

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 20-F/A

December 19, 2013

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

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**FORM 20-F/A**

(Amendment No. 1)

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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, 2012**
- 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)

**N/A**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

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

**The People's Republic of China**

(Address of principal executive offices)

**Mr. Gareth Kung, 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 per share | 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**

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

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

As of December 31, 2012, there were 32,000,139,623 ordinary shares, par value US\$0.0004 per share, outstanding, of which 1,621,168,800 ordinary shares were held in the form of 32,423,376 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 Exchange Act. (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  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

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 Exchange Act).

Yes  No

\* Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

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**EXPLANATORY NOTE**

We are filing this Amendment No. 1 on Form 20-F/A (this **Amendment No. 1** ) to our annual report on Form 20-F for the fiscal year ended December 31, 2012, which was originally filed with the Securities and Exchange Commission on April 15, 2013 (the **Original Form 20-F** ), solely to provide a revised Report of Independent Registered Public Accounting Firm that opines on our consolidated statements of financial position as of January 1, 2011.

This Amendment No. 1 consists of a cover page, this explanatory note, the audited annual financial statements for the year ended December 31, 2012 accompanied by the revised Report of Independent Registered Public Accounting Firm, an exhibit index and the required certifications of the principal executive officer and principal financial officer.

Other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the Original Form 20-F. As a result, this Amendment No. 1 does not reflect events that have occurred after the April 15, 2013 filing date of the Original Form 20-F.

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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 Form 20-F/A on its behalf.

Semiconductor Manufacturing International Corporation

By: /s/ Gareth Kung

Name: Gareth Kung

Title: Chief Financial Officer

Date: December 19, 2013

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**EXHIBIT INDEX**

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

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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 (the Company) as of December 31, 2012 and 2011 and January 1, 2011, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2012 and 2011 and January 1, 2011, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

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, 2012, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
March 25, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Semiconductor Manufacturing International Corporation

We have audited the internal control over financial reporting of Semiconductor Manufacturing International Corporation and subsidiaries (the Company) as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report by Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012, of the Company and our report dated March 25, 2013 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu  
*Certified Public Accountants*

Hong Kong

March 25, 2013

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

|   | Notes | For the year ended December 31 |                  |
|---|-------|--------------------------------|------------------|
|   |       | 2012                           | 2011             |
| <b>Continuing operations</b>  |       |                                |                  |
| Revenue   | 6     | 1,701,598                      | 1,319,466        |
| Cost of sales   |       | (1,352,835)                    | (1,217,525)      |
| Gross profit  |       | 348,763                        | 101,941          |
| Research and development  |       | (193,569)                      | (191,473)        |
| Sales and marketing expenses  |       | (31,485)                       | (32,559)         |
| General and administration expenses                                 |       | (107,313)                      | (57,435)         |
| Impairment loss on property, plant and equipment                    |       |                                | (17,691)         |
| Finance costs   | 9     | (39,460)                       | (21,903)         |
| Interest income   |       | 5,390                          | 4,724            |
| Other income  |       | 6,190                          | 13,718           |
| Other gains or losses   | 8     | 23,220                         | 17,081           |
| Share of profits of associates                                      |       | 1,703                          | 4,479            |
| Profit (loss) before tax  |       | 13,439                         | (179,118)        |
| Income tax benefit (expense)  | 10    | 9,102                          | (82,503)         |
| Profit (loss) for the year from continuing operations               | 11    | 22,541                         | (261,621)        |
| <b>Discontinued operations</b>                                      |       |                                |                  |
| Profit for the year from discontinued operations                    | 12    |                                | 14,741           |
| <b>Profit (loss) for the year</b>                                   |       | <b>22,541</b>                  | <b>(246,880)</b> |
| <b>Other comprehensive income</b>                                   |       |                                |                  |
| <i>Item that may be reclassified subsequently to profit or loss</i> |       |                                |                  |
| Exchange differences on translating foreign operations              |       | 70                             | 4,938            |
| <b>Total comprehensive income (expense) for the year</b>            |       | <b>22,611</b>                  | <b>(241,942)</b> |
| Profit (loss) for the year attributable to:                         |       |                                |                  |
| Owners of the Company   |       | 22,771                         | (246,817)        |
| Non-controlling interest  |       | (230)                          | (63)             |
|   |       | 22,541                         | (246,880)        |
| Total comprehensive income (expense) for the year attributable to:  |       |                                |                  |
| Owners of the Company   |       | 22,841                         | (241,879)        |
| Non-controlling interests   |       | (230)                          | (63)             |
|   |       | 22,611                         | (241,942)        |
| <b>Earnings (loss) per share</b>                                    |       |                                |                  |
| From continuing and discontinued operations                         |       |                                |                  |
| Basic   | 15    | \$ 0.00                        | \$ (0.01)        |
| Diluted   | 15    | \$ 0.00                        | \$ (0.01)        |
| From continuing operations  |       |                                |                  |
| Basic   | 15    | \$ 0.00                        | \$ (0.01)        |
| Diluted   | 15    | \$ 0.00                        | \$ (0.01)        |

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

|  | Notes | 12/31/12         | 12/31/11         | 1/1/11           |
|--|-------|------------------|------------------|------------------|
| <b>Assets</b>  |       |                  |                  |                  |
| <i>Non-current assets</i>  |       |                  |                  |                  |
| Property, plant and equipment  | 17    | 2,385,435        | 2,516,578        | 2,351,863        |
| Prepaid Land use right   |       | 73,962           | 77,231           | 78,798           |
| Intangible assets  | 18    | 235,378          | 179,279          | 173,821          |
| Investments in associates  | 20    | 21,636           | 15,856           | 7,665            |
| Deferred tax assets  | 10    | 43,380           | 31,787           | 112,688          |
| Other assets   | 22    | 43,382           | 45,685           | 2,393            |
| Total non-current assets   |       | 2,803,173        | 2,866,416        | 2,727,228        |
| <i>Current assets</i>  |       |                  |                  |                  |
| Inventories  | 23    | 295,728          | 207,308          | 213,404          |
| Prepaid operating expenses   |       | 46,986           | 52,805           | 17,705           |
| Trade and other receivables  | 24    | 328,211          | 200,905          | 264,048          |
| Other financial assets   | 21    | 18,730           | 1,973            | 3,149            |
| Restricted cash  | 25    | 217,603          | 136,907          | 161,350          |
| Cash and bank balances   |       | 358,490          | 261,615          | 515,808          |
|  |       | 1,265,748        | 861,513          | 1,175,464        |
| Assets classified as held-for-sale   | 16    | 4,239            |                  |                  |
| Total current assets   |       | 1,269,987        | 861,513          | 1,175,464        |
| <b>Total assets</b>  |       | <b>4,073,160</b> | <b>3,727,929</b> | <b>3,902,692</b> |
| <b>Equity and liabilities</b>  |       |                  |                  |                  |
| <i>Capital and reserves</i>  |       |                  |                  |                  |
| Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized, 32,000,139,623, 27,487,676,065, and 27,334,063,747 shares issued and outstanding at December 31, 2012, 2011 and 2010, respectively | 26    | 12,800           | 10,995           | 10,934           |
| Convertible preferred shares, \$0.0004 par value, 5,000,000,000 shares authorized, nil, 445,545,911 shares and nil issued and outstanding at December 31, 2012, 2011 and 2010, respectively              | 26    |                  | 178              |                  |
| Share premium  | 26    | 4,083,588        | 4,082,135        | 3,762,146        |
| Reserves   | 27    | 46,148           | 41,315           | 39,447           |
| Accumulated deficit  | 28    | (1,867,036)      | (1,889,807)      | (1,642,990)      |
| Equity attributable to owners of the Company   |       | 2,275,500        | 2,244,816        | 2,169,537        |
| Non-controlling interests  |       | 952              | 1,182            | 1,245            |
| Total equity   |       | 2,276,452        | 2,245,998        | 2,170,782        |

Table of Contents**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|                                 | Notes | 12/31/12         | 12/31/11  | 1/1/11    |
|---------------------------------|-------|------------------|-----------|-----------|
| <i>Non-current liabilities</i>  |       |                  |           |           |
| Borrowings                      | 29    | <b>528,612</b>   | 72,361    | 178,596   |
| Deferred tax liabilities        | 10    | <b>440</b>       | 1,333     | 1,094     |
| Deferred government grant       |       | <b>150,347</b>   | 125,335   | 49,143    |
| Promissory notes                | 31    |                  | 28,560    | 56,327    |
| Long-term financial liabilities |       | <b>4,223</b>     | 3,018     | 37,759    |
| Other liabilities               |       | <b>5,000</b>     |           | 9,646     |
| Total non-current liabilities   |       | <b>688,622</b>   | 230,607   | 332,565   |
| <i>Current liabilities</i>      |       |                  |           |           |
| Trade and other payables        | 30    | <b>423,952</b>   | 375,748   | 614,055   |
| Borrowings                      | 29    | <b>567,803</b>   | 798,782   | 705,514   |
| Accrued liabilities             |       | <b>84,611</b>    | 45,674    | 45,357    |
| Promissory notes                | 31    | <b>29,374</b>    | 29,374    | 29,374    |
| Other financial liabilities     | 32    | <b>25</b>        | 1,683     | 3,152     |
| Current tax liabilities         | 10    | <b>2,321</b>     | 63        | 1,893     |
| Total current liabilities       |       | <b>1,108,086</b> | 1,251,324 | 1,399,345 |
| Total liabilities               |       | <b>1,796,708</b> | 1,481,931 | 1,731,910 |
| Total equity and liabilities    |       | <b>4,073,160</b> | 3,727,929 | 3,902,692 |

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(In USD 000)

|   | Ordinary<br>Shares | Convertible<br>preferred<br>shares<br>(Note 26) | Share<br>premium<br>(Note 26) | Equity-settled<br>employee<br>benefits<br>reserve<br>(Note 27) | Foreign<br>currency<br>translation<br>reserve<br>(Note 27) | Accumulated<br>deficit<br>(Note 28) | Attributable<br>to owners of<br>the Company | Non-<br>controlling<br>interest | Total<br>Equity |
|---|--------------------|---|-------------------------------|--|--|-------------------------------------|---|---------------------------------|-----------------|
| <b>Balance at<br/>January 1, 2011</b>                       | 10,934             |   | 3,762,146                     | 40,539   | (1,092)  | (1,642,990)                         | 2,169,537                                   | 1,245                           | 2,170,782       |
| Loss for the year   |                    |   |                               |  |  | (246,817)                           | (246,817)                                   | (63)                            | (246,880)       |
| Other comprehensive<br>income for the year                  |                    |   |                               |  | 4,938  |                                     | 4,938                                       |                                 | 4,938           |
| Total comprehensive<br>income for the year                  |                    |   |                               |  | 4,938  | (246,817)                           | (241,879)                                   | (63)                            | (241,942)       |
| Exercise of stock<br>options                                | 61                 |   | 11,870                        | (8,406)  |  |                                     | 3,525                                       |                                 | 3,525           |
| Issuance of<br>convertible preferred<br>shares and warrants |                    | 178   | 308,119                       |  |  |                                     | 308,297                                     |                                 | 308,297         |
| Share-based<br>compensation                                 |                    |   |                               | 5,336  |  |                                     | 5,336                                       |                                 | 5,336           |
| <b>Balance at<br/>December 31, 2011</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 year   |                    |   |                               |  |  | 22,771                              | 22,771                                      | (230)                           | 22,541          |
| Other comprehensive<br>income for the year                  |                    |   |                               |  | 70   |                                     | 70  |                                 | 70              |
| Total comprehensive<br>income for the year                  |                    |   |                               |  | 70   | 22,771                              | 22,841                                      | (230)                           | 22,611          |
| Exercise of stock<br>options                                | 23                 |   | 3,057                         | (2,411)  |  |                                     | 669   |                                 | 669             |
| Exercise convertible<br>preferred shares                    | 1,782              | (178)   | (1,604)                       |  |  |                                     |   |                                 |                 |
| Share-based<br>compensation                                 |                    |   |                               | 7,174  |  |                                     | 7,174                                       |                                 | 7,174           |
| <b>Balance at<br/>December 31, 2012</b>                     | 12,800             |   | 4,083,588                     | 42,232   | 3,916  | (1,867,036)                         | 2,275,500                                   | 952                             | 2,276,452       |

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(In USD 000)

|  | For the year ended December 31 |           |
|--|--------------------------------|-----------|
|  | 2012                           | 2011      |
| <b>Operating activities:</b>   |                                |           |
| Profit (loss) for the year   | 22,541                         | (246,880) |
| Adjustments for:   |                                |           |
| Income tax (benefit) expenses  | (9,102)                        | 82,503    |
| Forgiveness of payables  |                                | (19,011)  |
| Gain on disposition of discontinued operation, net of taxes                      |                                | (17,103)  |
| Amortization of intangible assets and land use right                             | 35,076                         | 33,017    |
| Depreciation of property, plant and equipment                                    | 531,823                        | 518,840   |
| Impairment loss of property, plant and equipment                                 |                                | 17,691    |
| Expense recognized in respect of equity-settled share-based payments             | 7,174                          | 5,336     |
| Finance cost   | 39,460                         | 21,903    |
| (Gain) loss on disposal of property, plant and equipment                         | (19,325)                       | 508       |
| Interest income recognized in profit or loss                                     | (5,390)                        | (4,724)   |
| Bad debt allowance on trade receivables  | 4,615                          | 551       |
| Impairment loss recognized on Inventory  | 4,851                          | 6,473     |
| Net loss (gain) arising on financial assets at fair value through profit or loss | 861                            | (244)     |
| Net gain arising on financial liabilities at fair value through profit or loss   | (1,659)                        | (1,469)   |
| Reversal of bad debt allowance on trade receivables                              | (2,095)                        | (6,400)   |
| Share of profit of associates  | (1,703)                        | (4,479)   |
| Other non-cash expense   | 635                            | 556       |
| Operating cash flows before movements in working capital:                        | 607,762                        | 387,068   |
| (Increase) decrease in trade and other receivables                               | (112,410)                      | 73,069    |
| Increase in inventories  | (93,270)                       | (5,587)   |
| Increase in restricted cash relating to operating activities                     | (15,406)                       | (60,221)  |
| Decrease (increase) in prepaid operating expenses                                | 7,791                          | (41,190)  |
| Increase in other assets   | (937)                          | (9,897)   |
| Increase in trade and other payables   | 22,942                         | 902       |
| Increase in deferred government grant  | 25,010                         | 76,193    |
| Increase in accrued liabilities  | 36,951                         | 5,911     |
| Decrease in other liabilities  |                                | (9,646)   |
| Cash generated from operations   | 478,433                        | 416,602   |
| Interest paid  | (47,532)                       | (38,765)  |
| Interest received  | 5,390                          | 4,724     |
| Income taxes paid  | (1,125)                        | (3,193)   |
| Net cash from operating activities   | 435,166                        | 379,368   |



Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In USD 000)

|  | For the year ended December 31 |             |
|--|--------------------------------|-------------|
|  | 2012                           | 2011        |
| <b>Investing activities</b>  |                                |             |
| Payments to acquire financial assets   | (43,638)                       | (40,350)    |
| Proceeds on sale of financial assets   | 26,019                         | 45,093      |
| Payments for property, plant and equipment   | (400,291)                      | (931,574)   |
| Proceeds from government subsidy to purchase plant and equipment                   |                                | 1,967       |
| Proceeds from disposal of property, plant and equipment and intangible assets      | 37,288                         | 4,421       |
| Payments for intangible assets   | (76,366)                       | (31,185)    |
| Payments to acquire long-term investment   |                                | (1,000)     |
| Amounts advanced to proposed joint ventures  |                                | (31,816)    |
| Change in restricted cash relating to investing activities                         | (65,289)                       | 84,316      |
| Net cash outflow from disposition of discontinued operation                        |                                | (3,513)     |
| Net cash used in investing activities  | (522,277)                      | (903,641)   |
| <b>Financing activities</b>  |                                |             |
| Proceeds from issuance of convertible preferred shares                             |                                | 308,297     |
| Proceeds from borrowings   | 1,541,480                      | 1,326,351   |
| Repayment of borrowings  | (1,328,048)                    | (1,339,318) |
| Proceeds from exercise of employee stock options                                   | 669                            | 3,525       |
| Repayment of promissory notes  | (30,000)                       | (30,000)    |
| Net cash from financing activities   | 184,101                        | 268,855     |
| Net increase (decrease) in cash and cash equivalents                               | 96,990                         | (255,418)   |
| Cash and cash equivalents at the beginning of the year                             | 261,615                        | 515,808     |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | (115)                          | 1,225       |
| Cash and bank balance at the end of the year                                       | 358,490                        | 261,615     |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

1. General information

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

Semiconductor Manufacturing International Corporation and its subsidiaries (hereinafter collectively referred to as the Company or SMIC) are mainly engaged in the computer-aided design, manufacturing, 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. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)

**Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These are the Company's first annual financial statements issued under IFRS. Prior to 2012, the Company prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles in the United States of America (US GAAP). The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards to transition from US GAAP to IFRS.

The preparation of the consolidated financial statements resulted in different accounting policies adopted as compared to those disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2011, prepared under US GAAP. A summary of the significant changes to the Company's accounting policies, along with reconciliations presenting the impact of the transition to IFRS as at January 1, 2011 and as at December 31, 2011 and for the year ended December 31, 2011, are disclosed in Note 4. A summary of the Company's significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)  
(continued)

**Basis of preparation** (continued)

In addition, the Company has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date (annual periods beginning on or after July 1, 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the statement of comprehensive income is renamed the statement of profit or loss and other comprehensive income and the income statement is renamed the statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)  
(continued)

**New and revised IFRSs in issue but not yet effective**

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

|  |   |
|--|---|
| Amendments to IFRSs                        | Annual Improvements to IFRSs 2009-2011 Cycle <sup>1</sup>   |
| Amendments to IFRS 1                       | Government Loans <sup>1</sup>   |
| Amendments to IFRS 7                       | Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>1</sup>  |
| Amendments to IFRS 9 and IFRS 7            | Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>2</sup>  |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup> |
| Amendments to IFRS 10, IFRS 12 and IAS 27  | Investment Entities <sup>3</sup>  |
| IFRS 9                                     | Financial Instruments <sup>2</sup>  |
| IFRS 10                                    | Consolidated Financial Statements <sup>1</sup>  |
| IFRS 11                                    | Joint Arrangements <sup>1</sup>   |
| IFRS 12                                    | Disclosure of Interests in Other Entities <sup>1</sup>  |
| IFRS 13                                    | Fair Value Measurement <sup>1</sup>   |
| IAS 19 (Revised 2011)                      | Employee Benefits <sup>1</sup>  |
| IAS 27 (Revised 2011)                      | Separate Financial Statements <sup>1</sup>  |
| IAS 28 (Revised 2011)                      | Investments in Associates and Joint Ventures <sup>1</sup>   |
| Amendments to IAS 32                       | Offsetting Financial Assets and Financial Liabilities <sup>3</sup>  |
| IFRIC 20                                   | Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>  |

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1 Effective for annual periods beginning on or after January 1, 2013

2 Effective for annual periods beginning on or after January 1, 2015

3 Effective for annual periods beginning on or after January 1, 2014

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)  
(continued)

**New and revised IFRSs in issue but not yet effective** (continued)

***IFRS 9 Financial Instruments***

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

*Key requirements of IFRS 9:*

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liabilities that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

The Company anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets (e.g. the Company's equity instruments that are currently classified as available-for-sale investments measured at cost will have to be measured at fair value at the end of subsequent reporting periods). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)  
*(continued)*

**New and revised IFRSs in issue but not yet effective** *(continued)*

***New and revised Standards on consolidation, joint arrangements, associates and disclosures***

In May 2011, a package of five Standards consolidation, joint arrangements, associates and disclosures issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

*Key requirements of these five Standards are described below*

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted provided all of these standards are applied at the same time. The Company anticipates that the application of these five standards will not have a significant impact on amounts reported in the consolidated financial statements.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

2. Basis of preparation and application of new and revised International Financial Reporting Standards (IFRSs)  
(continued)

**New and revised IFRSs in issue but not yet effective** (continued)

***IFRS 13 Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRS literature require or permit fair value measurements and disclosures about fair value measurements, except on specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company anticipates that the application of the new standard may not have significant impact to the amounts reported in the financial statements, but may result in more extensive disclosure.

***Amendments to IFRS7 and IAS32 Offsetting Financial Assets and Financial Liabilities and the related disclosures***

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of currently has a legally enforceable right of set-off and simultaneous realization and settlement .

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after January 1, 2014, with retrospective application required.

The Company anticipates that the application of these amendments to IAS32 and IFRS7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

*Amendments to IAS 32*

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Tax. The Company anticipates that the amendments to IAS 32 will have no effect on the Company's consolidated financial statements as the Company has already adapted this treatment.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies

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 (US 000), except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. 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 the subsidiaries to bring their accounting policies in line with those used by other members of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Company's equity therein.

**Investments in associates**

An associate is an entity over which the Company 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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Company for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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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 Company'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. Any impairment loss recognized forms part of the carrying amount of the investment. 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.

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value at initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company 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 Company reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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 to sell.

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

Revenue 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Company 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 Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**Revenue recognition** *(continued)*

***Sale of goods*** *(continued)*

Customers have the right of return within one year pursuant to warranty and sales return provisions. The Company typically performs tests of its products prior to shipment to identify yield rate per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid by the customer or for the costs to return products and to ship replacement products to the customer. The Company estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects at customers that may exceed historical trends.

***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 Company 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, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Foreign currencies**

The United States dollar ( US dollar ), the currency in which a substantial portion of the Company s transactions are denominated, is used as the functional and reporting currency of the Company.

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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**Foreign currencies** *(continued)*

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company'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 Company'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.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

**Borrowing costs**

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

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

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies (*continued*)

**Government grants**

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue 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 grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related cost are recognized in profit or loss in the period in which they become receivable.

**Retirement benefits**

The Company's local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Company is required to make contributions to the state-managed retirement plan based on a range of 20% to 22% of the monthly basic salary of current employees. The costs are recognized in profit or loss when incurred. Employees are required to make contributions equivalent to 6% to 8% of their basic salary.

**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 33.

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 Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**Taxation**

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

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company'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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies (*continued*)

**Taxation** (*continued*)

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 Company constructs certain of its plant and equipment. In addition to costs under the construction contracts, external costs directly related to the construction of such facilities, including duties and tariffs, equipment installation and shipping costs, are capitalized. Interest incurred during the active construction period is capitalized. 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.

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

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

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

|                     |            |
|---------------------|------------|
| Buildings           | 25 years   |
| Plant and equipment | 5 10 years |
| Office equipment    | 3 5 years  |

#### **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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**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 subsidies for certain research and development projects. Changes of restricted cash pledged against letter of credit and short-term credit facilities are presented as investing 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.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies (*continued*)

**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.

***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 Company 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 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**Financial assets** *(continued)*

***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.

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

The Company has AFS equity investments totaled at \$3.8 million as of December 31, 2012 and 2011, respectively, 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.

***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 Company'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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

3. Significant accounting policies *(continued)*

**Financial assets** *(continued)*

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

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 that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

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.

***Derecognition of financial assets***

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company

retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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**

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 Company are recognised at the proceeds received, net of direct issue costs.

***Financial liabilities***

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

***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL 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 35.

***Other financial liabilities***

Other financial liabilities (including borrowings, trade and other payables and promissory notes) 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 Company derecognizes financial liabilities when, and only when, the Company'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 Company 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 35.

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. Transition to IFRS

The Company is dual listed in 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 framework, the Company started to prepare financials statements in accordance with IFRS for the year ended December 31, 2012. As disclosed in Note 1, these consolidated financial statements represent the Company's initial presentation of the financial results of operations and financial position under IFRS for the year ended December 31, 2012. As a result, these consolidated financial statements have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Previously, the Company prepared its annual consolidated financial statements in accordance with US GAAP.

IFRS 1 requires the presentation of comparative information as at January 1, 2011 the transition date and subsequent comparative period as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs. The significant exemption applied under IFRS 1 in preparing these consolidated financial statements and the significant differences between the Company's accounting policy under US GAAP and those applied by the Company under IFRS are discussed below.

IFRS 1 *First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain IFRS.

The Company has applied the following exemptions:

- IFRS 2 *Share-based Payment* has not been applied to equity instruments in share-based payment transactions that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2011.
- The Company has designated unquoted equity instruments held at January 1, 2011 as available- for-sale investments.

**Estimates**

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The estimates at January 1, 2011 and at December 31, 2011 are consistent with those made for the same dates in accordance with U.S. GAAP .

The estimates used by the Company to present these amounts in accordance with IFRS reflect conditions at January 1, 2011, the date of transition to IFRS and as of December 31, 2011.

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 4. Transition to IFRS (continued)

Reconciliation of statement of financial position under IFRS from the amounts previously reported under U.S. GAAP as at January 1, 2011 (date of transition to IFRS)

|                               | Notes | U.S. GAAP<br>USD 000 | Effect of<br>Transition to<br>IFRSs<br>USD 000 | IFRS as at<br>January 1,<br>2011<br>USD 000 |
|-------------------------------|-------|----------------------|--|---|
| <b>Assets</b>                 |       |                      |  |   |
| <i>Non-current assets</i>     |       |                      |  |   |
| Property, plant and equipment |       | 2,351,863            |  | 2,351,863                                   |
| Prepaid Land use right        |       | 78,798               |  | 78,798                                      |
| Intangible assets             |       | 173,821              |  | 173,821                                     |
| Investments in associates*    |       | 7,665                |  | 7,665                                       |
| Deferred tax assets           | E     | 112,688              |  | 112,688                                     |
| Other assets*                 |       | 2,393                |  | 2,393                                       |
| Total non-current assets      |       | 2,727,228            |  | 2,727,228                                   |
| <i>Current assets</i>         |       |                      |  |   |
| Inventories                   |       | 213,404              |  | 213,404                                     |
| Prepaid operating expenses*   |       | 17,705               |  | 17,705                                      |
| Trade and other receivables*  |       | 264,048              |  | 264,048                                     |
| Other financial assets*       |       | 3,149                |  | 3,149                                       |
| Restricted cash               |       | 161,350              |  | 161,350                                     |
| Cash and bank balances        |       | 515,808              |  | 515,808                                     |
| Total current assets          |       | 1,175,464            |  | 1,175,464                                   |
| Total assets                  |       | 3,902,692            |  | 3,902,692                                   |

\* US GAAP figures have been reclassified to conform to IFRS presentation. Please refer to Note A below for details.



Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 4. Transition to IFRS (continued)

Reconciliation of statement of financial position under IFRS from the amounts previously reported under U.S. GAAP as at January 1, 2011 (date of transition to IFRS)

|  | Notes | U.S. GAAP<br>USD 000 | Effect of<br>Transition to<br>IFRSs<br>USD 000 | IFRS as at<br>January 1,<br>2011<br>USD 000 |
|--|-------|----------------------|--|---|
| <b>Equity and liabilities</b>                |       |                      |  |   |
| <i>Capital and reserves</i>                  |       |                      |  |   |
| Ordinary shares                              |       | 10,934               |  | 10,934                                      |
| Share premium                                | B, D  | 3,858,642            | (96,496)                                       | 3,762,146                                   |
| Reserves                                     | D     | (1,092)              | 40,539   | 39,447                                      |
| Accumulated deficit                          | B     | (1,698,947)          | 55,957   | (1,642,990)                                 |
| Equity attributable to owners of the Company |       | 2,169,537            |  | 2,169,537                                   |
| Non-controlling interests                    | C     | 39,004               | (37,759)                                       | 1,245                                       |
| Total equity                                 |       | 2,208,541            | (37,759)                                       | 2,170,782                                   |
| <i>Non-current liabilities</i>               |       |                      |  |   |
| Borrowings                                   |       | 178,596              |  | 178,596                                     |
| Deferred tax liabilities                     |       | 1,094                |  | 1,094                                       |
| Deferred government grant                    |       | 49,143               |  | 49,143                                      |
| Promissory notes                             |       | 56,327               |  | 56,327                                      |
| Long-term financial liabilities              | C     |                      | 37,759   | 37,759                                      |
| Other liabilities                            |       | 9,646                |  | 9,646                                       |
| Total non-current liabilities                |       | 294,806              | 37,759   | 332,565                                     |
| <i>Current liabilities</i>                   |       |                      |  |   |
| Trade and other payables*                    |       | 614,055              |  | 614,055                                     |
| Borrowings*                                  |       | 705,514              |  | 705,514                                     |
| Accrued liabilities*                         |       | 45,357               |  | 45,357                                      |
| Promissory notes                             |       | 29,374               |  | 29,374                                      |
| Other financial liabilities*                 |       | 3,152                |  | 3,152                                       |
| Current tax liabilities                      |       | 1,893                |  | 1,893                                       |
| Total current liabilities                    |       | 1,399,345            |  | 1,399,345                                   |
| Total liabilities                            |       | 1,694,151            | 37,759   | 1,731,910                                   |
| Total equity and liabilities                 |       | 3,902,692            |  | 3,902,692                                   |

\* US GAAP figures have been reclassified to conform to IFRS presentation. Please refer to Note A below for details.



Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**4. Transition to IFRS *(continued)*

Reconciliation of statement of financial position under IFRS from the amounts previously reported under U.S. GAAP as at December 31, 2011

|                               | Notes | U.S. GAAP<br>USD 000 | Effect of<br>transition to<br>IFRSs<br>USD 000 | IFRS as at<br>December 31<br>2011<br>USD 000 |
|-------------------------------|-------|----------------------|--|--|
| <b>Assets</b>                 |       |                      |  |  |
| <i>Non-current assets</i>     |       |                      |  |  |
| Property, plant and equipment |       | 2,516,578            |  | 2,516,578                                    |
| Prepaid Land use right        |       | 77,231               |  | 77,231                                       |
| Intangible assets             |       | 179,279              |  | 179,279                                      |
| Investments in associates*    |       | 15,856               |  | 15,856                                       |
| Deferred tax assets           | E     | 31,787               |  | 31,787                                       |
| Other assets*                 |       | 45,685               |  | 45,685                                       |
| Total non-current assets      |       | 2,866,416            |  | 2,866,416                                    |
| <i>Current assets</i>         |       |                      |  |  |
| Inventories                   |       | 207,308              |  | 207,308                                      |
| Prepaid operating expenses*   |       | 52,805               |  | 52,805                                       |
| Trade and other receivables*  |       | 200,905              |  | 200,905                                      |
| Other financial assets*       |       | 1,973                |  | 1,973  |
| Restricted cash               |       | 136,907              |  | 136,907                                      |
| Cash and bank balances        |       | 261,615              |  | 261,615                                      |
| Total current assets          |       | 861,513              |  | 861,513                                      |
| Total assets                  |       | 3,727,929            |  | 3,727,929                                    |

\* US GAAP figures have been reclassified to conform to IFRS presentation. Please refer to Note A below for details.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 4. Transition to IFRS (continued)

Reconciliation of statement of financial position under IFRS from the amounts previously reported under U.S. GAAP as at December 31, 2011 (continued)

|  | Notes | U.S. GAAP<br>USD 000 | Effect of<br>transition to<br>IFRSs<br>USD 000 | IFRS as at<br>December 31,<br>2011<br>USD 000 |
|--|-------|----------------------|--|---|
| <b>Equity and liabilities</b>                |       |                      |  |   |
| <i>Capital and reserves</i>                  |       |                      |  |   |
| Ordinary shares                              |       | 10,995               |  | 10,995  |
| Convertible Preference shares                |       | 178                  |  | 178   |
| Share premium                                | B, D  | 4,240,530            | (158,395)                                      | 4,082,135                                     |
| Reserves                                     | D     | 3,846                | 37,469   | 41,315  |
| Accumulated deficit                          | B     | (2,010,733)          | 120,926  | (1,889,807)                                   |
| Equity attributable to owners of the Company |       | 2,244,816            |  | 2,244,816                                     |
| Non-controlling interests                    | C     | 4,200                | (3,018)  | 1,182   |
| Total equity                                 |       | 2,249,016            | (3,018)  | 2,245,998                                     |
| <i>Non-current liabilities</i>               |       |                      |  |   |
| Borrowings                                   |       | 72,361               |  | 72,361  |
| Deferred tax liabilities                     |       | 1,333                |  | 1,333   |
| Deferred government grant                    |       | 125,335              |  | 125,335                                       |
| Long-term financial liabilities              | C     |                      | 3,018  | 3,018   |
| Promissory notes                             |       | 28,560               |  | 28,560  |
| Total non-current liabilities                |       | 227,589              | 3,018  | 230,607                                       |
| <i>Current liabilities</i>                   |       |                      |  |   |
| Trade and other payables*                    |       | 375,748              |  | 375,748                                       |
| Borrowings*                                  |       | 798,782              |  | 798,782                                       |
| Accrued liabilities*                         |       | 45,674               |  | 45,674  |
| Promissory notes                             |       | 29,374               |  | 29,374  |
| Other financial liabilities*                 |       | 1,683                |  | 1,683   |
| Current tax liabilities                      |       | 63                   |  | 63  |
| Total current liabilities                    |       | 1,251,324            |  | 1,251,324                                     |
| Total liabilities                            |       | 1,478,913            | 3,018  | 1,481,931                                     |
| Total equity and liabilities                 |       | 3,727,929            |  | 3,727,929                                     |

\* US GAAP figures have been reclassified to conform to IFRS presentation. Please refer to Note A below for details.



Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 4. Transition to IFRS (continued)

Reconciliation of total comprehensive income under IFRS from the amounts previously reported under U.S. GAAP for the year ended December 31, 2011

|   | Notes | U.S. GAAP<br>USD 000 | Effect of<br>Translation to<br>IFRSs<br>USD 000 | IFRS for the<br>year end<br>2011<br>USD 000 |
|---|-------|----------------------|---|---|
| <b>Continuing operations</b>  |       |                      |   |   |
| Revenue   |       | 1,319,466            |   | 1,319,466                                   |
| Cost of sales   |       | (1,217,525)          |   | (1,217,525)                                 |
| Gross profit  |       | 101,941              |   | 101,941                                     |
| Research and development  |       | (191,473)            |   | (191,473)                                   |
| Sales and Marketing expenses  |       | (32,559)             |   | (32,559)                                    |
| General and Administration expenses                                 |       | (57,435)             |   | (57,435)                                    |
| Impairment loss on property, plant and equipment                    |       | (17,691)             |   | (17,691)                                    |
| Finance costs   | C     | (20,583)             | (1,320)   | (21,903)                                    |
| Interest income   |       | 4,724                |   | 4,724                                       |
| Other income*   |       | 13,718               |   | 13,718                                      |
| Other gains or losses*  |       | 17,081               |   | 17,081                                      |
| Share of profits of associates                                      |       | 4,479                |   | 4,479                                       |
| Loss before tax   |       | (177,798)            | (1,320)   | (179,118)                                   |
| Income tax expense  |       | (82,503)             |   | (82,503)                                    |
| Loss for the year from continuing operations                        |       | (260,301)            | (1,320)   | (261,621)                                   |
| <b>Discontinued operations</b>                                      |       |                      |   |   |
| Profit for the year from discontinued operations                    |       | 14,741               |   | 14,741                                      |
| Loss for the year   |       | (245,560)            | (1,320)   | (246,880)                                   |
| <b>Other comprehensive income</b>                                   |       |                      |   |   |
| <i>Item that may be reclassified subsequently to profit or loss</i> |       |                      |   |   |
| Exchange differences on translating foreign operations              |       | 4,938                |   | 4,938                                       |
| <b>Total comprehensive loss for the year</b>                        |       | <b>(240,622)</b>     |   | <b>(241,942)</b>                            |

\* US GAAP figures have been reclassified to conform to IFRS presentation. Please refer to Note A below for details.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

4. Transition to IFRS *(continued)*

**Notes to the reconciliation of financial position as at January 1, 2011 and December 31, 2011 and total comprehensive income for the year ended December 31, 2011**

**A *Reclassification made to the statement of financial position and statement of comprehensive income***

U.S. GAAP figures have been reclassified to conform to IFRS presentation. Reclassification mainly comprise of:

- Available-for-sale investment in unlisted shares is presented as separate line item in IFRS financial statements which was recorded in Equity investment in previous U.S. GAAP financial statements
- Other receivables, previously recorded in Prepaid expense and other current assets in previous U.S. GAAP financial statements, are reclassified to Trade and other receivables in IFRS financial statements
- Other financial assets is presented as separate line item in IFRS financial statements while is recorded in Prepaid expense and other current assets in previous U.S. GAAP financial statements
- Short-term borrowing and current portion of long-term debt presented separately in U.S. GAAP financial statements are aggregated and presented as Borrowings in IFRS financial statements
- Certain other current liability which was recorded in accrued expenses and other current liabilities in previous U.S. GAAP financial statements are reclassified to Trade and other payables in IFRS financial statements
- Current financial liabilities is presented as separate line item in IFRS financial statements which was recorded in Accrued expenses and other current liabilities in previous U.S. GAAP financial statements



- Other operating income and Others, net are aggregated and presented as Other income in IFRS financial statements
  
- Loss from sale of equipment and other fixed assets and Foreign currency exchange gain are aggregated and presented as Other gains or losses in IFRS financial statements

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

4. Transition to IFRS (*continued*)

**Notes to the reconciliation of financial position as at January 1, 2011 and December 31, 2011 and total comprehensive income for the year ended December 31, 2011 (*continued*)**

***B***      ***Convertible preferred shares – beneficial conversion feature***

Under US GAAP, a beneficial conversion feature refers to the preferential price of certain convertible equity instruments an investor receives when the effective conversion price of the equity instruments is lower than the fair market value of the common stock to which the convertible equity instrument is convertible into at the date of issuance. US GAAP requires the recognition of the difference between the effective conversion price of the convertible equity instrument and the fair market value of the common stock as a deemed dividend.

Under IFRS, the deemed dividend of US\$56.0 million relates to year before 2011 and US\$65.0 million in 2011 are not required to be recorded.

***C***      ***Preferred shares***

Under US GAAP, the Company presented the redeemable accumulated dividend preferred shares in Brite Semiconductor Corporation ( Brite ) and redeemable convertible preferred shares in Semiconductor Manufacturing International (AT) Corporation ( AT ) that were not owned by the Company as non-controlling interest. The accretion of interest on non-controlling interest (or NCI ) was separately disclosed on the face of the statements of comprehensive income.

IFRS requires an entity that issues a financial instrument with characteristics of both liabilities and equity to separately classify the liability and equity components. The liability component is measured at fair value at inception, and any residual proceeds are allocated to the equity component. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debt. The accretion of interest to record the redeemable convertible preferred shares at redemption value is recognized as interest expense. The value assigned to the conversion option of the redeemable convertible preferred shares is insignificant at initial recognition. As a result, the accretion of interest on NCI totaled at US\$1.3 million was adjusted to finance cost for the year ended December 31, 2011 and non-controlling interest relates to Brite totaled at US\$3.0 million was adjusted from NCI to long-term financial liability as of December 31, 2011.

NCI relates to Brite and AT totaled at US\$37.8 million was adjusted from NCI to long-term financial liabilities as of January 1, 2011.

**D**      ***Equity settled employee benefits***

In order to conform to the current financial year's presentation as a result of adoption IFRS, equity settled employee benefits reserve has been presented as a component of Reserve.

**E.**      ***Deferred tax assets***

Deferred tax assets have been reclassified as non-current assets under IFRS. Under US GAAP, deferred tax assets are classified as current or non-current based on the classification of the related asset for financial reporting.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, the Company 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 Company 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 Company records a write-down to cost of sales for the difference between the carrying cost and NRV.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Key sources of estimation uncertainty** (*continued*)

*Long-lived assets*

The Company 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 Company considers in deciding when to perform an impairment review include, but are not limited to significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in 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 the Company is 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.

The Company 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 Company measures the recoverability of assets that will continue to be used in the Company's operations by comparing the carrying value of CGU to the Company'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 used for extrapolation purposes.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Key sources of estimation uncertainty** *(continued)*

*Long-lived assets (continued)*

In order to remain technologically competitive in the semiconductor industry, the Company has entered into technology transfer and technology license arrangements with third parties in an attempt to advance the Company'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 Company routinely reviews the remaining estimated useful lives of these intangible assets and deferred costs. The Company 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 Company 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 Company'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 Company estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. The Company uses projected volatility rates based upon the Company's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect the Company'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.

*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 Company 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 Company companies.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

5. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

**Key sources of estimation uncertainty** *(continued)*

*Taxes (continued)*

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, 2012, a deferred tax asset of US\$0.4 million (December 31, 2011: USD1.8 million) in relation to unused tax losses has been recognized in the Company'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*

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 35 for further discussion.

*Impairment of trade and other receivable*

The Company 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 Company 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 Company 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 Company's trade and other receivable at the end of the reporting period is disclosed in Note 24.

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## 6. Segment information

The Company operates in three principal geographical areas United States, Europe, and Asia Pacific.

The Company is engaged principally in the computer-aided design, manufacturing and trading of integrated circuits. The Company's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results from operations when making decisions about allocating resources and assessing performance of the Company. The Company operates in one segment. The Company's revenue from continuing operations from external customers by location is detailed below.

|                              | Revenue from external customers |                  |
|------------------------------|---------------------------------|------------------|
|                              | Year ended                      | Year ended       |
|                              | 12/31/12                        | 12/31/11         |
|                              | USD 000                         | USD 000          |
| United States                | 940,369                         | 726,011          |
| Europe                       | 38,811                          | 35,256           |
| Asia Pacific*                | 28,177                          | 21,244           |
| Taiwan                       | 113,227                         | 105,788          |
| Japan                        | 3,423                           | 356              |
| Mainland China and Hong Kong | 577,591                         | 430,811          |
|                              | <b>1,701,598</b>                | <b>1,319,466</b> |

\* Not including Taiwan, Japan, Mainland China and Hong Kong

The following table summarizes property, plant and equipment of the Company by location.

|                | Property, plant and equipment |                  |
|----------------|-------------------------------|------------------|
|                | 12/31/12                      | 12/31/11         |
|                | USD 000                       | USD 000          |
| United States  | 55                            | 75               |
| Europe         |                               | 5                |
| Taiwan         | 19                            | 23               |
| Hong Kong      | 3,640                         | 3,832            |
| Mainland China | 2,381,721                     | 2,512,643        |
|                | <b>2,385,435</b>              | <b>2,516,578</b> |

Substantially all other non-current assets excluding deferred tax and financial instruments of the Company are located in Mainland China.

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## 7. Significant Customers

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

|   | Net Revenue             |         | Accounts receivable |        |
|---|-------------------------|---------|---------------------|--------|
|   | Year ended December 31, |         | December 31,        |        |
|   | 2012                    | 2011    | 2012                | 2011   |
| A | 383,626                 | 275,502 | 43,246              | 43,468 |
| B | 282,946                 | 165,180 | 57,865              | 27,921 |
| A | 23%                     | 21%     | 13%                 | 21%    |
| B | 17%                     | 13%     | 18%                 | 13%    |

## 8. Other gains or losses

|  | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|--|-----------------------------------|-----------------------------------|
| Gain (loss) on disposal of property, plant and equipment | 19,325                            | (508)                             |
| Foreign exchange gain                                    | 3,895                             | 17,589                            |
|  | 23,220                            | 17,081                            |

The gain on disposal of property, plant and equipment in 2012 arose primarily from disposal of the living quarters in Shanghai.

## 9. Finance costs

|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| Interest expense  | 54,712                            | 39,567                            |
| Accretion of interest to preferred shareholders of a subsidiary             | 1,206                             | 1,320                             |
| Total interest expense for financial liabilities not classified as at FVTPL | 55,918                            | 40,887                            |
| Less: amounts capitalized   | 16,458                            | 18,984                            |
|   | 39,460                            | 21,903                            |

The weighted average interest rate on funds borrowed generally is 4.97% per annum (2011: 3.62% per annum).

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## 10. Income taxes relating to continuing operations

**Income tax recognized in profit or loss**

|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| Current tax Enterprise Income Tax   | 1,071                             | 1,363                             |
| Deferred tax  | (12,486)                          | 81,140                            |
| Current tax Land Appreciation Tax   | 2,313                             |                                   |
| Total income tax (benefit) expense raised in the current year relating to continuing operations | (9,102)                           | 82,503                            |

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

|  | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|--|-----------------------------------|-----------------------------------|
| Profit (loss) before tax from continuing operations                            | 13,439                            | (179,118)                         |
| Income tax expense (benefit) calculated at 15% (2011: 15%)                     | 2,016                             | (26,868)                          |
| Effect of tax holiday and tax concession                                       | (3,045)                           | (2,329)                           |
| Expenses to be recognized in future periods                                    | (3,742)                           | (20,420)                          |
| Effect of unused tax losses not recognized as deferred tax assets              | (6,574)                           | 130,040                           |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (1,087)                           | 2,508                             |
| Others   | 1,364                             | (428)                             |
| Land Appreciation Tax (after tax) gain on sale of living quarters              | 1,966                             |                                   |
| Income tax (benefit) expense (relating to continuing operations)               | (9,102)                           | 82,503                            |

The tax rate used for the 2012 and 2011 reconciliation above is the corporate tax rate of 15% payable by most of the Company's entities in Mainland China under tax law in that jurisdiction.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**10. Income taxes relating to continuing operations *(continued)***Current tax liabilities**

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| <b>Current tax liabilities</b>           |                     |                     |                     |
| Income tax payable Land Appreciation Tax | 2,313               |                     |                     |
| Income tax payable Others                | 8                   | 63                  | 1,893               |
|  | <b>2,321</b>        | 63                  | 1,893               |

**Deferred tax balances**

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

|                          | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|--------------------------|---------------------|---------------------|---------------------|
| Deferred tax assets      | 43,380              | 31,787              | 112,688             |
| Deferred tax liabilities | (440)               | (1,333)             | (1,094)             |
|                          | <b>42,940</b>       | 30,454              | 111,594             |

|                                      | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|--------------------------------------|---------------------|---------------------|---------------------|
| <b>Deferred tax assets</b>           |                     |                     |                     |
| Allowances and reserves              | 3,829               | 1,664               | 1,321               |
| Net operating loss carry forwards    | 372                 | 1,767               | 6,020               |
| Property plant and equipment         | 38,955              | 25,966              | 103,030             |
| Accrued expenses                     | 224                 | 2,390               | 2,317               |
| Net deferred tax assets              | 43,380              | 31,787              | 112,688             |
| <b>Deferred tax liabilities</b>      |                     |                     |                     |
| Capitalized interest                 | (373)               | (1,266)             | (1,049)             |
| Unrealized exchange gain             | (64)                | (67)                | (45)                |
| Depreciation for asset held for sale | (3)                 |                     |                     |
|                                      | <b>(440)</b>        | (1,333)             | (1,094)             |





Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**10. Income taxes relating to continuing operations *(continued)***Deferred tax balances** *(continued)***2012.12.31**

|  | Opening<br>Balance<br>USD 000 | Recognized in<br>profit 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                           |
|  | <b>30,454</b>                 | <b>12,486</b>                              | <b>42,940</b>                 |

**2011.12.31**

|  | Opening<br>balance<br>USD 000 | Recognized in<br>profit or loss<br>USD 000 | Closing<br>balance<br>USD 000 |
|--|-------------------------------|--|-------------------------------|
| <b>Deferred tax (liabilities) assets in relation to:</b> |                               |  |                               |
| Property plant and equipment                             | 103,030                       | (77,064)                                   | 25,966                        |
| Allowances and reserves                                  | 1,321                         | 343  | 1,664                         |
| Accrued expenses   | 2,317                         | 73   | 2,390                         |
| Capitalized interest                                     | (1,049)                       | (217)                                      | (1,266)                       |
| Unrealized exchange gain                                 | (45)                          | (22)                                       | (67)                          |
| Others   | 6,020                         | (4,253)                                    | 1,767                         |
|  | <b>111,594</b>                | <b>(81,140)</b>                            | <b>30,454</b>                 |

Under the New EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that will be distributed to its immediate holding company outside mainland China will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region. Since the Company intends to reinvest its earnings to expand its businesses in mainland China, its mainland China subsidiaries do not intend to distribute profits to their immediate foreign holding companies for the foreseeable future.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

10. Income taxes relating to continuing operations (*continued*)

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

Semiconductor Manufacturing International Corporation is incorporated in the Cayman Islands which is tax exempted.

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

The Law of the People's Republic of China on Income Tax ( New EIT Law ) was promulgated on March 16, 2007, which became effective January 1, 2008. Under the New EIT Law, domestically-owned enterprises and foreign invested enterprises ( FIEs ) are subject to a uniform tax rate of 25%. Enterprises which were entitled to a preferential tax rate of 25% prior to January 1, 2008 could gradually transit to 25% throughout a five-year period. Pursuant to Guofa [2007] No. 39 ( Circular No. 39 ), the application tax rates during the five-year transitional period are as follows: 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter. The tax holiday, which has already kicked off before the effective date of the EIT law, may continue to be enjoyed till the end of the holiday.

Pursuant to Caishui Circular [2008] No. 1 ( Circular No. 1 ) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction 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% unless the income tax rate is reduced by the tax incentives granted by Circular No. 39.

On February 9, 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 ), the income tax policies for encouraging the development of integrated circuit industry is the implementation rule of Circular No. 4.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

10. Income taxes relating to continuing operations *(continued)*

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

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

1) *Semiconductor Manufacturing International (Shanghai) Corporation (SMIS)*

Pursuant to relevant tax regulation, SMIS began a 10-year tax holiday (five year full exemption followed by five year half reduction) from 2004 after utilizing all prior years' tax losses. As SMIS is a manufacturing company located in Shanghai's Pudong New Area, it can continue its tax holiday based on the transitional income tax rate granted by Circular No. 39 instead of the statutory income tax rate. The income tax rate for SMIS was 12% in 2011, 12.5% in 2012 and will be 12.5% in 2013. After that, the income tax rate will be 15%.

2) *Semiconductor Manufacturing International (Beijing) Corporation (SMIB) and Semiconductor Manufacturing International (Tianjin) Corporation (SMIT)*

In accordance with Circular No. 4 and Circular No. 27, SMIB and SMIT are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to their first profit-making years after utilizing all prior tax losses but no later than December 31, 2017. Both entities were in accumulative loss positions as of December 31, 2012 and the tax holiday has not begun to take effect.

**Unrecognized deductible temporary differences, unused tax losses**

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US\$1,199.2 million (December 31, 2011: US\$951.9 million) due to the unpredictability of future profit streams, of which \$305.1 million, \$448.5 million, \$83.4 million, \$193.5 million and \$168.7 million will expire in 2013, 2014, 2015, 2016 and 2017, respectively. At the end of the reporting period, the Company had deductible temporary differences of US\$580.4 million (December 31, 2011: US\$634.9 million) in relation to which no deferred tax asset was recognized as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.



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## 11. Profit (loss) for the year

**Profit (loss) for the year from continuing operations has been arrived at after charging (crediting)**

**11.1 Impairment losses (reversal of impairment losses) on financial assets**

|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| Allowance on trade receivables (see Note 24)        | 4,615                             | 551                               |
| Reversal of allowance on doubtful trade receivables | (2,095)                           | (6,400)                           |
|   | <b>2,520</b>                      | <b>(5,849)</b>                    |

In 2011, the Company settled certain disputes with respective third party debtors by entering into contractually binding agreements which legally released the Company from certain obligations totaling \$19.0 million. The forgiveness of debt has been recorded as a reduction of general and administrative expense and other income respectively. In addition, the recovery of bad debt expense of \$6.4 million and \$2.0 million was recorded as a reduction of general and administrative expense for the year ended December 31, 2011 and 2012, respectively.

**11.2 Impairment losses on property, plant and equipment**

|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| <b>Impairment losses on property, plant and equipment</b> |                                   | 17,691                            |

**11.3 Depreciation and amortization expense**

|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| Depreciation of property, plant and equipment | 531,823                           | 518,840                           |

|  |                |         |
|--|----------------|---------|
| Amortization of intangible assets and land use right | <b>35,076</b>  | 33,071  |
| Total depreciation and amortization expense          | <b>566,899</b> | 551,911 |

**11.4 Employee benefits expense**

|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| Wages, salaries and social security contributions | <b>206,807</b>                    | 190,901                           |
| Bonus   | <b>28,048</b>                     | 10,431                            |
| Paid annual leave                                 | <b>738</b>                        | 310                               |
| Non-monetary benefits                             | <b>12,880</b>                     | 12,494                            |
| Termination benefits                              | <b>7</b>                          | 5,018                             |
| Equity-settled share-based payments (Note 33)     | <b>7,174</b>                      | 5,336                             |
| Total employee benefits expense                   | <b>255,654</b>                    | 224,490                           |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

11. Profit (loss) for the year *(continued)*

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

**11.5 Royalties expense**

|                   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|-------------------|-----------------------------------|-----------------------------------|
| Royalties expense | 28,993                            | 22,795                            |

**11.6 Government grant**

*Government subsidies under specific R&D projects*

The Company received government awards of US\$54.1 and US\$126.1 million and recognized US\$31.0 million and US\$42.6 million in the form of reimbursement of certain R&D expenses in 2012 and 2011 for several specific R&D projects respectively. The awards are deferred until the milestones specified in the terms of the subsidy have been reached, at which time they are recorded as a reduction in R&D expense.

*Government subsidies for specific intended use*

The Company received government subsidies in cash of US\$1.4 million and US\$0.8 million in 2012 and 2011 respectively, which was determined based on the estimated interest expense to be incurred, on the Company's budgeted outstanding borrowings. The government subsidy is recorded as a liability upon receipt and until the requirements (if any) specified in the terms of the subsidy have been reached, at which time they are recorded as a reduction in interest expense. The Company recorded US\$1.2 million and US\$0.8 million as reduction of interest expense in 2012 and 2011.

12 Discontinued operations

**Disposal of Semiconductor Manufacturing International (AT) Corporation**

On March 1, 2011, the Company sold its majority ownership interest in Semiconductor Manufacturing International (AT) Corporation ( AT ) and deconsolidated the entity. As a result, all previously issued preferred securities by AT were cancelled. The Company retained a 10% interest in AT and accounts for such investment as available-for-sale investment as it no longer has a controlling financial interest nor significant influence over AT. The Company reported the results of the AT as a discontinued operation in the condensed consolidated statements of comprehensive income. No cash or other consideration was received by the Company in conjunction with the disposition.

The Company recorded a gain of US\$17.1 million on the deconsolidation of AT equal to the difference between (i) the sum of (a) the fair value of the retained non-controlling interest in AT, and (b) the carrying amount of the aforementioned non-controlling interest in AT, and (ii) the carrying amount of AT s assets and liabilities. Income from discontinued operations of US\$14.7 million represents both the results of operations of AT for the period from January 1, 2011 to the date it was deconsolidated and the gain on deconsolidation of AT.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**12 Discontinued operations *(continued)***Analysis of profit for the year from discontinued operations**

|  | Year ended<br>12/31/11<br>USD 000 |
|--|-----------------------------------|
| <b>Profit for the year from discontinued operations</b>      |                                   |
| Revenue  | 4,005                             |
| Cost of sales  | (5,411)                           |
| Gross loss   | (1,406)                           |
| Total expenses   | (956)                             |
| Net loss for the period                                      | (2,362)                           |
| Gain on disposition of discontinued operations, net of taxes | 17,103                            |
| Profit for the year from discontinued operations             | 14,741                            |
| <b>Cashflow from discontinued operations</b>                 |                                   |
| The net cash flows incurred by AT are, as follows:           |                                   |
| Net cash outflow from operating activities                   | (1,201)                           |
| Net cash outflow from investing activities                   | (1,013)                           |
| Net cash outflow from financing activities                   | (713)                             |
| Net cash outflow   | (2,927)                           |

13. Directors remuneration

|                                     | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Salaries                            | 1,411                             | 1,160                             |
| Equity-settled share-based payments | 1,113                             | 1,145                             |
|                                     | <b>2,524</b>                      | <b>2,305</b>                      |

The Company granted nil and 113,205,662 options to purchase ordinary shares of the Company to the directors in 2012 and 2011. During the year ended December 31, 2012, no stock options was exercised and 500,000 were expired. And during the year ended December 31, 2011, 1,000,000 stock options were exercised and 78,371,941 stock options were lapsed in connection with certain directors ceasing to continue serving as directors.

The Company granted nil and 46,600,465 restricted share units to purchase ordinary shares of the Company to the directors in 2012 and 2011. During the year ended December 31, 2012, 11,650,116 restricted share units automatically vested and none

restricted share units were lapsed. And during the year ended December 31, 2011, 15,114,588 restricted share units automatically vested and 18,473,385 restricted share units were lapsed in connection with certain directors ceasing to continue serving as directors.

In 2012 and 2011, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office. In 2012 and 2011, no directors waived any emoluments.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**13. 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>settled 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>                       |

|                    | Salaries<br>USD 000 | Employee<br>settled share-<br>base payment<br>USD 000 | Total<br>remuneration<br>USD 000 |
|--------------------|---------------------|---|----------------------------------|
| <b>2011</b>        |                     |   |                                  |
| Tsuyoshi Kawanishi | 45                  | 13  | 58                               |
| Lip-Bu Tan         | 60                  | 13  | 73                               |
| Frank Meng         | 4                   | 14  | 18                               |
| Jiang Shangzhou*   | 97                  | 141   | 238                              |
|                    | <b>206</b>          | <b>181</b>  | <b>387</b>                       |

\* Jiang Shangzhou passed away on June 27, 2011.

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

**(b) Executive directors and non-executive directors**

|                          | Salaries<br>and wages<br>USD 000 | Employee<br>settled 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                            |
|                          | <b>1,150</b>                     | <b>995</b>  | <b>2,145</b>                     |
| Non-executive directors: |                                  |   |                                  |
| Chen Shangzhi            | 52                               | 24  | 76                               |
| Gao Yonggang             | 47                               | 24  | 71                               |
| Lawrence Lau             |                                  |   |                                  |
| Zhou Jie                 |                                  |   |                                  |
| Chen Datong              |                                  |   |                                  |
|                          | <b>99</b>                        | <b>48</b>   | <b>147</b>                       |

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

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**13. Directors remuneration *(continued)***(b) Executive directors and non-executive directors** *(continued)*

|                          | Salaries<br>USD 000 | Employee<br>settled share-<br>base payment<br>USD 000 | Total<br>remuneration<br>USD 000 |
|--------------------------|---------------------|---|----------------------------------|
| 2011                     |                     |   |                                  |
| Executive directors:     |                     |   |                                  |
| Zhang Wenyi              | 100                 | 178   | 278                              |
| Tzu-Yin Chiu             | 154                 | 261   | 415                              |
| David N.K. Wang*         | 601                 | 478   | 1,079                            |
|                          | 855                 | 917   | 1,772                            |
| Non-executive directors: |                     |   |                                  |
| Chen Shanzhi             | 49                  | 24  | 73                               |
| Gao Yonggang             | 49                  | 24  | 73                               |
| Lawrence Lau             |                     |   |                                  |
| Zhou Jie                 |                     |   |                                  |
| Chen Datong              |                     |   |                                  |
|                          | 98                  | 48  | 146                              |

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\* David N.K. Wang ceased to be a director on June 29, 2011.

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

## 14. Five highest paid employees

The five highest paid employees during the year included one (2011: one) director, details of whose remuneration are set out in Note 13 above. Details of the remuneration of the remaining four (2011: four) non-directors, highest paid employees for the year are as follows:

| Year ended | Year ended |
|------------|------------|
| 12/31/11   | 12/31/11   |

|                             | 12/31/12     | USD 000 | USD 000 |
|-----------------------------|--------------|---------|---------|
| Salaries and other benefits | <b>1,334</b> |         | 1,209   |
| Bonus                       | <b>16</b>    |         | 690     |
| Stock option benefits       | <b>521</b>   |         | 543     |
|                             | <b>1,871</b> |         | 2,442   |

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

In 2012 and 2011, no emoluments were paid by the Company to any of the five highest paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.



Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**14. Five highest paid employees *(continued)*

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

|  | Number of employees |      |
|--|---------------------|------|
|  | 2012                | 2011 |
| HK\$2,000,001 (\$257,441) to HK\$2,500,000 (\$321,800) | 1                   |      |
| HK\$2,500,001 (\$321,801) to HK\$3,000,000 (\$386,160) | 1                   |      |
| HK\$3,000,001 (\$386,161) to HK\$3,500,000 (\$450,520) | 1                   | 1    |
| HK\$3,500,001 (\$450,521) to HK\$4,000,000 (\$514,880) | 1                   | 2    |
| HK\$4,500,001 (\$579,241) to HK\$5,000,000 (\$643,600) |                     | 1    |
| HK\$5,000,001 (\$643,601) to HK\$5,500,000 (\$707,960) | 4                   | 4    |

## 15. Earnings (loss) per share

|  | Year ended | Year ended |
|--|------------|------------|
|  | 12/31/12   | 12/31/11   |
|  | USD        | USD        |
| <b>Basic earnings (loss) per share</b>   |            |            |
| From continuing operations               | 0.00       | (0.01)     |
| From discontinued operations             |            | 0.00       |
| Total basic earnings (loss) per share    | 0.00       | (0.01)     |
| <b>Diluted earnings (loss) per share</b> |            |            |
| From continuing operations               | 0.00       | (0.01)     |
| From discontinued operations             |            | (0.00)     |
| Total diluted earnings (loss) per share  | 0.00       | (0.01)     |

**Basic earnings (loss) per share**

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

| Year ended | Year ended |
|------------|------------|
| 12/31/12   | 12/31/11   |

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|   | USD 000        | USD 000        |
|---|----------------|----------------|
| Profit (loss) for the year attributable to owners of the Company  | 22,771         | (246,817)      |
| Earnings (loss) used in the calculation of basic earnings (loss) per share  | 22,771         | (246,817)      |
| Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations |                | 14,741         |
| Earnings (loss) used in the calculation of basic earnings (loss) per share from continuing operations                             | 22,771         | (261,558)      |
| Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share                                    | 30,078,893,961 | 27,435,853,922 |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**15. Earnings (loss) per share *(continued)***Diluted earnings (loss) per share**

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

|  | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|--|-----------------------------------|-----------------------------------|
| Earnings (loss) used in the calculation of basic earnings (loss) per share   | 22,771                            | (246,817)                         |
| Profit for the year from discontinued operations used in the calculation of diluted earnings (loss) per share from discontinued operations |                                   | 14,741                            |
| Earnings (loss) used in the calculation of diluted earnings (loss) per share from continuing operations                                    | 22,771                            | (261,558)                         |

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

|   | Year ended<br>12/31/12 | Year ended<br>12/31/11 |
|---|------------------------|------------------------|
| Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share   | 30,078,893,961         | 27,435,853,922         |
| Employee option and restricted share units  | 64,712,749             |                        |
| Convertible preferred shares  | 1,899,048,145          |                        |
| Weighted average number of ordinary shares used in the calculation of diluted earnings (loss) per share | 32,042,654,855         | 27,435,853,922         |

As of December 31, 2012, the Company had 2,032,765,688 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.

As of December 31, 2011, the Company had 3,057,405,086 employee stock options, restricted share units, warrants and convertible preferred shares outstanding which were excluded from the computation of diluted loss per share, as their effect would have been anti-dilutive due to the net loss reported in the year ended December 31, 2011.

16. Assets classified as held for sale

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| Assets related to employee s living quarters (i) | 4,239               |                     |                     |

(i) The Company is seeking to sell its self-constructed living quarters to its employees.

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## 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 January 1, 2011    | 311,717              | 6,273,719                         | 78,076                         | 814,331   | 7,477,843        |
| Transfer from (out) CIP       | 9,351                | 805,588                           | 12,613                         | (827,552)                                       |                  |
| Addition                      |                      |                                   |                                | 727,576   | 727,576          |
| Disposals                     | (1,177)              | (75,593)                          | (4,152)                        | (2,352)   | (83,274)         |
| Write-off                     |                      |                                   |                                | (87,355)  | (87,355)         |
| Balance at December 31, 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 sale | (4,842)              |                                   | (32)                           |   | (4,874)          |
| Balance at December 31, 2012  | 335,542              | 7,577,375                         | 103,954                        | 410,067   | 8,426,938        |

|  | Buildings<br>USD 000 | Plant and<br>equipment<br>USD 000 | Office<br>equipment<br>USD 000 | Construction<br>in progress<br>USD 000 | Total<br>USD 000 |
|--|----------------------|-----------------------------------|--------------------------------|--|------------------|
| <b>Accumulated depreciation and impairment</b> |                      |                                   |                                |  |                  |
| Balance at January 1, 2011                     | 77,949               | 4,873,172                         | 72,507                         | 102,352                                | 5,125,980        |
| Disposal                                       | (406)                | (52,448)                          | (4,090)                        |  | (56,944)         |
| Write-off                                      |                      |                                   |                                | (87,355)                               | (87,355)         |
| Impairment losses recognized in profit or loss |                      |                                   |                                | 17,691                                 | 17,691           |
| Depreciation expense                           | 11,833               | 501,683                           | 5,324                          |  | 518,840          |
| 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        |

|                                     | Buildings<br>USD 000 | Plant and<br>equipment<br>USD 000 | Office<br>equipment<br>USD 000 | Construction<br>in progress<br>USD 000 | Total<br>USD 000 |
|-------------------------------------|----------------------|-----------------------------------|--------------------------------|--|------------------|
| Carrying value at January 1, 2011   | 233,768              | 1,400,547                         | 5,569                          | 711,979                                | 2,351,863        |
| Carrying value at December 31, 2011 | 230,515              | 1,681,307                         | 12,796                         | 591,960                                | 2,516,578        |
| Carrying value at December 31, 2012 | 236,337              | 1,749,856                         | 21,863                         | 377,379                                | 2,385,435        |



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**Construction in progress**

The construction in progress balance of approximately US\$377.4 million as of December 31, 2012, primarily consisted of US\$78.7 million and US\$146.6 million of the manufacturing equipment acquired to further expand the production capacity at the 12" fab in Beijing and Shanghai, respectively, and US\$91.9 million related to the ongoing 8" wafer construction project at Semiconductor Manufacturing International (Shenzhen) Corporation. The Company's Shenzhen project which commenced in 2008 has progressed more slowly than expected due to changing market conditions and ongoing negotiations with relevant parties. The Company will closely monitor the progress of the project and evaluate any additional costs to complete the project. In addition, \$60.2 million was related to various ongoing capital expenditure projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2013.

**Impairment losses recognized in the year**

The Company recorded an impairment loss of US\$Nil (2011: US\$17.7 million) associated with the disposal of property, plant and equipment with outdated technologies.

**Assets pledged as security**

Property, plant and equipment with carrying amount of approximately US\$993 million (2011: approximately US\$482 million) have been pledged to secure borrowings of the Company (see Note 29). The plant and equipment have been pledged as security for bank loans under a mortgage. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

18. Intangible assets

**Acquired  
intangible  
assets**

|  | USD 000  |
|--|----------|
| <b>Cost</b>                                    |          |
| Balance at January 1, 2011                     | 236,691  |
| Additions                                      | 37,490   |
| Expired and Disposal                           | (21,908) |
| Balance at December 31, 2011                   | 252,273  |
| Additions                                      | 89,636   |
| Balance at December 31, 2012                   | 341,909  |
| <b>Accumulated amortization and impairment</b> |          |
| Balance at January 1, 2011                     | 62,870   |
| Amortization expense for the year              | 31,450   |
| Expired and Disposal                           | (21,326) |
| Balance at December 31, 2011                   | 72,994   |
| Amortization expense for the year              | 33,537   |
| Balance at December 31, 2012                   | 106,531  |
| Carrying value at January 1, 2011              | 173,821  |
| Carrying value at December 31, 2011            | 179,279  |
| Carrying value at December 31, 2012            | 235,378  |

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## 19. Subsidiaries

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

| <b>Name of company</b>  | <b>Principal activity</b>                           | <b>Place of establishment and operation</b> | <b>Proportion of ownership interest and voting power held by the Company</b> |      |
|---|---|---|--|------|
| Better Way Enterprises Limited ( Better Way )                                     | Provision of marketing related activities           | Samoa                                       | <b>Directly</b>  | 100% |
| Semiconductor Manufacturing International (Shanghai) Corporation ( SMIS )#        | Manufacturing and trading of semiconductor products | People's Republic of China (the PRC )       | <b>Directly</b>  | 100% |
| SMIC, Americas  | Provision of marketing related activities           | United States of America                    | <b>Directly</b>  | 100% |
| Semiconductor Manufacturing International (Beijing) Corporation ( SMIB )#         | Manufacturing and trading of semiconductor products | PRC   | <b>Directly</b>  | 100% |
| SMIC, Japan   | Provision of marketing related activities           | Japan                                       | <b>Directly</b>  | 100% |
| SMIC Europe S.R.L.  | Provision of marketing related activities           | Italy                                       | <b>Directly</b>  | 100% |
| Semiconductor Manufacturing International (Solar Cell) Corporation                | Investment holding                                  | Cayman Islands                              | <b>Directly</b>  | 100% |
| SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation) | Provision of marketing related activities           | PRC   | <b>Directly</b>  | 100% |
| Semiconductor Manufacturing International (Tianjin) Corporation ( SMIT )#         | Manufacturing and trading of semiconductor products | PRC   | <b>Directly</b>  | 100% |

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**19. Subsidiaries (*continued*)

| <b>Name of company</b>   | <b>Principal activity</b>  | <b>Place of establishment and operation</b> | <b>Proportion of ownership interest and voting power held by the Company</b> |       |
|--|--|---|--|-------|
| SMIC Development (Chengdu) Corporation                                     | Construction, operation, and management of SMICD s living quarters, schools, and supermarket | PRC   | <b>Directly</b>  | 100%  |
| Semiconductor Manufacturing International (BVI) Corporation ( SMIC (BVI) ) | Provision of marketing related activities  | British Virgin Islands                      | <b>Directly</b>  | 100%  |
| Admiral Investment Holdings Limited  | Investment holding   | British Virgin Islands                      | <b>Directly</b>  | 100%  |
| SMIC Shanghai (Cayman) Corporation   | Investment holding   | Cayman Islands                              | <b>Directly</b>  | 100%  |
| SMIC Beijing (Cayman) Corporation  | Investment holding   | Cayman Islands                              | <b>Directly</b>  | 100%  |
| SMIC Tianjin (Cayman) Corporation  | Investment holding   | Cayman Islands                              | <b>Directly</b>  | 100%  |
| SiITech Semiconductor (Cayman) Corporation                                 | Investment holding   | Cayman Islands                              | <b>Directly</b>  | 100%  |
| SMIC Shenzhen (Cayman) Corporation   | Investment holding   | Cayman Islands                              | <b>Directly</b>  | 100%  |
| Brite Semiconductor Corporation*   | Investment holding   | Cayman Islands                              | <b>Directly</b>  | 44.2% |
| SMIC Energy Technology (Shanghai) Corporation ( Energy Science )#          | Manufacturing and trading of solar cell related semiconductor products                       | PRC   | <b>Indirectly</b>  | 100%  |
| Magnificent Tower Limited  | Investment holding   | British Virgin Islands                      | <b>Indirectly</b>  | 100%  |
| SMIC Shanghai (HK) Company Limited   | Investment holding   | Hong Kong                                   | <b>Indirectly</b>  | 100%  |

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**19. Subsidiaries (*continued*)

| <b>Name of company</b>   | <b>Principal activity</b>                                       | <b>Place of establishment and operation</b> | <b>Directly or indirectly owned Percentage of ownership</b> |       |
|--|---|---|---|-------|
| SMIC Beijing (HK) Company Limited                                | Investment holding  | Hong Kong                                   | <b>Indirectly</b>   | 100%  |
| SMIC Tianjin (HK) Company Limited                                | Investment holding  | Hong Kong                                   | <b>Indirectly</b>   | 100%  |
| SMIC Solar Cell (HK) Company Limited                             | Investment holding  | Hong Kong                                   | <b>Indirectly</b>   | 100%  |
| SMIC (Wuhan) Development Corporation                             | Construction, operation, management of living quarters, schools | PRC   | <b>Indirectly</b>   | 100%  |
| SMIC ShenZhen (HK) Company Limited                               | Investment holding  | Hong Kong                                   | <b>Indirectly</b>   | 100%  |
| SilTech Semiconductor (Hong Kong) Corporation Limited            | Investment holding  | Hong Kong                                   | <b>Indirectly</b>   | 100%  |
| Semiconductor Manufacturing International (Shenzhen) Corporation | Manufacturing and trading of semiconductor products             | PRC   | <b>Indirectly</b>   | 100%  |
| SilTech Semiconductor Shanghai Corporation Limited               | Manufacturing and trading of semiconductor products             | PRC   | <b>Indirectly</b>   | 100%  |
| Brite Semiconductor Hong Kong Limited*                           | Investment holding  | Hong Kong                                   | <b>Indirectly</b>   | 44.2% |
| Brite Semiconductor (Shanghai) Corporation*                      | Design House  | PRC   | <b>Indirectly</b>   | 44.2% |

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# Abbreviation for identification purposes

\* The Company consolidates Brite Semiconductor Corporation and its subsidiaries (Brite) through controls gained through contractual agreement. The impact of consolidating of Brite is insignificant to the financial statements of the Company.

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## 20. Investments in associates

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

| Name of company                                 | Principal activity  | Place of establishment and operation | Proportion of ownership interest and voting power held by the Company |     |
|---|---|--------------------------------------|---|-----|
| Toppan SMIC Electronic (Shanghai) Co., Ltd      | Design, production and processing micro lens imaging sensors and related products | Shanghai                             | 30%   | 30% |
| Zhongxin Xiecheng Investment (Beijing) Co., Ltd | Equity investment, Project investment, consulting                                 | Beijing                              | 49%   |     |

Summarized financial information in respect of the Company's associates is set out below.

|  | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|--|-----------------------------------|-----------------------------------|
| Total revenue                            | 20,103                            | 24,210                            |
| Total profit for the year                | 5,724                             | 14,928                            |
| Company's share of profits of associates | 1,703                             | 4,479                             |

|   | 12/31/12 | 12/31/11 |
|---|----------|----------|
| Total assets                                | 69,374   | 54,470   |
| Total liabilities                           | (2,237)  | (1,616)  |
| Net assets                                  | 67,137   | 52,854   |
| Company's share of net assets of associates | 21,636   | 15,856   |

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## 21. Other financial assets

|  | 31/12/12<br>USD 000 | 31/12/11<br>USD 000 | 01/01/11<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| <b>Derivatives</b>   |                     |                     |                     |
| Foreign currency forward contracts   | 77                  | 939                 | 695                 |
| <b>Short-term investments carried at fair value through profit or loss</b> | <b>18,653</b>       | 1,034               | 2,454               |
|  | <b>18,730</b>       | 1,973               | 3,149               |

## 22. Other assets

|                  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|------------------|---------------------|---------------------|---------------------|
| Advance payments | 28,252              | 31,816              |                     |
| Others           | 15,130              | 13,869              | 2,393               |
| Non-current      | 43,382              | 45,685              | 2,393               |

In 2011, an advance of US\$28 million was made in conjunction with a proposed joint venture between the Company and Wuhan Xinxin Semiconductor Manufacturing Corporation ( Xinxin ). This advance payment is refundable should the joint venture cannot be formed successfully.

In addition, an advance of US\$3.9 million was made in 2011 to Zhongxin Xiecheng Investment (Beijing) Corporation Limited in conjunction with a joint venture between China Investment Corporation and the Company. The advance converted to capital of the new company after it was formed in 2012.

Available-for-sale investment of US\$3.8 million as of December 31, 2012 and 2011, respectively, has been included as others.

## 23. Inventories

| 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|---------------------|---------------------|---------------------|
|---------------------|---------------------|---------------------|

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|                  |                |         |         |
|------------------|----------------|---------|---------|
| Raw materials    | <b>52,228</b>  | 54,853  | 79,037  |
| Work in progress | <b>156,392</b> | 93,472  | 86,235  |
| Finished goods   | <b>87,108</b>  | 58,983  | 48,132  |
|                  | <b>295,728</b> | 207,308 | 213,404 |

The cost of inventories recognized as an expense during the year in respect of inventory provision was US\$30.9 million (2011: US\$26.1 million).

24. Trade and other receivables

|   | <b>12/31/12</b> | <b>12/31/11</b> | <b>01/01/11</b> |
|---|-----------------|-----------------|-----------------|
|   | <b>USD 000</b>  | <b>USD 000</b>  | <b>USD 000</b>  |
| Trade receivables                         | <b>323,451</b>  | 208,054         | 255,996         |
| Allowance for doubtful debts              | <b>(45,340)</b> | (42,820)        | (49,373)        |
|   | <b>278,111</b>  | 165,234         | 206,623         |
| Other receivables and refundable deposits | <b>50,100</b>   | 35,671          | 57,425          |
|   | <b>328,211</b>  | 200,905         | 264,048         |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

24. Trade and other receivables *(continued)*

The Company determines credit terms ranging from 30 to 60 days for each customer on a case-by-case basis, based on its assessment of such customer's financial standing and business potential with the Company.

The Company determines its allowance for doubtful debts based on the Company's historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Company's allowance for doubtful debts excludes receivables from a limited number of customers due to their high credit worthiness. The Company provides allowance for doubtful debts based on recoverable amount by making reference to the age category of the remaining receivables and subsequent settlement. The Company recognized US\$4.6 million and US\$0.6 million of allowance for doubtful debts respectively during the year ended 31 December 2012 and 2011 respectively. The Company reviews, analyzes and adjusts allowance for doubtful debts on a monthly basis.

In evaluating the customers' credit quality, the Company 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 Company 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 2012 and 2011, US\$101.1 million and US\$71.4 million respectively are due from the Company's two largest customers.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company 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.

*Age of receivables*

| 12/31/12 | 12/31/11 | 01/01/11 |
|----------|----------|----------|
| USD 000  | USD 000  | USD 000  |

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|                           |                |         |         |
|---------------------------|----------------|---------|---------|
| Current                   | <b>222,765</b> | 134,958 | 174,380 |
| Past due but not impaired |                |         |         |
| Within 30 days            | <b>31,219</b>  | 26,468  | 25,395  |
| 31 - 60 days              | <b>16,559</b>  | 1,083   | 3,033   |
| Over 60 days              | <b>7,568</b>   | 2,725   | 3,815   |
| Total                     | <b>278,111</b> | 165,234 | 206,623 |
| Average overdue days      | <b>47</b>      | 31      | 37      |

*Movement in the allowance for doubtful debts*

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|--|---------------------|---------------------|
| Balance at beginning of the year                     | <b>42,820</b>       | 49,373              |
| Addition in allowance for doubtful debts             | <b>4,615</b>        | 551                 |
| Amounts written off during the year as uncollectible |                     | (704)               |
| Reversal of allowance for doubtful debts             | <b>(2,095)</b>      | (6,400)             |
| Balance at end of the year                           | <b>45,340</b>       | 42,820              |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**24. Trade and other receivables *(continued)***Trade receivables** *(continued)**Movement in the allowance for doubtful debts (continued)*

In determining the recoverability of a trade receivable, the Company 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.

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to nil (December 31, 2011: US\$4.6 million) which have been placed under liquidation. The impairment recognized represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Company does not hold any collateral over these balances.

*Age of impaired trade receivables*

|                | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|----------------|---------------------|---------------------|
| Within 30 days | 278                 | 204                 |
| 31 60 days     | 855                 | 53                  |
| Over 60 days   | 44,207              | 42,563              |
| Total          | 45,340              | 42,820              |

## 25. Restricted cash

As of December 31, 2012 and 2011, restricted cash consisted of US\$111.6 million and US\$46.3 million, respectively of bank time deposits pledged against letters of credit and short-term borrowings, and US\$106.0 million and US\$90.6 million, respectively of government subsidies received mainly for the reimbursement of research and development expenses to be incurred.

## 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 January 1, 2011  | 27,334,063,747      | 10,934                      | 3,762,146                   |
| Issue of shares under the Company's employee share option plan (see Note 33)    | 153,612,318         | 61                          | 11,870                      |
| 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 33) | 57,004,448          | 23                          | 3,057                       |
| Conversion of convertible preferred shares                                      | 4,455,459,110       | 1,782                       | 306,515                     |
| Balance at December 31, 2012  | 32,000,139,623      | 12,800                      | 4,083,588                   |

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

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**26. Shares and issued capital *(continued)***Convertible preferred shares**

|                                | Number of<br>shares | Share<br>capital<br>USD 000 | Share<br>premium<br>USD 000 |
|--------------------------------|---------------------|-----------------------------|-----------------------------|
| Balance at January 1, 2011     |                     |                             |                             |
| Issue of shares                | 445,545,911         | 178                         | 308,119                     |
| 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 Limited, a wholly-owned subsidiary of China Investment Corporation (CIC), for an aggregate proceeds of approximately \$249 million, net of issuance cost of \$0.6 million which was deducted from the carrying value of the Preferred Shares.

In September 2011, the Company issued 84,956,858 preferred shares and a Warrant (the Datang Warrant) and, together with the CIC Warrant, the Warrant) to subscribe for up to 16,991,371 preferred shares, to Datang Holdings (Hongkong) Investment Company Limited (Datang (Hongkong)), for aggregate proceeds of approximately \$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 have been 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 (Hongkong), respectively, on June 4, 2012.

The Warrant to subscribe for convertible preferred shares have expired without exercise.

**Share options schemes**

The Company has adopted the two share option schemes under which options to subscribe for the Company's shares have been granted to certain employees, officers and other service providers (Note 33).

27. Reserves

**Equity-settled employee benefits reserve**

|                                 | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|---------------------------------|---------------------|---------------------|
| Balance at beginning of year    | 37,469              | 40,539              |
| Arising on share-based payments | 7,174               | 5,336               |
| Transfer to share premium       | (2,411)             | (8,406)             |
| Balance at end of year          | 42,232              | 37,469              |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**27. Reserves *(continued)***Equity-settled employee benefits reserve** *(continued)*

The above equity-settled employee benefits reserve related to share options granted by the Company to its employees and service providers under its employee share option plan. 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 33.

**Foreign currency translation reserve**

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

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|--|---------------------|---------------------|
| Balance at beginning of year                                       | 3,846               | (1,092)             |
| Exchange differences arising on translating the foreign operations | 70                  | 4,938               |
| Balance at end of year   | 3,916               | 3,846               |

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company'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 of the foreign operation.

## 28. Accumulated deficit

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of

registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law. In 2012 the Company did not make any appropriation to non-distributable reserves. As of December 31, 2012 and 2011, the accumulated non-distributable reserve was US\$30 million and US\$30 million respectively.

In addition, due to restrictions on the distribution of paid-in capital from the Company's PRC subsidiaries, the PRC subsidiaries' paid-in capital of US\$3,412 million at December 31, 2012 is considered restricted.

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**28. Accumulated deficit *(continued)*

As a result of these PRC laws and regulations, as of December 31, 2012, reserve and capital of approximately US\$3,442 million was not available for distribution to the Company by its PRC subsidiaries in the form of dividends, loans or advances.

In 2012, and 2011 the Company did not declare or pay any cash dividends on the ordinary shares.

## 29. Borrowings

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|--|---------------------|---------------------|---------------------|
| <b>At amortized cost</b>                   |                     |                     |                     |
| Short-term commercial bank loans (i)       | <b>383,225</b>      | 607,427             | 372,055             |
|  | <b>383,225</b>      | 607,427             | 372,055             |
| Long-term debt by contracts                |                     |                     |                     |
| Shanghai USD & RMB loan                    |                     |                     | 110,271             |
| Beijing USD syndicate loan (ii)            |                     | 180,084             | 290,062             |
| EUR loan (iii)                             |                     | 8,271               | 25,422              |
| Tianjin USD syndicate loan                 |                     |                     | 86,300              |
| Beijing USD & RMB loan (iv)                | <b>49,079</b>       | 48,838              |                     |
| Shanghai USD loan (v)                      | <b>68,500</b>       | 26,523              |                     |
| Shanghai EXIM70M loan (vi)                 | <b>70,000</b>       |                     |                     |
| Shanghai 268M syndicate loan (vii)         | <b>245,611</b>      |                     |                     |
| Beijing EXIM20M loan (viii)                | <b>20,000</b>       |                     |                     |
| Beijing 600M syndicate loan (ix)           | <b>260,000</b>      |                     |                     |
|  | <b>713,190</b>      | 263,716             | 512,055             |
| Less: current maturities of long-term debt | <b>184,578</b>      | 191,355             | 333,459             |
| Non-current maturities of long-term debt   | <b>528,612</b>      | 72,361              | 178,596             |
| Borrowing by repayment schedule:           |                     |                     |                     |
| Within 1 year                              | <b>567,803</b>      | 798,782             | 705,514             |
| Within 1 2 years                           | <b>309,000</b>      | 72,361              | 178,596             |
| Within 2 5 years                           | <b>219,612</b>      |                     |                     |
|  | <b>1,096,415</b>    | 871,143             | 884,110             |

**Summary of borrowing arrangements**

(i) As of December 31, 2012, the Company had 29 short-term credit agreements that provided total credit facilities of up to US\$1 billion on a revolving credit basis. As of December 31, 2012, the Company had drawn down US\$383.2 million under these credit agreements and US\$629.3 million was available for future trading and borrowings. The outstanding borrowings under the credit agreements are unsecured, except for \$129 million, which is secured by time deposits of US\$108.4 million, and an additional balance of US\$5.9 million, which is secured by real property with an original cost of US\$2.1 million. The interest expense incurred in 2012 was US\$22.2 million of which US\$8.6 million was capitalized as additions to assets under construction. The interest rate ranged from 1.01% to 7.2% in 2012.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

29. Borrowings *(continued)*

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

(ii) In May 2005, Semiconductor Manufacturing International (Beijing) Corporation ( SMIB ) entered into the Beijing USD syndicate loan, a five-year loan facility in the aggregate principal amount of US\$600 million, with a syndicate of financial institutions based in the PRC. The principal amount was repayable starting from December 2007 in six equal semi-annual installments. On June 26, 2009, SMIB amended the syndicated loan agreement to defer the commencement of the three remaining semi-annual payments to December 28, 2011. The amendment includes a provision for mandatory early repayment of a portion of the outstanding balance if SMIB's financial performance exceeds certain pre-determined benchmarks. The amendment was accounted for as a modification as the terms of the amended instrument were not substantially different from the original terms. SMIB made the repayment of remaining outstanding borrowing US\$180.1 million in 2012. The interest rate ranged from 2.94% to 2.99%. The interest expense incurred in 2012 was US\$4.1 million, of which US\$1.0 million was capitalized as part of the costs of assets under construction in 2012.

The Beijing USD syndicate loan contained covenants to maintain minimum cash flows as a percentage of non-cash expenses and to limit total liabilities, excluding shareholder loans, as a percentage of total assets. SMIB was in compliance with these covenants as of December 31, 2011. The loan has been fully repaid during 2012.

(iii) On December 15, 2005, the Company entered into a EUR denominated long-term loan facility agreement in the aggregate principal amount of EUR85 million (equivalent to approximately US\$105 million) with ABN Amro Bank N.V., Shanghai Branch. The drawdown period of the facility ended on the earlier of (i) thirty six months after the execution of the agreement or (ii) the date which the loans have been fully drawn down. Each draw-down made under the facility was repaid in full by the Company in ten equal semi-annual installments. In May and June 2012, SMIS repaid the remaining balance of EUR6.4 million. The interest rate ranged from 2.6% to 4.7% in 2012. The interest expense incurred in 2012 was US\$0.23 million of which US\$0.09 million was capitalized as part of the costs of assets under construction in 2012.

The loan has been fully repaid during 2012.

(iv) 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. As of December 31, 2012, SMIB had drawn down US\$25 million & RMB150 million on this loan facility. The principal amount is repayable in September 2013. The interest rate on this loan facility ranged from 6.15% to 6.65% in 2012. The interest expense incurred in 2012 was US\$3.2 million, of which US\$0.7 million was capitalized as part of the costs of

assets under construction in 2012.

The total outstanding balance of this USD & RMB Loan is secured by SMIB's plant and equipment with an original cost of US\$132.3 million as of December 31, 2012 (US\$132.3 million as of December 31, 2011).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

29. Borrowings *(continued)*

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

(v) 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. As of December 31, 2012, SMIS had drawn down US\$69.5 million and repaid US\$1 million. The principal amount of \$68.5 million will be repayable in June, 2013. The interest rate ranged from 4.40% to 4.79% during 2012. The interest expense incurred in 2012 was US\$3.4 million, of which US\$1.1 million was capitalized as part of the costs of assets under construction in 2012.

The total outstanding balance of the facilities is secured by certain equipment of SMIS with an original cost of US\$ 99.6 million as of December 31, 2012 (US\$38.6 million as of December 31, 2011). The Shanghai EXIM Bank USD loan contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2012 and 2011 respectively.

(vi) 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 is secured by certain equipment of SMIS. This two-year bank facility was used to finance the planned expansion for SMIS's 12-inch fab. As of December 31, 2012, SMIS had drawn down US\$70 million. The principal amount of \$70 million will be repayable in October 2014. The interest rate is 4.55%. The interest expense incurred in 2012 was US\$0.4 million, of which US\$0.1 million was capitalized as part of the costs of assets under construction in 2012.

The Shanghai EXIM Bank USD loan II contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2012.

(vii) 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 is used to finance the working capital for SMIS's 8-inch fab. The facility is secured by the manufacturing equipment located in the SMIS 8-inch fabs, buildings and land use right of SMIS. As of December 31, 2012, SMIS had drawn down US\$245.6 million, on this loan facility. The principal amount is repayable from September 2013 to March 2015. The interest rate on this loan facility ranged from 4.03% to 4.24% in 2012. The interest expense incurred in 2012 was US\$7.9 million, of which US\$2.4 million was capitalized as part of the costs of assets under construction in 2012. The Shanghai USD syndicate loan contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2012.

(viii) 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 is unsecured. This two-year bank facility was used for working capital purpose. As of December 31, 2012, SMIB had drawn down US\$20 million on this loan facility. The principal amount is repayable in March 2014. The interest rate on this loan facility ranged from 6.46% to 6.54% in 2012. The interest expense incurred in 2012 was US\$1 million, of which US\$0.2 million was capitalized as part of the costs of assets under construction in 2012.

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**29. Borrowings *(continued)***Summary of borrowing arrangements** *(continued)*

(ix) In March 2012, SMIB entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of \$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 is secured by the manufacturing equipment located in the SMIB and SMIT fabs, and 100% equity pledge of SMIB and SMIT. As of December 31, 2012, SMIB had drawn down US\$260 million on this loan facility which is repayable from March 2014 to March 2016. The interest rate on this loan facility ranged from 6.16% to 6.24% in 2012. The interest expense incurred in 2012 was US\$12.2 million, of which US\$2.3 million was capitalized as part of the costs of assets under construction in 2012. The Beijing USD syndicate loan contains covenants to maintain certain minimum coverage ratio. SMIB was in compliance with these covenants as of December 31, 2012.

## 30. Trade and other payables

|                                 | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|---------------------------------|---------------------|---------------------|---------------------|
| Trade payables                  | 331,394             | 280,691             | 515,577             |
| Advance receipts from customers | 67,108              | 68,660              | 22,795              |
| Deposit received from customer  | 10,591              | 5,631               | 64,445              |
| Other payable                   | 14,859              | 20,766              | 11,238              |
|                                 | <b>423,952</b>      | <b>375,748</b>      | <b>614,055</b>      |

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

An aging analysis of the accounts payable is as follows:

|                       | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|-----------------------|---------------------|---------------------|---------------------|
| Current               | 275,398             | 194,434             | 429,831             |
| Overdue:              |                     |                     |                     |
| Within 30 days        | 26,783              | 42,278              | 42,087              |
| Between 31 to 60 days | 10,652              | 16,327              | 8,541               |

|              |                |         |         |
|--------------|----------------|---------|---------|
| Over 60 days | <b>18,561</b>  | 27,652  | 35,118  |
|              | <b>331,394</b> | 280,691 | 515,577 |

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## 31. Promissory notes

In 2009, the Company 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 Company issued twelve non-interest bearing promissory notes with an aggregate amount of US\$200.0 million as the settlement consideration. The Company has 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 Company's average rate of borrowing for 2009), which was recorded as a reduction of the face amount of the promissory notes. In total, the Company paid TSMC US\$30.0 million and US\$30.0 million in 2012 and 2011, respectively. The outstanding promissory notes are as follows:

|                 | Face value<br>USD 000 | 12/31/12<br>Discounted<br>Value<br>USD 000 |
|-----------------|-----------------------|--|
| <b>Maturity</b> |                       |  |
| 2013 Current    | 30,000                | <b>29,374</b>                              |
|                 | 30,000                | <b>29,374</b>                              |

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## 32. Other financial liabilities

|   | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 01/01/11<br>USD 000 |
|---|---------------------|---------------------|---------------------|
| <b>Derivatives carried at fair value through profit or loss (FVTPL)</b> |                     |                     |                     |
| Foreign currency forward contracts                                      | 25                  | 816                 | 480                 |
| Interest rate swaps   |                     | 405                 | 1,380               |
| Cross-currency interest rate swaps                                      |                     | 462                 | 1,292               |
|   | <b>25</b>           | <b>1,683</b>        | <b>3,152</b>        |

## 33. Share-based payments

**Employee Stock Option Plans**

The Company's employee stock option plans (the "Plans") allow the Company to offer a variety of incentive awards to employees, consultants or external service advisors of the Company. The options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of four years.

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

**Restricted share units ( RSUs )**

The Company adopted the Equity Incentive Plan ( "EIP" ) whereby the Company provided additional incentives to the Company's employees, directors and external consultants through the issuance of restricted shares, restricted share units and stock appreciation rights to the participants at the discretion of the Board of Directors. 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 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 instruments were granted.



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

|  | <b>Year ended<br/>12/31/12<br/>USD 000</b> | <b>Year ended<br/>12/31/11<br/>USD 000</b> |
|--|--|--|
| Expense arising from equity-settled share-based payment transactions | <b>7,174</b>                               | <b>5,336</b>                               |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**33. Share-based payments *(continued)***Movements during the year**

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

|                            | 2012<br>Number | 2012<br>WAEP | 2011<br>Number | 2011<br>WAEP |
|----------------------------|----------------|--------------|----------------|--------------|
| Outstanding at January 1   | 1,230,938,429  | US\$ 0.10    | 1,317,679,526  | US\$ 0.11    |
| Granted during the year    | 292,084,956    | US\$ 0.04    | 321,290,693    | US\$ 0.07    |
| Cancelled during the year  | (209,218,313)  | US\$ 0.09    | (332,650,148)  | US\$ 0.11    |
| Exercised during the year  | (28,437,700)   | US\$ 0.02    | (75,381,642)   | US\$ 0.05    |
| Outstanding at December 31 | 1,285,367,372  | US\$ 0.09    | 1,230,938,429  | US\$ 0.10    |
| Exercisable at December 31 | 457,250,416    | US\$ 0.12    | 465,796,149    | US\$ 0.12    |

The weighted average remaining contractual life for the share options outstanding as at December 31, 2012 was 6.61 years (2011: 6.67 years).

The range of exercise prices for options outstanding at the end of the year was US\$0.02 to US\$0.35 (2011: US\$0.01 to US\$0.35).

The following table list the inputs to the Black Scholes Pricing models used for the option granted during the years ended 31 December 2012 and 2011, respectively:

|                                | 2012      | 2011      |
|--------------------------------|-----------|-----------|
| Dividend yield (%)             |           |           |
| Expected volatility            | 65.93%    | 69.15%    |
| Risk-free interest rate        | 0.77%     | 1.04%     |
| Expected life of share options | 1 5 years | 1 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 Company's intended future dividend plan.

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

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**33. Share-based payments *(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):

|                            | 2012<br>Number | 2012<br>WAFV | 2011<br>Number | 2011<br>WAFV |
|----------------------------|----------------|--------------|----------------|--------------|
| Outstanding at January 1   | 101,564,432    | US\$ 0.07    | 144,457,562    | US\$ 0.10    |
| Granted during the year    | 65,170,000     | US\$ 0.04    | 67,949,495     | US\$ 0.07    |
| Cancelled during the year  | (12,809,396)   | US\$ 0.08    | (32,611,949)   | US\$ 0.10    |
| Exercised during the year  | (28,566,748)   | US\$ 0.08    | (78,230,676)   | US\$ 0.10    |
| Outstanding at December 31 | 125,358,288    | US\$ 0.06    | 101,564,432    | US\$ 0.07    |

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2012 was 8.84 years (2011: 9.01 years).

## 34. Disposal of a subsidiary

On March 1, 2011, the Company disposed of majority ownership interest in Semiconductor Manufacturing International (AT) Corporation. No cash consideration received in connection with this disposal.

|  | Year ended<br>12/31/11<br>USD 000 |
|--|-----------------------------------|
| <b>Analysis of asset and liabilities over which control was lost</b> |                                   |
| Cash and cash equivalents  | 3,861                             |
| Trade and other receivables  | 14,470                            |
| Inventories  | 5,210                             |
| Property, plant and equipment  | 29,263                            |
| Intangible assets  | 26                                |
| Trade and other payables   | (24,370)                          |
| Borrowings   | (300)                             |
| Deferred income  | (6,723)                           |
| Net assets disposed of   | 21,437                            |
| <b>Gain on disposal of subsidiary</b>                                |                                   |
| 10% investment retained  | 2,532                             |

|                                  |          |
|----------------------------------|----------|
| Cancellation of preferred shares | 36,008   |
| Net assets disposed of           | (21,437) |
| Gain on disposal                 | 17,103   |

The gain on disposal is included in the profit for the year from discontinued operations (see Note 12).

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## 35. Financial instruments

**Capital management**

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the capital structure. The Company's overall strategy remains unchanged from 2011.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 29 offset by cash and bank balance) and equity of the Company.

Where the entity manages its capital through issuing/repurchasing shares and raising/repayment of debts. The Company reviews the capital structure on a semi-annual basis. As part of this review, the Company considers the cost of capital and the risks associates with each class of capital. The Company 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.

|                          | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|--------------------------|---------------------|---------------------|
| Debt (i)                 | 1,096,415           | 871,143             |
| Cash and bank balances   | (358,490)           | (261,615)           |
| Net debt                 | 737,925             | 609,528             |
| Equity                   | 2,276,452           | 2,245,998           |
| Net debt to equity ratio | 32.42%              | 27.14%              |

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(i) Debt is defined as long- and short-term borrowings (excluding derivatives), as described in Note 29.



Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Categories of financial instruments**

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|--|---------------------|---------------------|
| <b>Financial assets</b>  |                     |                     |
| Cash and bank balance  | 358,490             | 261,615             |
| Restricted Cash (Deposit pledged against letters of credit & short-term credit facilities) | 111,560             | 46,273              |
| Fair value through profit or loss (FVTPL) Foreign currency forward contracts               | 77                  | 939                 |
| Short-term investment carried at fair value through profit or loss                         | 18,653              | 1,034               |
| Trade and other receivables  | 328,211             | 200,905             |
| Available-for-sale financial assets carried at cost  | 3,757               | 3,757               |
| <b>Financial liabilities</b>   |                     |                     |
| Fair value through profit or loss (FVTPL)  |                     |                     |
| Foreign currency forward contracts   | 25                  | 816                 |
| Interest rate swaps  |                     | 405                 |
| Cross-currency interest rate swaps   |                     | 462                 |
| Trade and other payables   | 423,952             | 375,748             |
| Borrowings   | 1,096,415           | 871,143             |
| Promissory notes   | 29,374              | 57,934              |
| Long-term liabilities  | 4,223               | 3,018               |

**Financial risk management objectives**

The Company'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 Company 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 Company seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company'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 Company 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**

35. Financial instruments *(continued)*

**Market risk**

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company 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, 2012 and 2011.

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

**Foreign currency risk management**

The Company 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.

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<br>USD 000 | 12/31/11<br>USD 000 | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
| EUR    | 1,345               | 12,569              | 3,249               | 3,017               |
| JPY    | 13,693              | 19,137              | 3,023               | 2,629               |
| RMB    | 254,750             | 178,491             | 456,271             | 431,121             |
| Others | 6,934               | 7,797               | 2,122               | 1,630               |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Foreign currency risk management** *(continued)***Foreign currency sensitivity analysis**

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

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

|                | EUR             |                 | JPY             |                 | RMB             |                 | Others          |                 |
|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                | 2012<br>USD 000 | 2011<br>USD 000 | 2012<br>USD 000 | 2011<br>USD 000 | 2012<br>USD 000 | 2011<br>USD 000 | 2012<br>USD 000 | 2011<br>USD 000 |
| Profit or loss | 95              | (478)           | (562)           | (869)           | 10,606          | 13,296          | (3)             | (11)            |
| Equity         | 95              | (478)           | (562)           | (869)           | 10,606          | 13,296          | (3)             | (11)            |

**Forward foreign exchange contracts**

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

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Foreign currency risk management** *(continued)***Forward foreign exchange contracts** *(continued)*

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

*Outstanding contracts*

|                    | Average exchange rate |          | Foreign currency   |                    | Notional value      |                     | Fair value assets/ (liabilities) |                     |
|--------------------|-----------------------|----------|--------------------|--------------------|---------------------|---------------------|----------------------------------|---------------------|
|                    | 12/31/12              | 12/31/11 | 12/31/12<br>FC 000 | 12/31/11<br>FC 000 | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 12/31/12<br>USD 000              | 12/31/11<br>USD 000 |
| <b>Buy RMB</b>     |                       |          |                    |                    |                     |                     |                                  |                     |
| Less than 3 months | <b>6.3763</b>         | 6.5085   | <b>221,173</b>     | 586,456            | <b>35,504</b>       | 93,199              | <b>67</b>                        | 736                 |
| 3 months to 1 year | <b>6.4100</b>         | 6.4450   | <b>294,696</b>     | 426,592            | <b>47,306</b>       | 67,794              | <b>(15)</b>                      | (525)               |
|                    |                       |          | <b>515,869</b>     | 1,013,048          | <b>82,810</b>       | 160,993             | <b>52</b>                        | 211                 |
| <b>Buy EUR</b>     |                       |          |                    |                    |                     |                     |                                  |                     |
| 3 months to 1 year |                       | 1.3214   |                    | 3,600              |                     | 4,653               |                                  | (88)                |
|                    |                       |          |                    | 3,600              |                     | 4,653               |                                  | (88)                |

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

**Interest rate risk management**

The Company is exposed to interest rate risk relates primarily to the Company's long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The risk is managed by the Company 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 Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

***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 Company's profit for the year ended December 31, 2012 would decrease by US\$0.6 million (2011: loss increase by US\$0.7 million). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Interest rate risk management** *(continued)****Interest rate swap contracts***

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contracts, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

| Outstanding receive<br>floating pay fixed<br>contracts | Average contracted<br>fixed interest rate |               | Notional principal<br>value |                     | Fair value assets<br>(liabilities) |                     |
|--|---|---------------|-----------------------------|---------------------|------------------------------------|---------------------|
|  | 12/31/12<br>%                             | 12/31/11<br>% | 12/31/12<br>USD 000         | 12/31/11<br>USD 000 | 12/31/12<br>USD 000                | 12/31/11<br>USD 000 |
| Less than 1 year                                       |   | 2.07          |                             | 48,000              |                                    | (405)               |

The interest rate swaps settle on a semi-yearly basis. The floating rate on the interest rate swaps is linking to 6 month Libor. The Company will settle the difference between the fixed and floating interest rate on a net basis.

**Credit risk management**

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

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. It is the Company'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 Company'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 Company's exposure to bad debts is not significant.

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



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

35. Financial instruments *(continued)*

**Credit risk management** *(continued)*

Apart from A and B, two largest customers of the Company, the Company does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to A and B did not exceed 10% and 12% 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 Company's accounts receivable and net sales is disclosed in Note 7.

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

**Liquidity risk management**

The Company 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 Company'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 Company 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 Company 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>31 December 2012</b>                       |          |   |                                  |                                  |                      |                     |                  |
| Promissory notes                              |          |   |                                  | 30,000                           |                      |                     | 30,000           |
| Interest-bearing bank and other<br>borrowings | Fixed    | 4.73%   |                                  | 392,282                          |                      |                     | 392,282          |
|   | Floating | 5.64%   |                                  | 189,786                          | 588,270              |                     | 778,056          |
| Long-term financial liabilities               |          |   |                                  |                                  | 6,750                |                     | 6,750            |
| Trade and other payables                      |          |   | 353,009                          | 62,120                           | 8,823                |                     | 423,952          |
|   |          |   | 353,009                          | 674,188                          | 603,843              |                     | 1,631,040        |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Liquidity risk management** *(continued)***Liquidity and interest risk tables** *(continued)*

|   |          | Weighted<br>average<br>effective<br>interest 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>31 December 2011</b>                       |          |  |                                  |                                  |                      |                     |                  |
| Promissory notes                              |          |  |                                  | 30,000                           | 30,000               |                     | 60,000           |
| Interest-bearing bank and<br>other borrowings | Fixed    | 3.60%  |                                  | 618,364                          |                      |                     | 618,364          |
|   | Floating | 3.46%  |                                  | 194,665                          | 77,368               |                     | 272,033          |
| Long-term financial liabilities               |          |  |                                  |                                  | 6,750                |                     | 6,750            |
| Trade and other payables                      |          |  | 322,528                          | 47,407                           | 5,813                |                     | 375,748          |
|   |          |  | 322,528                          | 890,436                          | 119,931              |                     | 1,332,895        |

The following table details the Company'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 Company'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>31 December 2012</b>                                    |  |   |                                  |                                  |                      |                     |                  |
| Trade and other receivables                                |  |   | 322,380                          | 5,831                            |                      |                     | 328,211          |
| Cash balances, restricted cash &<br>short-term 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          |

|  | Weighted<br>average<br>effective<br>interest 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>31 December 2011</b>                                    |  |                                  |                                  |                      |                     |                  |
| Trade and other receivables                                |  | 195,953                          | 4,952                            |                      |                     | 200,905          |
| Cash balances, Restricted Cash &<br>short-term investments | 0.91%  | 265,773                          | 43,647                           |                      |                     | 309,420          |
| Available for sale financial asset                         |  |                                  |                                  |                      | 3,757               | 3,757            |
|  |  | 461,726                          | 48,599                           |                      | 3,757               | 514,082          |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Liquidity risk management** *(continued)***Liquidity and interest risk tables** *(continued)*

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 Company has access to financing facilities as described in below section, of which USD629.3 million were unused at the end of the reporting period (2011: USD311.6 million). The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The following table details the Company'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>31 December 2012</b>                     |                    |                                 |                          |                                  |                      |                     |
| <b>Net settled:</b>                         |                    |                                 |                          |                                  |                      |                     |
| foreign exchange forward Contracts          |                    | 20                              | 47                       | (15)                             |                      |                     |
|   |                    | 20                              | 47                       | (15)                             |                      |                     |
| <b>31 December 2011</b>                     |                    |                                 |                          |                                  |                      |                     |
| <b>Net settled:</b>                         |                    |                                 |                          |                                  |                      |                     |
| Interest rate swaps                         |                    |                                 |                          | (405)                            |                      |                     |
| foreign exchange forward contracts          |                    | 712                             | 24                       | (613)                            |                      |                     |
| cross-currency interest rate swap contracts |                    |                                 |                          | (462)                            |                      |                     |
|   |                    | 712                             | 24                       | (1,480)                          |                      |                     |

**Fair value of financial instruments**

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

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

The carrying values of long-term promissory notes approximate their fair values as the interest rates used to discount the promissory notes did not fluctuate significantly between the date the notes were recorded and December 31, 2012.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

35. Financial instruments *(continued)*

**Fair value of financial instruments** *(continued)*

***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 the Company obtains from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, the Company generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and the Company's evaluation of those factors changes.

***Fair value measurements recognized in the consolidated statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

|  | 31/12/12           |                    |                    |                  |
|--|--------------------|--------------------|--------------------|------------------|
|  | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 | Total<br>USD 000 |
| <b>Financial assets at FVTPL</b>                                   |                    |                    |                    |                  |
| Derivative financial assets  |                    | 77                 |                    | 77               |
| Short-term investment carried at fair value through profit or loss |                    | 18,653             |                    | 18,653           |
| <b>Total</b>   |                    | <b>18,730</b>      |                    | <b>18,730</b>    |
| <b>Financial liabilities at FVTPL</b>                              |                    |                    |                    |                  |
| Other derivative financial liabilities                             |                    | (25)               |                    | (25)             |
| <b>Total</b>   |                    | <b>(25)</b>        |                    | <b>(25)</b>      |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**35. Financial instruments *(continued)***Fair value of financial instruments** *(continued)***Fair value measurements recognized in the consolidated statement of financial position** *(continued)*

|  | 31/12/11           |                    |                    |                  |
|--|--------------------|--------------------|--------------------|------------------|
|  | Level 1<br>USD 000 | Level 2<br>USD 000 | Level 3<br>USD 000 | Total<br>USD 000 |
| <b>Financial assets at FVTPL</b>                                   |                    |                    |                    |                  |
| Derivative financial assets  |                    | 939                |                    | 939              |
| Short-term investment carried at fair value through profit or loss |                    | 1,034              |                    | 1,034            |
| <b>Total</b>   |                    | <b>1,973</b>       |                    | <b>1,973</b>     |
| <b>Financial liabilities at FVTPL</b>                              |                    |                    |                    |                  |
| Other derivative financial liabilities                             |                    | (1,683)            |                    | (1,683)          |
| <b>Total</b>   |                    | <b>(1,683)</b>     |                    | <b>(1,683)</b>   |

There were no transfers between Level 1 and 2 during year ended December 31, 2012 and 2011.

## 36. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company 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 Company:

|   | Sales of goods                    |                                   |
|---|-----------------------------------|-----------------------------------|
|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
| Datang Microelectronics Technology Co., Ltd** | 9,654                             | 4,558                             |
| Toppan SMIC Electronics (Shanghai) Co., Ltd   | 4,192                             | 4,099                             |

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Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**36. Related party transactions *(continued)***Trading transactions** *(continued)*

|   | Purchase of goods                 |                                   | Purchase of services              |                                   |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|   | Year ended<br>31/12/12<br>USD 000 | Year ended<br>31/12/11<br>USD 000 | Year ended<br>31/12/12<br>USD 000 | Year ended<br>31/12/11<br>USD 000 |
| Toppan SMIC Electronics (Shanghai) Co., Ltd     | 169                               | 6,828                             | 12,755                            | 13,594                            |
| Zhongxin Xiecheng Investment (Beijing) Co., Ltd |                                   |                                   | 1,094                             |                                   |

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

|   | Amounts owing by related parties |                     | Amounts owing to related parties |                     |
|---|----------------------------------|---------------------|----------------------------------|---------------------|
|   | 12/31/12<br>USD 000              | 12/31/11<br>USD 000 | 12/31/12<br>USD 000              | 12/31/11<br>USD 000 |
| Datang Microelectronics Technology Co., Ltd** | 4,138                            | 1,261               |                                  |                     |
| Datang Telecom Company Finance Co., Ltd**     |                                  |                     | 80,262*                          |                     |
| Toppan SMIC Electronics (Shanghai) Co., Ltd   | 372                              | 350                 | 1,487                            | 1,629               |

\* Short-term borrowing, the principal amount is repayable in May 2013. The interest rate is 5.04%.

\*\* Members of Datang Group

On December 14, 2011, the Company entered into a Framework Agreement with Datang Telecom Technology & Industry Holdings Co., Ltd. ( Datang ), a substantial shareholder of the Company. Datang is a member of Datang Telecom Technology & Industry Group ( Datang Group ). Pursuant to the agreement, the Company (including its subsidiaries) and Datang (including its associates) will engage in business collaboration including but not limited to foundry service. The effective period of the Framework Agreement

is three years. The pricing for the transactions contemplated under the agreement will be determined by reference to reasonable market price.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

36. Related party transactions *(continued)*

**Compensation of key management personnel**

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

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

|                      | year ended<br>12/31/12<br>USD 000 | year ended<br>12/31/11<br>USD 000 |
|----------------------|-----------------------------------|-----------------------------------|
| Short-term benefits  | 3,191                             | 3,222                             |
| Share-based payments | 1,343                             | 1,619                             |
|                      | <b>4,534</b>                      | <b>4,841</b>                      |

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

The Board approved to sell self-developed apartment to two of the key management in 2012. Amount of sales of self-developed apartments was US\$0.9 million.

37. Commitments for expenditure

**Purchase commitments**

As of December 31, 2012, the Company had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Company's facility by December 31, 2013.

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 |
|--|---------------------|---------------------|
| Commitments for the facility construction                        | 25,551              | 40,322              |
| Commitments for the acquisition of property, plant and equipment | 481,639             | 420,461             |
|  | <b>507,190</b>      | <b>460,783</b>      |

38. Approval of financial statements

The financial statements were approved and authorized for issue by the board of directors on March 25, 2013.

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|   | Year ended<br>12/31/12<br>USD 000 | Year ended<br>12/31/11<br>USD 000 |
|---|-----------------------------------|-----------------------------------|
| <b>Continuing operations</b>                          |                                   |                                   |
| Revenue   |                                   | 304                               |
| General and administration expenses                   | (38,853)                          | (37,149)                          |
| Finance costs   | (3,331)                           | (4,628)                           |
| Interest income                                       | 1,021                             | 449                               |
| Other (loss) income                                   | (66)                              | 5,494                             |
| Other gains or losses                                 | (237)                             | 1,667                             |
| Profit (loss) before tax                              | (41,466)                          | (33,863)                          |
| Income tax expense                                    |                                   | (214)                             |
| Profit (loss) for the year from continuing operations | (41,466)                          | (34,077)                          |
| <b>Discontinued operations</b>                        |                                   |                                   |
| Profit for the year from discontinued operations      |                                   | 17,103                            |
| <b>Profit (loss) for the year</b>                     | <b>(41,466)</b>                   | <b>(16,974)</b>                   |

Table of Contents**ADDITIONAL INFORMATION SCHEDULE I****FINANCIAL INFORMATION OF PARENT COMPANY****STATEMENTS OF FINANCIAL POSITION**

|  | 12/31/12<br>USD 000 | 12/31/11<br>USD 000 | 1/1/11<br>USD 000 |
|--|---------------------|---------------------|-------------------|
| <b>Assets</b>  |                     |                     |                   |
| <i>Non-current assets</i>  |                     |                     |                   |
| Property, plant and equipment  | 5,728               | 3,642               | 6,638             |
| Intangible assets  | 171,629             | 125,562             | 139,511           |
| Investments in subsidiaries  | 2,565,148           | 2,565,148           | 2,099,437         |
| Investments in associates  | 7,665               | 7,665               | 7,665             |
| Other assets   | 3,479               | 3,479               |                   |
| Total non-current assets   | 2,753,649           | 2,705,496           | 2,253,251         |
| <i>Current assets</i>  |                     |                     |                   |
| Inventories  | 168                 | 99                  | 170               |
| Prepaid operating expenses   | 1,173               | 1,510               | 788               |
| Trade and other receivables  | 211,942             | 184,582             | 234,036           |
| Other financial assets   | 14,878              | 255                 | 2,526             |
| Restricted cash  | 47,506              | 7,500               | 7,500             |
| Cash and bank balances   | 77,869              | 60,910              | 110,181           |
| Total current assets   | 353,536             | 254,856             | 355,201           |
| <b>Total assets</b>  | <b>3,107,185</b>    | <b>2,960,352</b>    | <b>2,608,452</b>  |
| <b>Equity and liabilities</b>  |                     |                     |                   |
| <i>Capital and reserves</i>  |                     |                     |                   |
| Ordinary shares \$0.0004 par value, 50,000,000,000 shares authorized, 32,000,139,623, 27,487,676,065, and 27,334,063,747 shares issued and outstanding at December 31, 2012, 2011 and 2010, respectively | 12,800              | 10,995              | 10,934            |
| Convertible preferred shares, \$0.0004 par value, 5,000,000,000 shares authorized, nil, 445,545,911 shares and nil issued and outstanding at December 31, 2012, 2011 and 2010, respectively              |                     | 178                 |                   |
| Share premium  | 4,083,588           | 4,082,135           | 3,762,146         |
| Reserves   | 41,140              | 36,377              | 39,447            |
| Accumulated deficit  | (1,701,430)         | (1,659,964)         | (1,642,990)       |
| Total equity   | 2,436,098           | 2,469,721           | 2,169,537         |
| <i>Non-current liabilities</i>   |                     |                     |                   |
| Promissory notes   |                     | 28,560              | 56,327            |
| Other liabilities  | 5,000               |                     | 9,646             |
| Total non-current liabilities  | 5,000               | 28,560              | 65,973            |
| <i>Current liabilities</i>   |                     |                     |                   |
| Trade and other payables   | 450,784             | 215,697             | 221,214           |
| Borrowings   | 180,034             | 209,026             | 109,470           |
| Accrued liabilities  | 5,870               | 6,404               | 8,109             |
| Promissory notes   | 29,374              | 29,374              | 29,374            |
| Other financial liabilities  | 25                  | 1,532               | 2,907             |
| Current tax liabilities  |                     | 38                  | 1,868             |
| Total current liabilities  | 666,087             | 462,071             | 372,942           |
| Total liabilities  | 671,087             | 490,631             | 438,915           |
| Total equity and liabilities   | 3,107,185           | 2,960,352           | 2,608,452         |





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|  | Year ended<br>31/12/12<br>USD 000 | Year ended<br>31/12/11<br>USD 000 |
|--|-----------------------------------|-----------------------------------|
| <b>Operating activities:</b>   |                                   |                                   |
| <b>Profit (loss) for the year</b>  | <b>(41,466)</b>                   | (16,974)                          |
| <b>Adjustments for:</b>  |                                   |                                   |
| Forgiveness of payables  |                                   | (17,565)                          |
| Gain on disposition of discontinued operation, net of taxes                      |                                   | (17,103)                          |
| Amortization of intangible assets and land use right                             | <b>26,433</b>                     | 23,656                            |
| Depreciation of property, plant and equipment                                    | <b>1,331</b>                      | 1,299                             |
| Expense recognized in respect of equity-settled share-based payments             | <b>7,174</b>                      | 5,334                             |
| Finance cost   | <b>3,331</b>                      | 4,628                             |
| Loss on disposal of property, plant and equipment                                |                                   | 412                               |
| Interest income recognized in profit or loss                                     | <b>(1,021)</b>                    | (449)                             |
| Impairment loss recognized on trade receivables                                  |                                   | (3)                               |
| Net loss (gain) arising on financial assets at fair value through profit or loss | <b>190</b>                        | (183)                             |
| Net gain arising on financial liabilities at fair value through profit or loss   | <b>(1,509)</b>                    | (1,375)                           |
| Reversal of impairment loss on trade receivables                                 | <b>(2,095)</b>                    | (6,400)                           |
|  | <b>(7,632)</b>                    | (24,723)                          |
| <b>Movements in working capital:</b>   |                                   |                                   |
| Decrease in trade and other receivables  | <b>1,204</b>                      | 6,905                             |
| (Increase) decrease in inventories   | <b>(69)</b>                       | 70                                |
| Decrease (increase) in prepaid operating expenses                                | <b>347</b>                        | (722)                             |
| Decrease in trade and other payables   | <b>(5,412)</b>                    | (3,583)                           |
| Decrease in accrued liabilities  | <b>(319)</b>                      | (1,842)                           |
| Decrease in other liabilities  | <b>(38)</b>                       | (11,477)                          |
| <b>Cash used in operations</b>   | <b>(11,919)</b>                   | (35,372)                          |
| Interest paid  | <b>(3,465)</b>                    | (3,883)                           |
| Interest received  | <b>1,021</b>                      | 449                               |
| <b>Net cash used in operating activities</b>                                     | <b>(14,363)</b>                   | (38,806)                          |
| <b>Cash flows from investing activities</b>                                      |                                   |                                   |
| Payments to acquire financial assets   | <b>(38,760)</b>                   | (19,008)                          |
| Proceeds on sale of financial assets   | <b>23,944</b>                     | 21,462                            |
| Payments for property, plant and equipment                                       |                                   | (295)                             |
| Investment in subsidiaries   |                                   | (451,086)                         |
| Payments for intangible assets   | <b>(58,167)</b>                   | (5,406)                           |
| Amounts advanced to a proposed joint venture                                     |                                   | (1,000)                           |
| Changes in restricted cash relating to investing activities                      | <b>(40,005)</b>                   |                                   |
| Cash (paid for) received from subsidiaries                                       | <b>(26,469)</b>                   | 51,875                            |
| <b>Net cash used in investing activities</b>                                     | <b>(139,457)</b>                  | (403,458)                         |
| <b>Cash flows from financing activities</b>                                      |                                   |                                   |
| Proceeds from issuance of convertible preferred shares                           |                                   | 308,298                           |
| Proceeds from borrowings   | <b>193,239</b>                    | 227,210                           |
| Repayment of borrowings  | <b>(222,232)</b>                  | (127,653)                         |
| Proceeds from exercise of employee stock options                                 | <b>669</b>                        | 3,525                             |

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|  |                |                |
|--|----------------|----------------|
| Repayment of promissory notes  | (30,000)       | (30,000)       |
| Prepayment for bank financing management fee                                       | (2,065)        |                |
| Cash received from subsidiaries  | 231,168        | 11,656         |
| <b>Net cash generated from financing activities</b>                                | <b>170,779</b> | <b>393,036</b> |
| Net increase (decrease) in cash and cash equivalents                               | 16,959         | (49,228)       |
| Cash and cash equivalents at the beginning of the year                             | 60,910         | 110,181        |
| Effects of exchange rate changes on the balance of cash held in foreign currencies |                | (43)           |
| <b>Cash and bank balance at the end of the year</b>                                | <b>77,869</b>  | <b>60,910</b>  |

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**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.