
| Total comprehensive loss for the year                 | (350)                             |
| Dividends received from the associate during the year |                                   |

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

|  | 12/31/14<br>USD 000 |
|--|---------------------|
| Net assets of the associate  | 63,987              |
| Proportion of the Group's ownership interest in Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-Fund | 25.4%               |
| Carrying amount of the Group's interest in Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-Fund      | 16,253              |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. Other financial assets

|                                    | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|------------------------------------|---------------------|---------------------|---------------------|
| <b>Derivatives</b>                 |                     |                     |                     |
| Foreign currency forward contracts |                     |                     | 77                  |
| <b>Short-term investments</b>      |                     |                     |                     |
| Financial products sold by banks   | 616,862             | 240,311             | 18,653              |
| Bank deposits over 3 months        | 27,209              |                     |                     |
|                                    | 644,071             | 240,311             | 18,730              |

## 22. Other assets

|                               | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|-------------------------------|---------------------|---------------------|---------------------|
| Advance payments              |                     |                     | 28,252              |
| Available-for-sale investment | 15,081              | 1,278               | 3,757               |
| Others                        | 15,786              | 4,959               | 11,373              |
| Non-current                   | 30,867              | 6,237               | 43,382              |

Available-for-sale investment is the investment of fund companies which were invested for their future development in integrated circuit related field.

## 23. Inventories

|                  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|------------------|---------------------|---------------------|---------------------|
| Raw materials    | 65,598              | 56,242              | 52,228              |
| Work in progress | 179,047             | 180,710             | 156,392             |
| Finished goods   | 71,396              | 49,299              | 87,108              |
|                  | 316,041             | 286,251             | 295,728             |

The cost of inventories recognized as an expense (income) during the year in respect of inventory provision was US\$29.6 million (2013: US\$(0.1) million and 2012: US\$4.9 million).



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## 24. Trade and other receivables

|   | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---|---------------------|---------------------|---------------------|
| Trade receivables                         | 424,661             | 352,872             | 323,451             |
| Allowance for doubtful debts              | (42,014)            | (44,643)            | (45,340)            |
|   | <b>382,647</b>      | <b>308,229</b>      | <b>278,111</b>      |
| Other receivables and refundable deposits | 73,741              | 71,132              | 50,100              |
|   | <b>456,388</b>      | <b>379,361</b>      | <b>328,211</b>      |

The Group determines credit terms mostly ranging from 30 to 60 days for each customer on a case- by-case basis, based on its assessment of such customer's financial standing and business potential with the Group.

The Group determines its allowance for doubtful debts based on the Group's historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Group's allowance for doubtful debts excludes receivables from a limited number of customers due to their high credit worthiness. The Group provides allowance for doubtful debts based on recoverable amount by making reference to the age category of the remaining receivables and subsequent settlement. The Group recognized US\$1.6 million, US\$0.6 million and US\$4.6 million of allowance for doubtful debts respectively during the year ended December 31, 2014, 2013 and 2012 respectively. The Group reviews, analyzes and adjusts allowance for doubtful debts on a monthly basis.

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

**Trade receivables**

Of the trade receivables balance at the end of the year of 2014, 2013 and 2012, US\$131.3 million, US\$129.4 million and US\$101.1 million respectively are due from the Group's two largest customers.

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

*Age of receivables*

| 12/31/14 | 12/31/13 | 12/31/12 |
|----------|----------|----------|
|----------|----------|----------|

|                | USD 000        | USD 000 | USD 000 |
|----------------|----------------|---------|---------|
| Within 30 days | <b>167,137</b> | 166,117 | 113,955 |
| 31 - 60 days   | <b>122,387</b> | 110,470 | 123,618 |
| Over 60 days   | <b>135,137</b> | 76,285  | 85,878  |
| Total          | <b>424,661</b> | 352,872 | 323,451 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

|                           | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---------------------------|---------------------|---------------------|---------------------|
| Current                   | 270,220             | 269,740             | 222,765             |
| Past due but not impaired |                     |                     |                     |
| Within 30 days            | 55,412              | 24,480              | 31,219              |
| 31 - 60 days              | 20,915              | 10,068              | 16,559              |
| Over 60 days              | 36,100              | 3,941               | 7,568               |
| Total                     | 382,647             | 308,229             | 278,111             |
| Average overdue days      | 74                  | 40                  | 47                  |

*Movement in the allowance for doubtful debts*

|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| Balance at beginning of the year                     | 44,643              | 45,340              | 42,820              |
| Addition in allowance for doubtful debts             | 1,616               | 617                 | 4,615               |
| Amounts written off during the year as uncollectible | (4,186)             | (101)               |                     |
| Reversal of allowance for doubtful debts             | (59)                | (1,213)             | (2,095)             |
| Balance at end of the year                           | 42,014              | 44,643              | 45,340              |

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

*Age of impaired trade receivables*

|                | 12/31/14 | 12/31/13 | 12/31/12 |
|----------------|----------|----------|----------|
| Within 30 days | 306      | 192      | 278      |
| 31 - 60 days   | 338      | 89       | 855      |
| Over 60 days   | 41,370   | 44,362   | 44,207   |
| Total          | 42,014   | 44,643   | 45,340   |

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## 25. Restricted cash

As of December 31, 2014, 2013 and 2012, restricted cash consisted of US\$0.6 million, US\$35.7 million and US\$111.6 million, respectively of bank time deposits pledged against letters of credit and short-term borrowings, and US\$135.4 million, US\$111.9 million and US\$106.0 million, respectively of government funding received mainly for the reimbursement of research and development expenses to be incurred. In addition, as of December 31, 2014 the restricted cash of US\$102 million was for the co-investment in the proposed acquisition of STATS ChipPAC Ltd, which is a leading provider of advanced semiconductor packaging and test services in Singapore.

## 26. Shares and issued capital

**Fully paid ordinary shares**

|   | Number of<br>shares | Share<br>capital<br>USD 000 | Share<br>premium<br>USD 000 |
|---|---------------------|-----------------------------|-----------------------------|
| Balance at December 31, 2011  | 27,487,676,065      | 10,995                      | 3,774,016                   |
| Issuance of shares under the Company's employee share option plan (see note 35) | 57,004,448          | 23                          | 3,057                       |
| Conversion of convertible preference shares                                     | 4,455,459,110       | 1,782                       | 306,515                     |
| Balance at December 31, 2012  | 32,000,139,623      | 12,800                      | 4,083,588                   |
| Issuance of shares under the Company's employee share option plan (see note 35) | 112,167,478         | 45                          | 6,641                       |
| The Group purchased shares of subsidiaries                                      |                     |                             | (383)                       |
| Balance at December 31, 2013  | 32,112,307,101      | 12,845                      | 4,089,846                   |
| Issuance of shares under the Company's employee share option plan (see note 35) | 215,677,649         | 86                          | 18,422                      |
| Ordinary shares issued at June 12, 2014   | 2,590,000,000       | 1,036                       | 196,161                     |
| Ordinary shares issued at November 21, 2014                                     | 669,468,952         | 268                         | 51,523                      |
| Ordinary shares issued at November 27, 2014                                     | 268,642,465         | 107                         | 20,678                      |
| Balance at December 31, 2014  | 35,856,096,167      | 14,342                      | 4,376,630                   |

On June 4, 2014, the Company, J.P. Morgan Securities (Asia Pacific) Limited, Deutsche Bank AG, Hong Kong Branch (the Placing Agents) and Datang Holdings (Hongkong) Investment Company Limited (Datang) entered into a placing and subscription agreement (the Placing and Subscription Agreement). Pursuant to the agreement, Datang appointed the Placing Agents to place 2.59 billion shares of the Company's common stock at a price of HK\$0.60 per share, which represented a discount of approximately 4.76% to the Company's closing price of HK\$0.63 per share as quoted on the Hong Kong Stock Exchange on June 4, 2014 (the Placing Price) (the Top-up Placing). Following the completion of the Top-up Placing, Datang applied to subscribe for 2.59 billion new ordinary shares (the Subscription Share(s)) at the price of HK\$0.60 per Subscription Share (which was the same as the Placing Price) according to the Placing and Subscription Agreement (the Top-up Subscription). The Top-up Subscription was completed with net proceeds of approximately US\$197.2 million on June 12, 2014.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Shares and issued capital *(continued)***Fully paid ordinary shares** *(continued)*

The net proceeds were recorded as share capital of approximately US\$1 million and share premium of approximately US\$196.2 million in the Group's statements of financial position. Net proceeds of issue were measured after deducting directly attributable transaction costs of the share issue.

On August 22, 2014, the Company entered into a subscription agreement with each of Datang and Country Hill Limited ( Country Hill ) in relation to the proposed subscription of 669,468,952 ordinary shares by Datang upon the exercise of Datang's pre-emptive rights as specified in the share purchase agreement ( 2008 Datang Share Purchase Agreement ) on November 6, 2008 entered into between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd ( Datang Telecom ) and 268,642,465 ordinary shares by Country Hill upon the exercise of Country Hill's pre-emptive rights pursuant to the share subscription agreement ( 2011 Country Hill Share Subscription Agreement ) on April 18, 2011 entered into between the Company and Country Hill at the price of HK\$0.60 per ordinary share (which is the same as the Placing Price). On November 21, 2014, Datang subscribed 669,468,952 ordinary shares of the Company. On November 27, 2014, Country Hill subscribed 268,642,465 ordinary shares of the Company.

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

**Convertible preference shares**

|                                | Number of<br>shares | Share<br>capital<br>USD 000 | Share<br>premium<br>USD 000 |
|--------------------------------|---------------------|-----------------------------|-----------------------------|
| Balance at December 31, 2011   | 445,545,911         | 178                         | 308,119                     |
| Converted into ordinary shares | (445,545,911)       | (178)                       | (308,119)                   |
| Balance at December 31, 2012   |                     |                             |                             |

In June 2011, the Company issued 360,589,053 non-redeemable convertible preferred shares (the Preferred Shares ) and a warrant (the CIC Warrant ) to subscribe for up to 72,117,810 preferred shares, to Country Hill, a wholly-owned subsidiary of China Investment Corporation ( CIC ), for an aggregate proceeds of approximately US\$249 million, net of issuance cost of US\$0.6 million which was deducted from the carrying value of the Preferred Shares.

In September 2011, the Company issued 84,956,858 preferred shares and a Warrant (the Datang Warrant and, together with the CIC Warrant, the Warrant ) to subscribe for up to 16,991,371 preferred shares, to Datang, for aggregate proceeds of approximately US\$58.9 million.

The holders of the preferred shares had the right at any time to convert their preferred shares into fully paid ordinary shares and the preferred shares was mandatorily converted into ordinary shares at the conversion rate of 10 ordinary shares per convertible preferred share. As of result of the conversion, the Company issued 3,605,890,530 and 849,568,580 ordinary shares to CIC and Datang, respectively, on June 4, 2012.

The Warrant to subscribe for convertible preferred shares has expired without exercise.

Table of Contents26. Shares and issued capital *(continued)***Stock incentive plans**

The Group has adopted the stock incentive plans under which options to subscribe for the Company's shares have been granted to certain employees, officers and other service providers (Note 35).

## 27. Reserves

**Equity-settled employee benefits reserve**

|                                 | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---------------------------------|---------------------|---------------------|---------------------|
| Balance at beginning of year    | 55,177              | 42,232              | 37,469              |
| Arising on share-based payments | 18,388              | 16,402              | 7,174               |
| Transfer to share premium       | (9,025)             | (3,457)             | (2,411)             |
| Balance at end of year          | 64,540              | 55,177              | 42,232              |

The above equity-settled employee benefits reserve related to share options and RSUs granted by the Group to its employees and service providers under stock incentive plans. Items included in equity-settled employee benefits reserve will not be reclassified subsequently to profit or loss. Further information about share-based payments to employees and service providers is set out in Note 35.

**Foreign currency translation reserve**

Items that may be reclassified subsequently to profit or loss

|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| Balance at beginning of year                                       | 4,553               | 3,916               | 3,846               |
| Exchange differences arising on translating the foreign operations | (324)               | 731                 | 70                  |
| Disposal of subsidiaries   |                     | (94)                |                     |
| Balance at end of year   | 4,229               | 4,553               | 3,916               |

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



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## 27. Reserves (continued)

**Convertible bonds equity reserve**

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

## 28. Accumulated deficit

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Group's PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law. In 2014 the Group did not make any appropriation to non-distributable reserves. As of December 31, 2014, 2013 and 2012, the accumulated non-distributable reserve was US\$30 million, US\$30 million and US\$30 million respectively.

In addition, due to restrictions on the distribution of paid-in capital from the Group's PRC subsidiaries, the PRC subsidiaries' paid-in capital of US\$4,445 million at December 31, 2014 is considered restricted.

As a result of these PRC laws and regulations, as of December 31, 2014, reserve and capital of approximately US\$4,198 million was not available for distribution to the Group by its PRC subsidiaries in the form of dividends, loans or advances.

In 2014, 2013 and 2012 the Group did not declare or pay any cash dividends on the ordinary shares.



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## 29. Borrowings

|   | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---|---------------------|---------------------|---------------------|
| <b>At amortized cost</b>                      |                     |                     |                     |
| Short-term commercial bank loans (i)          | 115,084             | 219,727             | 383,225             |
|   | 115,084             | 219,727             | 383,225             |
| Long-term debt by contracts                   |                     |                     |                     |
| 2011 EXIM Bank USD Loan (SMIC Shanghai) (ii)  |                     |                     | 68,500              |
| 2012 EXIM Bank USD Loan (SMIC Shanghai) (iii) |                     |                     | 70,000              |
| 2012 USD Loan (SMIC Shanghai) (iv)            |                     | 201,000             | 245,611             |
| 2013 USD Loan (SMIC Shanghai) (v)             | 221,520             | 260,000             |                     |
| 2011 EXIM USD & RMB Loan (SMIC Beijing) (vi)  |                     |                     | 49,079              |
| 2012 EXIM USD Loan (SMIC Beijing) (vii)       |                     |                     | 20,000              |
| 2012 USD Loan (SMIC Beijing) (viii)           |                     | 260,000             | 260,000             |
| 2013 EXIM USD Loan (SMIC Beijing) (ix)        | 40,000              | 40,000              |                     |
| 2013 CIC RMB Entrust loan (SMIC Beijing) (x)  | 2,450               | 10,795              |                     |
| 2014 EXIM RMB Loan (SMIC Beijing) (xi)        | 39,200              |                     |                     |
|   | 303,170             | 771,795             | 713,190             |
| Less: current maturities of long-term debt    | 46,970              | 170,820             | 184,578             |
| Non-current maturities of long-term debt      | 256,200             | 600,975             | 528,612             |
| Borrowing by repayment schedule:              |                     |                     |                     |
| Within 1 year                                 | 162,054             | 390,547             | 567,803             |
| Within 1 2 years                              | 125,200             | 209,965             | 309,000             |
| Within 2 5 years                              | 131,000             | 367,990             | 219,612             |
| Over 5 years                                  |                     | 23,020              |                     |
|   | 418,254             | 991,522             | 1,096,415           |

**Summary of borrowing arrangements**

(i) As of December 31, 2014, the Group had 21 short-term credit agreements that provided total credit facilities of up to US\$882.5 million on a revolving credit basis. As of December 31, 2014, the Group had drawn down US\$115.1 million under these credit agreements and US\$767.4 million was available for future trading and borrowings. The outstanding borrowings under the credit agreements are unsecured. The interest rate ranged from 1.9% to 4.2% in 2014.

(ii) In April 2011, SMIS entered into the Shanghai EXIM Bank USD loan I, a new two-year loan facility in the principal amount of \$69.5 million with The Export-Import Bank of China. This two-year bank facility was used to finance the planned expansion for SMIS's 12-inch fab. SMIS has repaid the outstanding balance in advance by August 2013. As of December 31, 2013, SMIS had no outstanding balance of the facility. The interest rate ranged from 4.0% to 5.0% during 2013.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. Borrowings (*continued*)

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

(iii) In October 2012, SMIS entered into the Shanghai EXIM Bank USD loan II, a new two-year loan facility in the principal amount of US\$70 million with The Export-Import Bank of China, which was secured by certain equipment of SMIS. This two-year bank facility was used to finance the planned expansion for SMIS' s 12-inch fab. SMIS had repaid the outstanding balance in advance by August 2013. As of December 31, 2013, SMIS had no outstanding balance of the facility. The interest rate ranged from 4.0% to 5.0% during 2013.

(iv) In March 2012, SMIS entered into a loan facility in the aggregate principal amount of US\$268 million from a consortium of international and Chinese banks. This three-year bank facility was used to finance the working capital for SMIS' s 8-inch fab. The facility was secured by the manufacturing equipment located in the SMIS 8-inch fabs, buildings and land use right of SMIS. SMIS had drawn down US\$268 million and repaid the outstanding balance on this loan facility in advance by December 2014. As of December 31, 2014, SMIS had no outstanding balance of the facility. The interest rate on this loan facility ranged from 3.6% to 3.9% in 2014.

(v) In August 2013, SMIS entered into a loan facility in the aggregate principal amount of US\$470 million, with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS' s 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS 12-inch fabs and buildings of SMIS. As of December 31, 2014, SMIS had drawn down US\$260 million and repaid US\$38.5 million on this loan facility in advance by December 2014. The outstanding balance of US\$221.5 million is repayable from August 2015 to February 2018. SMIS repaid US\$200 million on this loan facility in advance in the first quarter of 2015. The interest rate on this loan facility ranged from 4.3% to 4.9% in 2014.

(vi) In September 2011, SMIB entered into the USD and RMB loan, a two-year loan facility in the principal amount of US\$25 million and RMB150 million (approximately US\$24 million) with The Export-Import Bank of China. This two-year bank facility was used for working capital purposes. SMIB had repaid the outstanding balance in advance by June 2013. As of December 31, 2013, SMIS had no outstanding balance of the facility. The interest rate on this loan facility ranged from 6.1% to 6.5% in 2013.

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29. Borrowings *(continued)*

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

(vii) In March 2012, SMIB entered into the new USD loan, a two-year working capital loan facility in the principal amount of US\$30 million with the Export-Import Bank of China, which was unsecured. This two-year bank facility was used for working capital purpose. SMIB had repaid the outstanding balance of US\$20 million in advance by August 2013. As of December 31, 2013, SMIB had no outstanding balance of the facility. The interest rate on this loan facility ranged from 6.2% to 6.5% in 2013.

(viii) In March 2012, SMIB entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of US\$600 million, with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to expand the capacity of SMIB's 12 inch fabs. The facility was secured by the manufacturing equipment located in the SMIB and SMIT fabs, and 100% equity pledge of SMIB and SMIT. As of December 31, 2014, SMIB had drawn down US\$260 million and repaid the outstanding balance on this loan facility in advance by September 2014. The interest rate on this loan facility ranged from 5.8% to 5.9% in 2014.

(ix) In June 2013, SMIB entered into the new USD loan, a twenty-six-months working capital loan facility in the principal amount of US\$60 million with The Export-Import Bank of China, which is unsecured. This twenty-six-months bank facility was used for working capital purposes. As of December 31, 2014, SMIB had drawn down US\$40 million on this loan facility. The principal amount is repayable in August 2015. The interest rate on this loan facility ranged from 3.3% to 3.4% in 2014.

(x) In June 2013, SMIB entered into the new RMB loan, a two-year working capital entrust loan facility in the principal amount of RMB70 million with China Investment Development Corporation through China CITIC Bank, which is unsecured. This two-year entrust loan facility was used for working capital purposes. As of December 31, 2014, SMIB had drawn down RMB70 million (approximately US\$11.5 million) and repaid RMB55 million (approximately US\$9.0 million) on this loan facility. The outstanding balance of RMB15 million (approximately US\$2.5 million) is repayable in June 2015. The interest rate on this loan facility is 12% in 2014.

(xi) In December 2014, SMIB entered into the new RMB loan, a two-year working capital loan facility in the principal amount of RMB240 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2014, SMIB had drawn down RMB240 million on this loan facility. The principal amount is repayable in December 2016. The interest rate on this loan facility is 3.9% in 2014.

As of December 31, 2014, property, plant and equipment and land use right with carrying amount of approximately US\$308 million (2013: US\$1,007 million and 2012: US\$1,070 million) had been pledged to secure borrowings of the Group.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. Convertible bonds

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

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

The principal terms of the Original Bonds are as follows:

- (1) Denomination of the Original Bonds The Original Bonds are denominated in USD.
- (2) Maturity date Five years from the date of issuance, which is November 7, 2018 ( Maturity Date ).
- (3) Interest The Original Bonds do not bear any cash interest.
- (4) Conversion
  - a) Conversion price The price is HK\$0.7965 per each new share to be issued upon conversion of the Original Bonds ( Conversion Share ), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including subdivision, reclassification or consolidation of shares of the Company, capitalisation of profits or reserves, capital distribution, issuance of options or rights, and certain other events.
  - b) Conversion period The Bondholder has the right to convert the Original Bonds into shares at any time on or after December 18, 2013 up to the close of business on the date falling seven days prior to the Maturity Date or if such bonds shall have been called or put for redemption at any time before the Maturity Date, then up to the close of business on a date no later than seven days prior to the date fixed for redemption, which is discussed below.

c) Number of Conversion Shares issuable 1,946,817,325 Conversion Shares will be issued upon full conversion of the Original Bonds based on the initial conversion price of HK\$0.7965 (translated at the fixed exchange rate of HK\$7.7532 = US\$1.0 as pre-determined).

(5) Redemption

a) At the option of the Company:

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

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



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30. Convertible bonds *(continued)*

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

(5) Redemption *(continued)*

a) At the option of the Company: *(continued)*

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

b) At the option of the Bondholder:

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

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

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

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



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

|  | USD 000   |
|--|-----------|
| Principal amount                         | 200,000   |
| Transaction cost                         | (5,400)   |
| Liability component at the date of issue | (179,390) |
| Equity component                         | 15,210    |

Subsequent to the initial recognition, the liability component of the Original Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Bonds was 3.69% per annum. The movement of the liability component and equity component of the Original Bonds for the year ended December 31, 2014 is set out below:

|                                  | Liability<br>Component<br>USD 000 | Equity<br>Component<br>USD 000 | Total<br>USD 000 |
|----------------------------------|-----------------------------------|--------------------------------|------------------|
| As at November 7, 2013           | 179,390                           | 15,210                         | 194,600          |
| Interest charged during the year | 1,173                             |                                | 1,173            |
| As at December 31, 2013          | 180,563                           | 15,210                         | 195,773          |
| Interest charged during the year | 6,593                             |                                | 6,593            |
| As at December 31, 2014          | 187,156                           | 15,210                         | 202,366          |

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

Table of Contents30. Convertible bonds *(continued)***(ii) Issue of US\$86.8 million zero coupon convertible bonds due 2018**

The Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$54,600,000 to Datang and an aggregate principal amount of US\$32,200,000 to Country Hill on May 29, 2014 (collectively, the Original Pre-emptive Bonds). The issue price was 100% of the aggregate principal amount of the Original Pre-emptive Bonds and the terms and conditions of the Original Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 30(i)). The Original Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Pre-emptive Bonds was approximately US\$81.2 million and the equity component was approximately US\$5.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

|  | USD 000  |
|--|----------|
| Principal amount                         | 86,800   |
| Transaction cost                         |          |
| Liability component at the date of issue | (81,235) |
| Equity component                         | 5,565    |

Subsequent to the initial recognition, the liability component of the Original Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Pre-emptive Bonds was 2.78% per annum. The movement of the liability component of the Original Pre-emptive Bonds for the year ended December 31, 2014 is set out below:

|                                  | Liability<br>Component<br>USD 000 | Equity<br>Component<br>USD 000 | Total<br>USD 000 |
|----------------------------------|-----------------------------------|--------------------------------|------------------|
| As at May 29, 2014               | 81,235                            | 5,565                          | 86,800           |
| Interest charged during the year | 1,315                             |                                | 1,315            |
| As at December 31, 2014          | 82,550                            | 5,565                          | 88,115           |

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. Convertible bonds *(continued)***(iii) Issue of US\$95 million zero coupon convertible bonds due 2018**

The Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$95,000,000 on June 24, 2014 (the FurtherBonds). The issue price was 101.5% of the aggregate principal amount of the Further Bonds and the terms and conditions of the Further Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 30(i)). The Further Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Bonds was approximately US\$87.1 million and the equity component was approximately US\$7.1 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

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

Subsequent to the initial recognition, the liability component of the Further Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Bonds was 3.79% per annum. The liability component of the Further Bonds for the year ended December 31, 2014 is set out below:

|                                  | Liability<br>Component<br>USD 000 | Equity<br>Component<br>USD 000 | Total<br>USD 000 |
|----------------------------------|-----------------------------------|--------------------------------|------------------|
| As at June 24, 2014              | 87,090                            | 7,148                          | 94,238           |
| Interest charged during the year | 1,650                             |                                | 1,650            |
| As at December 31, 2014          | 88,740                            | 7,148                          | 95,888           |

Table of Contents30. Convertible bonds (*continued*)**(iv) Issue of US\$22.2 million zero coupon convertible bonds due 2018**

The Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$22,200,000 to Datang on December 4, 2014 (the Further Pre-emptive Bonds). The issue price was 101.5% of the aggregate principal amount of the Further Pre-emptive Bonds and the terms and conditions of the Further Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 30(i)). The Further Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Pre-emptive Bonds was approximately US\$20.9 million and the equity component was approximately US\$1.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

|  | USD 000  |
|--|----------|
| Principal amount                         | 22,200   |
| Premium of convertible bonds             | 333      |
| Liability component at the date of issue | (20,892) |
| Equity component                         | 1,641    |

Subsequent to the initial recognition, the liability component of the Further Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Pre-emptive Bonds was 3.22% per annum. The liability component of the Further Pre-emptive Bonds for the year ended December 31, 2014 is set out below:

|                                  | Liability<br>Component<br>USD 000 | Equity<br>Component<br>USD 000 | Total<br>USD 000 |
|----------------------------------|-----------------------------------|--------------------------------|------------------|
| As at December 4, 2014           | 20,892                            | 1,641                          | 22,533           |
| Interest charged during the year | 56                                |                                | 56               |
| As at December 31, 2014          | 20,948                            | 1,641                          | 22,589           |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. Bonds payable

On October 8, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US\$500 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the issue date, the net book value of the liabilities amounted to US\$491.2 million after the deduction of (1) a discount of US\$5.2 million and (2) issue expenses of US\$3.6 million.

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

The movement of the corporate bonds for the year ended December 31, 2014 is set out below:

|   | <b>2014<br/>USD 000</b> |
|---|-------------------------|
| As at October 8, 2014                       | 491,181                 |
| Interest charged during the year            | 5,554                   |
| Interest payable recognized during the year | (5,156)                 |
| As at December 31, 2014                     | 491,579                 |

## 32. Trade and other payables

|                                 | <b>12/31/14<br/>USD 000</b> | <b>12/31/13<br/>USD 000</b> | <b>12/31/12<br/>USD 000</b> |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Trade payables                  | 645,414                     | 285,967                     | 331,394                     |
| Advance receipts from customers | 54,724                      | 41,164                      | 67,108                      |
| Deposit received from customers | 77,296                      | 48,976                      | 10,591                      |
| Other payable                   | 16,927                      | 17,783                      | 14,859                      |
|                                 | <b>794,361</b>              | <b>393,890</b>              | <b>423,952</b>              |

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

As of December 31, 2014, 2013 and 2012, trade payables were US\$645.4 million, US\$286.0 million and US\$331.4 million,

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within which the payables for property, plant and equipment were US\$425.1 million, US\$117.6 million and US\$111.8 million, respectively.

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

|                       | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|-----------------------|---------------------|---------------------|---------------------|
| Within 30 days        | 555,556             | 214,219             | 252,097             |
| Between 31 to 60 days | 25,729              | 20,295              | 49,735              |
| Over 60 days          | 64,129              | 51,453              | 29,562              |
|                       | <b>645,414</b>      | 285,967             | 331,394             |

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Table of Contents32. Trade and other payables (*continued*)

An aged analysis of the accounts payable is as follows:

|                       | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|-----------------------|---------------------|---------------------|---------------------|
| Current               | 599,584             | 237,337             | 275,398             |
| Overdue:              |                     |                     |                     |
| Within 30 days        | 12,520              | 9,493               | 26,783              |
| Between 31 to 60 days | 4,954               | 12,299              | 10,652              |
| Over 60 days          | 28,356              | 26,838              | 18,561              |
|                       | 645,414             | 285,967             | 331,394             |

## 33. Accrued liabilities

The amounts of accrued liabilities as of December 31, 2014, 2013 and 2012 were US\$131.1 million, US\$127.6 million and US\$84.6 million, within which the amounts of accrued payroll expenses were US\$62.5 million, US\$55.5 million and US\$21.4 million, respectively.

## 34. Promissory notes

In 2009, the Group reached a new settlement with Taiwan Semiconductor Manufacturing Corporation ( TSMC ). Under this agreement, the remaining promissory note of US\$40.0 million under the prior 2005 Settlement Agreement was cancelled. The Group issued twelve non-interest bearing promissory notes with an aggregate amount of US\$200.0 million as the settlement consideration. The Group recorded a discount of US\$8.1 million for the imputed interest on the notes using an effective interest rate of 2.85% (which represents the Group's average rate of borrowing for 2009), which was recorded as a reduction of the face amount of the promissory notes. In total, the Group paid TSMC US\$30.0 million and US\$30.0 million in 2013 and 2012, respectively. The agreement was fully settled in 2013 and the outstanding promissory notes as of December 31, 2012 are as follows:

|                 | Face value<br>USD 000 | 31/12/12<br>Discounted<br>Value<br>USD 000 |
|-----------------|-----------------------|--|
| <b>Maturity</b> |                       |  |
| 2013 Current    | 30,000                | 29,374                                     |
|                 | 30,000                | 29,374                                     |



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. Share-based payments

**Stock incentive plans**

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

*Stock option plan*

The options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of four years.

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

*Restricted share units ( RSUs )*

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

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

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

|  | Year ended<br>12/31/14<br>USD 000 | Year ended<br>12/31/13<br>USD 000 | Year ended<br>12/31/12<br>USD 000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Expense arising from equity-settled share-based payment transactions | 18,388                            | 16,402                            | 7,174                             |

**Movements during the year**

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

|                                       | 2014<br>Number | 2014<br>WAEP | 2013<br>Number | 2013<br>WAEP | 2012<br>Number | 2012<br>WAEP |
|---------------------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
| Outstanding at January 1              | 1,320,383,853  | US\$ 0.09    | 1,285,367,372  | US\$ 0.09    | 1,230,938,429  | US\$ 0.10    |
| Granted during the year               | 153,998,051    | US\$ 0.10    | 270,695,247    | US\$ 0.08    | 292,084,956    | US\$ 0.04    |
| Forfeited and expired during the year | (161,539,854)  | US\$ 0.15    | (158,907,830)  | US\$ 0.11    | (209,218,313)  | US\$ 0.09    |
| Exercised during the year             | (149,214,781)  | US\$ 0.06    | (76,770,936)   | US\$ 0.04    | (28,437,700)   | US\$ 0.02    |
| Outstanding at December 31            | 1,163,627,269  | US\$ 0.08    | 1,320,383,853  | US\$ 0.09    | 1,285,367,372  | US\$ 0.09    |
| Exercisable at December 31            | 489,477,234    | US\$ 0.09    | 483,679,899    | US\$ 0.11    | 457,250,416    | US\$ 0.12    |

The weighted average remaining contractual life for the share options outstanding as at December 31, 2014 was 6.59 years (2013: 6.58 years and 2012: 6.61 years).

Table of Contents35. Share-based payments *(continued)***Movements during the year** *(continued)*

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

The range of exercise prices for options outstanding at the end of the year was from US\$0.02 to US\$0.22 (2013: from US\$0.02 to US\$0.35 and 2012: from US\$0.02 to US\$0.35).

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was US\$0.10 (2013: US\$0.07 and 2012: US\$0.04).

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

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

During the year ended December 31, 2012, share options were granted on May 22, 2012, September 12, 2012 and November 15, 2012. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.02, US\$0.02 and US\$0.03, respectively.

The following table list the inputs to the Black Scholes Pricing models used for the option granted during the years ended 31 December 2014, 2013 and 2012 respectively:

|                                | 2014    | 2013    | 2012    |
|--------------------------------|---------|---------|---------|
| Dividend yield (%)             |         |         |         |
| Expected volatility            | 50.93%  | 62.18%  | 65.93%  |
| Risk-free interest rate        | 1.67%   | 1.23%   | 0.77%   |
| Expected life of share options | 5 years | 5 years | 5 years |

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

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35. Share-based payments (continued)

**Movements during the year (continued)**

(ii) The following table illustrates the number and weighted average fair value (WAFV) of, and movements in, RSUs during the year (excluding share options):

|                            | 2014<br>Number | 2014<br>WAFV | 2013<br>Number | 2013<br>WAFV | 2012<br>Number | 2012<br>WAFV |
|----------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
| Outstanding at January 1   | 233,158,731    | US\$ 0.07    | 125,358,288    | US\$ 0.06    | 101,564,432    | US\$ 0.07    |
| Granted during the year    | 114,726,892    | US\$ 0.11    | 151,336,161    | US\$ 0.08    | 65,170,000     | US\$ 0.04    |
| Forfeited during the year  | (7,365,088)    | US\$ 0.09    | (8,139,176)    | US\$ 0.07    | (12,809,396)   | US\$ 0.08    |
| Exercised during the year  | (66,462,868)   | US\$ 0.07    | (35,396,542)   | US\$ 0.06    | (28,566,748)   | US\$ 0.08    |
| Outstanding at December 31 | 274,057,667    | US\$ 0.09    | 233,158,731    | US\$ 0.07    | 125,358,288    | US\$ 0.06    |

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2014 was 8.75 years (2013: 8.88 years and 2012: 8.84 years).

The weighted average closing price of the Company's shares immediately before the dates on which the RSUs were exercised was US\$0.08 (2013: US\$0.08 and 2012: US\$0.04).

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

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

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During the year ended December 31, 2012, RSUs were granted on May 22, 2012 and September 12, 2012. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04 and US\$0.04.

The following table list the inputs to the models used for the plans for the years ended December 31, 2014, 2013 and 2012, respectively:

|                         | 2014           | 2013    | 2012    |
|-------------------------|----------------|---------|---------|
| Dividend yield (%)      |                |         |         |
| Expected volatility     | <b>38.49%</b>  | 47.03%  | 49.90%  |
| Risk-free interest rate | <b>0.54%</b>   | 0.34%   | 0.30%   |
| Expected life of RSUs   | <b>2 years</b> | 2 years | 2 years |

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

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



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## 36. Financial instruments

**Capital management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the capital structure. The Group's overall strategy remains unchanged from 2013.

The capital structure of the Group consists of net debt (debt as detailed in Note 29, Note 30 and Note 31 offset by cash and cash equivalent) and equity of the Group.

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

**Gearing ratio**

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

|                          | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--------------------------|---------------------|---------------------|---------------------|
| Debt (i)                 | 1,289,227           | 1,172,085           | 1,096,415           |
| Cash and cash equivalent | (603,036)           | (462,483)           | (358,490)           |
| Net debt                 | 686,191             | 709,602             | 737,925             |
| Equity                   | 3,307,722           | 2,593,182           | 2,276,452           |
| Net debt to equity ratio | 20.75%              | 27.36%              | 32.42%              |

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(i) Debt is defined as long- and short-term borrowings (excluding derivatives), convertible bonds, and bonds payables as described in Note 29, Note 30 and Note 31.

**Financial risk management objectives**

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Financial instruments *(continued)*

**Market risk**

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

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import from suppliers;
- interest rate swaps to mitigate the risk of rising interest rates; and
- cross-currency interest rate swap agreements to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debt denominated in a currency other than the US dollar.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as at December 31, 2014, 2013 and 2012.

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

**Foreign currency risk management**

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

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

|        | 12/31/14 | Liabilities | 12/31/12 | 12/31/14  | Assets   | 12/31/12 |
|--------|----------|-------------|----------|-----------|----------|----------|
|        | USD 000  | 12/31/13    | USD 000  | USD 000   | 12/31/13 | USD 000  |
|        |          | USD 000     |          |           | USD 000  |          |
| EUR    | 2,488    | 3,037       | 1,345    | 480       | 2,595    | 3,249    |
| JPY    | 7,560    | 7,925       | 13,693   | 606       | 1,499    | 3,023    |
| RMB    | 221,336  | 133,177     | 254,750  | 1,148,146 | 766,960  | 456,271  |
| Others | 4,684    | 8,226       | 6,934    | 1,100     | 7,323    | 2,122    |

*Foreign currency sensitivity analysis*

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

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

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36. Financial instruments (continued)

**Foreign currency risk management (continued)***Foreign currency sensitivity analysis (continued)*

|                | EUR             |                 |                 | JPY             |                 |                 | RMB             |                 |                 | Others          |                 |                 |
|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                | 2014<br>USD 000 | 2013<br>USD 000 | 2012<br>USD 000 | 2014<br>USD 000 | 2013<br>USD 000 | 2012<br>USD 000 | 2014<br>USD 000 | 2013<br>USD 000 | 2012<br>USD 000 | 2014<br>USD 000 | 2013<br>USD 000 | 2012<br>USD 000 |
| Profit or loss | (100)           | (22)            | 95              | (366)           | (338)           | (562)           | 48,780          | 33,357          | 10,606          | (190)           | (1)             | (3)             |
| Equity         | (100)           | (22)            | 95              | (366)           | (338)           | (562)           | 48,780          | 33,357          | 10,606          | (190)           | (1)             | (3)             |

**Forward foreign exchange contracts**

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

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

*Outstanding contracts*

|                    | Average exchange rate |          |          | Foreign currency |          |          | Notional value |          |          | Fair value assets/(liabilities) |          |          |
|--------------------|-----------------------|----------|----------|------------------|----------|----------|----------------|----------|----------|---------------------------------|----------|----------|
|                    | 12/31/14              | 12/31/13 | 12/31/12 | 12/31/14         | 12/31/13 | 12/31/12 | 12/31/14       | 12/31/13 | 12/31/12 | 12/31/14                        | 12/31/13 | 12/31/12 |
|                    |                       |          |          | FC 000           | FC 000   | FC 000   | USD 000        | USD 000  | USD 000  | USD 000                         | USD 000  | USD 000  |
| <b>Buy RMB</b>     |                       |          |          |                  |          |          |                |          |          |                                 |          |          |
| Less than 3 months |                       |          | 6.3763   |                  |          | 221,173  |                |          | 35,504   |                                 |          | 67       |
| 3 months to 1 year |                       |          | 6.4100   |                  |          | 294,696  |                |          | 47,306   |                                 |          | (15)     |
|                    |                       |          |          |                  |          | 515,869  |                |          | 82,810   |                                 |          | 52       |

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

**Interest rate risk management**

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Financial instruments (*continued*)

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

***Interest rate sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points higher and all other variables were held constant, the Group's profit for the year ended December 31, 2014 would decrease by US\$0.2 million (2013: profit decrease by US\$0.6 million and 2012: profit decrease by US\$0.6 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

***Credit risk management***

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

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

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

Apart from Customers A and B, two largest customers of the Group, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Customers A and B did not exceed 10% and 2% respectively of gross monetary assets at the end of current year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at the end of current year.

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

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



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## 36. Financial instruments (continued)

**Liquidity risk management**

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

**Liquidity and interest risk tables**

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

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

|  |       | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Less than<br>3 months<br>USD 000 | 3 months<br>to 1 year<br>USD 000 | 1 5 years<br>USD 000 | 5+ years<br>USD 000 | Total<br>USD 000 |
|--|-------|---|----------------------------------|----------------------------------|----------------------|---------------------|------------------|
| <b>December 31, 2013</b>                         |       |   |                                  |                                  |                      |                     |                  |
| Interest-bearing<br>bank and other<br>borrowings | Fixed | 3.72%   | 102,800                          | 119,588                          |                      |                     | 222,388          |

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|                          |          |       |         |         |         |        |           |
|--------------------------|----------|-------|---------|---------|---------|--------|-----------|
|                          | Floating | 5.66% | 82,741  | 91,169  | 643,369 | 26,928 | 844,207   |
| Convertible bonds        |          | 3.69% |         |         | 200,000 |        | 200,000   |
| Trade and other payables |          |       | 334,622 | 56,383  | 2,885   |        | 393,890   |
|                          |          |       | 520,163 | 267,140 | 846,254 | 26,928 | 1,660,485 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. Financial instruments (continued)

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

|  |          | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Less than<br>3 months<br>USD 000 | 3 months<br>to 1 year<br>USD 000 | 1 5 years<br>USD 000 | 5+ years<br>USD 000 | Total<br>USD 000 |
|--|----------|---|----------------------------------|----------------------------------|----------------------|---------------------|------------------|
| <b>December 31,<br/>2012</b>                     |          |   |                                  |                                  |                      |                     |                  |
| Promissory notes                                 |          |   |                                  | 30,000                           |                      |                     | 30,000           |
| Interest-bearing<br>bank and other<br>borrowings | Fixed    | 4.73%   |                                  | 392,282                          |                      |                     | 392,282          |
|  | Floating | 5.64%   |                                  | 189,786                          | 588,270              |                     | 778,056          |
| Long-term financial<br>Liabilities               |          |   |                                  |                                  | 6,750                |                     | 6,750            |
| Trade and other<br>payables                      |          |   | 353,009                          | 62,120                           | 8,823                |                     | 423,952          |
|  |          |   | 353,009                          | 674,188                          | 603,843              |                     | 1,631,040        |

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

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Less than<br>3 months<br>USD 000 | 3 months<br>to 1 year<br>USD 000 | 1 5 years<br>USD 000 | 5+ years<br>USD 000 | Total<br>USD 000 |
|--|---|----------------------------------|----------------------------------|----------------------|---------------------|------------------|
| <b>December 31, 2014</b>   |   |                                  |                                  |                      |                     |                  |
| Trade and other receivables  |   | 456,388                          |                                  |                      |                     | 456,388          |
| Cash and cash equivalent,<br>restricted cash & short-term<br>investments | 2.60%   | 1,309,979                        | 45,484                           |                      |                     | 1,355,463        |

|                                     |           |        |        |           |
|-------------------------------------|-----------|--------|--------|-----------|
| Available for sale financial assets |           |        | 15,081 | 15,081    |
|                                     | 1,766,367 | 45,484 | 15,081 | 1,826,932 |

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36. Financial instruments (continued)

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

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

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Less than 3<br>months<br>USD 000 | 3 months<br>to 1 year<br>USD 000 | 1 5 years<br>USD 000 | 5+ years<br>USD 000 | Total<br>USD 000 |
|--|---|----------------------------------|----------------------------------|----------------------|---------------------|------------------|
| <b>December 31, 2012</b>   |   |                                  |                                  |                      |                     |                  |
| Trade and other receivables  |   | 322,380                          | 5,831                            |                      |                     | 328,211          |
| Cash and cash equivalent,<br>restricted cash & short-term<br>investments | 1.35%   | 414,798                          | 75,108                           |                      |                     | 489,906          |
| Available for sale financial assets                                      |   |                                  |                                  |                      | 3,757               | 3,757            |
|  |   | 737,178                          | 80,939                           |                      | 3,757               | 821,874          |

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

The Group has access to short-term financing facilities as described in below section, of which US\$767.4 million were unused at the end of the reporting period (2013: US\$927.5 million and 2012: US\$629.3 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Financial instruments *(continued)***Liquidity risk management** *(continued)***Liquidity and interest risk tables** *(continued)*

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

|                                       | 1 month<br>USD 000 | Less than<br>1 month<br>USD 000 | 1 3<br>months<br>USD 000 | 3 months<br>to 1 year<br>USD 000 | 1 5 years<br>USD 000 | 5+ years<br>USD 000 |
|---------------------------------------|--------------------|---------------------------------|--------------------------|----------------------------------|----------------------|---------------------|
| <b>December 31, 2012</b>              |                    |                                 |                          |                                  |                      |                     |
| <b>Net settled:</b>                   |                    |                                 |                          |                                  |                      |                     |
| foreign exchange forward<br>contracts |                    | 20                              | 47                       | (15)                             |                      |                     |
|                                       |                    | 20                              | 47                       | (15)                             |                      |                     |

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

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

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

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

- the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information that the Group obtains from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, the Group generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and the Group's evaluation of those factors changes.



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36. Financial instruments (continued)

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

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the year ended December 31, 2014, 2013 and 2012:

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

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

|  | 12/31/13 |         |         | Total |
|--|----------|---------|---------|-------|
|  | Level 1  | Level 2 | Level 3 |       |

|  |   | Valuation technique(s) and key input |         |         |         |
|--|---|--------------------------------------|---------|---------|---------|
|  |   | USD 000                              | USD 000 | USD 000 | USD 000 |
| <b>Financial assets at FVTPL</b>                                   |   |                                      |         |         |         |
| Short-term investment carried at fair value through profit or loss | Discounted cash flow. Future cash flows are estimated based on contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties. |                                      | 240,311 |         | 240,311 |
| <b>Total</b>   |   |                                      | 240,311 |         | 240,311 |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. Financial instruments (continued)

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

|   | Valuation technique(s) and key input  | 12/31/12           |                    |                    | Total<br>USD 000 |
|---|---|--------------------|--------------------|--------------------|------------------|
|   |   | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 |                  |
| <b>Financial assets at FVTPL</b>  |   |                    |                    |                    |                  |
| Foreign currency forward contracts classified as other financial assets in the statement of financial position      | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties. |                    | 77                 |                    | 77               |
| Short-term investment carried at fair value through profit or loss  | Discounted cash flow. Future cash flows are estimated based on contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.   |                    | 18,653             |                    | 18,653           |
| <b>Total</b>  |   |                    | 18,730             |                    | 18,730           |
| <b>Financial liabilities at FVTPL</b>   |   |                    |                    |                    |                  |
| Foreign currency forward contracts classified as other financial liabilities in the statement of financial position | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties. |                    | (25)               |                    | (25)             |
| <b>Total</b>  |   |                    | (25)               |                    | (25)             |

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## 37. Related party transactions

Relationship and details of transactions between the Group and other related parties are disclosed below.

| <b>Related party name</b>  | <b>Relationship with the Group</b>  |
|--|---|
| China Academy of Telecommunication Technology                              | A member of Datang Telecom Technology & Industry Group ( Datang Group ), which owns Datang Telecom    |
| Datang Telecom Technology & Industry Holdings Co., Ltd. ( Datang Telecom ) | A substantial shareholder of the Group  |
| Datang Microelectronics Technology Co., Ltd                                | A member of Datang Group  |
| Leadcore Technology Co., Ltd   | A member of Datang Group  |
| Datang Telecom Group Finance Co., Ltd                                      | A member of Datang Group  |
| China Investment Corporation ( CIC )                                       | A substantial shareholder of the Group  |
| Country Hill Limited ( Country Hill )                                      | A wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC |
| Toppan   | An associate of the Group   |
| Brite  | An associate of the Group   |
| China Fortune-Tech   | An associate of the Group   |
| Zhongxin Xiecheng  | An associate of the Group   |

Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

**Trading transactions**

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

|   | Sale of goods<br>Year ended |                     |                     | Sale of services<br>Year ended |                     |                     |
|---|-----------------------------|---------------------|---------------------|--------------------------------|---------------------|---------------------|
|   | 12/31/14<br>USD 000         | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 | 12/31/14<br>USD 000            | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
| Datang Microelectronics Technology Co., Ltd | 12,340                      | 14,821              | 9,654               |                                |                     |                     |
| Leadcore Technology Co.,Ltd                 | 2,173                       | 1,905               | 44                  |                                |                     |                     |
| Toppan                                      | 4,486                       | 4,317               | 4,192               |                                |                     |                     |
| Brite                                       | 31,444                      | NA                  | NA                  |                                | NA                  | NA                  |
| China Fortune-Tech                          |                             | NA                  | NA                  | 41                             | NA                  | NA                  |

Purchase of goods  
Year ended

Purchase of services  
Year ended

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|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| China Academy of<br>Telecommunication Technology |                     |                     |                     | <b>1,163</b>        |                     |                     |
| Toppan   | <b>1,345</b>        | 7                   | 169                 | <b>22,726</b>       | 22,854              | 12,755              |
| Zhongxin Xiecheng                                |                     |                     |                     | <b>2,673</b>        | 1,930               | 1,094               |
| Brite  |                     | NA                  | NA                  | <b>3,201</b>        | NA                  | NA                  |
| China Fortune-Tech                               |                     | NA                  | NA                  | <b>116</b>          | NA                  | NA                  |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

|  | Amounts due from<br>related parties |                     |                     | Amounts due to<br>related parties |                     |                     |
|--|-------------------------------------|---------------------|---------------------|-----------------------------------|---------------------|---------------------|
|  | 12/31/14<br>USD 000                 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 | 12/31/14<br>USD 000               | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
| China Academy of<br>Telecommunication Technology | 360                                 |                     |                     |                                   |                     |                     |
| Datang Microelectronics<br>Technology Co., Ltd   | 5,642                               | 6,124               | 4,138               |                                   |                     |                     |
| Datang Telecom Group Finance<br>Co., Ltd         |                                     |                     |                     |                                   | 65,884              | 80,262              |
| Leadcore Technology Co.,Ltd.                     | 619                                 | 405                 | 11                  | 7                                 | 140                 | 19                  |
| Toppan   | 387                                 | 370                 | 372                 | 2,739                             | 2,397               | 1,487               |
| Zhongxin Xiecheng                                |                                     | 6                   |                     |                                   |                     |                     |
| Brite  | 3,772                               | 683                 | NA                  | 700                               | 645                 | NA                  |
| China Fortune-Tech                               | 41                                  |                     |                     |                                   |                     |                     |

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

On May 29, 2014, the Company issued the US\$86.8 million zero coupon convertible bonds to Datang and Country Hill. Please refer to Note 30 for details.

On June 4, 2014, the Company, the Placing Agents and Datang entered into a placing and subscription agreement for the placing and subscription of 2.59 billion new ordinary shares. Please refer to Note 26 for details.

On November 21, 2014, Datang subscribed 669,468,952 ordinary shares of the Company. Please refer to Note 26 for details.



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37. Related party transactions *(continued)*

**Trading transactions** *(continued)*

On November 27, 2014, Country Hill subscribed 268,642,465 ordinary shares of the Company. Please refer to Note 26 for details.

On December 4, 2014, the Company issued the US\$22.2 million zero coupon convertible bonds to Datang. Please refer to Note 30 for details.

On March 2, 2015, both Datang and Country Hill delivered an irrevocable notice to the Company that they would be exercising their pre-emptive right in respect of the issue of new ordinary shares. Please refer to Note 39 for details.

**Compensation of key management personnel**

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

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

|                      | year ended<br>12/31/14<br>USD 000 | year ended<br>12/31/13<br>USD 000 | year ended<br>12/31/12<br>USD 000 |
|----------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Short-term benefit   | 4,593                             | 4,318                             | 3,191                             |
| Share-based payments | 2,535                             | 3,028                             | 1,343                             |
|                      | 7,128                             | 7,346                             | 4,534                             |

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

**Sale of self-developed living quarter unit**



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Amount of sales of self-developed living quarter unit to one of directors of the Company and one of the key management, which were approved by the Board, were US\$1.1 million and US\$0.8 million in 2013.

Amount of sales of self-developed living quarter unit to two of the key management, which were approved by the Board, was US\$0.9 million in 2012.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38. Commitments for expenditure

**Purchase commitments**

As of December 31, 2014, 2013 and 2012, the Group had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Group's facility by December 31, 2015.

|  | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| Commitments for the facility construction                        | 211,696             | 114,878             | 25,551              |
| Commitments for the acquisition of property, plant and equipment | 292,867             | 178,382             | 481,639             |
| Commitments for the acquisition of intangible assets             | 14,109              | 10,147              |                     |
|  | <b>518,672</b>      | 303,407             | 507,190             |

## 39. Subsequent event

On February 12, 2015 (after trading hours), the Company entered into a share purchase agreement with China Integrated Circuit Industry Investment Fund Co., Ltd. (the Investor). Pursuant to the share purchase agreement, the Company has conditionally agreed to allot and issue to the Investor, and the Investor has conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 new ordinary shares (the New Share(s)) at the subscription price of HK\$0.6593 per New Share. The aggregate consideration for the New Shares is HK\$3,098.71 million.

The New Shares represent approximately 13.10% of the existing issued share capital of the Company as at the date (February 12, 2015) of the announcement and approximately 11.58% of the issued share capital of the Company as enlarged by the issue of the New Shares.

In connection with the issue of the New Shares and pursuant to the 2008 Datang Share Purchase Agreement, Datang delivered an irrevocable notice to the Company on March 2, 2015 that it would be exercising its pre-emptive right in respect of the issue of the New Shares only for a total consideration of an amount equivalent to approximately RMB500 million.

In connection with the issue of the New Shares and pursuant to the 2011 Country Hill Share Subscription Agreement, Country Hill delivered an irrevocable notice to the Company on March 2, 2015 that it would be exercising its pre-emptive right in respect of the issue of the New Shares only for a total consideration of an amount equivalent to approximately RMB170 million.

40. Approval of financial statements

The financial statements were approved and authorized for issue by the board of directors of the Company on March 30, 2015.

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ADDITIONAL INFORMATION SCHEDULE I

FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENTS OF PROFIT OR LOSS

|                                     | Year<br>ended<br>12/31/14<br>USD 000 | Year<br>ended<br>12/31/13<br>USD 000 | Year<br>ended<br>12/31/12<br>USD 000 |
|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Continuing operations</b>        |                                      |                                      |                                      |
| Revenue                             |                                      |                                      |                                      |
| General and administration expenses | (54,544)                             | (59,771)                             | (38,853)                             |
| Loss from operations                | (54,544)                             | (59,771)                             | (38,853)                             |
| Interest income                     | 1,077                                | 1,050                                | 1,021                                |
| Finance costs                       | (12,405)                             | (2,972)                              | (3,331)                              |
| Foreign exchange gains or losses    | (21,791)                             | 558                                  | (237)                                |
| Other gains or losses               | 852                                  | (916)                                | (66)                                 |
| Loss before tax                     | (86,811)                             | (62,051)                             | (41,466)                             |
| Income tax expense                  |                                      |                                      |                                      |
| <b>Loss for the year</b>            | <b>(86,811)</b>                      | <b>(62,051)</b>                      | <b>(41,466)</b>                      |

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## ADDITIONAL INFORMATION

FINANCIAL INFORMATION OF PARENT COMPANY  
STATEMENT OF FINANCIAL POSITION

|   | 12/31/14<br>USD 000 | 12/31/13<br>USD 000 | 12/31/12<br>USD 000 |
|---|---------------------|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |                     |
| <i>Non-current assets</i>   |                     |                     |                     |
| Property, plant and equipment   | 10,244              | 7,301               | 5,728               |
| Intangible assets   | 133,117             | 154,682             | 171,629             |
| Investment in subsidiaries  | 2,888,658           | 2,689,158           | 2,565,148           |
| Investments in associates   | 14,205              | 12,301              | 7,665               |
| Other assets  | 166,500             | 1,000               | 3,479               |
| Total non-current assets  | 3,212,724           | 2,864,442           | 2,753,649           |
| <i>Current assets</i>   |                     |                     |                     |
| Inventories   |                     |                     | 168                 |
| Prepaid operating expenses  | 641                 | 626                 | 1,173               |
| Trade and other receivables   | 312,760             | 201,352             | 211,942             |
| Other financial assets  | 12,000              |                     | 14,878              |
| Restricted cash   |                     | 29,130              | 47,506              |
| Cash and cash equivalent  | 55,600              | 162,360             | 77,869              |
| Total current assets  | 381,001             | 393,468             | 353,536             |
| <b>Total assets</b>   | <b>3,593,725</b>    | <b>3,257,910</b>    | <b>3,107,185</b>    |
| <b>Equity and liabilities</b>   |                     |                     |                     |
| <i>Capital and reserves</i>   |                     |                     |                     |
| Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized,<br>35,856,096,167, 32,112,307,101 and 32,000,139,623 shares issued<br>and outstanding at December 31, 2014, 2013 and 2012, respectively | 14,342              | 12,845              | 12,800              |
| Share premium   | 4,377,013           | 4,090,229           | 4,083,588           |
| Reserves  | 93,012              | 69,295              | 41,140              |
| Accumulated deficit   | (1,850,292)         | (1,763,481)         | (1,701,430)         |
| Total equity  | 2,634,075           | 2,408,888           | 2,436,098           |
| <i>Non-current liabilities</i>  |                     |                     |                     |
| Convertible bonds   | 379,394             | 180,563             |                     |
| Bonds payable   | 491,579             |                     |                     |
| Other liabilities   |                     |                     | 5,000               |
| Total non-current liabilities   | 870,973             | 180,563             | 5,000               |
| <i>Current liabilities</i>  |                     |                     |                     |
| Trade and other payables  | 18,391              | 527,035             | 450,784             |
| Borrowings  | 61,221              | 133,803             | 180,034             |
| Accrued liabilities   | 9,065               | 7,615               | 5,870               |
| Promissory notes  |                     |                     | 29,374              |
| Other financial liabilities   |                     |                     | 25                  |
| Current tax liabilities   |                     | 6                   |                     |
| Total current liabilities   | 88,677              | 668,459             | 666,087             |
| Total liabilities   | 959,650             | 849,022             | 671,087             |
| Total equity and liabilities  | 3,593,725           | 3,257,910           | 3,107,185           |

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## ADDITIONAL INFORMATION SCHEDULE I

## FINANCIAL INFORMATION OF PARENT COMPANY

## STATEMENTS OF CASH FLOWS

|  | Year<br>ended<br>12/31/14<br>USD 000 | Year<br>ended<br>12/31/13<br>USD 000 | Year<br>ended<br>12/31/12<br>USD 000 |
|--|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Operating activities</b>  |                                      |                                      |                                      |
| Loss for the year  | (86,811)                             | (62,051)                             | (41,466)                             |
| Adjustments for:   |                                      |                                      |                                      |
| Amortization of intangible assets and land use right                           | 29,566                               | 28,946                               | 26,433                               |
| Depreciation of property, plant and equipment                                  | 2,225                                | 1,806                                | 1,331                                |
| Loss from investment in associates   |                                      | 750                                  |                                      |
| Impairment loss of available-for-sale investment                               |                                      | 279                                  |                                      |
| Expense recognized in respect of equity-settled share-based payments           | 18,388                               | 16,402                               | 7,174                                |
| Finance costs  | 12,405                               | 2,972                                | 3,331                                |
| Interest income recognized in profit or loss                                   | (1,077)                              | (1,050)                              | (1,021)                              |
| Net loss arising on financial assets at fair value through profit or loss      |                                      | 64                                   | 190                                  |
| Net gain arising on financial liabilities at fair value through profit or loss |                                      | (25)                                 | (1,509)                              |
| Reversal of bad debt allowance on trade receivables                            |                                      |                                      | (2,095)                              |
|  | (25,304)                             | (11,907)                             | (7,632)                              |
| Operating cash flows before movements in working capital:                      |                                      |                                      |                                      |
| (Increase) Decrease in trade and other receivables                             | (111)                                | 476                                  | 1,204                                |
| Decrease in inventories  |                                      | 168                                  | (69)                                 |
| (Increase) decrease in prepaid operating expenses                              | (2,514)                              | (91)                                 | 347                                  |
| Decrease in other payables   | (11,356)                             | (53,194)                             | (5,412)                              |
| (Decrease) Increase in accrued liabilities                                     | (5,410)                              | 74                                   | (319)                                |
| Decrease in other liabilities  | (6)                                  |                                      | (38)                                 |
| Cash used in operations  | (44,701)                             | (64,474)                             | (11,919)                             |
| Interest paid  | (2,406)                              | 307                                  | (3,465)                              |
| Interest received  | 1,077                                | 1,050                                | 1,021                                |
| Net cash used in operating activities  | (46,030)                             | (63,117)                             | (14,363)                             |
| <b>Investing activities</b>  |                                      |                                      |                                      |
| Payments to acquire financial assets   | (12,000)                             | (4,000)                              | (38,760)                             |
| Proceeds on sale of financial assets   |                                      | 21,020                               | 23,944                               |
| Payments for property, plant and equipment                                     |                                      | (3,379)                              |                                      |
| Investment in subsidiaries   | (204,103)                            | (129,010)                            |                                      |
| Cash from disposal of investment   | 2,699                                |                                      |                                      |
| Payments for intangible assets   | (10,000)                             | (24,858)                             | (58,167)                             |
| Payment to a proposed to associates  |                                      | (387)                                |                                      |
| Change in restricted cash relating to investing activities                     | 29,130                               | 18,376                               | (40,005)                             |
| Cash (paid for) received from subsidiaries                                     | (274,327)                            | 10,112                               | (26,469)                             |
| Net cash used in investing activities  | (468,601)                            | (112,126)                            | (139,457)                            |

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|   | Year<br>ended<br>12/31/14<br>USD 000 | Year<br>ended<br>12/31/13<br>USD 000 | Year<br>ended<br>12/31/12<br>USD 000 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Financing activities</b>                           |                                      |                                      |                                      |
| Proceeds from borrowings                              | 103,684                              | 241,775                              | 193,239                              |
| Repayment of borrowings                               | (176,266)                            | (288,007)                            | (222,232)                            |
| Proceeds from issuance of convertible bonds.          | 203,763                              | 195,800                              |                                      |
| Proceeds from issuance of corporate bonds             | 492,315                              |                                      |                                      |
| Proceeds from issuance of new shares                  | 270,180                              |                                      |                                      |
| Proceeds from exercise of employee stock options      | 9,483                                | 3,229                                | 669                                  |
| Repayment of promissory notes                         |                                      | (30,000)                             | (30,000)                             |
| Prepayment for bank financing management fee          |                                      | (370)                                | (2,065)                              |
| Cash (paid for) received from subsidiaries            | (495,288)                            | 137,307                              | 231,168                              |
| Net cash from financing activities                    | 407,871                              | 259,734                              | 170,779                              |
| <br>  |                                      |                                      |                                      |
| Net (decrease) increase in cash and cash equivalent   | (106,760)                            | 84,491                               | 16,959                               |
| Cash and cash equivalent at the beginning of the year | 162,360                              | 77,869                               | 60,910                               |
| Cash and cash equivalent at the end of the year       | 55,600                               | 162,360                              | 77,869                               |

## NOTES TO FINANCIAL STATEMENT SCHEDULE I

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

## Basic of Presentation

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

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**Annex A**

GLOSSARY OF TECHNICAL TERMS

|              |   |
|--------------|---|
| Cell         | A primary unit that normally repeats many times in an integrated circuit. Cells represent individual functional design units or circuits that may be reused as blocks in designs. For example, a memory cell represents a storage unit in a memory array.   |
| CIS          | CMOS Image Sensor. CIS can be used in applications such as still and video cameras and embedded cameras in mobile telephones. It is a fast growing imaging sensor technology. The fabrication of CIS is fully compatible with the mainstream CMOS process, which enables system-on-chip capability, low power consumption and low cost of fabrication.  |
| Clean room   | Area within a fab in which the wafer fabrication takes place. The classification of a clean room relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 clean room contains less than 100 particles of contaminants per cubic foot.   |
| CMOS         | Complementary Metal Oxide Silicon. A fabrication process that incorporates n-channel and p-channel CMOS transistors within the same silicon substrate. Currently, this is the most commonly used integrated circuit fabrication process technology and is one of the latest fabrication techniques to use metal oxide semiconductor transistors.  |
| CVD          | Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated wafer surface to form solid film.   |
| Die          | One individual chip cut from a wafer before being packaged.   |
| DRAM         | Dynamic Random Access Memory. A device that temporarily stores digital information but requires regular refreshing to ensure data is not lost.  |
| DSP          | Digital Signal Processor. A type of integrated circuit that processes and manipulates digital information after it has been converted from an analog source.  |
| eEEPROM      | Embedded Electrically Erasable Programmable Read-Only Memory is a type of embedded Non-Volatile Memory that has similar function as an EEPROM, but in generally is embedded in a system or in a controller IC or SoC  |
| EEPROM       | Electrically Erasable Programmable Read-Only Memory. An integrated circuit that can be electrically erased and electrically programmed with user-defined information.   |
| EPROM        | Erasable Programmable Read-Only Memory. A form of PROM that is programmable electrically yet erasable using ultraviolet light.  |
| FinFet       | Fin Field Effect Transistors (FinFET) are self-aligned multi-gate devices with a conventional CMOS process. It allows extending the gate scaling beyond the planar transistor limits with 3d shape above the substrate. FinFET's conducting channel is wrapped by a thin silicon fin, which forms the body of the device. The thickness of the fin will determine the effective channel length of the device. FinFET greatly reduces the leakage currents and enables the use of lower threshold voltages and results better performance and power savings. |
| Flash memory | A type of non-volatile memory where data is erased in blocks. The name flash is derived from the rapid block erase operation. Flash memory requires only one transistor per memory cell versus two transistors per memory cell for EEPROMs, making flash memory less expensive to produce. Flash memory is the most popular form of   |



non-volatile semiconductor memory currently available.

|                            |  |
|----------------------------|--|
| Gold Bumping               | The fabrication process of forming gold bump termination electrodes on a finished wafer.   |
| High-K Metal Gate (HKMG)   | High-k Metal Gate (HKMG) is referring to High-k dielectrics, used in semiconductor manufacturing process with metallic gate, generally replaces a silicon dioxide gate dielectric or another dielectric layers of a device. HKMG allows the increase of gate capacitance without the associated leakage effects. |
| High voltage semiconductor | High voltage semiconductors are semiconductor devices that can drive relatively high voltage potential to systems that require higher voltage of between five volts to several hundred volts.  |
| IDM                        | Integrated Device Manufacturer.  |
| Integrated circuit         | An electronic circuit where all the elements of the circuit are integrated together on a single semiconductor substrate.   |
| Interconnect               | Conductive materials such as aluminum doped polysilicon or copper that form the wiring circuitry to carry electrical signals to different parts of the chip.   |

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|                     |   |
|---------------------|---|
| I/O                 | Inputs/Outputs.   |
| Logic device        | A device that contains digital integrated circuits that perform a function rather than store information.   |
| Mask                | A glass plate with a pattern of transparent and opaque areas used to create patterns on wafers. Mask is commonly used to refer to a plate that has a pattern large enough to pattern a whole wafer at one time, as compared to a reticle, where a glass plate can contain the pattern for one or more dies but is not large enough to transfer a wafer-sized pattern all at once. |
| Memory              | A device that can store information for later retrieval.  |
| MEMS                | Micro-Electro-Mechanical Systems.   |
| Micro-display       | A small display that is of such high resolution that it is only practically viewed or projected with lenses or mirrors. A micro-display is typically magnified by optics to enlarge the image viewed by the user. For example, a miniature display smaller than one inch in size may be magnified to provide a 12-inch to 60- inch viewing area.                                  |
| Micron              | A term for micrometer, which is a unit of linear measure that equals one one-millionth (1/1,000,000) of a meter. There are 25.4 microns in one one-thousandth of an inch.   |
| Mixed-signal        | The combination of analog and digital circuitry in a single semiconductor.  |
| MPW                 | Multi-Project Wafer integrates numbers of different integrated circuit designs from various parties onto one single wafer in order for these parties to share mask and wafer resources to reduce cost and to produce in low quantities.   |
| Nanometer           | A term for micrometer, which is a unit of linear measure that equals one thousandth (1/1,000) of a micron.  |
| Non-volatile memory | Memory products that maintain their content when the power supply is switched off.  |
| PolySiON            | Polycrystalline silicon oxygen nitride (PolySiON) is referring to semiconductor manufacturing process with CMOS technology using conventional poly gate and silicon oxygen nitride gate dielectrics.  |
| PROM                | Programmable Read-Only Memory. Memory that can be reprogrammed once after manufacturing.  |
| RAM                 | Random Access Memory. Memory devices where any memory cell in a large memory array may be accessed in any order at random.  |
| Reticle             | See Mask above.   |
| RF                  | Radio Frequency. Radio frequency semiconductors are primarily used in communications devices such as cell phones.   |
| ROM                 | Read-Only Memory. See Mask ROM above.   |
| Scanner             | An aligner that scans light through a slit across a mask to produce an image on a wafer.  |
| Semiconductor       | An element with an electrical resistivity within the range of an insulator and a conductor. A semiconductor can conduct or block the flow of electric current depending on the direction and magnitude of applied electrical biases.  |
| Solder bumping      | The fabrication processes of forming solder bump termination electrodes, which are elevated metal structures, or lead free bump termination electrodes.   |

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| SRAM              | Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed. |
| System-on-chip    | A chip that incorporates functions usually performed by several different devices and therefore generally offers better performance and lower cost.  |
| Systems companies | Companies that design and manufacture complete end market products or systems for sale to the market.  |
| Transistor        | An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.  |
| Volatile memory   | Memory products that lose their content when the power supply is switched off. Wafer A thin, round, flat piece of silicon that is the base of most integrated circuits.                                  |