Gafisa S.A.
Form 6-K
September 27, 2016

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the month of September, 2016

(Commission File No. 001-33356),

Gafisa S.A.

(Translation of Registrant's name into English)

Av. Nações Unidas No. 8501, 19th floor
São Paulo, SP, 05425-070
Federative Republic of Brazil
(Address of principal executive office)

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

Form 20-F ___X___ Form 40-F ______

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

Yes ______ No ___X___

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

Yes ______ No ___X___

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

Yes ______ No ___X___

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

GAFISA S.A.

CNPJ/MF n° 01.545.826/0001-07

NIRE 35.300.147.952

Publicly-Held Company

CONSTRUTORA TENDA S.A.

CNPJ/MF n° 71.476.527/0001-75

NIRE 35.300.348.206

Publicly-Held Company

MATERIAL FACT

GAFISA S.A. (Bovespa, GFSA3; NYSE, GFA) ("Gafisa") and CONSTRUTORA TENDA S.A. ("Tenda", and together with Gafisa, the "Companies") released a Material Fact to the market on 08/16/2016, informing that "*in keeping with studies for a potential separation of the Gafisa and Tenda business units into two independent publicly traded Companies, the Companies' management continue to work on its analysis of strategic alternatives for the Tenda business unit, with the aim of maximizing its value to Gafisa's shareholders*". In virtue of news released by the media, the Companies hereby provide an update of the process.

The Companies have been maintaining contact with financial institutions, which the hiring was approved by Gafisa's Board of Directors, regarding the opportunity of a public offering of shares issued by Tenda. Despite that, it is premature any consideration regarding structure, volume or term of any eventual offering.

There is no final decision regarding the public offering or regarding any other option previously mentioned in the Material Fact of 08/16/2016 (sale of equity interest or separation by way of a corporate restructuring).

The Company will keep the market informed of any new facts or resolutions regarding this matter, respected any restrictions as set forth in CVM's regulation.

São Paulo, September 26, 2016.

Gafisa S.A.

André Bergstein

Financial and Investor Relations Executive Officer

Construtora Tenda S.A.

Felipe David Cohen

Financial and Investor Relations Executive Officer

In compliance to CVM Instruction No. 358/2002, as amended, and the Conduct Manual Disclosure and Use of Information and Securities Trading Policy Issued by Gafisa S.A., the release of this Material Fact will be on the following websites: www.cvm.gov.br, www.gafisa.com.br/ri and http://economia.estadao.com.br/fatos-relevantes/.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
Date: September 26, 2016

Gafisa S.A.

By: /s/ Sandro Gamba

Name: Sandro Gamba
Title: Chief Executive Officer

>

2,960,151

2,803,173

2,866,416

Inventories

316,041

286,251

295,728

207,308

Prepayment and Prepaid operating expenses	
	40,628
	43,945
	46,986
	52,805
Trade and other receivables	
	456,388
	379,361
	328,211
	200,905
Other financial assets	
	644,071
	240,311
	18,730

	1,973
Restricted cash	
	238,051
	147,625
	217,603
	136,907
Cash and cash equivalent	
	603,036
	462,483
	358,490
	261,615
Assets classified as held-for-sale	
	44
	3,265

	4,239
Total current assets	
	2,298,259
	1,563,241
	1,269,987
	861,513
Total assets	
	5,769,379
	4,523,392
	4,073,160
	3,727,929
Total non-current liabilities	
	1,311,416

	991,673
	688,622
	230,607
Total current liabilities	
	1,150,241
	938,537
	1,108,086
	1,251,324
Total liabilities	
	2,461,657
	1,930,210
	1,796,708
	1,481,931
Non-controlling interest	

359,307

109,410

952

1,182

Total equity

3,307,722

2,593,182

2,276,452

2,245,998

	For the year ended December 31,			
	2014	2013	2012	2011
	(in US$ thousands)			
Cash Flow Data:				
Profit (loss) for the year	**126,261**	174,467	22,541	(246,880)
Non-cash adjustment to reconcile profit (loss) to net operating cash flow:				
Depreciation and amortization	**549,468**	546,910	566,899	551,857
Net cash from operating activities	**608,102**	738,016	435,166	379,368
Payments for property, plant and equipment	**(653,134)**	(650,160)	(400,291)	(931,574)
Net cash used in investing activities	**(1,144,123)**	(807,467)	(522,277)	(903,641)
Net cash from financing activities	**676,683**	173,458	184,101	268,855
Net increase (decrease) in cash and bank balances	**140,662**	104,007	96,990	(255,418)
Other Financial Data:				
Gross margin	**24.5%**	21.2%	20.5%	7.7%
Net margin	**6.4%**	8.4%	1.3%	18.7%
Operating Data:				
Wafers shipped (in units):				

Total(1)	**2,559,245**	2,574,119	2,217,287	1,703,615

(1) Including logic, DRAM, copper interconnects and all other wafers.

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

Revenue

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

The average selling price[1] of the wafers the Group shipped decreased from US$804 per wafer in 2013 to US$770 in 2014. The percentage of wafer revenues from advanced 40/45nm technologies slightly decreased from 12.1% in 2013 to 11.1% in 2014.

Cost of sales and gross profit

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

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

Profit for the year from operations

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

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

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

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

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

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

1 Based on simplified average selling price which is calculated as total revenue divided by total shipments.

Profit for the Year

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

Funding Sources for Material Capital Expenditure in the Coming Year

The planned 2015 capital expenditures for foundry operations are approximately US$1.4 billion, which are mainly for 1) the expansion of capacity in the 12-inch fab of Semiconductor Manufacturing North China (Beijing) Corporation (SMNC , the Group s majority-owned subsidiary in Beijing) and the new 8-inch fab in Shenzhen and 2) research and development equipment, mask shops and intellectual property acquisition.

The planned 2015 capital expenditures for non-foundry operations, mainly for the construction of living quarters, are approximately US$100 million. The Group plans to rent out or sell these living quarter units to employees in the future.

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

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

Bad Debt Provision

The Group determines its bad debt provision based on the Group s historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Group s bad debt provision excludes receivables from a limited number of customers due to their high creditworthiness. A fixed percentage is applied to receivables in each past due age category, ranging from 1% for the shortest past due age category to 100% for the longest past due age category. Any receivables which have been fully provided for and are subsequently deemed non-collectible will be written off against the relevant amount of provision. The Group s recognized bad debt provision in 2013 and 2014 amounted to US$0.6 million and US$1.6 million, respectively. The Group reviews, analyzes and adjusts bad debt provisions on a monthly basis.

Debt Arrangements

Set forth in the table below are the aggregate amounts, as of December 31, 2014, of the Group s future cash payment obligations under the Group s existing contractual arrangements on a consolidated basis:

		Payments due by period Less than			
Contractual obligations	**Total**	**1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
		(consolidated, in US$ thousands)			
Short-term borrowings	**115,084**	115,084			
Long-term loans	**303,170**	46,970	125,200	131,000	
Convertible bonds	**379,394**			379,394	
Bonds payable	**491,579**			491,579	
Purchase obligations(1)	**518,672**	518,672			
Total contractual obligations	**1,807,899**	680,726	125,200	1,001,973	

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

As of December 31, 2014, the Group s outstanding long-term loans primarily consisted of US$221.5 million in secured bank loans and US$81.7 million in unsecured bank loans, which are repayable in installments starting in June 2015, with the last payment due in February 2018.

2012 USD Loan (SMIC Shanghai)

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

2013 USD Loan (SMIC Shanghai)

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

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

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

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

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

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

2012 USD Loan (SMIC Beijing)

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

2013 EXIM USD Loan (SMIC Beijing)

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

2013 CIC RMB Entrust Loan (SMIC Beijing)

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

2014 EXIM RMB Loan (SMIC Beijing)

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

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

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

Capitalized Interest

Interest, after netting off government funding received, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interests of US$13.7 million and US$15.8 million in 2014 and 2013, respectively, have been added to the cost of the underlying assets during the year and are amortized over the respective useful life of the assets. In 2014 and 2013, the Group recorded amortization expenses relating to the capitalized interest of US$12.5 million and US$11.4 million, respectively.

Commitments

As of December 31, 2014, the Group had commitments of US$211.7 million for facilities construction obligations in connection with the Group s Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities.

As of December 31, 2014, the Group had commitments of US$292.9 million to purchase machinery and equipment for its Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs.

As of December 31, 2014 the Group had commitments of US$14.1 million to purchase intellectual property.

Debt to Equity Ratio

As of December 31, 2014, the Group s net debt to equity ratio was approximately 20.75%. Please refer to Note 36 to our financial statements for calculation.

Foreign Exchange Rate Fluctuation Risk

The Group s revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. The Group also enters into transactions in other currencies. The Group is primarily exposed to changes in exchange rates for the Euro, Japanese Yen, and RMB.

To minimize these risks, the Group purchases foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in RMB, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with IFRS.

Outstanding Foreign Exchange Contracts

As of December 31, 2014 and 2013, the Group had no outstanding foreign currency forward exchange contracts.

As of December 31, 2012, the Group had outstanding foreign currency forward exchange contracts with notional amounts of US$82.8 million, all of which matured in 2013. As of December 31, 2012, the fair value of foreign currency forward exchange contracts was approximately US$0.05 million, which was recorded in other current assets.

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

	As of December 31, 2014 (in US$ thousands)		As of December 31, 2013 (in US$ thousands)		As of December 31, 2012 (in US$ thousands)	
	2014	**Fair Value**	**2013**	**Fair Value**	**2012**	**Fair Value**
Forward Exchange Agreement						
(Receive Eur/Pay US$)						
Contract Amount						
(Receive RMB/Pay US$)						
Contract Amount					82,810	52
Total Contract Amount					82,810	52

Interest Rate Risk

The Group s exposure to interest rate risks relates primarily to the Group s long-term loans, which the Group generally assumes to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the Group s debt obligations outstanding as of December 31, 2014. The Group s long-term loans are all subject to variable interest rates. The interest rates on the Group s U.S. dollar-denominated loans are linked to the LIBOR. As a result, the interest rates on the Group s loans are subject to fluctuations in the underlying interest rates to which they are linked.

	As of December 31	
	2015	**2016**
	(Forecast)	
	(in US$ thousands, except percentages)	
US$ denominated		
Average balance	1,119,542	1,054,841
Average interest rate	3.16%	3.09%
RMB denominated		
Average balance	40,395	37,160
Average interest rate	4.14%	3.90%
Weighted average forward interest rate	3.19%	3.12%

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

On August 8, 2014, the Company and Jiangsu Changjiang Electronics Technology Co., Ltd (JCET), the largest packaging service provider in China, jointly issued a press release in relation to the formation of a joint venture for 12-inch bumping and related testing, pursuant to the previously signed joint venture agreement by and between the Company and JCET on February 20, 2014. On November 25, 2014, SJ Semiconductor (Jiangyin) Corp. (SJ Jiangyin) was established in Jiangyin National High-Tech Industrial Development Zone (JOIND), in Jiangsu Province, China.

SJ Jiangyin is a wholly-owned subsidiary of SJ Semiconductor (HK) Limited and SJ Semiconductor (HK) Limited is a wholly-owned subsidiary of SJ Semiconductor Corporation (SJ Cayman), which is the joint venture of the Company and JCET. Under the joint venture agreement, the Company and JCET have contributed 51% and 49%, respectively, of the share capital of SJ Cayman.

Operation of Semiconductor Manufacturing International (Shenzhen) Corporation

Semiconductor Manufacturing International (Shenzhen) Corporation (SMIC Shenzhen) is principally engaged in, among others, the testing, development, design, manufacturing capacity. SMIC Shenzhen had reached an installed capacity of 10,000 wafers per month but had not entered into mass production at the end of 2014. SMIC Shenzhen targets to reach an installed capacity of 20,000 wafers per month by the end of 2015.

Issue of Equity Securities under General Mandate

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

On June 4, 2014, the Company entered into a placing and subscription agreement (collectively, the Placing and Subscription Agreement) with J.P. Morgan Securities (Asia Pacific) Limited and Deutsche Bank AG, Hong Kong Branch (the Joint Placing Agents) and Datang Holdings (Hongkong) Investment Company Limited (Datang), a substantial shareholder of the Company. Pursuant to the Placing and Subscription Agreement, Datang agreed to appoint the Joint Placing Agents, and each of the Joint Placing Agents agreed, severally and not jointly, to act as agent for Datang, to purchase or procure no less than six purchasers to purchase 2,590,000,000 ordinary shares of the Company (the Ordinary Share(s)) held by Datang (Sale Share(s)) at the price of HK$0.60 per Sale Share (the Placing Price) (the Top-up Placing). The Placing Price represented a discount of approximately 4.76% to the closing price of HK$0.63 per Ordinary Share as quoted on The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange or the HKSE) on June 4, 2014, being the date on which the terms of the Placing and Subscription Agreement were fixed.

Following the completion of the Top-up Placing on June 9, 2014, Datang applied to subscribe for 2,590,000,000 new Ordinary Shares (the Subscription Share(s)) at the price of HK$0.60 per Subscription Share (which was the same as the Placing Price) according to the Placing and Subscription Agreement (the Top-up Subscription). The Subscription Shares were allotted and issued by the Company to Datang on June 12, 2014 pursuant to the general mandate granted by the shareholders of the Company to the Directors at the annual general meeting of the Company held on June 13, 2013 (2013 General Mandate) and ranked pari passu in all respects with the existing Ordinary Shares in issue.

The Company considered that the Top-up Placing and the Top-up Subscription represented a good opportunity for the Company to broaden its shareholder base. The net subscription monies payable by Datang to the Company were approximately HK$0.59 per Subscription Share after the deduction of the relevant expenses and the net proceeds (net of fees, commissions and expenses) from the issue of the Subscription Shares were approximately US$197.2 million which was mainly used for the Company s capital expenditures in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and for general corporate purposes.

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

On June 4, 2014, the Company entered into a subscription agreement with J.P. Morgan Securities Plc and Deutsche Bank AG, Hong Kong Branch (collectively, the Joint Managers) in respect of the issue of US$95 million zero coupon convertible bonds due 2018 (the Further Bonds), pursuant to which each of the Joint Managers agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Further Bonds to be issued by the Company in an aggregate principal amount of US$95 million. The issue price of the Further Bonds was 101.5% of the aggregate principal amount of the Further Bonds. Assuming full conversion of the Further Bonds at the initial conversion price of HK$0.7965 per Ordinary Share, the Further Bonds will be convertible into 924,738,230 Ordinary Shares which will be allotted and issued pursuant to the 2013 General Mandate and will rank pari passu in all respects with the Ordinary Shares then in issue on the relevant conversation date. The issue of the Further Bonds was completed on June 24, 2014.

The Further Bonds are non-interest bearing and will mature on November 7, 2018. The Company considered the issue of the Further Bonds as a good opportunity for the Company to further broaden its shareholder base. The net proceeds (net of fees, commissions and expenses) from the issue of the Further Bonds were approximately US$94.2 million which was mainly used for the Company s capital expenditures in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and for general corporate purposes.

The issue of the Further Bonds constituted a further issue of, and be consolidated and formed a single series with, (i) the US$200,000,000 zero coupon convertible bonds due 2018 issued on November 7, 2013 and (ii) the US$86,800,000 zero Coupon convertible bonds due 2018 issued on May 29, 2014 to Datang and Country Hill Limited, the substantial shareholders of the Company, pursuant to their respective subscription agreements with the Company dated December 18, 2013.

Share Capital

During the year ended December 31, 2014, the Company issued 146,607,348 Ordinary Shares to certain of the eligible participants including employees, directors, officers, and service providers of the Company (eligible participants) pursuant to the Company s 2004 Stock Option Plan (2004 Stock Option Plan), 66,462,868 Ordinary Shares to certain of the eligible participants pursuant to the Company s amended and restated 2004 Equity Incentive Plan (2004 Equity Incentive Plan), and 2,577,100 Ordinary Shares to certain of the eligible participants pursuant to the Company s 2001 Stock Option Plan. During the year, there were 30,333 and nil Ordinary Shares issued as a result of the exercise of equity awards granted pursuant to the Company s 2014 stock option plan (the 2014 Stock Option Plan) and the Company s 2014 equity incentive plan (the 2014 Equity Incentive Plan) which have replaced the 2004 Stock Option Plan and the 2004 Equity Incentive Plan, respectively, upon their termination.

Outstanding Share Capital as at December 31, 2014:	**Number of Shares Outstanding**
Ordinary Shares	35,856,096,167

Under the terms of the Company s 2014 Equity Incentive Plan, the Compensation Committee may grant restricted share units (Restricted Share Units) to eligible participants. Each Restricted Share Unit represents the right to receive one Ordinary Share. Restricted Share Units granted to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date. Upon vesting of the Restricted Share Units and subject to the terms of the Insider Trading Policy and the payment by the participants of applicable taxes, the Company will issue the relevant participants the number of Ordinary Shares underlying the awards of Restricted Share Unit. For the year ended December 31, 2014, the Compensation Committee of the Company granted a total of 114,726,892 Restricted Share Units.

As at December 31, 2014, a total of 274,057,667 Restricted Share Units granted pursuant to the terms of the 2004 Equity Incentive Plan and the 2014 Equity Incentive Plan, whether or not such Restricted Share Units were vested, remained outstanding. The vesting schedule of these outstanding Restricted Share Units is set forth below:

Vesting Dates	No. of Restricted Share Units Outstanding
2010	
1-Mar	80,993
2011	
1-Mar	80,835
2014	
17-Jun	600,364
30-Jun	1,990,069
5-Aug	9,320,093
2015	
1-Jan	3,430,545
1-Mar	62,364,531
1-May	13,702,500
17-Jun	600,364
30-Jun	2,330,024
9-Jul	625,000
5-Aug	9,320,093
5-Nov	561,114
2016	
1-Mar	62,364,540
1-May	13,702,500
17-Jun	600,364
9-Jul	625,000
5-Nov	561,114
2017	
1-Mar	62,364,532
17-Jun	600,364
5-Nov	561,114
2018	
1-Mar	27,110,500
5-Nov	561,114
Total	**274,057,667**

Repurchase, Sale or Redemption of the Company s Listed Securities

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Ordinary Shares during the year ended December 31, 2014.

Corporate Governance Practices

The HKSE s Corporate Governance Code (the CG Code) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the Hong Kong Stock Exchange Listing Rules) contains code provisions (the Code Provisions) to which an issuer, such as the Company, is expected to comply or advise as to reasons for deviations and recommends best practices which an issuer is encouraged to implement (the Recommended Practices). The Company has adopted a set of

Corporate Governance Policy (the CG Policy) since January 25, 2005 as its own code of corporate governance, which was amended from time to time to comply with the CG Code. The CG Policy, a copy of which can be obtained on the Company s website at www.smics.com under Investor Relations > Corporate Governance > Policy and Procedures , incorporates all of the Code Provisions of the CG Code except for Code Provision E.1.3, which relates to the notice period of general meetings of the Company, and many of the Recommended Practices. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

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During the year ended December 31, 2014, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.4.2 of the CG Code requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. According to Article 126 of the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following annual general meeting of the Company after appointment and shall then be eligible for re-election at that meeting. As such, Mr. Sean Maloney, who was appointed as an independent non-executive Director by the Directors on June 15, 2013 to fill the casual vacancy arising from the retirement of Mr. Tsuyoshi Kawanishi on June 13, 2013, and Mr. William Tudor Brown, who was appointed as an independent non-executive Director by the Directors on August 8, 2013 as an additional Director to the Board, retired and, being eligible, were re-elected at the annual general meeting of the Company held on June 27, 2014 (2014 AGM) rather than the extraordinary general meeting of the Company held on February 17, 2014 (the 2014 February EGM) pursuant to the Articles of Association of the Company.

Code Provision A.6.7 of the CG Code requires that independent non-executive directors and other non- executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Sean Maloney, an independent non-executive Director, was not able to attend the 2014 February EGM due to his overseas engagements during the meeting time. Professor Lawrence Juen-Yee Lau, the then non-executive Director, was not able to attend the extraordinary general meeting of the Company held on November 5, 2014 (the 2014 November EGM) due to his other engagements during the meeting time. Dr. Datong Chen, the alternate Director to Professor Lau, attended the 2014 November EGM on Professor Lau s behalf. Mr. William Tudor Brown, an independent non-executive Director was not able to attend the 2014 November EGM due to his other engagements during the meeting time.

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2014.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted an Insider Trading Compliance Program (the Insider Trading Policy) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the Model Code). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the year ended December 31, 2014. The senior management of the Company as well as all officers, Directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management of the Company, the accounting principles and practices accepted by the Company and has discussed with the Directors matters concerning internal controls and financial reporting of the Company, including a review of the audited financial statements of the Group for the year ended December 31, 2014.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Notes	For the year ended December 31, 2014 USD 000	2013 USD 000	2012 USD 000
Revenue	5	**1,969,966**	2,068,964	1,701,598
Cost of sales		**(1,486,514)**	(1,630,528)	(1,352,835)
Gross profit		**483,452**	438,436	348,763
Research and development expenses, net		**(189,733)**	(145,314)	(193,569)
Sales and marketing expenses		**(38,252)**	(35,738)	(31,485)
General and administration expenses		**(139,428)**	(138,167)	(107,313)
Other operating income	7	**14,206**	67,870	19,117
Profit from operations		**130,245**	187,087	35,513
Interest income		**14,230**	5,888	5,390
Finance costs	8	**(20,715)**	(34,392)	(39,460)
Foreign exchange gains or losses		**(5,993)**	13,726	3,895
Other gains or losses	9	**18,210**	4,010	6,398
Share of profits of associates		**2,073**	2,278	1,703
Profit before tax		**138,050**	178,597	13,439
Income tax (expense) benefit	10	**(11,789)**	(4,130)	9,102
Profit for the year	11	**126,261**	174,467	22,541
Other comprehensive income (expense)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		**(324)**	731	70
Total comprehensive income for the year		**125,937**	175,198	22,611
Profit (loss) for the year attributable to:				
Owners of the Company		**152,969**	173,177	22,771
Non-controlling interests		**(26,708)**	1,290	(230)
		126,261	174,467	22,541
Total comprehensive income (expense) for the year attributable to:				
Owners of the Company		**152,645**	173,908	22,841
Non-controlling interests		**(26,708)**	1,290	(230)
		125,937	175,198	22,611
Earnings per share				
Basic	14	**0.00**	0.01	0.00
Diluted	14	**0.00**	0.01	0.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	Notes	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Assets				
Non-current assets				
Property, plant and equipment	17	**2,995,086**	2,528,834	2,385,435
Prepaid land use right		**135,331**	136,725	73,962
Intangible assets	18	**207,822**	215,265	235,378
Investments in associates	20	**57,631**	29,200	21,636
Deferred tax assets	10	**44,383**	43,890	43,380
Other assets	22	**30,867**	6,237	43,382
Total non-current assets		**3,471,120**	2,960,151	2,803,173
Current assets				
Inventories	23	**316,041**	286,251	295,728
Prepayment and prepaid operating expenses		**40,628**	43,945	46,986
Trade and other receivables	24	**456,388**	379,361	328,211
Other financial assets	21	**644,071**	240,311	18,730
Restricted cash	25	**238,051**	147,625	217,603
Cash and cash equivalent		**603,036**	462,483	358,490
		2,298,215	1,559,976	1,265,748
Assets classified as held-for-sale	16	**44**	3,265	4,239
Total current assets		**2,298,259**	1,563,241	1,269,987
Total assets		**5,769,379**	4,523,392	4,073,160

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

	Notes	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Equity and liabilities				
Capital and reserves				
Ordinary shares $0.0004 par value, 50,000,000,000 shares authorized, 35,856,096,167, 32,112,307,101 and 32,000,139,623 shares issued and outstanding at December 31, 2014, 2013 and 2012, respectively	26	**14,342**	12,845	12,800
Share premium	26	**4,376,630**	4,089,846	4,083,588
Reserves	27	**98,333**	74,940	46,148
Accumulated deficit	28	**(1,540,890)**	(1,693,859)	(1,867,036)
Equity attributable to owners of the Company		**2,948,415**	2,483,772	2,275,500
Non-controlling interests		**359,307**	109,410	952
Total equity		**3,307,722**	2,593,182	2,276,452
Non-current liabilities				
Borrowings	29	**256,200**	600,975	528,612
Convertible bonds	30	**379,394**	180,563	
Bonds payable	31	**491,579**		
Deferred tax liabilities	10	**69**	167	440
Deferred government funding		**184,174**	209,968	150,347
Long-term financial liabilities				4,223
Other liabilities				5,000
Total non-current liabilities		**1,311,416**	991,673	688,622
Current liabilities				
Trade and other payables	32	**794,361**	393,890	423,952
Borrowings	29	**162,054**	390,547	567,803
Deferred government funding		**62,609**	26,349	
Accrued liabilities	33	**131,114**	127,593	84,611
Promissory notes	34			29,374
Other financial liabilities				25
Current tax liabilities	10	**103**	158	2,321
Total current liabilities		**1,150,241**	938,537	1,108,086
Total liabilities		**2,461,657**	1,930,210	1,796,708
Total equity and liabilities		**5,769,379**	4,523,392	4,073,160
Net current assets		**1,148,018**	624,704	161,901
Total assets less current liabilities		**4,619,138**	3,584,855	2,965,074

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In USD 000)

	Ordinary shares USD 000 (Note 26)	**Convertible Share capital USD 000 (Note 26)**	**Share premium USD 000 (Note 26)**	**Equity-settle employee benefits reserve USD 000 (Note 27)**	**Foreign currency translation reserve USD 000 (Note 27)**	**Convertible bonds equity reserve USD 000 (Note 27)**	**Accumulated deficit USD 000 (Note 28)**	**Attributable to owners of the Company USD 000**	**Non-controlling interest USD 000**	**Total Equity USD 000**
Balance at January 1, 2012	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 income for the year					70			70		70
Total comprehensive income for the year					70		22,771	22,841	(230)	22,611
Exercise of stock options	23		3,057	(2,411)				669		669
Exercise of convertible preference shares and warrants	1,782	(178)	(1,604)							
Share-based compensation				7,174				7,174		7,174
Subtotal	1,805	(178)	1,453	4,763				7,843		7,843
Balance at December 31, 2012	12,800		4,083,588	42,232	3,916		(1,867,036)	2,275,500	952	2,276,452
Profit for the year							173,177	173,177	1,290	174,467
Other comprehensive income for the year					731			731		731
Total comprehensive income for the year					731		173,177	173,908	1,290	175,198
Exercise of stock options	45		6,641	(3,457)				3,229		3,229
Share-based compensation				16,402				16,402		16,402
Capital contribution from non-controlling interest									108,000	108,000
Purchased additional shares of subsidiaries			(383)					(383)	(178)	(561)

Deconsolidation of subsidiaries due to loss of control				(94)			(94)	(654)	(748)
Recognition of equity component of convertible bonds					15,210		15,210		15,210
Subtotal	45	6,258	12,945	(94)	15,210		34,364	107,168	141,532
Balance at December 31, 2013	12,845	4,089,846	55,177	4,553	15,210	(1,693,859)	2,483,772	109,410	2,593,182
Profit for the year						152,969	152,969	(26,708)	126,261
Other comprehensive income for the year				(324)			(324)		(324)
Total comprehensive income for the year				(324)		152,969	152,645	(26,708)	125,937
Issuance of ordinary shares	1,411	268,362					269,773		269,773
Exercise of stock options	86	18,422	(9,025)				9,483		9,483
Share-based compensation			18,388				18,388		18,388
Capital contribution from non-controlling interest								276,605	276,605
Recognition of equity component of convertible bonds					14,354		14,354		14,354
Subtotal	1,497	286,784	9,363		14,354		311,998	276,605	588,603
Balance at December 31, 2014	14,342	4,376,630	64,540	4,229	29,564	(1,540,890)	2,948,415	359,307	3,307,722

CONSOLIDATED STATEMENT OF CASH FLOWS

(In USD 000)

	For the year ended December 31, 2014 USD 000	2013 USD 000	2012 USD 000
Profit for the year	**126,261**	174,467	22,541
Adjustments for:			
Income tax expense (benefit)	**11,789**	4,130	(9,102)
Amortization of intangible assets and land use right	**43,102**	44,987	35,076
Depreciation of property, plant and equipment	**506,366**	501,923	531,823
Impairment loss of available-for-sale equipment		279	
Expense recognized in respect of equity-settled share-based payments	**18,388**	16,402	7,174
Finance costs	**20,715**	34,392	39,460
Gain on disposal of property, plant and equipment	**(13,904)**	(33,996)	(19,325)
Gain on disposal of subsidiaries		(28,304)	
Loss (gain) on deconsolidation of subsidiaries	**208**	(5,419)	
Interest income recognized in profit or loss	**(14,230)**	(5,888)	(5,390)
Bad debt allowance on trade receivables	**1,616**	617	4,615
Impairment loss (reversed) recognized on inventory	**29,577**	(141)	4,851
Net (gain) loss arising on financial assets at fair value through profit or loss	**(8,649)**	76	861
Net gain arising on financial liabilities at fair value through profit or loss		(25)	(1,659)
Reversal of bad debt allowance on trade receivables	**(59)**	(1,213)	(2,095)
Share of profit of associates	**(2,073)**	(2,278)	(1,703)
Other non-cash expense	**(769)**	(413)	635
	718,338	699,596	607,762
Operating cash flows before movements in working capital:			
Increase in trade and other receivables	**(89,232)**	(33,375)	(112,410)
(Increase) decrease in inventories	**(59,367)**	8,595	(93,270)
Increase in restricted cash relating to operating activities	**(41,637)**	(5,944)	(15,406)
Decrease in prepaid operating expenses	**1,129**	2,129	7,791
(Increase) decrease in other assets	**(1,731)**	619	(937)
Increase (decrease) in trade and other payables	**79,340**	(24,311)	22,942
Increase in deferred government funding	**8,268**	85,972	25,010
(Decrease) increase in accrued liabilities	**(3,768)**	42,264	36,951
Cash generated from operations	**611,340**	775,545	478,433
Interest paid	**(16,087)**	(43,239)	(47,532)
Interest received	**14,239**	6,770	5,390
Income taxes paid	**(1,390)**	(1,060)	(1,125)
Net cash from operating activities	**608,102**	738,016	435,166

(In USD 000)

	For the year ended December 31, 2014 USD 000	2013 USD 000	2012 USD 000
Investing activities			
Payments to acquire financial assets	**(1,997,624)**	(258,102)	(43,638)
Proceeds on sale of financial assets	**1,602,513**	39,245	26,019
Payments for property, plant and equipment	**(653,134)**	(650,160)	(400,291)
Proceeds from disposal of property, plant and equipment	**52,911**	61,099	37,288
Payments for intangible assets	**(49,285)**	(45,425)	(76,366)
Payments for land use rights	**(1,123)**	(76,032)	
Payments to acquire long-term investment	**(49,034)**	(562)	
Change in restricted cash relating to investing activities	**(48,411)**	71,933	(65,289)
Net cash inflow from disposal of subsidiaries		57,743	
Net cash outflow from deconsolidation of subsidiaries	**(936)**	(6,799)	
Others		(407)	
Net cash used in investing activities	**(1,144,123)**	(807,467)	(522,277)
Financing activities			
Proceeds from borrowings	**376,554**	905,127	1,541,480
Repayment of borrowings	**(952,383)**	(1,008,698)	(1,328,048)
Proceeds from issuance of new shares	**270,180**		
Proceeds from issuance of convertible bonds	**203,763**	195,800	
Proceeds from issuance of corporate bonds	**492,315**		
Proceeds from exercise of employee stock options	**9,483**	3,229	669
Repayment of promissory notes		(30,000)	(30,000)
Proceeds from non-controlling interest capital contribution	**276,771**	108,000	
Net cash from financing activities	**676,683**	173,458	184,101
Net increase in cash and cash equivalent	**140,662**	104,007	96,990
Cash and cash equivalent at the beginning of the year	**462,483**	358,490	261,615
Effects of exchange rate changes on the balance of cash held in foreign currencies	**(109)**	(14)	(115)
Cash and cash equivalent at the end of the year	**603,036**	462,483	358,490

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

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

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

New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014.

Amendment to IAS 32, Financial instruments: Presentation on offsetting financial assets and financial liabilities

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group s financial statements.

Amendments to IAS 36, Impairment of assets , on the recoverable amount disclosures for non-financial assets

This amendment removed certain disclosures of the recoverable amount of cash-generating units (CGUs) which had been included in IAS 36 by the issue of IFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Amendment to IAS 39, Financial instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting

This amendment considers legislative changes to over-the-counter derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group does not apply hedge accounting and there has been no significant impact on its financial statements as a result.

Amendments to IFRS 10, 12 and IAS 27: Consolidation for investment entities

These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an investment entity definition and which display particular characteristics. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.

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

New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements *(continued)*

IFRIC 21, Levies

The interpretation sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 Provision . It addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the Group is not significant.

New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 Accounts and Audit of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Group s first financial year commencing on or after March 3, 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Group.

New or revised IFRSs in issue but not yet effective

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

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from contracts with customers[5]
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations[4]
Amendments to IFRS 10, 12 and IAS 28	Investment entities: applying the consolidation exception[4]
Amendments to IAS 1	Disclosure initiative[4]
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization[4]

Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to IAS 27	Equity method in separate financial statements[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010 2012 Cycle[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2011 2013 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2012 2014 Cycle[4]

1. Effective for annual periods beginning on or after July 1, 2014

2. Effective for annual periods beginning on or after July 1, 2018

3. Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

4. Effective for annual periods beginning on or after January 1, 2016

5. Effective for annual periods beginning on or after January 1, 2017

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

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

IAS 19, Defined benefit plans: employee contributions

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

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

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

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

IFRS 15, Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to IAS 1 for the disclosure initiative

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

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

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

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

- where the intangible asset is expressed as a measure of revenue; or

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

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

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

- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

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

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

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

Amendment to IAS 27 on equity method in separate financial statements

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

Annual Improvements to IFRSs 2010 2012 Cycle

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

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

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

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

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

Annual Improvements to IFRSs 2010 2012 Cycle *(continued)*

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

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

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

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

Annual Improvements to IFRSs 2011 2013 Cycle

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

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

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

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

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

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

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

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

Annual Improvements to IFRSs 2012 2014 Cycle

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

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

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

- IFRS 7, Financial instruments: Disclosures

There are two amendments:

i) Service contracts

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

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

ii) Interim financial statements

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

- IAS 19, Employee benefits

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

- IAS 34, Interim financial reporting

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

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

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

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

The principal accounting policies are set out below.

3. Significant accounting policies *(continued)*

Basis of consolidation

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

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

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

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

- the size of the Group s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders meetings.

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

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

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

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

3. Significant accounting policies *(continued)*

Changes in the Group s ownership interests in existing subsidiaries

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

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

Investments in associates

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

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

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

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3. Significant accounting policies *(continued)*

Investments in associates *(continued)*

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

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

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

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

3. Significant accounting policies *(continued)*

Non-current assets held-for-sale

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

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

Revenue recognition

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

Sale of goods

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Group; and

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

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

3. Significant accounting policies *(continued)*

Gain on sale of real estate property

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

Interest income

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

Foreign currencies

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

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

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

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

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

3. Significant accounting policies *(continued)*

Borrowing costs

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

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

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

Government funding

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

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

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

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

Retirement benefits

The Group s local Chinese employees are entitled to a retirement benefit based on their basic salary upon retirement and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a main rate equal to 20% to 21% of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid. The costs are recognized in profit or loss when incurred.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 35.

3. Significant accounting policies *(continued)*

Share-based payment arrangements *(continued)*

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

3. Significant accounting policies *(continued)*

Taxation *(continued)*

Deferred tax (continued)

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

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

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

Current and deferred tax are recognized in profit or loss.

Property, plant and equipment

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

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

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

An item 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.

3. Significant accounting policies *(continued)*

Intangible assets

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

Cash and cash equivalents

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

3. Significant accounting policies *(continued)*

Restricted cash

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

Inventories

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

Provisions

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

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

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

Financial instruments

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

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

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 Group manages together and has a recent actual pattern of short-term profit-taking; or

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

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

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

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

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

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

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

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

3. Significant accounting policies *(continued)*

Financial assets *(continued)*

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

The Group has AFS equity investments totaled at US$15.1 million, US$1.3 million and US$3.8 million as of December 31, 2014, 2013 and 2012, respectively. For the US$13.8 million AFS equity investment acquired in December 2014, the Group considers that the purchase price in December 2014 still represents the best estimated fair value of the equity interest. For the remaining parts of the AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and therefore has been measured at cost less any identified impairment losses at the end of each reporting period. The AFS equity investment is recorded in other assets.

Loans and receivables

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

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

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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

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

3. Significant *accounting* policies *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

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

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

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

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

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

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the

Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

3. Significant accounting policies *(continued)*

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Convertible Bonds

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

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

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

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

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

Financial liabilities

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

3. Significant accounting *policies (continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities *(continued)*

Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item. Fair value is determined in the manner described in Note 36.

Other financial liabilities

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 36.

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Key sources of estimation uncertainty

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

Inventories

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

Long-lived assets

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

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

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

Key sources of estimation uncertainty *(continued)*

Long-lived assets *(continued)*

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

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

Share-based Compensation Expense

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

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

Key sources of estimation uncertainty *(continued)*

Taxes

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

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

As at December 31, 2014, a deferred tax asset of US$0.5 million (December 31, 2013: nil and December 31, 2012: US$0.4 million) in relation to unused tax losses recognized in the Group s consolidated statement of financial position. The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place. Further details on taxes are disclosed in Note 10.

Fair value of financial instruments

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

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 36 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

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

Key sources of estimation uncertainty *(continued)*

Impairment of trade and other receivable

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group s trade and other receivable at the end of the reporting period is disclosed in Note 24.

5. Segment information

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

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

		Revenue from external customers	
	year ended 12/31/14 USD 000	**year ended 12/31/13 USD 000**	**year ended 12/31/12 USD 000**
United States	**855,792**	1,002,699	940,369
Mainland China and Hong Kong	**852,204**	836,771	577,591
Eurasia*	**261,970**	229,494	183,638
	1,969,966	2,068,964	1,701,598

* Not including Mainland China and Hong Kong

5. Segment information *(continued)*

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

	Property, plant and equipment		
	year ended 12/31/14 USD 000	**year ended 12/31/13 USD 000**	**year ended 12/31/12 USD 000**
United States	**124**	33	55
Europe	**4**	4	
Taiwan	**9**	14	19
Hong Kong	**3,240**	3,440	3,640
Mainland China	**2,991,709**	2,525,343	2,381,721
	2,995,086	2,528,834	2,385,435

6. Significant customers

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

	Net revenue Year ended December 31,			Gross accounts receivable December 31,		
	2014 USD 000	**2013 USD 000**	**2012 USD 000**	**2014 USD 000**	**2013 USD 000**	**2012 USD 000**
Customer A	**483,430**	473,699	282,946	**107,475**	109,778	57,865
Customer B	**177,878**	270,230	383,626	**23,831**	19,619	43,246
Customer A	**25%**	23%	17%	**25%**	31%	18%
Customer B	**9%**	13%	23%	**6%**	6%	13%

7. Other operating income (expense)

	year ended 12/31/14 USD 000	**year ended 12/31/13 USD 000**	**year ended 12/31/12 USD 000**
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	**13,904**	33,996	19,325
Gain on disposal of subsidiaries (Note 7.1)		28,304	
(Loss) gain on deconsolidation of subsidiaries (Note 7.2)	**(208)**	5,419	
Others	**510**	151	(208)
	14,206	67,870	19,117

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2014, 2013 and 2012 was primarily from the sales of the staff living quarters in Shanghai and Beijing to employees.

7. Other operating income (expense) *(continued)*

7.1 Disposal of subsidiaries

The gain on disposal of subsidiaries for the year ended December 31, 2013 arose from disposal of the Group s total ownership interest in SMIC (Wuhan) Development Corporation (WHDM). In May 2013, the Group entered into a sale agreement to dispose of its 100% equity interest in WHDM. The disposal was completed on May 23, 2013, on that date the Group lost control of WHDM. The amount of the consideration was US$60.4 million and the Group recorded a gain of US$28.3 million (details refer to below). The consideration was fully settled by the buyer on July 26, 2013. WHDM was mainly engaged in the construction, operation and management of the Group s living quarters and schools in Wuhan, which was not the major line of business of the Group and therefore, the disposal of WHDM was not classified as a discontinued operation.

	Year ended 12/31/13 USD 000
Analysis of asset and liabilities over which control was lost	
Total assets	39,039
Total liabilities	(38,853)
Net assets disposed of	186
Gain on disposal of subsidiaries	
Amount of the total consideration	60,408
Due from WHDM	(31,196)
Business tax incurred in relation to the disposal	(722)
Net assets disposed of	(186)
Gain on disposal	28,304
Proceeds from disposal of subsidiaries	
Amount of the total consideration	60,408
Bank balances and cash disposal of	(1,565)
Payment of business tax in relation to the disposal	(722)
Effect of the exchange rate changes on the consideration	(378)
Net cash flow arising on disposal	57,743
Cash flows from WHDM	
Net cash outflows from operating activities	(268)
Net cash flows from investing activities	25,580
Net cash outflows from financing activities	(26,162)
Net cash outflows	(850)

7.2 Disposal of subsidiaries due to loss of control

The gain on disposal of subsidiaries due to lost of control for the year ended December 31, 2013 arose from deconsolidation of Brite Semiconductor Corporation and its subsidiaries (Brite) on December 30, 2013. The gain at the date of deconsolidation of Brite was US$5.4 million. The deconsolidation has no material impact on the consolidated financial statements.

8. Finance costs

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Interest on:			
Bank and other borrowings			
wholly repayable within five years	**19,245**	45,924	54,712
not wholly repayable within five years		1,440	
Interest on convertible bonds	**9,614**	1,173	
Interest on corporate bonds	**5,554**		
Accretion of interest to preferred shareholders of a subsidiary		1,683	1,206
Total interest expense for financial liabilities not classified as at FVTPL	**34,413**	50,220	55,918
Less: amounts capitalized	**13,698**	15,828	16,458
	20,715	34,392	39,460

The weighted average effective interest rate on funds borrowed generally is 2.91% per annum (2013: 4.42% per annum and 2012: 4.97% per annum).

9. Other gains and losses

For the year ended December 31, 2014, other gains or losses were US$18.2 million (2013: US$4.0 million and 2012: US$6.4 million), within which the changes of fair value of the financial products were US$14.5 million (2013: US$0.4 million and 2012: US$0.3 million).

10. Income taxes

Income tax recognized in profit or loss

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Current tax-Enterprise Income Tax	**1,226**	957	1,071
Deferred tax	**(591)**	(783)	(12,486)
Current tax-Land Appreciation Tax	**11,154**	3,956	2,313
Total income tax expense (benefit) raised in the current year	**11,789**	4,130	(9,102)

10. Income taxes *(continued)*

Income tax recognized in profit or loss

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

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**	**Year ended 12/31/12 USD 000**
Profit before tax	**138,050**	**178,597**	**13,439**
Income tax expense calculated at 15% (2013: 15% and 2012: 15%)	**20,708**	26,790	2,016
Effect of expenses not deductible for tax purpose		1,247	
Effect of tax holiday and tax concession	**(12,032)**	(3,045)	(3,045)
Tax losses for which no deferred tax assets were recognized	**20,134**		
Utilization of previously unrecognized tax losses and temporary differences	**(32,818)**	(23,042)	(10,316)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6,387**	(641)	(1,087)
Others	**(71)**	(578)	1,364
Land Appreciation Tax (after tax)	**9,481**	3,399	1,966
Income tax expense (benefit)	**11,789**	4,130	(9,102)

The tax rate used for the 2014, 2013 and 2012 reconciliation above is the corporate tax rate of 15% payable by most of the Group s entities in Mainland China under tax law in that jurisdiction.

Current tax liabilities

		12/31/14 USD 000	**12/31/13 USD 000**	**12/31/12 USD 000**
Current tax liabilities				
Income tax payable	Land Appreciation Tax		73	2,313
Income tax payable	Others	**103**	85	8
		103	158	2,321

10. Income taxes *(continued)*

Deferred tax balances

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

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Deferred tax assets	**44,383**	43,890	43,380
Deferred tax liabilities	**(69)**	(167)	(440)
	44,314	43,723	42,940

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Deferred tax assets			
Allowances and reserves			3,829
Net operating loss carry forwards	**524**		372
Property plant and equipment	**43,859**	43,890	38,955
Accrued expenses			224
Deferred tax assets	**44,383**	43,890	43,380
Deferred tax liabilities			
Capitalized interest	**(69)**	(167)	(373)
Unrealized exchange gain			(64)
Depreciation for asset held for sale			(3)
Deferred tax liabilities	**(69)**	(167)	(440)

2014.12.31

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

10. Income taxes *(continued)*

Deferred tax balances *(continued)*

2013.12.31

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

2012.12.31

	Opening balance USD 000	Recognized in profit or loss USD 000	Closing balance USD 000
Deferred tax (liabilities) assets in relation to:			
Property plant and equipment	25,966	12,989	38,955
Allowances and reserves	1,664	2,165	3,829
Accrued expenses	2,390	(2,166)	224
Capitalized interest	(1,266)	893	(373)
Unrealized exchange gain	(67)	3	(64)
Depreciation for asset held for sale		(3)	(3)
Others	1,767	(1,395)	372
	30,454	12,486	42,940

10. Income taxes *(continued)*

Deferred tax balances *(continued)*

Under the Law of the People s Republic of China on Enterprise Income Tax, or the EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

Semiconductor Manufacturing International Corporation is incorporated in the Cayman Islands, where it is not currently subject to taxation.

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

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

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

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

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

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

10. Income taxes *(continued)*

Deferred tax balances *(continued)*

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

1) Semiconductor Manufacturing International (Shanghai) Corporation (SMIS) and Semiconductor Manufacturing International (Tianjin) Corporation (SMIT)

Pursuant to the relevant tax regulations, SMIS began a 10-year tax holiday (five year full exemption followed by five year half reduction) from 2004 after utilizing all prior years tax losses. The income tax rate for SMIS was 12.5% in 2013. The income tax rate is 15% since 2014.

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

2) Semiconductor Manufacturing International (Beijing) Corporation (SMIB)

In accordance with Circular No. 43 and Circular No. 1, SMIB is entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to its first profit-making year after utilizing all prior tax losses. SMIB was in accumulative loss positions as of December 31, 2014 and the tax holiday has not begun to take effect.

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

Unused tax losses

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US$532.8 million (December 31, 2013: US$851.7 million and December 31, 2012: US$1,199.2 million) due to the unpredictability of future profit streams, of which US$86.1 million, US$193.4 million, US$153.9 million, US$16.1 million and US$83.3 million will expire in 2015, 2016, 2017, 2018 and 2019, respectively.

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11. Profit (loss) for the year

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

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

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Allowance on trade receivables (see Note 24)	**1,616**	617	4,615
Reversal of allowance on doubtful trade receivables	**(59)**	(1,213)	(2,095)
	1,557	(596)	2,520

11.2 Depreciation and amortization expense

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Depreciation of property, plant and equipment	**506,366**	501,923	531,823
Amortization of intangible assets and land use right	**43,102**	44,987	35,076
Total depreciation and amortization expense	**549,468**	546,910	566,899

11.3 Employee benefits expense

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Wages, salaries and social security contributions	**249,622**	233,025	206,807
Bonus	**50,157**	68,618	28,048
Cash settled annual leave	**796**	541	738
Non-monetary benefits	**17,231**	17,937	12,880
Termination benefits			7
Equity-settled share-based payments (Note 35)	**18,388**	16,402	7,174
Total employee benefits expense	**336,194**	336,523	255,654

11.4 Royalties expense

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Royalties expense	**26,344**	32,546	28,993

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

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

11.5 Government funding

Government funding under specific R&D projects

The Group received government funding (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US$57.3 million, US$145.8 million and US$54.1 million and recognized US$37.4 million US$26.9 million and US$31.0 million as reductions of certain R&D expenses in 2014, 2013 and 2012 for several specific R&D projects respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of R&D expenses until the milestones specified in the terms of the funding have been reached.

Government funding for specific intended use

The Group received government funding of US$21.4 million, US$7.1 million and US$1.4 million and recognized US$21.4 million, US$7.1 million and US$1.2 million as reduction of interest expense in 2014, 2013 and 2012 respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of interest expense until the requirements (if any) specified in the terms of the funding have been reached.

12. Directors remuneration

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**	**Year ended 12/31/12 USD 000**
Salaries	**2,216**	1,756	1,411
Equity-settled share-based payments	**1,305**	1,504	1,113
	3,521	3,260	2,524

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

The Group granted 7,773,789, 27,083,220 and nil options to purchase ordinary shares of the Company to the directors in 2014, 2013 and 2012, respectively. During the year ended December 31, 2014, 1,123,074 stock options were exercised and 3,369,223 stock options were expired. During the year ended December 31, 2013, 1,000,000 stock options were exercised and 4,634,877 stock options were expired. And during the year ended December 31, 2012, no stock option was exercised and 500,000 stock options were expired.

The Group granted 2,910,836, nil and nil RSUs to purchase ordinary shares of the Company to the directors in 2014, 2013 and 2012, respectively. During the year ended December 31, 2014, 12,250,480 RSUs automatically vested and no RSUs were forfeited. During the year ended December 31, 2013, 11,650,116 RSUs automatically vested and no RSUs were forfeited. And during the year ended December 31, 2012, 11,650,116 RSUs automatically vested and no RSUs were forfeited.

In 2014, 2013 and 2012, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In 2014, 2013 and 2012, no directors waived any emoluments.

12. Directors remuneration *(continued)*

(a) Independent non-executive directors

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

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

	Salaries USD 000	Employee settle share-base payment USD 000	Total remuneration USD 000
2013			
Tsuyoshi Kawanishi	20	5	25
William Tudor Brown	18	45	63
Sean Maloney	27	65	92
Lip-Bu Tan	65	5	70
Frank Meng	54	36	90
	184	156	340

	Salaries USD 000	Employee settle share-base payment USD 000	Total remuneration USD 000
2012			
Tsuyoshi Kawanishi	45	15	60
Lip-Bu Tan	65	15	80
Frank Meng	52	40	92
	162	70	232

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil and 2012: Nil).

12. Directors remuneration *(continued)*

(b) Executive directors and non-executive director

	Salaries and wages USD 000	Employee settle share-base payment USD 000	Total remuneration USD 000
2014			
Executive directors:			
Zhang Wenyi#	**524**	**124**	**648**
Tzu-Yin Chiu*	**973**	**442**	**1,415**
Gao Yonggang	**307**	**399**	**706**
	1,804	**965**	**2,769**
Non-executive director:			
Chen Shangzhi	**61**	**3**	**64**
Lawrence Juen-Yee Lau**	**51**	**82**	**133**
Zhou Jie			
Li Yonghua (Alternate to Chen Shanzhi)			
Chen Datong*** (Alternate to Lawrence Juen-Yee Lau)			
	112	**85**	**197**

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

12. Directors remuneration *(continued)*

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

	Salaries and wages USD 000	Employee settle share-base payment USD 000	Total remuneration USD 000
2012			
Executive directors:			
Zhang Wenyi#	188	353	541
Tzu-Yin Chiu*	962	642	1,604
	1,150	995	2,145
Non-executive director:			
Chen Shangzhi	52	24	76
Gao Yonggang	47	24	71
Lawrence Juen-Yee Lau**			
Zhou Jie			
Chen Datong*** (Alternate to Lawrence Juen-Yee Lau)			
	99	48	147

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

** Lawrence Juen-Yee Lau resigned as a non-executive director with effect from December 31, 2014.

*** Datong Chen ceased to act as the alternate director to Lawrence Juen-Yee Lau with effect from December 31, 2014.

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

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

13. Five highest paid employees

The five highest paid individuals during the year included three (2013: two and 2012: one) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining two (2013: three and 2012: four) non-directors, highest paid individuals for the year are as follows:

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Salaries and other benefits	**633**	955	1,334
Bonus	**328**	386	16
Stock option benefits	**473**	566	521
	1,434	1,907	1,871

13. Five highest paid employees *(continued)*

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

In 2014, 2013 and 2012, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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

					Number of employees		
					2014	**2013**	**2012**
HK$2,000,001	(US$326,669)	to	HK$2,500,000	(US$408,337)			1
HK$3,000,001	(US$490,004)	to	HK$3,500,000	(US$571,671)			1
HK$3,500,001	(US$571,672)	to	HK$4,000,000	(US$653,339)		1	1
HK$4,500,001	(US$735,006)	to	HK$5,000,000	(US$816,673)			1
HK$5,000,001	(US$816,674)	to	HK$5,500,000	(US$898,341)	**1**	1	
HK$5,500,001	(US$898,342)	to	HK$6,000,000	(US$980,008)	**1**	1	
					2	3	4

14. Earnings per share

	Year ended 12/31/14 USD	**Year ended 12/31/13 USD**	**Year ended 12/31/12 USD**
Basic earnings per share	**0.00**	0.01	0.00
Diluted earnings per share	**0.00**	0.01	0.00

Basic earnings per share

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

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**	**Year ended 12/31/12 USD 000**
Profit for the year attributable to owners of the Company	**152,969**	173,177	22,771
Earnings used in the calculation of basic earnings per share	**152,969**	173,177	22,771
Weighted average number of ordinary shares for the purposes of basic earnings per share	**33,819,162,742**	32,063,137,846	30,078,893,961

14. Earnings per share *(continued)*

Diluted earnings per share

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

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**	**Year ended 12/31/12 USD 000**
Earnings used in the calculation of basic earnings per share	**152,969**	173,177	22,771
Interest expense from convertible bonds	**9,614**	1,173	
Earnings used in the calculation of diluted earnings per share	**162,583**	174,350	22,771

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

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**	**Year ended 12/31/12 USD 000**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**33,819,162,742**	32,063,137,846	30,078,893,961
Employee option and restricted share units	**343,030,318**	237,913,672	64,712,749
Convertible preferred shares			1,899,048,145
Convertible bonds	**2,931,293,510**	288,027,267	
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**37,093,486,570**	32,589,078,785	32,042,654,855

During the year ended December 31, 2014, the Group had 528,860,129 weighted average outstanding employee stock options and warrants which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

During the year ended December 31, 2013, the Group had 785,159,938 weighted average outstanding employee stock options and warrants which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

During the year ended December 31, 2012, the Group had 2,021,406,706 weighted average outstanding employee stock options and warrants which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

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15. Dividend

The Board did not recommend the payment of any dividend for the year ended December 31, 2014 (December 31, 2013: Nil and December 31, 2012: Nil).

16. Assets classified as held for sale

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Assets related to employee s living quarters	**44**	3,265	4,239

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

17. Property, plant and equipment

	Buildings USD 000	Plant and equipment USD 000	Office equipment USD 000	Construction in progress (CIP) USD 000	Total USD 000
Cost					
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
Transfer from (out) CIP	7,238	553,162	9,610	(570,010)	
Addition				670,853	670,853
Disposals	(20,698)	(1,163)	(5,531)	(10,000)	(37,392)
Reclassified as held for sale	(2,999)		(2)		(3,001)
Balance at December 31, 2013	319,083	8,129,374	108,031	500,910	9,057,398
Transfer from (out) CIP	6,896	366,298	13,652	(386,846)	
Addition				977,487	977,487
Disposals	(635)	(23,486)	(1,611)	(3,471)	(29,203)
Balance at December 31, 2014	325,344	8,472,186	120,072	1,088,080	10,005,682

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

	Buildings USD 000	Plant and equipment USD 000	Office equipment USD 000	Construction in progress (CIP) USD 000	Total USD 000
Accumulated depreciation and impairment					
Balance at December 31, 2011	89,376	5,322,407	73,741	32,688	5,518,212
Disposal	(1,403)	(4,850)	(579)		(6,832)
Depreciation expense	12,903	509,962	8,958		531,823
Reclassified as held for sale	(1,671)		(29)		(1,700)
Balance at December 31, 2012	99,205	5,827,519	82,091	32,688	6,041,503
Disposal	(3,030)	(1,405)	(5,073)	(4,490)	(13,998)
Depreciation expense	13,160	477,600	11,163		501,923
Reclassified as held for sale	(862)		(2)		(864)
Balance at December 31, 2013	108,473	6,303,714	88,179	28,198	6,528,564
Disposal	(170)	(21,687)	(1,610)	(867)	(24,334)
Depreciation expense	13,377	476,044	16,945		506,366
Balance at December 31, 2014	121,680	6,758,071	103,514	27,331	7,010,596

	Buildings USD 000	Plant and equipment USD 000	Office equipment USD 000	Construction in progress (CIP) USD 000	Total USD 000
Carrying value					
Balance at December 31, 2012	236,337	1,749,856	21,863	377,379	2,385,435
Balance at December 31, 2013	210,610	1,825,660	19,852	472,712	2,528,834
Balance at December 31, 2014	203,664	1,714,115	16,558	1,060,749	2,995,086

Construction in progress

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

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

Impairment losses recognized in the year

In 2014, 2013 and 2012, the Group didn t record any impairment loss of property, plant and equipment.

Assets pledged as security

Property, plant and equipment with carrying amount of approximately US$306 million (2013: approximately US$1,000 million and 2012: approximately US$1,064 million) have been pledged to secure borrowings of the Group (see Note 29). The plant and equipment have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

18. Intangible assets

	Acquired intangible assets USD 000
Cost	
Balance at December 31, 2011	252,273
Additions	89,636
Balance at December 31, 2012	341,909
Additions	23,139
Expired and disposal	(16,627)
Balance at December 31, 2013	348,421
Additions	37,595
Expired and disposal	(15,295)
Balance at December 31, 2014	370,721
Accumulated amortization and impairment	
Balance at December 31, 2011	72,994
Amortization expense for the year	33,537
Balance at December 31, 2012	106,531
Amortization expense for the year	40,796
Expired and disposal	(14,171)
Balance at December 31, 2013	133,156
Amortization expense for the year	41,046
Expired and disposal	(11,303)
Balance at December 31, 2014	162,899
Carrying value	
Balance at December 31, 2012	235,378
Balance at December 31, 2013	215,265
Balance at December 31, 2014	207,822

19. Subsidiaries

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

Name of company	Place of establishment and operation	Class of shares held	Paid up registered capital		Proportion of ownership interest held by the Group		Proportion of voting power held by the Group	Principal activities
Better Way Enterprises Limited (Better Way)#	Samoa	Ordinary	US$	1,000,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation (SMIS)#	People s Republic of China (the PRC)	Ordinary	US$	1,740,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America	Ordinary	US$	500,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation (SMIB)#	PRC	Ordinary	US$	1,000,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Japan	Japan	Ordinary	JPY	10,000,000	Directly	100%	100%	Provision of marketing related activities
SMIC Europe S.R.L	Italy	Ordinary	Euros	100,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Cayman Islands	Ordinary	US$	11,000	Directly	100%	100%	Investment holding
SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation)	PRC	Ordinary	US$	800,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation (SMIT)#	PRC	Ordinary	US$	690,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Development (Chengdu) Corporation	PRC	Ordinary	US$	5,000,000	Directly	100%	100%	Construction, operation, and management of SMICD s living quarters, schools, and supermarket
Semiconductor Manufacturing International (BVI) Corporation (SMIC (BVI))#	British Virgin Islands	Ordinary	US$	10	Directly	100%	100%	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands	Ordinary	US$	10	Directly	100%	100%	Investment holding
SMIC Shanghai (Cayman) Corporation	Cayman Islands	Ordinary	US$	50,000	Directly	100%	100%	Investment holding
SMIC Beijing (Cayman)	Cayman Islands	Ordinary	US$	50,000	Directly	100%	100%	Investment holding

Corporation								
SMIC Tianjin (Cayman) Corporation	Cayman Islands	Ordinary	US$	50,000	Directly	100%	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	Ordinary	US$	10,000	Directly	100%	100%	Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands	Ordinary	US$	50,000	Directly	100%	100%	Investment holding
SMIC Semiconductor Advanced Technology Research (Shanghai) Corporation	PRC	Ordinary	US$	12,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SJ Semiconductor Corporation	Cayman Islands	Ordinary	US$	5,000	Directly	51%	51%	Investment holding
SMIC Energy Technology (Shanghai) Corporation (Energy Science)#	PRC	Ordinary	US$	10,400,000	Indirectly	100%	100%	Manufacturing and trading of solar cell related semiconductor products
Magnificent Tower Limited	British Virgin Islands	Ordinary	US$	50,000	Indirectly	100%	100%	investment holding
SMIC Shanghai (HK) Company Limited	Hong Kong	Ordinary	HK$	1,000	Indirectly	100%	100%	investment holding
SMIC Beijing (HK) Company Limited	Hong Kong	Ordinary	HK$	1,000	Indirectly	100%	100%	Investment holding
SMIC Tianjin (HK) Company Limited	Hong Kong	Ordinary	HK$	1,000	Indirectly	100%	100%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong	Ordinary	HK$	10,000	Indirectly	100%	100%	Investment holding
SMIC ShenZhen (HK) Company Limited	Hong Kong	Ordinary	HK$	1,000	Indirectly	100%	100%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	Ordinary	HK$	1,000	Indirectly	100%	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation	PRC	Ordinary	US$	127,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited	PRC	Ordinary	US$	12,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation (SMNC)#	PRC	Ordinary	US$	800,000,000	Directly and indirectly	55%	55%	Manufacturing and trading of semiconductor products
China IC Capital Co., Ltd	PRC	Ordinary	RMB	500,000,000	Indirectly	100%	100%	Investment holding
Shanghai Xinxin Investment Centre (Limited Partnership)	PRC	Ordinary	RMB	90,000,000	Indirectly	99%	99%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC	Ordinary	RMB	15,900,000	Indirectly	99%	99%	Investment holding
Shanghai Chengxin Investment Center (Limited Partnership)	PRC	Ordinary	RMB	18,200,000	Indirectly	99%	99%	Investment holding
Shanghai Rongxin Investment Management Limited Partnership	PRC	Ordinary			Indirectly	99%	99%	Investment holding
SJ Semiconductor (HK) Limited	Hong Kong	Ordinary	HK$	1,000	Indirectly	51%	51%	Investment holding
	PRC	Ordinary	US$	49,500,000	Indirectly	51%	51%	

SJ Semiconductor (Jiangyin) Corp.	Manufacturing and trading of semiconductor products

\# Abbreviation for identification purposes.

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19. Subsidiaries *(continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests

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

Name of company	Place of establishment and operation	Proportion of ownership interests and voting rights held by non-controlling interests 12/31/14	12/31/13	Profit (loss) allocated to non-controlling interests 12/31/14 USD 000	12/31/13 USD 000	Accumulated non-controlling interests 12/31/14 USD 000	12/31/13 USD 000
Semiconductor Manufacturing North China (Beijing) Corporation (SMNC)	Beijing	45.0%	45.0%	(26,353)	1,410	359,216	109,410
Total				(26,353)	1,410	359,216	109,410

Semiconductor Manufacturing North China (Beijing) Corporation (SMNC , the Group s majority owned subsidiary in Beijing) shared part of Group s advance-technology R&D expenses in the fourth quarter of 2014, which also caused the change in loss of year attributable to non-controlling interests.

According to the joint venture agreement entered into by the Group and NCI, additional capital injection into SMNC has been completed in 2014. The additional capital injection from NCI was amounted to US$252 million.

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

SMNC

	12/31/14 USD 000	12/31/13 USD 000
Current assets	**659,596**	243,719
Non-current assets	**550,859**	
Current liabilities	**(347,217)**	(586)
Non-current liabilities	**(118,667)**	
Net assets	**744,571**	243,133
Equity attributable to owners of the Company	**409,514**	133,723
Non-controlling interests	**335,057**	109,410

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19. Subsidiaries *(continued)*

SMNC *(continued)*

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**
Revenue		
Expense	**(65,058)**	(709)
Other income	**6,496**	3,843
Profit (loss) for the year	**(58,562)**	3,134
Profit (loss) attributable to owners of the Company	**(32,209)**	1,724
Profit (loss) attributable to the non-controlling interests	**(26,353)**	1,410
Profit (loss) for the year	**(58,562)**	3,134
Other comprehensive income attributable to owners of the Company		
Other comprehensive income attributable to the non-controlling interests		
Other comprehensive income for the year		
Total comprehensive income (expense) attributable to owners of the Company	**(32,209)**	1,724
Total comprehensive income (expense) attributable to the non-controlling interests	**(26,353)**	1,410
Total comprehensive income (expense) for the year	**(58,562)**	3,134
Dividends paid to non-controlling interests		
Net cash inflow from operating activities	**7,758**	1,959
Net cash outflow from investing activities	**(436,449)**	(164,810)
Net cash inflow from financing activities	**560,000**	240,000
Net cash inflow	**131,309**	77,149

20. Investments in associates

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

Name of company	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group 12/31/14	12/31/13	12/31/12	Proportion of voting power held
Toppan SMIC Electronic (Shanghai) Co., Ltd (Toppan)	Shanghai, PRC	Ordinary	30.0%	30.0%	30.0%	30.0%
Zhongxin Xiecheng Investment (Beijing) Co., Ltd (Zhongxin Xiecheng)	Beijing, PRC	Ordinary	49.0%	49.0%	49.0%	49.0%
Brite Semiconductor Corporation	Cayman Island	Ordinary	47.8%	48.7%	NA	47.8%
China Fortune-Tech Capital Co., Ltd (China Fortune-Tech)	Shanghai, PRC	Ordinary	45.0%	NA	NA	45.0%
BeiJing Wu Jin Venture Investment Center (Limited Partnership) (WuJin)	Beijing, PRC	Ordinary	32.6%	NA	NA	32.6%
Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-fund	Beijing, PRC	Ordinary	25.4%	NA	NA	25.4%

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

20. Investments in associates *(continued)*

Toppan

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Current assets	**44,538**	47,554	44,987
Non-current assets	**28,789**	22,660	15,677
Current liabilities	**(311)**	(2,117)	(1,608)
Non-current liabilities			
Net assets	**73,016**	68,097	59,056

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000	Year ended 12/31/12 USD 000
Total revenue	**23,498**	23,796	19,008
Profit for the year	**5,493**	7,364	5,585
Other comprehensive income for the year			
Total comprehensive income for the year	**5,493**	7,364	5,585
Dividends received from the associate during the year			

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

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Net assets of the associate	**73,016**	68,097	59,056
Proportion of the Group s ownership interest in Toppan	**30%**	30%	30%
Carrying amount of the Group s interest in Toppan	**21,905**	20,429	17,717

20. Investments in associates *(continued)*

Brite

	12/31/14 USD 000	12/31/13 USD 000
Current assets	**24,394**	13,433
Non-current assets	**5,295**	4,081
Current liabilities	**(13,165)**	(10,816)
Non-current liabilities	**(1,458)**	
Net assets	**15,066**	6,698

	Year ended 12/31/14 USD 000	Year ended 12/31/13 USD 000
Total revenue	**46,385**	41,742
Profit (loss) for the year	**556**	(498)
Other comprehensive income for the year		
Total comprehensive income for the year	**556**	(498)
Dividends received from the associate during the year		

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

	12/31/14 USD 000	12/31/13 USD 000
Net assets of the associate	**15,066**	6,698
Proportion of the Group s ownership interest in Brite	**47.8%**	48.7%
Other adjustment	**2,291**	1,375
Carrying amount of the Group s interest in Brite	**9,493**	4,637

20. Investments in associates *(continued)*

WuJin

	12/31/14 USD 000
Current assets	**10,894**
Non-current assets	**4,083**
Current liabilities	
Non-current liabilities	
Net assets	**14,977**

	Year ended 12/31/14 USD 000
Total revenue	
Loss for the year	**(50)**
Other comprehensive income for the year	
Total comprehensive loss for the year	**(50)**
Dividends received from the associate during the year	

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

	12/31/14 USD 000
Net assets of the associate	**14,977**
Proportion of the Group s ownership interest in WuJin	**32.6%**
Carrying amount of the Group s interest in WuJin	**4,883**

20. Investments in associates *(continued)*

Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub- fund

	12/31/14 USD 000
Current assets	**63,987**
Non-current assets	
Current liabilities	
Non-current liabilities	
Net assets	**63,987**

	Year ended 12/31/14 USD 000
Total revenue	
Loss for the year	**(350)**
Other comprehensive income for the year	
Total comprehensive loss for the year	**(350)**
Dividends received from the associate during the year	

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

	12/31/14 USD 000
Net assets of the associate	**63,987**
Proportion of the Group s ownership interest in Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-fund	**25.4%**
Carrying amount of the Group s interest in Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-fund	**16,253**

21. Other financial assets

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Derivatives			
Foreign currency forward contracts			77
Short-term investments			
Financial products sold by banks	**616,862**	240,311	18,653
Bank deposits over 3 months	**27,209**		
	644,071	240,311	18,730

22. Other assets

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Advance payments			28,252
Available-for-sale investment	**15,081**	1,278	3,757
Others	**15,786**	4,959	11,373
Non-current	**30,867**	6,237	43,382

Available-for-sale investment is the investment of fund companies which were invested for their future development in integrated circuit related field.

23. Inventories

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Raw materials	**65,598**	56,242	52,228
Work in progress	**179,047**	180,710	156,392
Finished goods	**71,396**	49,299	87,108
	316,041	286,251	295,728

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

24. Trade and other receivables

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Trade receivables	**424,661**	352,872	323,451
Allowance for doubtful debts	**(42,014)**	(44,643)	(45,340)
	382,647	308,229	278,111
Other receivables and refundable deposits	**73,741**	71,132	50,100
	456,388	379,361	328,211

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

The Group determines its allowance for doubtful debts based on the Group s historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Group s allowance for doubtful debts excludes receivables from a limited number of customers due to their high credit worthiness. The Group provides allowance for doubtful debts based on recoverable amount by making reference to the age category of the remaining receivables and subsequent settlement. The Group recognized US$1.6 million, US$0.6 million and US$4.6 million of allowance for doubtful debts respectively during the year ended December 31, 2014, 2013 and 2012 respectively. The Group reviews, analyzes and adjusts allowance for doubtful debts on a monthly basis.

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

Trade receivables

Of the trade receivables balance at the end of the year of 2014, 2013 and 2012, US$131.3 million, US$129.4 million and US$101.1 million respectively are due from the Group s two largest customers.

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

Age of receivables

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Within 30 days	**167,137**	166,117	113,955
31 60 days	**122,387**	110,470	123,618

Over 60 days	**135,137**	76,285	85,878
Total	**424,661**	352,872	323,451

24. Trade and other receivables *(continued)*

Trade receivables *(continued)*

Age of receivables (continued)

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

	12/31/14 USD 000	**12/31/13 USD 000**	**12/31/12 USD 000**
Current	**270,220**	269,740	222,765
Past due but not impaired			
Within 30 days	**55,412**	24,480	31,219
31 60 days	**20,915**	10,068	16,559
Over 60 days	**36,100**	3,941	7,568
Total	**382,647**	308,229	278,111
Average overdue days	**74**	40	47

Movement in the allowance for doubtful debts

	12/31/14 USD 000	**12/31/13 USD 000**	**12/31/12 USD 000**
Balance at beginning of the year	**44,643**	45,340	42,820
Addition in allowance for doubtful debts	**1,616**	617	4,615
Amounts written off during the year as uncollectible	**(4,186)**	(101)	
Reversal of allowance for doubtful debts	**(59)**	(1,213)	(2,095)
Balance at end of the year	**42,014**	44,643	45,340

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

Age of impaired trade receivables

	12/31/14	**12/31/13**	**12/31/12**
[redacted]			
Within 30 days	**306**	192	278
31 60 days	**338**	89	855

Over 60 days	**41,370**	44,362	44,207
Total	**42,014**	44,643	45,340

25. Restricted cash

As of December 31, 2014, 2013 and 2012, restricted cash consisted of US$0.6 million, US$35.7 million and US$111.6 million, respectively of bank time deposits pledged against letters of credit and short-term borrowings, and US$135.4 million, US$111.9 million and US$106.0 million, respectively of government funding received mainly for the reimbursement of research and development expenses to be incurred. In addition, as of December 31, 2014 the restricted cash of US$102 million was for the co-investment in the proposed acquisition of STATS ChipPAC Ltd, which is a leading provider of advanced semiconductor packaging and test services in Singapore.

26. Shares and issued capital

Fully paid ordinary shares

	Number of shares	Share capital USD 000	Share premium USD 000
Balance at December 31, 2011	27,487,676,065	10,995	3,774,016
Issuance of shares under the Company s employee share option plan (see note 35)	57,004,448	23	3,057
Conversion of convertible preference shares	4,455,459,110	1,782	306,515
Balance at December 31, 2012	32,000,139,623	12,800	4,083,588
Issuance of shares under the Company s employee share option plan (see note 35)	112,167,478	45	6,641
The Group purchased shares of subsidiaries			(383)
Balance at December 31, 2013	32,112,307,101	12,845	4,089,846
Issuance of shares under the Company s employee share option plan (see note 35)	215,677,649	86	18,422
Ordinary shares issued at June 12, 2014	2,590,000,000	1,036	196,161
Ordinary shares issued at November 21, 2014	669,468,952	268	51,523
Ordinary shares issued at November 27, 2014	268,642,465	107	20,678
Balance at December 31, 2014	35,856,096,167	14,342	4,376,630

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

26. Shares and issued capital *(continued)*

Fully paid ordinary shares *(continued)*

The net proceeds were recorded as share capital of approximately US$1 million and share premium of approximately US$196.2 million in the Group s statements of financial position. Net proceeds of issue were measured after deducting directly attributable transaction costs of the share issue.

On August 22, 2014, the Company entered into a subscription agreement with each of Datang and Country Hill Limited (Country Hill) in relation to the proposed subscription of 669,468,952 ordinary shares by Datang upon the exercise of Datang s pre-emptive rights as specified in the share purchase agreement (2008 Datang Share Purchase Agreement) on November 6, 2008 entered into between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd (Datang Telecom) and 268,642,465 ordinary shares by Country Hill upon the exercise of Country Hill s pre-emptive rights pursuant to the share subscription agreement (2011 Country Hill Share Subscription Agreement) on April 18, 2011 entered into between the Company and Country Hill at the price of HK$0.60 per ordinary share (which is the same as the Placing Price). On November 21, 2014, Datang subscribed 669,468,952 ordinary shares of the Company. On November 27, 2014, Country Hill subscribed 268,642,465 ordinary shares of the Company.

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

Convertible preference shares

	Number of shares	Share capital USD 000	Share premium USD 000
Balance at December 31, 2011	445,545,911	178	308,119
Converted into ordinary shares	(445,545,911)	(178)	(308,119)
Balance at December 31, 2012			

In June 2011, the Company issued 360,589,053 non-redeemable convertible preferred shares (the Preferred Shares) and a warrant (the CIC Warrant) to subscribe for up to 72,117,810 preferred shares, to Country Hill, a wholly-owned subsidiary of China Investment Corporation (CIC), for an aggregate proceeds of approximately US$249 million, net of issuance cost of US$0.6 million which was deducted from the carrying value of the Preferred Shares.

In September 2011, the Company issued 84,956,858 preferred shares and a Warrant (the Datang Warrant and, together with the CIC Warrant, the Warrant) to subscribe for up to 16,991,371 preferred shares, to Datang, for aggregate proceeds of approximately US$58.9 million.

The holders of the preferred shares had the right at any time to convert their preferred shares into fully paid ordinary shares and the preferred shares was mandatorily converted into ordinary shares at the conversion rate of 10 ordinary shares per convertible preferred share. As of result of the conversion, the Company issued 3,605,890,530 and 849,568,580 ordinary shares to CIC and Datang, respectively, on June 4, 2012.

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

26. Shares and issued capital *(continued)*

Stock incentive plans

The Group has adopted the stock incentive plans under which options to subscribe for the Company s shares have been granted to certain employees, officers and other service providers (Note 35).

27. Reserves

Equity-settled employee benefits reserve

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Balance at beginning of year	**55,177**	42,232	37,469
Arising on share-based payments	**18,388**	16,402	7,174
Transfer to share premium	**(9,025)**	(3,457)	(2,411)
Balance at end of year	**64,540**	55,177	42,232

The above equity-settled employee benefits reserve related to share options and RSUs granted by the Group to its employees and service providers under stock incentive plans. Items included in equity-settled employee benefits reserve will not be reclassified subsequently to profit or loss. Further information about share-based payments to employees and service providers is set out in Note 35.

Foreign currency translation reserve

Items that may be reclassified subsequently to profit or loss

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Balance at beginning of year	**4,553**	3,916	3,846
Exchange differences arising on translating the foreign operations	**(324)**	731	70
Disposal of subsidiaries		(94)	
Balance at end of year	**4,229**	4,553	3,916

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

27. Reserves *(continued)*

Convertible bonds equity reserve

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

28. Accumulated deficit

As stipulated by the relevant laws and regulations applicable to China s foreign investment enterprise, the Group s PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law. In 2014 the Group did not make any appropriation to non-distributable reserves. As of December 31, 2014, 2013 and 2012, the accumulated non-distributable reserve was US$30 million, US$30 million and US$30 million respectively.

In addition, due to restrictions on the distribution of paid-in capital from the Group s PRC subsidiaries, the PRC subsidiaries paid-in capital of US$4,445 million at December 31, 2014 is considered restricted.

As a result of these PRC laws and regulations, as of December 31, 2014, reserve and capital of approximately US$4,198 million was not available for distribution to the Group by its PRC subsidiaries in the form of dividends, loans or advances.

In 2014, 2013 and 2012 the Group did not declare or pay any cash dividends on the ordinary shares.

29. Borrowings

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
At amortized cost			
Short-term commercial bank loans (i)	**115,084**	219,727	383,225
	115,084	219,727	383,225
Long-term debt by contracts			
2011 EXIM Bank USD Loan (SMIC Shanghai) (ii)			68,500
2012 EXIM Bank USD Loan (SMIC Shanghai) (iii)			70,000
2012 USD Loan (SMIC Shanghai) (iv)		201,000	245,611
2013 USD Loan (SMIC Shanghai) (v)	**221,520**	260,000	
2011 EXIM USD & RMB Loan (SMIC Beijing) (vi)			49,079
2012 EXIM USD Loan (SMIC Beijing) (vii)			20,000
2012 USD Loan (SMIC Beijing) (viii)		260,000	260,000
2013 EXIM USD Loan (SMIC Beijing) (ix)	**40,000**	40,000	
2013 CIC RMB Entrust loan (SMIC Beijing) (x)	**2,450**	10,795	
2014 EXIM RMB Loan (SMIC Beijing) (xi)	**39,200**		
	303,170	771,795	713,190
Less: current maturities of long-term debt	**46,970**	170,820	184,578
Non-current maturities of long-term debt	**256,200**	600,975	528,612
Borrowing by repayment schedule:			
Within 1 year	**162,054**	390,547	567,803
Within 1 2 years	**125,200**	209,965	309,000
Within 2 5 years	**131,000**	367,990	219,612
Over 5 years		23,020	
	418,254	991,522	1,096,415

Summary of borrowing arrangements

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

(ii) In April 2011, SMIS entered into the Shanghai EXIM Bank USD loan I, a new two-year loan facility in the principal amount of $69.5 million with The Export-Import Bank of China. This two-year bank facility was used to finance the planned expansion for SMIS s 12-inch fab. SMIS has repaid the outstanding balance in advance by August 2013. As of December 31, 2013, SMIS had no outstanding balance of the facility. The interest rate ranged from 4.0% to 5.0% during 2013.

29. Borrowings *(continued)*

Summary of borrowing arrangements *(continued)*

(iii) In October 2012, SMIS entered into the Shanghai EXIM Bank USD loan II, a new two-year loan facility in the principal amount of US$70 million with The Export-Import Bank of China, which was secured by certain equipment of SMIS. This two-year bank facility was used to finance the planned expansion for SMIS s 12-inch fab. SMIS had repaid the outstanding balance in advance by August 2013. As of December 31, 2013, SMIS had no outstanding balance of the facility. The interest rate ranged from 4.0% to 5.0% during 2013.

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

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

(vi) In September 2011, SMIB entered into the USD and RMB Loan, a two-year loan facility in the principal amount of US$25 million and RMB150 million (approximately US$24 million) with The Export-Import Bank of China. This two-year bank facility was used for working capital purposes. SMIB had repaid the outstanding balance in advance by June 2013. As of December 31, 2013, SMIS had no outstanding balance of the facility. The interest rate on this loan facility ranged from 6.1% to 6.5% in 2013.

29. Borrowings *(continued)*

Summary of borrowing arrangements *(continued)*

(vii) In March 2012, SMIB entered into the new USD Loan, a two-year working capital loan facility in the principal amount of US$30 million with the Export-Import Bank of China, which was unsecured. This two-year bank facility was used for working capital purpose. SMIB had repaid the outstanding balance of US$20 million in advance by August 2013. As of December 31, 2013, SMIB had no outstanding balance of the facility. The interest rate on this loan facility ranged from 6.2% to 6.5% in 2013.

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

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

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

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

As of December 31, 2014, property, plant and equipment and land use right with carrying amount of approximately US$308 million (2013: US$1,007 million and 2012: US$1,070 million) had been pledged to secure borrowings of the Group.

30. Convertible bonds

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

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

The principal terms of the Original Bonds are as follows:

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

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

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

(4) Conversion

a) Conversion price The price is HK$0.7965 per each new share to be issued upon conversion of the Original Bonds (Conversion Share), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including subdivision, reclassification or consolidation of shares of the Company, capitalisation of profits or reserves, capital distribution, issuance of options or rights, and certain other events.

b) Conversion period The Bondholder has the right to convert the Original Bonds into shares at any time on or after December 18, 2013 up to the close of business on the date falling seven days prior to the Maturity Date or if such bonds shall have been called or put for redemption at any time before the Maturity Date, then up to the close of business on a date no later than seven days prior to the date fixed for redemption, which is discussed below.

c) Number of Conversion Shares issuable 1,946,817,325 Conversion Shares will be issued upon full conversion of the Original Bonds based on the initial conversion price of HK$0.7965 (translated at the fixed exchange rate of HK$7.7532 = US$1.0 as pre- determined).

(5) Redemption

a) At the option of the Company:

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

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

30. Convertible bonds *(continued)*

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

(5) Redemption *(continued)*

a) At the option of the Company: *(continued)*

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

b) At the option of the Bondholder:

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

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

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

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

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30. Convertible bonds *(continued)*

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

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

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

Subsequent to the initial recognition, the liability component of the Original Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Bonds was 3.69% per annum. The movement of the liability component and equity component of the Original Bonds for the year ended December 31, 2014 is set out below:

	Liability Component USD 000	**Equity Component USD 000**	**Total USD 000**
As at November 7, 2013	179,390	15,210	194,600
Interest charged during the year	1,173		1,173
As at December 31, 2013	180,563	15,210	195,773
Interest charged during the year	6,593		6,593
As at December 31, 2014	187,156	15,210	202,366

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

30. Convertible bonds *(continued)*

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

The Company issued convertible bonds at a par value of US$200,000 each with an aggregate principal amount of US$54,600,000 to Datang and an aggregate principal amount of US$32,200,000 to Country Hill on May 29, 2014 (collectively, the Original Pre-emptive Bonds). The issue price was 100% of the aggregate principal amount of the Original Pre-emptive Bonds and the terms and conditions of the Original Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 30(i)). The Original Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Pre-emptive Bonds was approximately US$81.2 million and the equity component was approximately US$5.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD 000
Principal amount	86,800
Transaction cost	
Liability component at the date of issue	(81,235)
Equity component	5,565

Subsequent to the initial recognition, the liability component of the Original Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Pre-emptive Bonds was 2.78% per annum. The movement of the liability component of the Original Pre-emptive Bonds for the year ended December 31, 2014 is set out below:

	Liability Component USD 000	**Equity Component USD 000**	**Total USD 000**
As at May 29, 2014	81,235	5,565	86,800
Interest charged during the year	1,315		1,315
As at December 31, 2014	82,550	5,565	88,115

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

30. Convertible bonds *(continued)*

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

The Company issued convertible bonds at a par value of US$200,000 each with an aggregate principal amount of US$95,000,000 on June 24, 2014 (the Further Bonds). The issue price was 101.5% of the aggregate principal amount of the Further Bonds and the terms and conditions of the Further Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 30(i)). The Further Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Bonds was approximately US$87.1 million and the equity component was approximately US$7.1 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

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

Subsequent to the initial recognition, the liability component of the Further Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Bonds was 3.79% per annum. The liability component of the Further Bonds for the year ended December 31, 2014 is set out below:

	Liability Component USD 000	**Equity Component USD 000**	**Total USD 000**
As at June 24, 2014	87,090	7,148	94,238
Interest charged during the year	1,650		1,650
As at December 31, 2014	88,740	7,148	95,888

30. Convertible bonds *(continued)*

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

The Company issued convertible bonds at a par value of US$200,000 each with an aggregate principal amount of US$22,200,000 to Datang on December 4, 2014 (the Further Pre-emptive Bonds). The issue price was 101.5% of the aggregate principal amount of the Further Pre-emptive Bonds and the terms and conditions of the Further Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 30(i)). The Further Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Pre-emptive Bonds was approximately US$20.9 million and the equity component was approximately US$1.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

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

Subsequent to the initial recognition, the liability component of the Further Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Pre-emptive Bonds was 3.22% per annum. The liability component of the Further Pre-emptive Bonds for the year ended December 31, 2014 is set out below:

	Liability Component USD 000	**Equity Component USD 000**	**Total USD 000**
As at December 4, 2014	20,892	1,641	22,533
Interest charged during the year	56		56
As at December 31, 2014	20,948	1,641	22,589

31. Bonds payable

On October 8, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US$500 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the issue date, the net book value of the liabilities amounted to US$491.2 million after the deduction of (1) a discount of US$$5.2 million and (2) issue expenses of US$3.6 million.

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

The movement of the corporate bonds for the year ended December 31, 2014 is set out below:

	2014 USD 000
As at October 8, 2014	**491,181**
Interest charged during the year	**5,554**
Interest payable recognized during the year	**(5,156)**
As at December 31, 2014	**491,579**

32. Trade and other payables

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Trade payables	**645,414**	285,967	331,394
Advance receipts from customers	**54,724**	41,164	67,108
Deposit received from customers	**77,296**	48,976	10,591
Other payable	**16,927**	17,783	14,859
	794,361	393,890	423,952

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

As of December 31, 2014, 2013 and 2012, trade payables were US$645.4 million, US$286.0 million and US$331.4 million, within which the payables for property, plant and equipment were US$425.1 million, US$117.6 million and US$111.8 million, respectively.

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

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Within 30 days	**555,556**	214,219	252,097
Between 31 to 60 days	**25,729**	20,295	49,735
Over 60 days	**64,129**	51,453	29,562
	645,414	285,967	331,394

An aged analysis of the accounts payable is as follows:

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Current	**599,584**	237,337	275,398
Overdue:			
Within 30 days	**12,520**	9,493	26,783
Between 31 to 60 days	**4,954**	12,299	10,652
Over 60 days	**28,356**	26,838	18,561
	645,414	285,967	331,394

33. Accrued liabilities

The amounts of accrued liabilities as of December 31, 2014, 2013 and 2012 were US$131.1 million, US$127.6 million and US$84.6 million, within which the amounts of accrued payroll expenses were US$62.5 million, US$55.5 million and US$21.4 million, respectively.

34. Promissory notes

In 2009, the Group reached a new settlement with Taiwan Semiconductor Manufacturing Corporation (TSMC). Under this agreement, the remaining promissory note of US$40.0 million under the prior 2005 Settlement Agreement was cancelled. The Group issued twelve non-interest bearing promissory notes with an aggregate amount of US$200.0 million as the settlement consideration. The Group recorded a discount of US$8.1 million for the imputed interest on the notes using an effective interest rate of 2.85% (which represents the Group s average rate of borrowing for 2009), which was recorded as a reduction of the face amount of the promissory notes. In total, the Group paid TSMC US$30.0 million and US$30.0 million in 2013 and 2012, respectively. The agreement was fully settled in 2013 and the outstanding promissory notes as of December 31, 2012 are as follows:

		31/12/12
		Discounted
	Face value	**Value**
	USD 000	**USD 000**
Maturity		
2013 Current	30,000	29,374
	30,000	29,374

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35. Share-based payments

Stock incentive plans

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

Stock option plan

The options are granted at the fair market value of the Company s ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of four years.

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

Restricted share units (RSUs)

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

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

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

	Year ended 12/31/14 USD 000	**Year ended 12/31/13 USD 000**	**Year ended 12/31/12 USD 000**
Expense arising from equity-settled share-based payment transactions	**18,388**	16,402	7,174

Movements during the year

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

	2014 Number	**2014 WAEP**		**2013 Number**	**2013 WAEP**		**2012 Number**	**2012 WAEP**	
Outstanding at January 1	**1,320,383,853**	**US$**	**0.09**	1,285,367,372	US$	0.09	1,230,938,429	US$	0.10
Granted during the year	**153,998,051**	**US$**	**0.10**	270,695,247	US$	0.08	292,084,956	US$	0.04
Forfeited and expired during the year	**(161,539,854)**	**US$**	**0.15**	(158,907,830)	US$	0.11	(209,218,313)	US$	0.09
Exercised during the year	**(149,214,781)**	**US$**	**0.06**	(76,770,936)	US$	0.04	(28,437,700)	US$	0.02
Outstanding at December 31	**1,163,627,269**	**US$**	**0.08**	1,320,383,853	US$	0.09	1,285,367,372	US$	0.09
Exercisable at December 31	**489,477,234**	**US$**	**0.09**	483,679,899	US$	0.11	457,250,416	US$	0.12

The weighted average remaining contractual life for the share options outstanding as at December 31, 2014 was 6.59 years (2013: 6.58 years and 2012: 6.61 years).

35. Share-based payments *(continued)*

Movements during the year *(continued)*

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

The range of exercise prices for options outstanding at the end of the year was from US$0.02 to US$0.22 (2013: from US$0.02 to US$0.35 and 2012: from US$0.02 to US$0.35).

The weighted average closing price of the Company s shares immediately before the dates on which the share options were exercised was US$0.10 (2013: US$0.07 and 2012: US$0.04).

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

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

During the year ended December 31, 2012, share options were granted on May 22, 2012, September 12, 2012 and November 15, 2012. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.02, US$0.02 and US$0.03, respectively.

The following table list the inputs to the Black Scholes Pricing models used for the option granted during the years ended 31 December 2014, 2013 and 2012 respectively:

	2014	**2013**	**2012**
Dividend yield (%)			
Expected volatility	**50.93%**	62.18%	65.93%
Risk-free interest rate	**1.67%**	1.23%	0.77%
Expected life of share options	**5 years**	5 years	5 years

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

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

35. Share-based payments *(continued)*

Movements during the year *(continued)*

(ii) The following table illustrates the number and weighted average fair value (WAFV) of, and movements in, RSUs during the year (excluding share options):

	2014 Number	2014 WAFV		2013 Number	2013 WAFV		2012 Number	2012 WAFV	
Outstanding at January 1	**233,158,731**	**US$**	**0.07**	125,358,288	US$	0.06	101,564,432	US$	0.07
Granted during the year	**114,726,892**	**US$**	**0.11**	151,336,161	US$	0.08	65,170,000	US$	0.04
Forfeited during the year	**(7,365,088)**	**US$**	**0.09**	(8,139,176)	US$	0.07	(12,809,396)	US$	0.08
Exercised during the year	**(66,462,868)**	**US$**	**0.07**	(35,396,542)	US$	0.06	(28,566,748)	US$	0.08
Outstanding at December 31	**274,057,667**	**US$**	**0.09**	233,158,731	US$	0.07	125,358,288	US$	0.06

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2014 was 8.75 years (2013: 8.88 years and 2012: 8.84 years).

The weighted average closing price of the Company s shares immediately before the dates on which the RSUs were exercised was US$0.08 (2013: US$0.08 and 2012: US$0.04).

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

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

During the year ended December 31, 2012, RSUs were granted on May 22, 2012 and September 12, 2012. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.04 and US$0.04.

The following table list the inputs to the models used for the plans for the years ended December 31, 2014, 2013 and 2012, respectively:

	2014	2013	2012
Dividend yield (%)			

Expected volatility	**38.49%**	47.03%	49.90%
Risk-free interest rate	**0.54%**	0.34%	0.30%
Expected life of RSUs	**2 years**	2 years	2 years

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

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

36. Financial instruments

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the capital structure. The Group s overall strategy remains unchanged from 2013.

The capital structure of the Group consists of net debt (debt as detailed in Note 29, Note 30 and Note 31 offset by cash and cash equivalent) and equity of the Group.

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

Gearing ratio

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

	12/31/14 USD 000	**12/31/13 USD 000**	**12/31/12 USD 000**
Debt (i)	**1,289,227**	1,172,085	1,096,415
Cash and cash equivalent	**(603,036)**	(462,483)	(358,490)
Net debt	**686,191**	709,602	737,925
Equity	**3,307,722**	2,593,182	2,276,452
Net debt to equity ratio	**20.75%**	27.36%	32.42%

(i) Debt is defined as long- and short-term borrowings (excluding derivatives), convertible bonds, and bonds payables as described in Note 29, Note 30 and Note 31.

36. Financial instruments *(continued)*

Financial risk management objectives

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

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

Market risk

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

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import from suppliers;
- interest rate swaps to mitigate the risk of rising interest rates; and
- cross-currency interest rate swap agreements to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debt denominated in a currency other than the US dollar.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as at December 31, 2014, 2013 and 2012.

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

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36. Financial instruments *(continued)*

Foreign currency risk management

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

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

	Liabilities			Assets		
	12/31/14	**12/31/13**	**12/31/12**	**12/31/14**	**12/31/13**	**12/31/12**
	USD 000	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**
EUR	**2,488**	3,037	1,345	**480**	2,595	3,249
JPY	**7,560**	7,925	13,693	**606**	1,499	3,023
RMB	**221,336**	133,177	254,750	**1,148,146**	766,960	456,271
Others	**4,684**	8,226	6,934	**1,100**	7,323	2,122

Foreign currency sensitivity analysis

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

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

36. Financial instruments *(continued)*

Foreign currency risk management *(continued)*

Foreign currency sensitivity analysis (continued)

	EUR			JPY			RMB			Others		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
	USD 000	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**
Profit or loss	**(100)**	(22)	95	**(366)**	(338)	(562)	**48,780**	33,357	10,606	**(190)**	(1)	(3)
Equity	**(100)**	(22)	95	**(366)**	(338)	(562)	**48,780**	33,357	10,606	**(190)**	(1)	(3)

Forward foreign exchange contracts

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

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

Outstanding contracts

	Average exchange rate			Foreign currency			Notional value			Fair value assets/(liabilities)		
	12/31/14	**12/31/13**	**12/31/12**	**12/31/14**	**12/31/13**	**12/31/12**	**12/31/14**	**12/31/13**	**12/31/12**	**12/31/14**	**12/31/13**	**12/31/12**
				FC 000	**FC 000**	**FC 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**	**USD 000**
Buy RMB												
Less than 3 months			6.3763			221,173			35,504			67
3 months to 1 year			6.4100			294,696			47,306			(15)
						515,869			82,810			52

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

Interest rate risk management

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

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

36. Financial instruments *(continued)*

Interest rate risk management *(continued)*

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis point increase or decrease represents management s assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points higher and all other variables were held constant, the Group s profit for the year ended December 31, 2014 would decrease by US$0.2 million (2013: profit decrease by US$0.6 million and 2012: profit decrease by US$0.6 million). This is mainly attributable to the Group s exposure to interest rates on its variable rate borrowings.

Credit risk management

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

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

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

Apart from Customers A and B, two largest customers of the Group, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Customers A and B did not exceed 10% and 2% respectively of gross monetary assets at the end of current year. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at the end of current year.

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

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

36. Financial instruments *(continued)*

Liquidity risk management

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

Liquidity and interest risk tables

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

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

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

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36. Financial instruments *(continued)*

Liquidity risk management *(continued)*

Liquidity and interest risk tables (continued)

		Weighted average effective interest rate %	Less than 3 months USD 000	3 months to 1 year USD 000	1 5 years USD 000	5+ years USD 000	Total USD 000
December 31, 2012							
Promissory notes				30,000			30,000
Interest-bearing bank and other 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

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

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

36. Financial instruments *(continued)*

Liquidity risk management *(continued)*

Liquidity and interest risk tables *(continued)*

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

	Weighted average effective interest rate %	Less than 3 months USD 000	3 months to 1 year USD 000	1 5 years USD 000	5+ years USD 000	Total USD 000
December 31, 2012						
Trade and other receivables		322,380	5,831			328,211
Cash and cash equivalent, restricted cash & 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

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

The Group has access to short-term financing facilities as described in below section, of which US$767.4 million were unused at the end of the reporting period (2013: US$927.5 million and 2012: US$629.3 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

36. Financial instruments *(continued)*

Liquidity risk management *(continued)*

Liquidity and interest risk tables *(continued)*

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

	1 month USD 000	Less than 1 month USD 000	1 3 months USD 000	3 months to 1 year USD 000	1 5 years USD 000	5+ years USD 000
December 31, 2012						
Net settled:						
foreign exchange forward contracts		20	47	(15)		
		20	47	(15)		

Fair value of financial instruments

Fair value of financial instruments carried at amortized cost

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

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

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

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

36. Financial instruments *(continued)*

Fair value of financial instruments *(continued)*

Fair value measurements recognized in the consolidated statement of financial position

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the year ended December 31, 2014, 2013 and 2012:

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

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

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

			12/31/14		
	Valuation technique(s) and key input	**Level 1 USD 000**	**Level 2 USD 000**	**Level 3 USD 000**	**Total USD 000**
Financial assets at FVTPL					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.		**616,862**		**616,862**
Available-for-sale investment	Recent transaction price			**13,803**	**13,803**
Total			**616,862**	**13,803**	**630,665**

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

	the credit risk of various counterparties.		
Total		240,311	240,311

36. Financial instruments *(continued)*

Fair value of financial instruments *(continued)*

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

			12/31/12		
	Valuation technique(s) and key input	**Level 1 USD 000**	**Level 2 USD 000**	**Level 3 USD 000**	**Total USD 000**
Financial assets at FVTPL					
Foreign currency forward contracts classified as other financial assets in the statement of financial position	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.		77		77
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.		18,653		18,653
Total			18,730		18,730
Financial liabilities at FVTPL					
Foreign currency forward contracts classified as other financial liabilities in the statement of financ–ial position	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.		(25)		(25)
Total			(25)		(25)

37. Related party transactions

Relationship and details of transactions between the Group and other related parties are disclosed below.

Related party name	Relationship with the Group
China Academy of Telecommunication Technology	A member of Datang Telecom Technology & Industry Group (Datang Group), which owns Datang Telecom
Datang Telecom Technology & Industry Holdings Co., Ltd. (Datang Telecom)	A substantial shareholder of the Group
Datang Microelectronics Technology Co., Ltd	A member of Datang Group
Leadcore Technology Co., Ltd	A member of Datang Group
Datang Telecom Group Finance Co., Ltd	A member of Datang Group
China Investment Corporation (CIC)	A substantial shareholder of the Group
Country Hill Limited (Country Hill)	A wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC
Toppan	An associate of the Group
Brite	An associate of the Group
China Fortune-Tech	An associate of the Group
Zhongxin Xiecheng	An associate of the Group

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

Trading transactions

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

		Sale of goods Year ended			Sale of services Year ended	
	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Datang Microelectronics Technology Co., Ltd	**12,340**	14,821	9,654			
Leadcore Technology Co., Ltd	**2,173**	1,905	44			
Toppan	**4,486**	4,317	4,192			
Brite	**31,444**	NA	NA		NA	NA
China Fortune-Tech		NA	NA	**41**	NA	NA

		Purchase of goods Year ended			Purchase of services Year ended	
	12/31/14	12/31/13	12/31/12	12/31/14	12/31/13	12/31/12

	USD 000	USD 000	USD 000	USD 000	USD 000	USD 000
China Academy of Telecommunication Technology				**1,163**		
Toppan	**1,345**	7	169	**22,726**	22,854	12,755
Zhongxin Xiecheng				**2,673**	1,930	1,094
Brite		NA	NA	**3,201**	NA	NA
China Fortune-Tech		NA	NA	**116**	NA	NA

37. Related party transactions *(continued)*

Trading transactions *(continued)*

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

	Amounts due from related parties			Amounts due to related parties		
	12/31/14 USD 000	**12/31/13 USD 000**	**12/31/12 USD 000**	**12/31/14 USD 000**	**12/31/13 USD 000**	**12/31/12 USD 000**
China Academy of Telecommunication Technology	**360**					
Datang Microelectronics Technology Co., Ltd	**5,642**	6,124	4,138			
Datang Telecom Group Finance Co., Ltd					65,884	80,262
Leadcore Technology Co., Ltd.	**619**	405	11	**7**	140	19
Toppan	**387**	370	372	**2,739**	2,397	1,487
Zhongxin Xiecheng		6				
Brite	**3,772**	683	NA	**700**	645	NA
China Fortune-Tech	**41**					

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

On May 29, 2014, the Company issued the US$86.8 million zero coupon convertible bonds to Datang and Country Hill. Please refer to Note 30 for details.

On June 4, 2014, the Company, the Placing Agents and Datang entered into a placing and subscription agreement for the placing and subscription of 2.59 billion new ordinary shares. Please refer to Note 26 for details.

On November 21, 2014, Datang subscribed 669,468,952 ordinary shares of the Company. Please refer to Note 26 for details.

37. Related party transactions *(continued)*

Trading transactions *(continued)*

On November 27, 2014, Country Hill subscribed 268,642,465 ordinary shares of the Company. Please refer to Note 26 for details.

On December 4, 2014, the Company issued the US$22.2 million zero coupon convertible bonds to Datang. Please refer to Note 30 for details.

On March 2, 2015, both Datang and Country Hill delivered an irrevocable notice to the Company that they would be exercising their pre-emptive right in respect of the issue of new ordinary shares. Please refer to Note 39 for details.

Compensation of key management personnel

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

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

	year ended 12/31/14 USD 000	**year ended 12/31/13 USD 000**	**year ended 12/31/12 USD 000**
Short-term benefit	**4,593**	4,318	3,191
Share-based payments	**2,535**	3,028	1,343
	7,128	7,346	4,534

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

Sale of self-developed living quarter unit

Amount of sales of self-developed living quarter unit to one of directors of the Company and one of the key management, which were approved by the Board, were US$1.1 million and US$0.8 million in 2013.

Amount of sales of self-developed living quarter unit to two of the key management, which were approved by the Board, was US$0.9 million in 2012.

38. Commitments for expenditure

Purchase commitments

As of December 31, 2014, 2013 and 2012, the Group had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Group s facility by December 31, 2015.

	12/31/14 **USD 000**	**12/31/13** **USD 000**	**12/31/12** **USD 000**
Commitments for the facility construction	**211,696**	114,878	25,551
Commitments for the acquisition of property, plant and equipment	**292,867**	178,382	481,639
Commitments for the acquisition of intangible assets	**14,109**	10,147	
	518,672	303,407	507,190

39. Subsequent event

On February 12, 2015 (after trading hours), the Company entered into a share purchase agreement with China Integrated Circuit Industry Investment Fund Co., Ltd. (the Investor). Pursuant to the share purchase agreement, the Company has conditionally agreed to allot and issue to the Investor, and the Investor has conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 new ordinary shares (the New Share(s)) at the subscription price of HK$0.6593 per New Share. The aggregate consideration for the New Shares is HK$3,098.71 million.

The New Shares represent approximately 13.10% of the existing issued share capital of the Company as at the date (February 12, 2015) of the announcement and approximately 11.58% of the issued share capital of the Company as enlarged by the issue of the New Shares.

In connection with the issue of the New Shares and pursuant to the 2008 Datang Share Purchase Agreement, Datang delivered an irrevocable notice to the Company on March 2, 2015 that it would be exercising its pre-emptive right in respect of the issue of the New Shares only for a total consideration of an amount equivalent to approximately RMB500 million.

In connection with the issue of the New Shares and pursuant to the 2011 Country Hill Share Subscription Agreement, Country Hill delivered an irrevocable notice to the Company on March 2, 2015 that it would be exercising its pre-emptive right in respect of the issue of the New Shares only for a total consideration of an amount equivalent to approximately RMB170 million.

40. Approval of financial statements

The financial statements were approved and authorized for issue by the board of directors of the Company on March 30, 2015.

ADDITIONAL INFORMATION

FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENT OF Financial Position

	12/31/14 USD 000	12/31/13 USD 000	12/31/12 USD 000
Assets			
Non-current assets			
Property, plant and equipment	**10,244**	7,301	5,728
Intangible assets	**133,117**	154,682	171,629
Investment in subsidiaries	**2,888,658**	2,689,158	2,565,148
Investments in associates	**14,205**	12,301	7,665
Other assets	**166,500**	1,000	3,479
Total non-current assets	**3,212,724**	2,864,442	2,753,649
Current assets			
Inventories			168
Prepaid operating expenses	**641**	626	1,173
Trade and other receivables	**312,760**	201,352	211,942
Other financial assets	**12,000**		14,878
Restricted cash		29,130	47,506
Cash and cash equivalent	**55,600**	162,360	77,869
Total current assets	**381,001**	393,468	353,536
Total assets	**3,593,725**	3,257,910	3,107,185
Equity and liabilities			
Capital and reserves			
Ordinary shares $0.0004 par value, 50,000,000,000 shares authorized, 35,856,096,167, 32,112,307,101 and 32,000,139,623 shares issued and outstanding at December 31, 2014, 2013 and 2012, respectively	**14,342**	12,845	12,800
Share premium	**4,377,013**	4,090,229	4,083,588
Reserves	**93,012**	69,295	41,140
Accumulated deficit	**(1,850,292)**	(1,763,481)	(1,701,430)
Total equity	**2,634,075**	2,408,888	2,436,098
Non-current liabilities			
Convertible bonds	**379,394**	180,563	
Bonds payable	**491,579**		
Other liabilities			5,000
Total non-current liabilities	**870,973**	180,563	5,000
Current liabilities			
Trade and other payables	**18,391**	527,035	450,784
Borrowings	**61,221**	133,803	180,034
Accrued liabilities	**9,065**	7,615	5,870
Promissory notes			29,374
Other financial liabilities			25
Current tax liabilities		6	
Total current liabilities	**88,677**	668,459	666,087
Total liabilities	**959,650**	849,022	671,087
Total equity and liabilities	**3,593,725**	3,257,910	3,107,185

ADDITIONAL INFORMATION

FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENT OF CHANGES IN EQUITY

Equity Movement (In USD 000)

	Ordinary shares USD 000	Convertible Share capital USD 000	Share premium USD 000	Equity-settle employee benefits reserve USD 000	Foreign currency translation reserve USD 000	Convertible bonds equity reserve USD 000	Accumulated deficit USD 000	Attributable to owners of the Company USD 000	Total Equity USD 000
Balance at January 1, 2012	10,995	178	4,082,135	37,469	(1,092)		(1,659,964)	2,469,721	2,469,721
Loss for the year							(41,466)	(41,466)	(41,466)
Total comprehensive loss for the year							(41,466)	(41,466)	(41,466)
Exercise of stock options	23		3,057	(2,411)				669	699
Exercise of convertible preference shares and warrants	1,782	(178)	(1,604)						
Share-based compensation				7,174				7,174	7,174
Subtotal	1,805	(178)	1,453	4,763				7,843	7,843
Balance at December 31, 2012	12,800		4,083,588	42,232	(1,092)		(1,701,430)	2,436,098	2,436,098
Loss for the year							(62,051)	(62,051)	(62,051)
Total comprehensive loss for the year							(62,051)	(62,051)	(62,051)
Exercise of stock options	45		6,641	(3,457)				3,229	3,229
Share-based compensation				16,402				16,402	16,402
Recognition of equity component of convertible bonds						15,210		15,210	15,210
Subtotal	45		6,641	12,945		15,210		34,841	34,841
Balance at December 31, 2013	12,845		4,090,229	55,177	(1,092)	15,210	(1,763,481)	2,408,888	2,408,888
Loss for the year							(86,811)	(86,811)	(86,811)
Total comprehensive loss for the year							(86,811)	(86,811)	(86,811)
Issuance of ordinary shares	1,411		268,362					269,773	269,773
Exercise of stock options	86		18,422	(9,025)				9,483	9,483
Share-based compensation				18,388				18,388	18,388
Recognition of equity component of convertible bonds						14,354		14,354	14,354
Subtotal	1,497		286,784	9,363		14,354		311,998	311,998
Balance at December 31, 2014	14,342		4,377,013	64,540	(1,092)	29,564	(1,850,292)	2,634,075	2,634,075

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.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2014 will be published on the website of the Hong Kong Stock Exchange (http://www.hkex.com.hk) as well as the website of the Company (www.smics.com) and will be dispatched to the shareholders of the Company in due course.

By order of the Board
Semiconductor Manufacturing International Corporation
Dr. Tzu-Yin Chiu
Chief Executive Officer & Executive Director

Shanghai, PRC, March 30, 2015

As at the date of this announcement, the Directors are:

Executive Directors

Zhou Zixue *(Chairman)*

Tzu-Yin Chiu *(Chief Executive Officer)*

Gao Yonggang *(Chief Financial Officer)*

Non-executive Directors

Chen Shanzhi *(Li Yonghua as his Alternate)*

Zhou Jie

Independent Non-executive Directors

William Tudor Brown Sean Maloney

Frank Meng Lip-Bu Tan

Carmen I-Hua Chang

* *For identification purpose only*

SIGNATURES

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

	Semiconductor Manufacturing International Corporation		
Date: April 13, 2015	By:	/s/ Dr. Tzu-Yin Chiu	
		Name:	Dr. Tzu-Yin Chiu
		Title:	Chief Executive Officer, Executive Director