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Semiconductor Manufacturing International Corporation

中 芯 國 際 集 成 電 路 製 造 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 981)

ANNOUNCEMENT OF 2019 ANNUAL RESULTS

FINANCIAL HIGHLIGHTS

- Revenue was US\$3,115.7 million in 2019, compared to US\$3,360.0 million in 2018. Excluding the contribution from the Avezzano 200mm fab in 2019 and 2018 and the recognition of technology licensing revenue in 2018, the revenue increased by 1.4% to US\$3,014.0 million in 2019 from US\$2,973.1 million in 2018.
- Gross profit was US\$642.5 million in 2019, compared to US\$746.7 million in 2018. Gross margin was 20.6% in 2019, compared to 22.2% in 2018. Excluding the contribution from the Avezzano 200mm fab in 2019 and 2018 and the recognition of technology licensing revenue in 2018, gross margin increased to 21.5% in 2019 from 19.1% in 2018.
- Net cash generated from operating activities was a record of US\$1,019.1 million in 2019, compared to US\$799.4 million in 2018, representing an increase of 27.5%.
- Revenue from China-region customers grew to 59.5% of total revenue in 2019, compared to 57.0% of total revenue excluding technology licensing in 2018.
- The net debt to equity ratio remained low at -6.0% as of December 31, 2019.

The board of directors (the "Director(s)") (the "Board") of Semiconductor Manufacturing International Corporation ("SMIC" or the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended December 31, 2019 as follows:

CAUTIONARY STATEMENT FOR PURPOSES OF THE FORWARD-LOOKING STATEMENT

This announcement may contain, in addition to historical information, forward-looking statements. These forward-looking statements are based on SMIC's current assumptions, expectations, beliefs, plans, objectives, and projections about future events or performance. SMIC uses words like "believe", "anticipate", "intend", "estimate", "expect", "project", "target", "going forward", "continue", "ought to", "may", "seek", "should", "plan", "could", "vision", "goals", "aim", "aspire", "objective", "schedules", "outlook" and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessary estimates reflecting judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicalities and market conditions in the semiconductor industry, intense competition in the semiconductor industry, SMIC's reliance on a small number of customers, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity, financial stability in end markets, orders or judgments from pending litigation, intensive intellectual property litigation in the semiconductor industry, general economic conditions and fluctuations in currency exchange rates.

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

ABOUT NON-INTERNATIONAL FINANCIAL REPORTING STANDARDS ("NON-IFRS") FINANCIAL MEASURES

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

For more information and reconciliations of the non-IFRS financial measure to its most directly comparable IFRS financial measure, please see the disclosure on page 13.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

In 2019, the global economic environment faced many uncertainties, bringing challenges to the industry and the Company's operations. However, the Company has ridden the wave of industry changes and, through improvement and innovation, has sharpened its competitive edge, moved out of the transition period and returned to a stage of growth.

In 2019, the Company recorded total revenue of approximately US\$3.116 billion, gross profit margin of 20.6%, net profit attributable to SMIC of US\$235 million and a historical high EBITDA (earnings before interest, tax, depreciation and amortization) of US\$1.37 billion. Contribution from Mainland China and Hong Kong, United States of America and Eurasia represented 59.5%, 26.4% and 14.1% of revenue respectively.

With regard to mature processes, customer demand remains strong. We continued to expand our product portfolio and mature specialty process technology applications, focusing our efforts on image sensors, power management, specialty memory, fingerprint sensors, Bluetooth and other product technology platforms to maintain our leading position in these sub-sectors. Mass production for our first generation of 14nm FinFET technology has commenced, contributing approximately 1% of wafer revenue for the fourth quarter of 2019, and is expected to steadily ramp up in 2020. Customer engagement for the second generation of FinFET continues. We have solidified our foundation and diversified our customer base in order to capture the business opportunities brought by such applications as 5G, Internet of Things and automotive electronics.

With a view to meeting customer and market demands, we shall commence a new round of capital expenditures and gradually expand production capacity in 2020. By the end of 2019, our cash-on-hand and financial assets (excluding restricted cash) was approximately US\$4.6 billion, and net debt to equity ratio was approximately -6%. In February 2020, the Company successfully completed the issue of 5-year corporate bonds and raised approximately US\$600 million in the global capital markets, reflecting the high recognition of global capital market to the Company's credit structure, financial strategy and industry development.

2019 was the seventh year in which we have sponsored the "SMIC Liver Transplant Program for Children." The Company announced in June 2019 that it had donated RMB2.32 million to China Soong Ching Ling Foundation for the program. In addition, our 62 industry business partners also donated RMB1.38 million to this program. The 7-year cumulative donation to the program is RMB24.80 million; through which, 420 afflicted and impoverished children from across the country have successfully received treatment and are able to enjoy their new lives. In early 2020, the novel coronavirus pandemic spread, the management of the Company was fully aware and carefully mapped out a plan to seriously prevent the spread of the disease on one hand and promote the production on the other, which enabled the Company to achieve stable operation during the pandemic. In February 2020, the employees and Directors of the Company together donated a total of RMB10 million for fighting against the new coronavirus pandemic, which reflected the Company's mission of "caring for people, environment and society".

In the coming years, the global macro environment is expected to be complex and the prospect of the semiconductor industry will still be full of challenges. However, the emergence of 5G and artificial intelligence will substantially stimulate market demand and new business opportunities for semiconductor industry growth. The accelerated development of these emerging applications will further boost semiconductor market demand. SMIC is currently in an unprecedented period of abundant opportunities. Over the past two years, through strenuous corporate reform, we have built up stronger and more competent R&D, operations, supporting teams, and management, while successfully developing and preparing a variety of technology platforms. We also have strengthened mutual trust and cooperation with domestic and oversea customers and suppliers. The foundation laid by these vigorous efforts has further strengthened our confidence in the future.

We would like to again express our sincere gratitude to our shareholders, customers, suppliers, and employees for their continued care and support of SMIC.

Zhou Zixue

Chairman of the Board and Executive Director

Shanghai, China

March 31, 2020

Zhao Haijun, Liang Mong Song

Co-Chief Executive Officers and Executive Directors

BUSINESS OVERVIEW

In 2019, the Group continued to successfully execute its long-term strategy with sustained profitability and at the same time advancing its technology capabilities on leading edge and value-added differentiated processes. The Group's technology portfolio and proximity to the China market, coupled with the management team's proven track record in operations, technology development and customer service, has positioned the Group well for long term growth. 2019 was a milestone year for SMIC in many aspects. It was the third year since the Group appointed Dr. Zhao Haijun and Dr. Liang Mong Song as Co-Chief Executive Officers, during which the Group generated annual revenue of US\$3.12 billion. In 2019, the Group also continued to foster partnerships with leading industry players on 14nm Fin Field Effect Transistor ("FinFET") process technology. In 2019, there was significant progress on 14nm FinFET process with customers. The first generation of FinFET has already successfully begun mass production and began to contribute revenue in the fourth quarter; meanwhile, the development of second generation of FinFET is steady, and customer engagement is smooth. Our FinFET technology targets to address for mobile, wireless, computing, AI, IoT and automotive applications to expand our product and service offerings.

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

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

FINANCIAL OVERVIEW

Despite a challenging environment in 2019, the Group's sales totaled US\$3,115.7 million, compared to US\$3,360.0 million in 2018. Excluding the contribution from the Avezzano 200mm fab and the recognition of technology licensing revenue in 2018, the revenue in 2019 totaled US\$3,014.0 million increased from US\$2,973.1 million in 2018. The Group recorded a profit of US\$158.9 million in 2019, an increase from US\$77.2 million in 2018. During the year, we generated US\$1,019.1 million in cash from operating activities, an increase of 27.5% from US\$799.4 million in 2018. Capital expenditures in 2019 totaled US\$2,032.6 million, compared to US\$1,813.4 million in 2018. Looking ahead, our objective is to continue sustained profitability over the long term. To achieve this, we intend to focus on precision execution, efficiency improvement, customer service excellence while fostering innovation.

CUSTOMERS AND MARKETS

The Group continues to serve a broad global customer base comprising leading integrated device manufacturers, fabless semiconductor companies and system companies. Geographically, customers from the North America contributed 26.4% of the Group's overall revenue in 2019, compared to 31.6% in 2018. Leveraging on the Group's strategic position in China, our China revenue contributed 59.5% of the Group's overall revenue in 2019, compared to 59.1% in 2018. Eurasia contributed 14.1% of the overall revenue in 2019, compared to 9.3% in 2018.

In terms of applications, the Group has increased its revenue in communication applications from US\$1,384.0 million in 2018 to US\$1,423.8 million in 2019, representing 45.7% to the Group's overall revenue in 2019 as compared to 41.2% in 2018. Consumer applications contributed 34.3% to the Group's overall revenue in 2019 as compared to 34.4% in 2018. While the Group has very limited exposure to the PC market, the computer applications contributed 5.2% to the Group's overall revenue in 2019 as compared to 6.6% in 2018. The Group also has revenue in automotive and industrial applications for US\$184.4 million in 2019 as compared to US\$263.0 million in 2018, representing 5.9% to the Group's overall revenue in 2019 as compared to 7.8% in 2018. Furthermore, revenue in other related applications contributed US\$276.3 million in 2019 as compared to US\$335.5 million in 2018, representing 8.9% to the Group's overall revenue in 2019 as compared to 10.0% in 2018.

In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below increased from 49.9% in 2018 to 50.7% in 2019, in particular, revenue contribution percentage from 65/55nm technology increased from 22.3% in 2018 to 27.3% in 2019. In addition, the Group continued to have steady revenue on 28nm, 40nm, 90nm, 0.13 μ m, 0.15/0.18 μ m, and 0.25 μ m/0.35 μ m related business in 2019.

We believe the Group is also well positioned with its continuous business growth in China. According to IHS Markit, China continues to be the number one region of the world in terms of semiconductor IC consumptions, mainly due to its high volume electronics manufacturing and mass consumer market. IHS estimates that US\$208.5 billion worth of semiconductors were shipped to China in 2019, representing 49.1% of worldwide semiconductor value. In addition, we believe the overall local China's IC design market is still growing healthily and strongly. Local analyst, IHS Markit, estimated that the China's IC design market reached approximately US\$40 billion in 2019, a 21.0% year to year increase from 2018 and projected that it might experience a compound annual growth rate of 21.4% till 2023, which would bring the worth of the China IC design market to US\$86 billion by 2023. Global pure-play foundry market revenue year-on-year declined 3.2% in 2019 according to IHS Markit, relatively SMIC total revenue year-on-year increased by 1.4% in 2019 (Excluding the contribution from the Avezano 200mm fab revenue US\$101.7 million in 2018 and US\$223.1 million in 2019, and excluding the recognized technology licensing revenue US\$163.8 million authorized to an associate of Group in 2018). While the global pure-play foundry market is expected to grow by a compound annual growth rate of 8.5% during 2019 to 2023, our business revenue growth target is in line with the foundry industry growth rate.

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

LONG-TERM BUSINESS MODEL AND STRATEGY

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

RESEARCH AND DEVELOPMENT

In 2019, SMIC's research and development was on track and progressed smoothly. The Company's 14nm technology platform has successfully completed R&D, engaged customers, and moved into production.

SMIC has built a robust foundation for FinFET and R&D execution, and as a result, the more advanced generations FinFET technology development are progressing much faster than previous FinFET nodes. SMIC established multiple specialty 14/12nm platforms, N+1 has made steady R&D progress and now in customer engagement and product qualification stage.

SMIC continues to expand its advanced node application portfolio to include high-end consumer, high-performance computing, media applications, application processors, artificial intelligence, and automotive ICs. We are now also developing RF-related applications to address a variety of consumer-related applications for mobile, televisions, and wearables.

SMIC carries on research and development activities for beyond N+1, as we strategically expand the addressable market to serve the growing sophistication of our customers. We are also tracking well in developing comprehensive solutions for our customers with robust IP libraries and advanced mask making for FinFET technology.

OUTLOOK FOR 2020

Looking forward, 2020 is the beginning of a new phase for SMIC as our labor on technology development is now translating into production and revenue. We are optimistic about business growth from our new technology, which will enter production and contribute new incremental revenue.

For many individuals, the start of 2020 is shadowed by the unfolding health situation of the novel coronavirus epidemic. At present, SMIC's fab operations have not been affected, with production lines running normally. Meanwhile, the effect of the virus on end-demand and supply chain is still unfolding, and we are still monitoring the situation closely. The current health crisis may have an impact on overall markets; however, we believe that going forward China will continue to expand its role in the semiconductor industry. We remain vigilant in tracking the situation and make preparations to adjust customer mix to maintain healthy fab loadings.

Nonetheless, foundry industry growth in 2020 is being driven by trends in Internet of Things, 5G, smart consumer, AI, and automotive. Going into 2020, we are excited to see positive momentum and strong orders. Given our outlook in the first quarter, we targeted annual growth in the teens-percent for 2020. We also targeted to maintain a gross margin of 20% and target sustained profitability. With the global economic environment facing uncertainties of the epidemic, we are cautiously optimistic about our target while paying close attention to the changes in the global markets.

As we enter an expansion stage to address the market for advanced technology, we must also boost our expenditures. We are increasing investment in capacity to address the new ramp up of FinFET technology. SMIC remains prudent in its expansion, by carefully aligning customer demands, with company profitability and capability. We plan to move in equipment for FinFET production into the new fab this year in line with customer demand.

SMIC has executed in preparing technology platforms and advanced node development; thereby, leading SMIC to its current stage of new growth and investment. We target healthy expansion that aligns with our goal to be fundamentally solid, while building up mutual trust with our customers.

Our advanced technology is becoming a vital part of SMIC's business strategy. Previously SMIC had relied mainly on mature nodes for incremental revenue growth; however, in this new phase, SMIC is focusing efforts and will begin to see an increasing amount of revenue growth coming from advanced node technology.

SMIC's role in the China ecosystem is becoming increasingly important as we work hard to provide expanded technology, capacity, and solutions to address growing market demands. We are pleased to see growth from both existing and new customers. Meanwhile, we continue our focus to serve an international market, while having the natural advantage of being close to the largest IC market.

SMIC's aim is to be the first-choice in China for a comprehensive range of foundry services. We are gaining confidence in our ability to steadily climb, with focused prudent efforts, to become a respected provider in the advanced node foundry market.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as of and for the years ended December 31, 2015, 2016, 2017, 2018 and 2019 are derived from, and should be read in conjunction with, the audited consolidated financial statements, including the related notes, found elsewhere in this announcement. The summary consolidated financial data presented below have been prepared in accordance with IFRS.

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DATA

	For the year ended December 31,				
	2019	2018	2017	2016	2015
	(in US\$ thousands, except per share, shares, percentages and units)				
Revenue	3,115,672	3,359,984	3,101,175	2,914,180	2,236,415
Cost of sales	(2,473,213)	(2,613,307)	(2,360,431)	(2,064,499)	(1,553,795)
Gross profit	642,459	746,677	740,744	849,681	682,620
Research and development expenses ⁽¹⁾	(687,369)	(663,368)	(509,356)	(370,764)	(273,448)
Sales and marketing expenses	(26,836)	(30,455)	(35,796)	(35,034)	(41,876)
General and administration Expenses	(254,924)	(199,818)	(198,036)	(167,582)	(213,190)
Net impairment losses (recognized) reversal on financial assets	(1,076)	(937)	137	10,211	13
Other operating income, net ⁽¹⁾	376,656	162,541	127,202	52,694	67,885
Profit from operations	48,910	14,640	124,895	339,206	222,004
Interest income	138,988	64,339	27,090	11,243	5,199
Finance costs	(63,460)	(24,278)	(18,021)	(23,037)	(12,218)
Foreign exchange gains (losses)	9,495	(8,499)	(12,694)	(1,640)	(26,349)
Other gains (losses), net	42,981	24,282	16,499	(2,113)	55,611
Share of gain (loss) of investment accounted for using equity method	5,362	21,203	(9,500)	(13,777)	(13,383)
Profit before tax	182,276	91,687	128,269	309,882	230,864
Income tax (expense) benefit	(23,416)	(14,476)	(1,846)	6,552	(8,541)
Profit for the year	158,860	77,211	126,423	316,434	222,323
Other comprehensive income (loss)					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Exchange differences on translating foreign operations	(16,769)	(35,919)	23,213	(19,031)	(8,185)
Change in value of available-for-sale financial assets	—	—	(2,381)	807	452
Cash flow hedges	(26,524)	35,931	35,143	(34,627)	—
Share of other comprehensive income of joint ventures accounted for using equity method	—	—	17,646	—	—
Others	—	—	(131)	1	130
<i>Items that will not be reclassified to profit or loss</i>					
Actuarial gains or losses on defined benefit plans	(1,532)	129	(436)	1,520	—
Total comprehensive income for the year	114,035	77,352	199,477	265,104	214,720

	For the year ended December 31,				
	2019	2018	2017	2016	2015
	(in US\$ thousands, except per share, shares, percentages and units)				
Profit (loss) for the year attributable to:					
Owners of the Company	234,681	134,055	179,679	376,630	253,411
Non-controlling interests	(75,821)	(56,844)	(53,256)	(60,196)	(31,088)
	158,860	77,211	126,423	316,434	222,323
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	188,831	133,977	251,135	326,191	245,803
Non-controlling interests	(74,796)	(56,625)	(51,658)	(61,087)	(31,083)
	114,035	77,352	199,477	265,104	214,720
Earnings per share⁽²⁾					
Basic	\$0.04	\$0.03	\$0.04	\$0.09	\$0.07
Diluted	\$0.04	\$0.03	\$0.04	\$0.08	\$0.06
Shares issued and outstanding ⁽²⁾	5,056,868,912	5,039,819,199	4,916,106,889	4,252,922,259	4,207,374,896
Financial Ratio					
Gross margin	20.6%	22.2%	23.9%	29.2%	30.5%
Net margin	5.1%	2.3%	4.1%	10.9%	9.9%
Operating Data					
Wafers shipped (in unit)	5,028,796	4,874,663	4,310,779	3,957,685	3,015,966

MAIN FINANCIAL POSITION DATA

	As of December 31,				
	2019	2018	2017	2016	2015
	(in US\$ thousands)				
Total assets	16,437,820	14,424,320	11,918,451	10,115,278	7,115,347
Total non-current assets	9,563,979	8,274,729	7,749,467	6,431,525	4,525,297
Property, plant and equipment	7,757,247	6,777,970	6,523,403	5,687,357	3,903,818
Investments in associates	1,139,317	1,135,442	758,241	240,136	181,331
Total current assets	6,873,841	6,149,591	4,168,984	3,683,753	2,590,050
Inventories	628,885	593,009	622,679	464,216	387,326
Trade and other receivables	836,143	837,828	616,308	645,822	499,846
Financial assets at amortized cost ⁽³⁾	2,276,370	1,996,808	—	—	—
Other financial assets ⁽³⁾	—	—	683,812	31,543	282,880
Restricted cash — current	804,547	592,290	336,043	337,699	302,416
Cash and cash equivalent	2,238,840	1,786,420	1,838,300	2,126,011	1,005,201
Total liabilities	6,239,958	5,500,740	5,197,116	4,712,051	2,925,092
Total non-current liabilities	3,034,759	2,641,512	3,290,337	2,731,151	1,157,901
Total current liabilities	3,205,199	2,859,228	1,906,779	1,980,900	1,767,191
Total equity	10,197,862	8,923,580	6,721,335	5,403,227	4,190,255
Non-controlling interests	3,964,617	2,905,766	1,488,302	1,252,553	460,399

⁽¹⁾ In 2019, the Group has changed its accounting policy regarding the presentation of certain government funding and the comparative figures have also been reclassified to conform to the current period presentation. Please see Note 2 to our consolidated financial statements of this announcement for further information.

⁽²⁾ The basic and diluted earnings per share and the number of shares for 2015 and 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US\$0.0004 each consolidated into one ordinary share of US\$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

⁽³⁾ Other financial assets were mainly reclassified to financial assets at amortized cost as of January 1, 2018, compliment with IFRS 9.

MAIN CASH FLOW DATA

	2019	For the year ended December 31,			
		2018	2017	2016	2015
		(in US\$ thousands)			
Net cash generated from operating activities	1,019,057	799,426	1,080,686	977,202	669,197
Profit for the year	158,860	77,211	126,423	316,434	222,323
Depreciation and amortization	1,127,756	1,048,410	971,382	729,866	523,549
Net cash used in investing activities	(1,948,507)	(3,197,261)	(2,662,139)	(2,443,333)	(789,556)
Payments for property, plant and equipment	(1,869,563)	(1,808,253)	(2,287,205)	(2,757,202)	(1,230,812)
Net cash from financing activities	1,376,278	2,376,922	1,271,591	2,614,778	537,078
Net increase (decrease) in cash and cash equivalent	446,828	(20,913)	(309,862)	1,148,647	416,719

YEAR ENDED DECEMBER 31, 2019 COMPARED TO YEAR ENDED DECEMBER 31, 2018

REVENUE

The Group's sales totaled US\$3,115.7 million in 2019, compared to US\$3,360.0 million in 2018. Excluding the contribution from the Avezzano 200mm fab and the recognition of technology licensing revenue in 2018, the revenue in 2019 totaled US\$3,014.0 million increased from US\$2,973.1 million in 2018, primarily due to the net impact of an increase in wafer shipments and decrease in average selling price in 2019.

The number of wafer shipments increased by 3.2% from 4,874,663 8-inch wafer equivalents for 2018 to 5,028,796 8-inch wafer equivalents for 2019. The average selling price, calculated as the revenue (excluding the licensing revenue) divided by total shipments, of the wafers the Group shipped decreased from US\$656 per wafer in 2018 to US\$620 per wafer in 2019.

On July 29, 2019, the Group disposed the Avezzano 200mm fab. The revenue contribution from the Avezzano 200mm fab for the seven-month ended July 29, 2019 and for the year ended December 31, 2018 were US\$101.7 million and US\$223.1 million, respectively.

In 2019, no technology licensing revenue was recognized. In 2018, the technology licensing revenue of US\$163.8 million internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation (an associate of the Group) with no related cost of sales recognized by the Group.

COST OF SALES

Cost of sales decreased by 5.4% from US\$2,613.3 million for the year ended December 31, 2018 to US\$2,473.2 million for the year ended December 31, 2019, primarily due to the decrease in depreciation and product-mix change in 2019. Out of the total cost of sales, US\$747.2 million and US\$831.4 million were attributable to depreciation and amortization for the year ended December 31, 2019 and 2018, respectively.

GROSS PROFIT

The Group's gross profit was US\$642.5 million for the year ended December 31, 2019, compared to US\$746.7 million for the year ended December 31, 2018. Gross margin was 20.6% in 2019, compared to 22.2% in 2018. Excluding the contribution from the Avezzano 200mm fab and the recognition of technology licensing revenue in 2018, gross margin increased to 21.5% in 2019 from 19.1% in 2018, primarily due to the increase in wafer shipments and the product-mix change in 2019.

PROFIT FOR THE YEAR FROM OPERATIONS

Profit from operations increased from US\$14.6 million for the year ended December 31, 2018 to US\$48.9 million for the year ended December 31, 2019 primarily due to the combined effect of the changes of revenue, cost of sales and gross profit mentioned above, and the below following changes:

Research and development expenses increased from US\$663.4 million for the year ended December 31, 2018 to US\$687.4 million for the year ended December 31, 2019. The increase was mainly due to the higher level of R&D activities in 2019.

General and administrative expenses increased from US\$199.8 million for the year ended December 31, 2018 to US\$254.9 million for the year ended December 31, 2019. The increase was mainly due to the start-up cost relating to our majority-owned Shanghai 300mm fab in 2019.

Sales and marketing expenses decreased from US\$30.5 million for the year ended December 31, 2018 to US\$26.8 million for the year ended December 31, 2019.

Other operating incomes increased from US\$162.5 million for the year ended December 31, 2018 to US\$376.7 million for the year ended December 31, 2019. The increase was mainly due to 1) the gain on disposal of subsidiaries amounting to US\$81.4 million in 2019, compared to US\$3.5 million in 2018 and 2) the recognition of the government funding of US\$293.3 million in 2019, compared to US\$157.0 million in 2018.

PROFIT FOR THE YEAR

The Group had a profit of US\$158.9 million for the year ended December 31, 2019, an increase of 105.7% from US\$77.2 million for the year ended December 31, 2018 mainly due to the net impact of 1) the factors described above, 2) more interest net income, 3) increased foreign exchange gains, 4) more gains on investment in financial instruments and 5) less gains on investment in entities accounted for using equity method.

FUNDING SOURCES FOR CAPITAL EXPENDITURE

The Group's planned 2020 capital expenditures for foundry operations are approximately US\$3.1 billion, of which US\$2.0 billion and US\$0.5 billion are expected to be spent on the equipment and facility in the majority-owned Shanghai 300mm fab and the majority-owned Beijing 300mm fab, respectively. The planned 2020 capital expenditures for non-foundry operations are approximately US\$59.9 million, mainly for the construction of employee's living quarters.

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

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

DEBT ARRANGEMENTS

The aggregate amounts of the Group's future cash payment obligations were US\$5,110.9 million, which is set out in the liquidity and interest risk table in Note 38 to our financial statements on Page 103.

As of December 31, 2019, the Group's outstanding long-term loans primarily consisted of secured bank loans of US\$593.4 million and unsecured bank loans of US\$1,973.3 million which are repayable in installments starting in January 2019, with the last payment due in May 2031. A summary of borrowing arrangements is disclosed in Note 31 to our financial statements for reference.

ASSETS PLEDGED AS SECURITY

Property, plant and equipment with carrying amount of approximately US\$130.9 million have been pledged to secure borrowings of the Group under mortgages. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

COMMITMENTS

As of December 31, 2019, the Group had commitments of US\$1,779.6 million, of which US\$126.2 million for facilities construction obligations in connection with the Group's facilities, US\$1,645.9 million to purchase machinery and equipment for its fabs and US\$7.5 million to purchase intellectual property.

GEARING RATIO

As of December 31, 2019, the Group's net debt to equity ratio was approximately -6.0%. Please refer to Note 38 to our financial statements for calculation.

CAPITALIZED INTEREST

Interest, after netting off government funding received, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful life of the assets. Capitalized interests of US\$61.8 million and US\$47.2 million in 2019 and 2018, respectively, were added to the cost of the underlying assets and are depreciated over the respective useful life of the assets. In 2019 and 2018, the Group recorded depreciation expenses relating to the capitalized interest of US\$33.4 million and US\$27.5 million, respectively.

EXCHANGE RATE AND INTEREST RATE RISKS

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

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

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

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

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

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

	Year ended 12/31/19 USD’000	Year ended 12/31/18 USD’000	Year ended 12/31/17 USD’000
Profit for the year	158,860	77,211	126,423
Finance costs	63,460	24,278	18,021
Depreciation and amortization	1,127,756	1,048,410	971,382
Income tax expense	23,416	14,476	1,846
EBITDA	1,373,492	1,164,375	1,117,672

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

DISPOSAL OF SUBSIDIARIES

On March 29, 2019, SMIC Shanghai (Cayman) Corporation (the “Vendor”, a wholly-owned subsidiary of the Company), and SMIC Hong Kong International Limited (the “Target Company”, a wholly-owned subsidiary of the Vendor) entered into the share purchase agreement with Jiangsu CAS-IGBT Technology Co., Ltd. (the “Purchaser”). Pursuant to the share purchase agreement, the Vendor agreed to sell and the Purchaser agreed to purchase the sale shares at the consideration subject to the terms and conditions of the share purchase agreement. The Target Company directly owns 70% issued and outstanding corporate capital of LFoundry S.r.l. (“LFoundry”), that is Avezzano 200mm fab.

On June 27, 2019, the Vendor, the Target Company, the Purchaser and Wuxi Xichanweixin Semiconductor Co., Ltd (the “New Purchaser”) entered into the assignment agreement, pursuant to which, the Purchaser agreed to assign and the New Purchaser agreed to take over and assume all the rights, benefits, obligations and liabilities of the Purchaser under the previous share purchase agreement, and the Vendor and the Target Company agreed to the assignment. After that, the Vendor and the Target Company entered into a new share purchase agreement with the New Purchaser.

The transaction was completed on July 29, 2019. For details, please refer to the announcements of the Company dated March 31, 2019, June 28, 2019 and July 22, 2019, and Note 26 to our consolidated financial statement of this announcement.

CAPITAL CONTRIBUTION

In 2019, the Company indirectly made the capital contributions of US\$648.9 million, US\$459.0 million, RMB99.0 million (approximately US\$14.2 million) and RMB49.5 million (approximately US\$7.1 million) into the registered capital of its subsidiaries, that is Semiconductor Manufacturing South China Corporation, Semiconductor Manufacturing North China (Beijing) Corporation, Semiconductor Technology Innovation Center (Beijing) Co., Ltd. and China IC Capital Co., Ltd, respectively.

ACQUISITION OF NON-CONTROLLING INTERESTS

In November 2019, the Company paid US\$12.2 million to acquire the non-controlling interests of SMIC New Technology Research & Development (Shanghai) Corporation, followed by wholly-owning the subsidiary.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in the below section Issue of Equity Securities and Note 27 to the consolidated financial statement.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution to shareholders as of December 31, 2019 amounted to US\$5,649 million.

ISSUE OF EQUITY SECURITIES

ISSUE OF US\$200 MILLION ZERO COUPON CONVERTIBLE BONDS DUE 2022

On November 18, 2019, the Company and the UBS AG Hong Kong Branch (the "Manager") entered into a subscription agreement (the "Bonds Subscription Agreement"), pursuant to which the Manager has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for the zero coupon convertible bonds to be issued by the Company in an aggregate principal amount of US\$200 million (the "2019 Issue") and to form a single series with the existing US\$450 million zero coupon convertible bonds due 2022 issued in 2016. The issue price of the 2019 Issue was 116% of the principal amount. The net price per conversion share is HK\$10.61. The market price of the Shares on the date of the Bonds Subscription Agreement was HK\$10.60 per Share. On December 9, 2019, under the Bonds Subscription Agreement, all of the conditions for the 2019 Issue have been fulfilled and completion of the 2019 Issue in the principal amount of US\$200.0 million took place. The Manager informed the Company that the convertible bonds issued in 2019 had been offered and sold to six or more independent placees (who are independent individual, corporate and/or institutional investors). Based on the effective conversion price of HK\$10.73 per Share as at the date of the Bonds Subscription Agreement and assuming full conversion of the bonds at such effective conversion price, the bonds will be convertible into approximately 167,950,270 conversion shares. The bonds are listed on the Singapore Exchange on December 10, 2019. The net proceeds (net of fees, commissions and expenses) from the issue of the bonds are approximately US\$229.5 million. For details, please refer to Note 32 to the Consolidated Financial Statements.

The total funds raised from the issue and details of the use of proceeds are as follows:

Total proceeds raised from the issue	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2019	Utilized proceeds as of December 31, 2019	Unutilized proceeds as of December 31, 2019
US\$229.5 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US\$0	US\$0	US\$229.5 million

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 listed securities in 2019. For details, please refer to Note 27 to the Consolidated Financial Statements.

CORPORATE GOVERNANCE PRACTICES

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

During the year ended December 31, 2019, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

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

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2019.

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, 2019. 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, 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2019, 2018 and 2017

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

	Notes	Year ended 12/31/19	Year ended 12/31/18	Year ended 12/31/17
Revenue	5	3,115,672	3,359,984	3,101,175
Cost of sales		(2,473,213)	(2,613,307)	(2,360,431)
Gross profit		642,459	746,677	740,744
Research and development expenses ⁽¹⁾		(687,369)	(663,368)	(509,356)
Sales and marketing expenses		(26,836)	(30,455)	(35,796)
General and administration expenses		(254,924)	(199,818)	(198,036)
Net impairment losses (recognized) reversal on financial assets	38	(1,076)	(937)	137
Other operating income, net ⁽¹⁾	7	376,656	162,541	127,202
Profit from operations		48,910	14,640	124,895
Interest income		138,988	64,339	27,090
Finance costs	8	(63,460)	(24,278)	(18,021)
Foreign exchange gain (loss)		9,495	(8,499)	(12,694)
Other gains, net	9	42,981	24,282	16,499
Share of gain (loss) of investment accounted for using equity method		5,362	21,203	(9,500)
Profit before tax		182,276	91,687	128,269
Income tax expense	10	(23,416)	(14,476)	(1,846)
Profit for the year	11	158,860	77,211	126,423
Other comprehensive income (loss)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translating foreign operations		(16,769)	(35,919)	23,213
Change in value of available-for-sale financial assets		—	—	(2,381)
Cash flow hedges	28	(26,524)	35,931	35,143
Share of other comprehensive income of investment accounted for using the equity method	28	—	—	17,646
Others		—	—	(131)
<i>Items that will not be reclassified to profit or loss</i>				
Actuarial gains or losses on defined benefit plans		(1,532)	129	(436)
Total comprehensive income for the year		114,035	77,352	199,477
Profit (loss) for the year attributable to:				
Owners of the Company ⁽²⁾		234,681	134,055	179,679
Non-controlling interests		(75,821)	(56,844)	(53,256)
		158,860	77,211	126,423
Total comprehensive income (loss) for the year attributable to:				
Owners of the Company ⁽²⁾		188,831	133,977	251,135
Non-controlling interests		(74,796)	(56,625)	(51,658)
		114,035	77,352	199,477
Earnings per share				
Basic	14	\$0.04	\$0.03	\$0.04
Diluted	14	\$0.04	\$0.03	\$0.04

⁽¹⁾ In 2019, the Group has changed its accounting policy regarding the presentation of certain government funding and the comparative figures have also been reclassified to conform to the current period presentation. Please see Note 2 for further information.

⁽²⁾ Profit for the year attributable to owners of the Company contains the distribution paid to perpetual subordinated convertible securities holders. Please see Note 14 for further information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2019, 2018 and 2017

(In USD'000)

	Notes	12/31/19	12/31/18	12/31/17
Assets				
<i>Non-current assets</i>				
Property, plant and equipment	16	7,757,247	6,777,970	6,523,403
Right-of-use assets	17	376,867	105,436	97,477
Intangible assets	18	96,943	122,854	219,944
Investments in associates	20	1,139,317	1,135,442	758,241
Investments in joint ventures	21	27,117	15,687	31,681
Deferred tax assets	10	62,975	45,426	44,875
Financial assets at fair value through profit or loss	22	90,067	55,472	—
Derivative financial instruments	22	1,872	5,266	—
Other financial assets	22	—	—	17,598
Restricted cash	23	—	—	13,438
Other assets		11,574	11,176	42,810
Total non-current assets		9,563,979	8,274,729	7,749,467
<i>Current assets</i>				
Inventories	24	628,885	593,009	622,679
Prepayment and prepaid operating expenses		34,256	28,161	34,371
Trade and other receivables	25	836,143	837,828	616,308
Financial assets at fair value through profit or loss	22	42,985	41,685	—
Financial assets at amortized cost	22	2,276,370	1,996,808	—
Derivative financial instruments	22	—	2,583	—
Other financial assets	22	—	—	683,812
Restricted cash	23	804,547	592,290	336,043
Cash and cash equivalent	39	2,238,840	1,786,420	1,838,300
		6,862,026	5,878,784	4,131,513
Assets classified as held-for-sale	26	11,815	270,807	37,471
Total current assets		6,873,841	6,149,591	4,168,984
Total assets		16,437,820	14,424,320	11,918,451

(In USD'000)

	Notes	12/31/19	12/31/18	12/31/17
Equity and liabilities				
<i>Capital and reserves</i>				
Ordinary shares, \$0.004 par value, 10,000,000,000 shares authorized, 5,056,868,912, 5,039,819,199 and 4,916,106,889 shares issued and outstanding at December 31, 2019, 2018 and 2017, respectively	27	20,227	20,159	19,664
Share premium	27	5,011,915	4,993,163	4,827,619
Reserves	28	86,749	109,346	134,669
Retained earnings	29	550,506	331,298	187,008
Equity attributable to owners of the Company		5,669,397	5,453,966	5,168,960
Perpetual subordinated convertible Securities	30	563,848	563,848	64,073
Non-controlling interests		3,964,617	2,905,766	1,488,302
Total equity		10,197,862	8,923,580	6,721,335
<i>Non-current liabilities</i>				
Borrowings	31	2,003,836	1,760,763	1,743,939
Lease liabilities	17	167,081	—	—
Bonds payable	39	—	—	496,689
Convertible bonds	32	—	418,592	403,329
Medium-term notes	33	214,193	—	228,483
Deferred tax liabilities	10	34,360	1,639	16,412
Deferred government funding	34	535,266	393,902	299,749
Derivative financial instruments	22	58,243	15,540	—
Other financial liabilities	22	—	11,948	1,919
Other liabilities	22	21,780	39,128	99,817
Total non-current liabilities		3,034,759	2,641,512	3,290,337
<i>Current liabilities</i>				
Trade and other payables	35	1,034,079	964,860	1,007,424
Contract liabilities	5	92,333	44,130	43,036
Borrowings	31	562,833	530,005	440,608
Lease liabilities	17	80,651	—	—
Bonds payable	39	—	498,551	—
Convertible bonds	32	630,428	—	—
Medium-term notes	33	—	218,247	—
Short-term notes	33	286,512	—	—
Deferred government funding	34	329,545	244,708	193,158
Accrued liabilities	36	151,178	164,604	180,912
Derivative financial instruments	22	4,782	15,806	—
Other financial liabilities	22	11,747	—	744
Current tax liabilities	10	3,210	2,607	270
Other liabilities	22	17,901	32,263	40,627
		3,205,199	2,715,781	1,906,779
Liabilities directly associated with assets classified as held-for-sale	26	—	143,447	—
Total current liabilities		3,205,199	2,859,228	1,906,779
Total liabilities		6,239,958	5,500,740	5,197,116
Total equity and liabilities		16,437,820	14,424,320	11,918,451

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2019, 2018 and 2017

(In USD'000)

	Ordinary shares	Share premium	Equity- settle employee benefits reserve	Foreign currency translation reserve	Change in value of available- for- sale financial assets	Convertible bonds equity reserve	Defined benefit pension reserve	Cash flow hedges	Share of other comprehensive income of joint ventures accounted for using equity method	Others	Retained earnings (accumulated deficit)	Attributable to owner of the Company	Perpetual subordinated convertible securities	Non- controlling interest	Total equity
	(Note 27)	(Note 27)	(Note 28)	(Note 28)		(Note 28)		(Note 28)			(Note 29)		(Note 30)		
Balance at December 31, 2016	17,012	4,950,948	65,703	(22,087)	1,245	81,678	1,520	(34,627)	—	131	(910,849)	4,150,674	—	1,252,553	5,403,227
Profit for the year	—	—	—	—	—	—	—	—	—	—	179,679	179,679	—	(53,256)	126,423
Other comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—	(436)	35,143	17,646	(131)	—	71,456	—	1,598	73,054
Total comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—	(436)	35,143	17,646	(131)	179,679	251,135	—	(51,658)	199,477
Issuance of ordinary shares	966	325,174	—	—	—	—	—	—	—	—	—	326,140	—	—	326,140
Exercise of stock options	130	35,178	(18,220)	—	—	—	—	—	—	—	—	17,088	—	17	17,105
Share-based compensation	—	—	17,495	—	—	—	—	—	—	—	—	17,495	—	719	18,214
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	294,000	294,000
Conversion options of convertible bonds exercised during the year	1,556	427,168	—	—	—	(29,625)	—	—	—	—	—	399,099	—	—	399,099
Perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	—	—	64,073	—	64,073
Share premium reduction	—	(910,849)	—	—	—	—	—	—	—	—	910,849	—	—	—	—
Non-controlling interest on transfer of business operation	—	—	—	—	—	—	—	—	—	—	7,329	7,329	—	(7,329)	—
Subtotal	2,652	(123,329)	(725)	—	—	(29,625)	—	—	—	—	918,178	767,151	64,073	287,407	1,118,631
Balance at December 31, 2017	19,664	4,827,619	64,978	(497)	(1,111)	52,053	1,084	516	17,646	—	187,008	5,168,960	64,073	1,488,302	6,721,335
Adoption of IFRS 9	—	—	—	—	1,111	—	—	—	(17,646)	—	16,535	—	—	—	—
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497)	—	52,053	1,084	516	—	—	203,543	5,168,960	64,073	1,488,302	6,721,335
Profit for the year	—	—	—	—	—	—	—	—	—	—	134,055	134,055	—	(56,844)	77,211
Other comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—	—	(78)	—	219	141
Total comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—	134,055	133,977	—	(56,625)	77,352
Issuance of ordinary shares	474	160,404	—	—	—	—	—	—	—	—	—	160,878	—	—	160,878
Cancellation of treasury stock	(76)	(19,981)	—	—	—	—	—	—	—	—	—	(20,057)	—	—	(20,057)
Exercise of stock options	97	25,121	(17,211)	—	—	—	—	—	—	—	—	8,007	—	69	8,076
Share-based compensation	—	—	10,912	—	—	—	—	—	—	—	—	10,912	—	749	11,661
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	1,488,900	1,488,900
Perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	—	—	499,775	—	499,775
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(6,300)	(6,300)	—	—	(6,300)
Deconsolidation of subsidiaries due to loss of control	—	—	—	(1,774)	—	—	—	—	—	—	—	(1,774)	—	(15,629)	(17,403)
Share of other capital reserve of associates accounted for using equity method	—	—	—	—	—	—	—	—	—	(637)	—	(637)	—	—	(637)
Subtotal	495	165,544	(6,299)	(1,774)	—	—	—	—	—	(637)	(6,300)	151,029	499,775	1,474,089	2,124,893
Balance at December 31, 2018	20,159	4,993,163	58,679	(38,409)	—	52,053	1,213	36,447	—	(637)	331,298	5,453,966	563,848	2,905,766	8,923,580
Profit for the year	—	—	—	—	—	—	—	—	—	—	234,681	234,681	—	(75,821)	158,860
Other comprehensive income (losses) for the year	—	—	—	(17,794)	—	—	(1,532)	(26,524)	—	—	—	(45,850)	—	1,025	(44,825)
Total comprehensive income (losses) for the year	—	—	—	(17,794)	—	—	(1,532)	(26,524)	—	—	234,681	188,831	—	(74,796)	114,035
Exercise of stock options	68	18,752	(11,884)	—	—	—	—	—	—	—	—	6,936	—	94	7,030
Share-based compensation	—	—	5,756	—	—	—	—	—	—	—	—	5,756	—	1,076	6,832
Issuance of convertible bonds	—	—	—	—	—	34,147	—	—	—	—	—	34,147	—	—	34,147
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	1,146,770	1,146,770
Transaction with non-controlling interests	—	—	—	—	—	—	—	—	—	(5,013)	(3,854)	(8,867)	—	(3,330)	(12,197)
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(11,300)	(11,300)	—	—	(11,300)
Deconsolidation of subsidiaries due to loss of control	—	—	—	(72)	—	—	319	—	—	—	(319)	(72)	—	(10,963)	(11,035)
Subtotal	68	18,752	(6,128)	(72)	—	34,147	319	—	—	(5,013)	(15,473)	26,600	—	1,133,647	1,160,247
Balance at December 31, 2019	20,227	5,011,915	52,551	(56,275)	—	86,200	—	9,923	—	(5,650)	550,506	5,669,397	563,848	3,964,617	10,197,862

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2019, 2018 and 2017

(In USD'000)

	Notes	Year ended 12/31/19	Year ended 12/31/18	Year ended 12/31/17
Operating activities				
Profit for the year		158,860	77,211	126,423
Adjustments for:				
Income tax expense	10	23,416	14,476	1,846
Depreciation and amortization expense	11	1,127,756	1,048,410	971,382
Expense recognized in respect of equity-settled share-based payments	11	6,832	11,661	18,214
Interest income		(138,988)	(64,339)	(27,090)
Finance costs	8	63,460	24,278	18,021
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	7	(4,912)	(30,838)	(17,513)
Gain on disposal and deconsolidation of subsidiaries	7	(81,377)	(3,466)	—
Gain on disposal of associates		—	—	(18,884)
Impairment losses on assets	11	39,312	16,567	46,720
Net gain arising on financial instruments at fair value through profit or loss	9	(34,200)	(9,773)	(6,890)
Net loss on foreign exchange		26,433	8,632	26,101
Share of (gain) loss of investment accounted for using equity method		(5,362)	(21,203)	9,500
		1,181,230	1,071,616	1,147,830
Operating cash flows before movements in working capital:				
(Increase) decrease in trade and other receivables		(35,685)	(106,404)	59,084
Increase in inventories		(71,164)	(31,063)	(205,320)
Increase in restricted cash relating to operating activities		(352,548)	(325,512)	(81,795)
(Increase) decrease in prepayment and prepaid operating expense		(6,121)	2,000	(6,722)
Decrease in other operating assets		13,511	6,660	2,938
Increase in trade and other payables		18,006	56,598	109,285
Increase in contract liabilities		48,203	1,094	89
Increase in deferred government funding		226,201	143,485	110,999
(Decrease) increase in other operating liabilities		(4,042)	17,866	(40,604)
Cash generated from operations		1,017,591	836,340	1,095,784
Interest paid		(110,302)	(47,850)	(34,086)
Interest received		125,963	34,840	19,425
Income taxes paid		(14,195)	(23,904)	(437)
Net cash generated from operating activities		1,019,057	799,426	1,080,686

(In USD'000)

	Year ended 12/31/19	Year ended 12/31/18	Year ended 12/31/17
Investing activities			
Payments to acquire financial assets at fair value through profit or loss	(91,634)	(447,717)	—
Proceeds from sale of financial assets at fair value through profit or loss	70,573	540,166	—
Payments to acquire financial assets at amortized cost	(3,490,637)	(4,407,790)	—
Proceeds from maturity of financial assets at amortized cost	3,064,543	2,954,346	—
Payments to acquire financial assets	—	—	(829,371)
Proceeds on sale of financial assets	—	—	186,509
Payments for property, plant and equipment	(1,869,563)	(1,808,253)	(2,287,205)
Proceeds from disposal of property, plant and equipment and assets classified as held-for-sale	11,698	398,162	688,192
Payments for intangible assets	(11,274)	(9,817)	(43,755)
Payments for land use right	(1,402)	(14,425)	—
Payments for deposit of acquire land use right	(1,287)	(45,503)	—
Proceeds from disposal of subsidiaries	140,298	—	—
Net cash outflow from deconsolidation of subsidiaries	(3,065)	(5,549)	—
Payments for joint ventures, associates and other financial assets	(19,206)	(427,197)	(467,885)
Proceeds from disposal of joint ventures and other financial assets	—	9,251	1,028
Distributions received from joint ventures and associates	914	12,322	255
Proceeds from release of restricted cash relating to investing activities	251,535	54,743	90,093
Net cash used in investing activities	(1,948,507)	(3,197,261)	(2,662,139)
Financing activities			
Proceeds from borrowings	1,320,042	782,402	1,194,659
Repayment of borrowings	(1,020,002)	(536,752)	(537,016)
Principal elements of lease payments	(89,215)	—	—
Proceeds from issuance of new shares	—	160,878	326,351
Repayment of bonds	(500,000)	—	—
Proceeds from issuance of convertible bonds	229,680	—	—
Proceeds from issuance of medium-term notes	224,024	—	—
Repayment of medium-term notes	(217,954)	—	—
Proceeds from issuance of short-term notes	725,885	—	—
Repayment of short-term notes	(426,485)	—	(87,858)
Proceeds from issuance of perpetual subordinated convertible securities	—	499,775	64,350
Distribution paid to perpetual subordinated convertible securities holders	(11,300)	(6,300)	—
Proceeds from exercise of employee stock options	7,030	8,076	17,105
Payments to acquire treasury shares	—	(20,057)	—
Proceeds from non-controlling interests — capital Contribution	1,146,770	1,488,900	294,000
Payments to acquire non-controlling interests	(12,197)	—	—
Net cash from financing activities	1,376,278	2,376,922	1,271,591
Net increase (decrease) in cash and cash equivalent	446,828	(20,913)	(309,862)
Cash and cash equivalent at the beginning of the year	1,800,974	1,838,300	2,126,011
Effects of exchange rate changes on the balance of cash held in foreign currencies	(8,962)	(16,413)	22,151
Cash and cash equivalent at the end of the year	2,238,840	1,800,974 ⁽¹⁾	1,838,300

⁽¹⁾ As of December 31, 2018, cash and cash equivalent included US\$14.6 million that were presented as assets classified as held-for-sale in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

1. GENERAL INFORMATION

Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) was established as an exempt company incorporated under the laws of the Cayman Islands on April 3, 2000. The address of the principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. The registered address is at P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands.

SMIC is an investment holding company. The various subsidiaries of SMIC (SMIC and its subsidiaries are hereinafter collectively referred to as the “Group”) are engaged in the different business activities, such as the computer-aided design, sales and marketing, technical research and development, manufacturing, testing, packaging and trading of integrated circuits and other services, as well as designing and manufacturing semiconductor masks, respectively. The principal subsidiaries and their activities are set out in Note 19.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2019

IFRS 16

The Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening consolidated statement of financial position on January 1, 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.30%.

	USD’000
Operating lease commitments disclosed as at December 31, 2018	352,540
Lease liabilities recognized as at January 1, 2019 discounted using the lessee’s incremental borrowing rate of at the date of initial application, of which are:	279,681
Current lease liabilities	88,793
Non-current lease liabilities	190,888

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets were buildings, machinery and equipment.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2019 *(continued)*

IFRS 16 *(continued)*

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- Right-of-use assets — increase by US\$279.7 million, and
- Lease liabilities — increase by US\$279.7 million.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application.

NEW OR REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

New or revised IFRS	Effective date
Amendments to IFRS 3 — Definition of business	On or after January 1, 2020
Amendments to IAS 1 and IAS 8 — Definition of material	On or after January 1, 2020
Revised conceptual framework for financial reporting	On or after January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 37 — Interest rate benchmark reform	On or after January 1, 2020
IFRS 17 — Insurance contracts	On or after January 1, 2021
Amendments to IAS 1 — Classification of liabilities as current or non-current	On or after January 1, 2022
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its association or joint venture	Not yet determined

CHANGE IN ACCOUNTING POLICY OF GOVERNMENT FUNDING

In 2019, the Group has changed its accounting policy regarding the presentation of government funding in relation to research and development activities in consolidated statement of profit or loss and other comprehensive income. Previously, government funding in relation to Research and development activities is deducted in reporting the related expense. To make the presentation more comparable to other companies in the foundry sector, the Group decided to present such government funding as income in the profit or loss. Comparative figures have been reclassified to conform to the current period presentation.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

CHANGE IN ACCOUNTING POLICY OF GOVERNMENT FUNDING *(continued)*

The Group has changed the accounting policy of government funding retrospectively with restating comparatives for the 2017 and 2018 financial years.

(In USD'000)

Consolidated statement of profit or loss and other comprehensive income (extract)	As originally presented as of 12/31/18	Impact	Restated as of 12/31/18	As originally presented as of 12/31/17	Impact	Restated as of 12/31/17
Research and development expenses	(558,110)	(105,258)	(663,368)	(427,111)	(82,245)	(509,356)
Other operating income, net	57,283	105,258	162,541	44,957	82,245	127,202

3. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

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

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

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

SEPARATE PRINCIPAL STATEMENT

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

INVESTMENTS IN ASSOCIATES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS IN ASSOCIATES *(continued)*

The requirements of IAS 28 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. The difference between the recoverable amount and the carrying amount is recognized as impairment loss in the profit or loss. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held-for-sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

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

INVESTMENTS IN JOINT VENTURES

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS IN JOINT VENTURES *(continued)*

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NON-CURRENT ASSETS HELD-FOR-SALE

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

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

REVENUE RECOGNITION

The new IFRS 15 standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognize revenue when each performance obligation is satisfied

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

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

The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. Contract liabilities has been presented in the consolidated statement of financial position to reflect the terminology of IFRS 15, in relation to advance payment received from customers were previously included in trade and other payables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION *(continued)*

Sale of goods

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

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

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

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

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

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

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer when that right is considered on something other than the passage of time.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION *(continued)*

Sale of goods *(continued)*

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

Transfer of intellectual property

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

GAIN ON SALE OF REAL ESTATE PROPERTY

Gain from sales of real estate property is recognized when all the following conditions are satisfied: 1) sales contract executed, 2) full payment collected, or down payment collected and non-cancellable mortgage contract is executed with borrowing institution, 3) the legal title has passed to the buyers, 4) and the control over the property has been transferred to the buyers.

INTEREST INCOME

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

FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollar ("US dollar"), which is the Company's functional and the Group's presentation currency.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FOREIGN CURRENCIES *(continued)*

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

BORROWING COSTS

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

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

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

GOVERNMENT FUNDING

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

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

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

RETIREMENT BENEFITS

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

SHARE-BASED PAYMENT ARRANGEMENTS

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION

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

Current tax

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

Deferred tax

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

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.

GOODWILL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

GOODWILL *(continued)*

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

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

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

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

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

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

LEASES

The Group leases equipment. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of building, machinery and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss as the lease agreements.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASES *(continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

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.

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROVISIONS

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

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

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

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

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

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

Measurement

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

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

Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains or losses, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income ("FVOCI") are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Debt instruments *(continued)*

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

Equity instruments

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

Impairment

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

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

Derivatives and hedging

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

Accounting policies applied until December 31, 2017

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

Classification

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

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

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

Subsequent measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

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

Subsequent measurement (continued)

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

- for 'financial assets at FVPL' — in profit or loss within other gains/(loss)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortized cost of the security were recognized in profit or loss and other changes in the carrying amount were recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income

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

Impairment

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

Assets carried at amortized cost

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

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

Assets classified as available-for-sale

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 FVPL' or 'other financial liabilities'.

Financial liabilities at FVPL

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

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

Other financial liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL LIABILITIES *(continued)*

Derecognition of financial liabilities

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACCOUNTING

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including a put option, foreign exchange forward contracts and cross currency swap contracts. Further details of derivative financial instruments are disclosed in Note 22 and Note 38.

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

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

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CRITICAL ACCOUNTING JUDGMENTS

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

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

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Inventories

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

Long-lived assets

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

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

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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The Group estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. The Group uses projected volatility rates based upon the Group's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect the Group's calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly. Further details on share-based compensation are disclosed in Note 37.

Taxes

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

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

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

Fair value of financial instruments

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

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of financial instruments

The Group recognizes lifetime expected credit losses (“ECL”) for trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

5. SEGMENT INFORMATION

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

For management purposes, the Group operates in one segment, engaging principally in the computer-aided design, manufacturing and trading of integrated circuits. Management makes high level strategic decisions and reviews the consolidated results of the Group. The measurement of the whole segment profit is based on profit from operation as presented in the statements of profit or loss and other comprehensive income and no other segment analysis is presented.

The Group deriving revenue from the transfer of goods and services only at a point in time in the three geographical areas — North America, Mainland China and Hong Kong, and Eurasia. The Group’s operating revenue from customers, based on the location of their headquarters, is detailed below.

	Revenue from external customers		
	Year ended	Year ended	Year ended
	12/31/19	12/31/18	12/31/17
At a point in time	USD’000	USD’000	USD’000
North America ⁽¹⁾	821,136	1,062,134	1,240,906
Mainland China and Hong Kong	1,850,516	1,985,292	1,465,553
Eurasia ⁽²⁾	444,020	312,558	394,716
	3,115,672	3,359,984	3,101,175

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

⁽²⁾ Not including Mainland China and Hong Kong.

5. SEGMENT INFORMATION *(continued)*

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS *(continued)*

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

	Revenue from external customers		
	Year ended	Year ended	Year ended
	12/31/19	12/31/18	12/31/17
At a point in time	USD'000	USD'000	USD'000
Sales of wafers	2,896,883	3,031,770	3,038,947
Mask making, testing and others ⁽¹⁾	218,789	328,214	62,228
	3,115,672	3,359,984	3,101,175

⁽¹⁾ Including the recognized technology licensing revenue of US\$163.8 million for the year ended December 31, 2018. The technology licensing internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC", an associate of the Group) with no related cost of sales recognized by the Group.

LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognized the liabilities related to contracts with customers as contract liabilities of US\$92.3 million as of December 31, 2019 (December 31, 2018: US\$44.1 million and December 31, 2017: US\$43.0 million). The contract liabilities comprises of the prepayments received from customers, to which wafers have not been transferred. Revenue recognized that was included in the contract liabilities balance at the beginning of the year was US\$44.1 million (2018: US\$43.0 million and 2017: US\$42.9 million).

UNSATISFIED PERFORMANCE OBLIGATIONS

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

SEGMENT ASSETS

The Group's business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expand its capacity at the existing fabs. The following table summarizes property, plant and equipment of the Group by geographical location. As of December 31, 2019, 2018 and 2017, substantially all of the non-current assets other than financial instruments, deferred tax assets and property, plant and equipment listed below of the Group were located in Mainland China.

	Property, plant and equipment		
	12/31/19	12/31/18	12/31/17
	USD'000	USD'000	USD'000
North America	—	15	45
Europe	1,454	1,603	137,778
Asia ⁽¹⁾	42	66	117
Hong Kong	2,228	2,415	2,618
Mainland China	7,753,523	6,773,871	6,382,845
	7,757,247	6,777,970	6,523,403

⁽¹⁾ Not including Mainland China and Hong Kong.

6. SIGNIFICANT CUSTOMERS

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

	Net revenue Year ended December 31,			Gross accounts receivable December 31,		
	2019	2018	2017	2019	2018	2017
Customer A	590,349	582,349	538,102	100,906	75,510	95,575
Customer B	397,618	527,633	636,662	86,627	67,734	133,281
Customer A	19%	17%	17%	21%	18%	23%
Customer B	13%	16%	21%	18%	16%	33%

7. OTHER OPERATING INCOME, NET

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Gain on disposal of property, plant and equipment and assets classified as held-for-sale ⁽¹⁾	4,912	30,838	17,513
Impairment loss recognized on tangible and intangible assets (Note 11)	(2,948)	(9,218)	—
Government funding (Note 34) ⁽²⁾	293,305	137,457	109,689
Gain on disposal and deconsolidation of subsidiaries ⁽³⁾	81,377	3,466	—
Others	10	(2)	—
	376,656	162,541	127,202

⁽¹⁾ The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the years ended December 31, 2019, 2018 and 2017 were primarily from the sales of the staff living quarters to employees, the disposal of equipment and the disposal of equipment related to sale and leaseback transactions, respectively.

⁽²⁾ In 2019, the Group has changed its accounting policy regarding the presentation of certain government funding and the comparative figures have also been reclassified to conform to the current period presentation. Please see Note 2 for further information.

⁽³⁾ On July 29, 2019, the Group recorded a gain of US\$81.4 million from the sales of several subsidiaries (Note 26).

7. OTHER OPERATING INCOME, NET *(continued)*

An analysis of the gain and the cash flows in respect of the deconsolidation is as follows:

	Year ended 12/31/19 USD'000
Gain on disposal and deconsolidation of subsidiaries	
Cash consideration received	163,116
Carrying amount of net assets disposed and deconsolidated	(81,460)
Reclassification of foreign currency translation reserve	72
Tax expense	(351)
	81,377
Net cash flows arising on disposal and deconsolidation of subsidiaries	
Cash consideration received	163,116
Tax expense	(351)
Cash outflow of disposal of subsidiaries	(22,467)
Proceeds from disposal of subsidiaries	140,298
Cash outflow of deconsolidation of subsidiaries	(3,065)
	137,233

8. FINANCE COSTS

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Interest on:			
Bank and other borrowings	63,083	44,668	25,543
Leases (Note 17)	10,442	190	232
Convertible bonds (Note 32)	16,508	15,263	15,818
Corporate bonds	16,918	22,487	22,405
Medium-term notes (Note 33)	10,102	8,335	8,185
Short-term notes (Note 33)	8,193	—	1,164
Less: government funding	—	(19,496)	(24,182)
	125,246	71,447	49,165
Less: amounts capitalized	(61,786)	(47,169)	(31,144)
	63,460	24,278	18,021

The weighted average effective interest rate on the above borrowed funds is 3.17% per annum (2018: 2.10% per annum and 2017: 1.65% per annum).

9. OTHER GAINS, NET

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Net gain (loss) arising on financial instruments at FVPL			
Cross currency swap contracts — cash flow hedges	505	2,265	2,150
Cross currency swap contracts	(1,158)	1,158	—
Foreign currency forward contracts	—	(2,108)	2,109
Financial products sold by banks and monetary funds	6,454	6,443	1,087
Equity securities	28,399	2,015	—
Other derivative financial instrument	—	—	1,544
	34,200	9,773	6,890
Others	8,781	14,509	9,609
	42,981	24,282	16,499

10. INCOME TAXES

INCOME TAX EXPENSE (BENEFIT)

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Current tax — Land Appreciation Tax	866	(172)	179
Current tax — Enterprise Income Tax	8,222	15,598	(469)
Deferred tax	14,328	(950)	2,136
	23,416	14,476	1,846

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

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Profit before tax	182,276	91,687	128,269
Income tax expense calculated at 15% (2018: 15% and 2017: 15%)	27,341	13,753	19,240
Effect of tax holiday	(60,318)	(69,581)	(50,258)
Additional deduction for research and development expenditures	(49,676)	(47,541)	(25,260)
Tax losses for which no deferred tax assets were recognized ⁽¹⁾	112,749	127,686	70,341
Reversal of temporary differences	—	—	5,687
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,546)	(9,669)	(18,082)
Others	866	(172)	178
	23,416	14,476	1,846

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

The Company has undistributed earnings of US\$1,852.0 million (2018: US\$1,176.7 million) which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognized as the Company is able to control the timing of distributions from subsidiaries and is not expected to distribute these profits in the foreseeable future.

The tax rate used for the 2019, 2018 and 2017 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

The Group has recognized the income tax payable as liabilities of US\$3.2 million as of December 31, 2019 (December 31, 2018: US\$2.6 million and December 31, 2017: US\$0.2 million).

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:

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Deferred tax assets			
Property, plant and equipment	49,188	42,613	41,271
Intangible assets	1,531	1,688	1,844
Others	12,256	1,125	1,760
	62,975	45,426	44,875
Deferred tax liabilities			
Property, plant and equipment	(34,360)	(1,588)	(16,412)
Others	—	(51)	—
	(34,360)	(1,639)	(16,412)
	28,615	43,787	28,463

	Opening balance USD'000	Deconsolidation of subsidiary USD'000	Recognize in profit or loss USD'000	Closing balance USD'000
December 31, 2019				
Net deferred tax assets in relation to				
Property, plant and equipment	41,025	—	(26,197)	14,828
Intangible assets	1,688	—	(157)	1,531
Others	1,074	(845)	12,026	12,256
	43,787	(845)	(14,328)	28,615

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

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

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation. The detailed tax status of SMIC's principal PRC entities with tax holidays is elaborated as follows:

10. INCOME TAXES *(continued)*

DEFERRED TAX BALANCES *(continued)*

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

Pursuant to the relevant tax regulations, SMIS is qualified as an integrated circuit enterprise and enjoyed a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2004 after utilizing all prior years’ tax losses. The income tax rate for SMIS was 15% in 2019 (2018: 15% and 2017: 15%).

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

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

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

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

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

In accordance with Circular No. 43, Circular No. 1 and Caishui Circular [2012] No. 27 (“Circular No. 27”), SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to its first profit-making year after utilizing all prior tax losses on or before December 31, 2019. SMIC Shenzhen, SMNC and SJ Jiangyin were in accumulative loss positions as of December 31, 2019 and the tax holiday has not begun to take effect.

Other PRC entities

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

UNUSED TAX LOSSES

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US\$731.9 million (December 31, 2018: US\$457.3 million and December 31, 2017: US\$235.1 million) due to the unpredictability of future profit streams, of which US\$76.1 million, US\$100.0 million, US\$62.0 million, US\$322.4 million and US\$171.4 million will expire in 2020, 2021, 2022, 2023 and 2024, respectively.

11. PROFIT FOR THE YEAR

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

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Impairment losses on assets			
Bad debt allowance on trade receivables (Note 38)	1,449	964	301
Reversal of bad debt allowance on doubtful trade receivables (Note 38)	(373)	(27)	(438)
Impairment losses on inventory (Note 24)	35,288	6,412	46,857
Impairment losses on tangible assets (Note 16)	—	990	—
Impairment losses on intangible assets (Note 18)	2,948	8,228	—
	39,312	16,567	46,720
Depreciation and amortization expense			
Depreciation of property, plant and equipment (Note 16)	995,580	994,642	906,034
Depreciation of right-of-use assets (Note 17)	99,950	2,173	2,250
Amortization of intangible assets (Note 18)	32,226	51,595	63,098
	1,127,756	1,048,410	971,382
Employee benefits expense			
Wages, salaries and social security contributions	506,045	550,060	499,238
Bonus	83,198	64,130	57,289
Non-monetary benefits	35,587	48,837	47,204
Equity-settled share-based payments (Note 37)	6,832	11,661	18,214
	631,662	674,688	621,945
Royalties expense	32,290	30,678	37,466
Government funding (Note 34)	(293,305)	(156,953)	(133,871)
Auditors' remuneration			
Audit services	1,312	1,372	1,413
Non-audit services	99	1,255	85
	1,411	2,627	1,498

12. DIRECTORS' REMUNERATION

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Salaries, bonus and benefits	2,672	3,353	4,490
Equity-settled share-based payments	751	2,390	8,158
	3,423	5,743	12,648

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

During the year ended December 31, 2019, 312,500 stock options were granted to the directors (2018: 712,500 and 2017: 5,726,477). No stock options were exercised (2018: 6,050,202 and 2017: 1,949,229) and 310,701 stock options were expired (2018: 4,758,542 and 2017: nil).

12. DIRECTORS' REMUNERATION (continued)

During the year ended December 31, 2019, 312,500 RSUs were granted to the directors (2018: 712,500 and 2017: 5,726,477), 821,595 RSUs automatically vested (2018: 2,367,859 and 2017: 3,774,432) and 274,430 RSUs were forfeited (2018: 188,125 and 2017: nil).

In 2019, 2018 and 2017 no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the waiver of all salaries and wages since Lu Jun was appointed as non-executive director subject to his request in 2017, no other directors waived any emoluments in 2019, 2018 and 2017.

The Group has no pension schemes for directors or past directors, except for the state-managed pension as employee benefits expense for the executive directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2019			
William Tudor Brown	81	108	189
Cong Jingsheng Jason	51	45	96
Lau Lawrence Juen-Yee	63	148	211
Fan Ren Da Anthony	68	148	216
Young Kwang Leei	20	96	116
Chiang Shang-Yi*	30	35	65
	313	580	893
2018			
William Tudor Brown	90	188	278
Chiang Shang-Yi*	65	100	165
Cong Jingsheng Jason	58	119	177
Lau Lawrence Juen-Yee	32	110	142
Fan Ren Da Anthony	34	110	144
Lip-Bu Tan	51	269	320
Carmen I-Hua Chang	39	14	53
	369	910	1,279
2017			
Lip-Bu Tan	91	128	219
William Tudor Brown	89	8	97
Carmen I-Hua Chang	70	40	110
Chiang Shang-Yi*	47	250	297
Cong Jingsheng Jason	35	217	252
	332	643	975

12. DIRECTORS' REMUNERATION (continued)

There were no other emoluments payable to the independent non-executive directors during the year (2018: nil and 2017: nil).

EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR

	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
2019			
Executive directors:			
Zhou Zixue	713	18	731
Zhao Haijun**	750	—	750
Liang Mong Song**	341	—	341
Gao Yonggang	526	—	526
	2,330	18	2,348
Non-executive directors:			
Chen Shanzhi	15	108	123
Zhou Jie	—	—	—
Ren Kai	—	—	—
Lu Jun	—	—	—
Tong Guohua	14	45	59
	29	153	182
2018			
Executive directors:			
Zhou Zixue	695	129	824
Zhao Haijun**	714	824	1,538
Liang Mong Song**	478	—	478
Gao Yonggang	607	1	608
	2,494	954	3,448
Non-executive directors:			
Chen Shanzhi	70	269	339
Zhou Jie	—	—	—
Ren Kai	65	—	65
Lu Jun	—	—	—
Tong Guohua	63	119	182
Tzu-Yin Chiu	292	138	430
	490	526	1,016

12. DIRECTORS' REMUNERATION *(continued)*

EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR *(continued)*

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

* Chiang Shang-Yi did not offer themselves for re-election to independent non-executive directors and their term as independent non-executive directors expired on June 21, 2019.

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

There was no other arrangement under which a director waived or agreed to waive any remuneration in 2019.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included three (2018: three and 2017: three) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining two (2018: two and 2017: two) non-directors, highest paid individuals for the year are as follows:

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Salaries and benefits	712	954	630
Bonus	408	325	746
Equity-settled share-based payment	—	—	338
	1,120	1,279	1,714

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

In 2019, 2018 and 2017, 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		
	2019	2018	2017
HK\$3,500,001 (US\$449,541) to HK\$4,000,000 (US\$513,760)	1	—	—
HK\$4,500,001 (US\$577,981) to HK\$5,000,000 (US\$642,200)	1	1	—
HK\$5,000,001 (US\$642,201) to HK\$5,500,000 (US\$706,420)	—	1	—
HK\$6,500,001 (US\$834,861) to HK\$7,000,000 (US\$899,080)	—	—	2
	2	2	2

14. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

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

	(In USD'000, except share and per share data)		
	Year ended 12/31/19	Year ended 12/31/18	Year ended 12/31/17
Profit for the year attributable to owners of the Company	234,681	134,055	179,679
Distribution to perpetual subordinated convertible securities holders	(11,300)	(6,300)	—
Earnings used in the calculation of basic earnings per share	223,381	127,755	179,679
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,049,540,755	4,976,275,431	4,628,850,686
Basic earnings per share	\$0.04	\$0.03	\$0.04

DILUTED EARNINGS PER SHARE

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

	(In USD'000, except share and per share data)		
	Year ended 12/31/19	Year ended 12/31/18	Year ended 12/31/17
Earnings used in the calculation of basic earnings per share	223,381	127,755	179,679
Interest expense from convertible bonds	15,840	—	905
Distribution to perpetual subordinated convertible securities holders	11,300	—	—
Earnings used in the calculation of diluted earnings per share	250,521	127,755	180,584
Weighted average number of ordinary shares used in the calculation of basic earnings per share	5,049,540,755	4,976,275,431	4,628,850,686
Employee option and restricted share units	17,614,079	36,411,011	44,496,788
Convertible bonds	371,589,975	—	38,241,356
Perpetual subordinated convertible securities	344,985,992	—	1,848,513
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	5,783,730,801	5,012,686,442	4,713,437,343
Diluted earnings per share	\$0.04	\$0.03	\$0.04

During the year ended December 31, 2019, the Group had 16,609,700 weighted average outstanding employee stock options (2018: 14,115,014 and 2017: 5,214,138) excluded from the computation of diluted earnings per share due to the exercise price higher than the average market price of the ordinary shares, 9,662,892 potential shares upon the conversion of convertible bonds (2018: 371,589,975 and 2017: 377,137,509) and no potential shares upon the conversion of perpetual subordinated convertible securities (2018: 163,815,024 and 2017: nil) excluded from the computation of diluted earnings per share due to anti-dilutive effect.

15. DIVIDEND

The Board did not recommend the payment of any dividend for the year ended December 31, 2019 (December 31, 2018: nil and December 31, 2017: nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Land USD'000	Buildings USD'000	Machinery and equipment USD'000	Office equipment USD'000	Construction in progress ("CIP") USD'000	Total USD'000
Cost						
Balance at December 31, 2016	2,485	724,967	11,523,217	167,558	1,333,014	13,751,241
Transfer from (out) CIP	—	174,143	1,696,092	31,355	(1,901,590)	—
Addition	—	—	—	—	2,425,697	2,425,697
Disposals	—	(28,543)	(767,210)	(3,588)	(5,518)	(804,859)
Balance at December 31, 2017	2,485	870,567	12,452,099	195,325	1,851,603	15,372,079
Transfer from (out) CIP	—	44,127	1,142,788	32,997	(1,219,912)	—
Addition	—	—	—	—	1,757,031	1,757,031
Disposals	—	(1,089)	(593,647)	(2,528)	(27,862)	(625,126)
Deconsolidation of subsidiary due to loss of control	—	—	(375)	—	(8,275)	(8,650)
Reclassified as held-for-sale	(2,485)	(43,182)	(98,253)	(8,550)	(13,790)	(166,260)
Exchange differences	—	—	(19,615)	(322)	(2,723)	(22,660)
Balance at December 31, 2018	—	870,423	12,882,997	216,922	2,336,072	16,306,414
Transfer from (out) CIP	—	209,764	1,611,604	26,884	(1,848,252)	—
Addition	—	—	—	—	1,988,493	1,988,493
Disposals	—	(1,099)	(45,043)	(4,566)	(1,465)	(52,173)
Deconsolidation of subsidiary due to loss of control	—	—	—	(3,997)	(40)	(4,037)
Exchange differences	—	—	(5,907)	(100)	(1,350)	(7,357)
Balance at December 31, 2019	—	1,079,088	14,443,651	235,143	2,473,458	18,231,340
Accumulated depreciation and impairment						
Balance at December 31, 2016	—	153,382	7,763,327	124,363	22,812	8,063,884
Disposal	—	(5,819)	(108,370)	(1,822)	(5,231)	(121,242)
Depreciation expense	—	41,243	839,351	25,440	—	906,034
Balance at December 31, 2017	—	188,806	8,494,308	147,981	17,581	8,848,676
Disposal	—	(924)	(266,143)	(2,459)	(7,011)	(276,537)
Depreciation expense	—	37,031	928,978	28,633	—	994,642
Impairment loss	—	—	990	—	—	990
Deconsolidation of subsidiary due to loss of control	—	—	(78)	—	—	(78)
Reclassified as held-for-sale	—	(4,206)	(28,017)	(4,514)	—	(36,737)
Exchange differences	—	—	(2,431)	(81)	—	(2,512)
Balance at December 31, 2018	—	220,707	9,127,607	169,560	10,570	9,528,444
Disposal	—	(1,099)	(42,707)	(1,691)	—	(45,497)
Depreciation expense	—	37,719	928,161	29,700	—	995,580
Deconsolidation of subsidiary due to loss of control	—	—	—	(2,677)	—	(2,677)
Exchange differences	—	—	(1,696)	(61)	—	(1,757)
Balance at December 31, 2019	—	257,327	10,011,365	194,831	10,570	10,474,093
Net carrying amount						
Balance at December 31, 2017	2,485	681,761	3,957,791	47,344	1,834,022	6,523,403
Balance at December 31, 2018	—	649,716	3,755,390	47,362	2,325,502	6,777,970
Balance at December 31, 2019	—	821,761	4,432,286	40,312	2,462,888	7,757,247

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

CONSTRUCTION IN PROGRESS

The construction in progress balance of approximately US\$2,473.5 million as of December 31, 2019, primarily consisted of US\$1,726.1 million, US\$281.1 million, US\$149.1 and US\$122.3 million used for the facilities construction, machinery and equipment of the fabs in Shanghai, the two 300mm fabs in Beijing, the fabs in Shenzhen and the 200mm fab in Tianjin, respectively; US\$126.9 million used for purchasing machinery and equipment acquired for more research and development activities; in addition, US\$68.0 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the end of 2020.

IMPAIRMENT LOSSES RECOGNIZED IN THE YEAR

In 2019, no impairment loss of equipment was recorded by the Group (2018: US\$1.0 million and 2017: nil). The whole amount of impairment loss in 2018 was recognized as other operating expense in profit or loss.

ASSETS PLEDGED AS SECURITY

Property, plant and equipment with carrying amount of approximately US\$130.9 million (2018: approximately US\$207.2 million and 2017: approximately US\$362.3 million) have been pledged to secure borrowings of the Group under mortgages (Note 31). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

CAPITALIZED INTEREST

Interest 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 interest of US\$61.8 million in 2019 (2018: US\$47.2 million and 2017: US\$31.1 million) was added to the cost of the underlying assets and was amortized over the respective useful life of the assets. In 2019, the Group recorded depreciation expenses relating to the capitalized interest of US\$33.4 million (2018: US\$27.5 million and 2017: US\$22.7 million).

17. LEASES

The consolidated financial statements show the following amounts relating to leases:

	12/31/19 USD'000
Right-of-use assets	
Buildings	1,884
Machinery and equipment	236,719
Land use right	138,264
	376,867
Lease liabilities	
Current	80,651
Non-current	167,081
	247,732
	Year ended 12/31/19
Depreciation charge of right-of-use assets	
Buildings	383
Machinery and equipment	97,653
Land use right	1,914
	99,950
Interest expense	10,442
Cash outflow for leases	101,059

In the previous year, the Group only recognized lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognized on adoption of IFRS 16 on January 1, 2019, please refer to Note 2.

From January 1, 2019, the Group has recognized right-of-use assets for non-cancellable operating leases, except for short-term and low-value leases with no significant amounts.

Additions to the right-of-use assets for the year ended December 31, 2019 were US\$57.0 million.

18. INTANGIBLE ASSETS

	Goodwill USD'000	Patents and license USD'000	Total USD'000
Cost			
Balance at December 31, 2016	3,933	446,037	449,970
Additions	—	34,461	34,461
Balance at December 31, 2017	3,933	480,498	484,431
Additions	—	8,749	8,749
Deconsolidation of subsidiary due to loss of control	—	(40,509)	(40,509)
Reclassified as held-for-sale	(3,933)	(8,340)	(12,273)
Exchange differences	—	(2,790)	(2,790)
Balance at December 31, 2018	—	437,608	437,608
Additions	—	9,845	9,845
Exchange differences	—	(2,332)	(2,332)
Balance at December 31, 2019	—	445,121	445,121
Accumulated amortization and impairment			
Balance at December 31, 2016	—	201,389	201,389
Amortization expense for the year	—	63,098	63,098
Balance at December 31, 2017	—	264,487	264,487
Amortization expense for the year	—	51,595	51,595
Impairment loss	—	8,228	8,228
Deconsolidation of subsidiary due to loss of control	—	(4,748)	(4,748)
Reclassified as held-for-sale	—	(4,061)	(4,061)
Exchange differences	—	(747)	(747)
Balance at December 31, 2018	—	314,754	314,754
Amortization expense for the year ⁽¹⁾	—	32,226	32,226
Impairment loss ⁽²⁾	—	2,948	2,948
Exchange differences	—	(1,750)	(1,750)
Balance at December 31, 2019	—	348,178	348,178
Net carrying amount			
Balance at December 31, 2017	3,933	216,011	219,944
Balance at December 31, 2018	—	122,854	122,854
Balance at December 31, 2019	—	96,943	96,943

⁽¹⁾ Amortization expenses are mainly included in cost of sales (US\$15.5 million, 2018: US\$31.0 million and 2017: US\$36.8 million) and research and development expenses (US\$15.3 million, 2018: US\$18.8 million and 2017: US\$20.5 million).

⁽²⁾ In 2019, the Group recorded US\$2.9 million (2018: US\$8.2 million and 2017: nil) impairment loss of other intangible assets due to the recoverable amount of a batch of intellectual property was estimated to be less than its carrying amount. The whole amount of impairment loss in 2019 and 2018 was recognized as other operating expense in profit or loss.

19. SUBSIDIARIES

The principle subsidiaries of the Company at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company	Proportion of voting power held by the Company	Principal activities
Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai") [#]	People's Republic of China (the "PRC")	Ordinary	USD1,770,000,000	Indirectly 100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing") [#]	PRC	Ordinary	USD1,000,000,000	Indirectly 100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") ^{# (2)}	PRC	Ordinary	USD4,800,000,000	Indirectly 51%	51%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing South China Corporation ("SMSC") ^{# (1)}	PRC	Ordinary	USD3,500,000,000	Indirectly 50.1%	50.1%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin") [#]	PRC	Ordinary	USD770,000,000	Indirectly 100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIZ" or "SMIC Shenzhen") [#]	PRC	Ordinary	USD700,000,000	Indirectly 100%	100%	Manufacturing and trading of semiconductor products
SMIC New Technology Research & Development (Shanghai) Corporation	PRC	Ordinary	USD400,000,000	Indirectly 100%	100%	Research and development activities
SJ Semiconductor (Jiangyin) Corp. ("SJ Jiangyin") [#]	PRC	Ordinary	USD330,000,000	Indirectly 55.965%	55.965%	Bumping and circuit probe testing activities
SMIC, Americas	United States of America	Ordinary	USD500,000	Directly 100%	100%	Provision of marketing related activities
SMIC Japan Corporation	Japan	Ordinary	JPY10,000,000	Directly 100%	100%	Provision of marketing related activities
SMIC Europe S.r.l.	Italy	Ordinary	EUR100,000	Directly 100%	100%	Provision of marketing related activities
SMIC Development (Chengdu) Corporation ("SMICD") [#]	PRC	Ordinary	USD5,000,000	Directly 100%	100%	Management of living quarters
SMIC Holdings Corporation ("SMIC Holdings") [#]	PRC	Ordinary	USD50,000,000	Directly 100%	100%	Investment holding
SMIC Investment (Shanghai) Corporation (formerly "SMIC Commercial (Shanghai) Limited Company")	PRC	Ordinary	USD465,800,000	Directly 100%	100%	Investment holding
Magnificent Tower Limited	British Virgin Islands	Ordinary	USD50,000	Indirectly 100%	100%	Investment holding
SJ Semiconductor Corporation	Cayman Islands	Ordinary	USD5,668	Directly 55.965%	55.965%	Investment holding
China IC Capital Co., Ltd	PRC	Ordinary	RMB1,392,000,000	Indirectly 100%	100%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC	Ordinary	RMB17,775,918	Indirectly 99%	99%	Investment holding
Semiconductor Technology Innovation Center (Beijing) Co., Ltd.	PRC	Ordinary	RMB100,000,000	Indirectly 66.67%	66.67%	Designing activities

[#] Abbreviation for identification purposes.

⁽¹⁾ On January 30, 2018, SMIC Holdings Corporation ("SMIC Holdings"), SMIC Shanghai, China Integrated Circuit Industry Investment Fund Co., Ltd ("China IC Fund") and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd ("Shanghai IC Fund") entered into the joint venture agreement and the capital contribution agreement pursuant to which SMIC Holdings, China IC Fund and Shanghai IC Fund agreed to make cash contribution to the registered capital of SMSC in the amount of US\$1.5435 billion, US\$946.5 million and US\$800.0 million, respectively. As a result of the capital contribution: (i) the registered capital of SMSC will increase from US\$210.0 million to US\$3.5 billion; (ii) the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, will decrease from 100% to 50.1%; and (iii) SMSC will be owned as to 27.04% and 22.86% by China IC Fund and Shanghai IC Fund, respectively. The capital contribution was completed in 2019.

19. SUBSIDIARIES (continued)

- ⁽²⁾ On August 10, 2017, the Company, SMIC Beijing, SMIC Holdings, China Integrated Circuit Industry Investment Fund Co., Ltd., Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership), Beijing Industrial Development Investment Management Co., Ltd., Zhongguancun Development Group and Beijing E-Town International Investment & Development Co., Ltd. agreed to amend the previous joint venture agreement through the amended joint venture agreement, pursuant to which: (i) the Company, SMIC Beijing and SMIC Holdings have agreed to make further cash contribution of US\$1,224.0 million into the registered capital of SMNC. The Company's aggregate shareholding in SMNC will remain at 51%; (ii) China IC Fund has agreed to make further cash contribution of US\$900.0 million into the registered capital of SMNC. Its shareholding in SMNC will increase from 26.5% to 32%; and (iii) E-Town Capital has agreed to make cash contribution of US\$276.0 million into the registered capital of SMNC representing 5.75% of the enlarged registered capital of SMNC. The capital contribution was completed in 2019.
- ⁽³⁾ As at December 31, 2018, the investment in SMIC Hong Kong International Limited and its subsidiaries was classified as the held-for-sale assets and the liabilities directly associated with the held-for-sale assets as the effect to sell the subsidiary commenced. The sale was completed with Wuxi Xichanweixin Semiconductor Co., Ltd. on July 29, 2019 (Note 26).

MATERIAL NON-CONTROLLING INTERESTS ("NCI")

The table below shows details of the non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of company	Place of establishment and operation	Proportion of ownership interests and voting rights held by non-controlling interests			Profit (loss) allocated to non-controlling interests			Accumulated non-controlling interests		
		12/31/19	12/31/18	12/31/17	12/31/19	12/31/18	12/31/17	12/31/19	12/31/18	12/31/17
					USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
SMNC	Beijing, PRC	49.0%	49.0%	49.0%	(22,878)	(39,213)	(39,113)	2,150,340	1,726,377	1,324,590
SMSC	Shanghai, PRC	49.9%	48.7%	—	(46,786)	(5,349)	—	1,693,231	1,042,551	—
SJ Semiconductor Corporation and its subsidiaries	Cayman Islands	44.0%	44.0%	44.0%	783	(2,493)	(4,896)	123,952	122,505	124,180
					(68,881)	(47,055)	(44,009)	3,967,523	2,891,433	1,448,770

According to the joint venture agreements entered into by the Group and the NCI of SMNC, additional capital injection into SMNC was completed in 2019, 2018 and 2017. The additional capital injection from NCI amounted to US\$441.0 million in 2019, US\$441.0 million in 2018 and US\$294.0 million in 2017 respectively.

According to the joint venture agreements entered into by the Company and the NCI of SMSC, additional capital injection into SMSC was completed in 2019 and 2018. The additional capital injection from NCI amounted to US\$698.6 million in 2019 and US\$1,047.9 million in 2018.

19. SUBSIDIARIES *(continued)*

MATERIAL NON-CONTROLLING INTERESTS ("NCI") *(continued)*

Summarized financial information in respect of the Company's subsidiaries that have material non-controlling interests are set out below. The summarized financial information below represents amounts before intragroup eliminations.

SMNC

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Current assets	3,669,273	2,582,534	1,559,016
Non-current assets	2,230,247	1,918,935	2,046,290
Current liabilities	(1,064,404)	(629,152)	(596,500)
Non-current liabilities	(446,666)	(358,793)	(315,718)
Net assets	4,388,450	3,513,524	2,693,088
Equity attributable to owners of the Company	2,238,110	1,787,147	1,368,498
Non-controlling interests	2,150,340	1,726,377	1,324,590
Net assets	4,388,450	3,513,524	2,693,088

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Revenue	623,485	597,257	471,174
Expense	(718,501)	(709,627)	(574,386)
Other income	48,327	32,345	23,389
Loss for the year	(46,689)	(80,025)	(79,823)
Loss attributable to owners of the Company	(23,811)	(40,812)	(40,710)
Loss attributable to the non-controlling interests	(22,878)	(39,213)	(39,113)
Loss for the year	(46,689)	(80,025)	(79,823)
Total comprehensive loss attributable to owners of the Company	(23,811)	(40,812)	(40,710)
Total comprehensive loss attributable to the non-controlling interests	(22,878)	(39,213)	(39,113)
Total comprehensive loss for the year	(46,689)	(80,025)	(79,823)
Dividends paid to non-controlling interests	—	—	—
Net cash inflow from operating activities	333,822	101,384	188,115
Net cash outflow from investing activities	(1,218,357)	(936,942)	(820,606)
Net cash inflow from financing activities	779,562	890,109	590,091
Net cash (outflow) inflow	(104,973)	54,551	(42,400)

19. SUBSIDIARIES *(continued)*

SMSC

	12/31/19 USD'000	12/31/18 USD'000
Current assets	2,117,356	2,031,682
Non-current assets	1,824,094	166,037
Current liabilities	(409,432)	(58,254)
Non-current liabilities	(138,770)	—
Net assets	3,393,248	2,139,465
Equity attributable to owners of the Company	1,700,017	1,096,914
Non-controlling interests	1,693,231	1,042,551
Net assets	3,393,248	2,139,465
	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000
Revenue	9,031	—
Expense	(133,578)	(19,625)
Other income	30,787	4,336
Loss for the year	(93,760)	(15,289)
Loss attributable to owners of the Company	(46,974)	(9,940)
Loss attributable to the non-controlling interests	(46,786)	(5,349)
Loss for the year	(93,760)	(15,289)
Total comprehensive loss attributable to owners of the Company	(46,974)	(9,940)
Total comprehensive loss attributable to the non-controlling interests	(46,786)	(5,349)
Total comprehensive loss for the year	(93,760)	(15,289)
Dividends paid to non-controlling interests	—	—
Net cash outflow from operating activities	(48,106)	(10,775)
Net cash outflow from investing activities	(1,288,188)	(1,937,066)
Net cash inflow from financing activities	1,339,419	1,951,830
Net cash inflow	3,125	3,989

19. SUBSIDIARIES *(continued)*

SJ SEMICONDUCTOR CORPORATION AND ITS SUBSIDIARIES

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Current assets	135,576	141,016	205,957
Non-current assets	245,931	180,061	131,041
Current liabilities	(92,783)	(38,280)	(46,608)
Non-current liabilities	(7,238)	(4,257)	(7,002)
Net assets	281,486	278,540	283,388
Equity attributable to owners of the Company	157,534	156,035	159,208
Non-controlling interests	123,952	122,505	124,180
Net assets	281,486	278,540	283,388
	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Revenue	115,127	51,042	21,862
Expense	(122,887)	(68,011)	(39,504)
Other income	9,538	11,303	6,505
Profit (loss) for the year	1,778	(5,666)	(11,137)
Profit (loss) attributable to owners of the Company	995	(3,173)	(6,241)
Profit (loss) attributable to the non-controlling interests	783	(2,493)	(4,896)
Profit (loss) for the year	1,778	(5,666)	(11,137)
Total comprehensive income (loss) attributable to owners of the Company	995	(3,173)	(6,241)
Total comprehensive income (loss) attributable to the non-controlling interests	783	(2,493)	(4,896)
Total comprehensive income (loss) for the year	1,778	(5,666)	(11,137)
Dividends paid to non-controlling interests	—	—	—
Net cash inflow from operating activities	28,858	14,429	6,115
Net cash (outflow) inflow from investing activities	(55,116)	1,144	(65,993)
Net cash inflow (outflow) from financing activities	30,121	69	(1,983)
Net cash inflow (outflow)	3,863	15,642	(61,861)

20. INVESTMENTS IN ASSOCIATES

The details of the Company's associates, which are all unlisted companies except for JCET listed on the Shanghai Stock Exchange, at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group		
			12/31/19	12/31/18	12/31/17
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	Shanghai, PRC	Ordinary	30.0%	30.0%	30.0%
Zhongxin Xiecheng Investment (Beijing) Co., Ltd ("Zhongxin Xiecheng")	Beijing, PRC	Ordinary	49.0%	49.0%	49.0%
Brite Semiconductor (Shanghai) Corporation ("Brite Shanghai")	Shanghai, PRC	Ordinary	46.6%	46.6%	46.6%
Jiangsu Changjiang Electronics Technology Co., Ltd. ("JCET")	Jiangsu, PRC	Ordinary	14.3% ⁽¹⁾	14.3% ⁽¹⁾	14.3% ⁽¹⁾
Sino IC Leasing Co., Ltd. ("Sino IC Leasing") ⁽⁴⁾	Shanghai, PRC	Ordinary	7.4% ⁽¹⁾	7.4% ⁽¹⁾	8.1% ⁽¹⁾
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	Shanghai, PRC	Ordinary	19.5% ⁽¹⁾	19.5% ⁽¹⁾	30.0%
Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin") ⁽²⁾	Beijing, PRC	Limited partner interest	32.6%	32.6%	32.6%
Shanghai Fortune-Tech Qitai Invest Center (Limited Partnership) ("Fortune-Tech Qitai") ⁽²⁾	Shanghai, PRC	Limited partner interest	33.0%	33.0%	33.0%
Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing") ⁽²⁾	Shanghai, PRC	Limited partner interest	66.2% ⁽¹⁾	66.2% ⁽¹⁾	66.2% ⁽¹⁾
Suzhou Fortune-Tech Oriental Invest Fund Center (Limited Partnership) ("Fortune-Tech Oriental") ⁽²⁾	Jiangsu, PRC	Limited partner interest	44.8%	44.8%	44.8%
Juyuan Juxin Integrated Circuit Fund ("Juyuan Juxin") ⁽²⁾	Shanghai, PRC	Limited partner interest	31.6%	31.6%	31.6%
Ningbo Semiconductor International Corporation ("NSI") ⁽³⁾	Ningbo, PRC	Ordinary	38.6%	38.6%	NA
Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC")	Shaoxing, PRC	Ordinary	23.5%	23.5%	NA
Semiconductor Global Solutions ("SGS")	Ningbo, PRC	Ordinary	27.3%	35.0%	NA
Shanghai IC Manufacturing Innovation Center Co., Ltd ("Shanghai Innovation Center")	Shanghai, PRC	Ordinary	33.3%	50.0% ⁽¹⁾	NA

⁽¹⁾ In accordance with investment agreements, the Group has significant influence, but not control, over JCET, Sino IC Leasing, China Fortune-Tech, Fortune-Tech Zaixing and Shanghai Innovation Center through the right the Group owned to appoint director(s) to the Board of directors of these companies or to cast voters at the partners meeting of the partnership entity.

⁽²⁾ The Group invested in these associates indirectly through China IC Capital Co., Ltd (the "Fund"), a wholly-owned investment fund company of SMIC, as set out in Note 19. The Fund is intended to invest primarily in integrated circuits related fund products and investment projects.

⁽³⁾ On April 13, 2018, the Group lost control of NSI due to a capital increase agreement, but still has significant influence over it. The Group recorded its ownership interest of NSI as investment in associate. The remeasurement gain at the date of deconsolidation of NSI was US\$3.5 million. The deconsolidation has no material impact on the consolidated financial statements.

⁽⁴⁾ Subject to the amended joint venture agreement, revised on July 20, 2017, the Company agreed to increase its capital contribution obligation towards Sino IC Leasing from RMB600.0 million to RMB800.0 million (from approximately US\$88.3 million to US\$117.8 million), while its shareholding in Sino IC Leasing decreased to approximately 7.44%.

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

20. INVESTMENTS IN ASSOCIATES *(continued)*

JCET AND ITS SUBSIDIARIES

The Group applies the equity method to account for its investment in JCET on one quarter lag by basis since the annual financial statements of JCET were not available as of December 31, 2019.

	09/30/19	09/30/18	09/30/17
	USD'000	USD'000	USD'000
Current assets	1,409,646	1,803,128	1,401,575
Non-current assets	3,401,347	3,456,513	3,305,615
Current liabilities	(2,472,655)	(2,214,747)	(1,639,114)
Non-current liabilities	(597,465)	(1,081,027)	(1,661,532)
Net assets	1,740,873	1,963,867	1,406,544
Less: non-controlling interests	(588)	(20,973)	(21,172)
Equity attributable to owners of the associate	1,740,285	1,942,894	1,385,372
Proportion of the Group's interest	14.3%	14.3%	14.3%
	248,513	277,446	197,832
Valuation premium	338,967	338,967	340,561
Carrying amount of the Group's interest	587,480	616,413	538,393

	Twelve	Twelve months	Three months
	months ended	ended	ended
	09/30/19	09/30/18	09/30/17
	USD'000	USD'000	USD'000
Total revenue	3,105,723	3,645,925	985,087
(Loss) profit attributable to owners	(160,986)	28,439	11,480
Total comprehensive (loss) income attributable to owners	(149,416)	76,299	(8,496)
Dividends received from the associate	—	761	—

As of December 31, 2019 the closing market value of JCET listed on the Shanghai Stock Exchange was approximately US\$5,045.8 million.

20. INVESTMENTS IN ASSOCIATES *(continued)*

SINO IC LEASING AND ITS SUBSIDIARIES

The Group applies the equity method to account for its investment in Sino IC Leasing on one quarter lag by basis since the annual financial statements of Sino IC Leasing were not available as of December 31, 2019.

	09/30/19	09/30/18	12/31/17
	USD'000	USD'000	USD'000
Current assets	2,639,624	2,423,414	1,038,538
Non-current assets	3,985,404	4,056,971	3,464,412
Current liabilities	(1,720,069)	(1,441,959)	(523,228)
Non-current liabilities	(3,074,994)	(3,241,264)	(2,509,732)
Net assets	1,829,965	1,797,162	1,469,990
Less: non-controlling interests	(112,814)	(114,368)	(103,623)
Equity attributable to owners of the associate	1,717,151	1,682,794	1,366,367
Proportion of the Group's interest	7.4%	7.4%	8.1%
	127,711	125,156	110,162
Dividends received in advance	—	(316)	—
Less: unrealized profit	(540)	(580)	—
Carrying amount of the Group's interest	127,171	124,260	110,162

	Twelve	Twelve months	Twelve months
	months ended	ended 09/30/18	ended 12/31/17
	09/30/19	USD'000	USD'000
	USD'000		
Total revenue	368,888	280,219	215,538
Profit attributable to owners	81,530	59,282	39,003
Total comprehensive income			
attributable to owners	93,160	73,346	28,797
Dividends received from the associate	1,077	—	255

20. INVESTMENTS IN ASSOCIATES *(continued)*

SMEC

	12/31/19 USD'000	12/31/18 USD'000
Current assets	498,003	611,874
Non-current assets	702,327	287,048
Current liabilities	(446,580)	(74,316)
Net assets	753,750	824,606
Proportion of the Group's interest	23.5%	23.5%
	176,900	193,530
Less: unrealized profit	(46,155)	(52,722)
Carrying amount of the Group's interest	130,745	140,808

	Year ended 12/31/19 USD'000	Ten months ended 12/31/18 USD'000
Total revenue	46,273	14,070
Loss for the year	(70,173)	(23,747)
Total comprehensive loss for the year	(70,173)	(23,747)
Dividends received from the associate	—	—

NSI

	12/31/19 USD'000	12/31/18 USD'000
Current assets	102,025	135,606
Non-current assets	185,073	145,039
Current liabilities	(25,628)	(18,089)
Non-current liabilities	(38,206)	—
Net assets	223,264	262,556
Proportion of the Group's interest	38.6%	38.6%
	86,114	101,268
Valuation premium	2,646	2,646
Less: unrealized profit	(730)	(816)
Carrying amount of the Group's interest	88,030	103,098

	Year ended 12/31/19 USD'000	Nine months ended 12/31/18 USD'000
Total revenue	21,272	4,186
(Loss) profit for the year	(35,122)	3,131
Total comprehensive (loss) income for the year	(35,122)	3,131
Dividends received from the associate	—	—

21. INVESTMENTS IN JOINT VENTURES

The details of the Group's joint venture, which is unlisted entities invested indirectly through China IC Capital (Ningbo) Co., Ltd, at the end of the reporting period are as follow:

Name of entity	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group		
			12/31/19	12/31/18	12/31/17
Shanghai Xinxin Investment Centre (Limited Partnership) ("Shanghai Xinxin")	Shanghai, PRC	Limited partner interest	49.0%	49.0%	49.0%

Summarized financial information in respect of the Group's joint venture is set out below.

SHANGHAI XINXIN

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Current assets	3,428	3,956	1,453
Non-current assets	46,838	16,462	53,782
Current liabilities	—	(268)	(6)
Net assets	50,266	20,150	55,229
Proportion of the Group's interest	49.0%	49.0%	49.0%
	24,630	9,874	27,062
Distribution to general partner	2,487	3,179	—
Carrying amount of the Group's interest	27,117	13,053	27,062

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Total revenue	—	—	—
(Loss) profit for the year	(200)	4,827	(390)
Total comprehensive (loss) income for the year	(200)	4,827	30,051
Dividends received from the joint venture	—	—	2,027

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

Financial assets	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Non-current			
Financial assets at fair value through profit or loss			
Listed equity securities	749	1,508	—
Unlisted equity securities	89,318	53,964	—
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	—	5,266	—
Interest rate swap contracts			
— cash flow hedges	1,872	—	—
Other financial assets			
Cross currency swap contracts			
— cash flow hedges	—	—	17,598
Other assets			
Available-for-sale financial assets	—	—	24,844
Current			
Financial assets at fair value through profit or loss			
Financial products sold by banks	—	2,345	—
Monetary funds	42,985	39,340	—
Financial assets at amortized cost			
Bank deposits to be matured over 3 months ⁽¹⁾	2,275,797	1,952,106	—
Debentures	573	44,702	—
Trade and other receivables (Note 25)	836,143	837,828	616,308
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	—	1,425	—
Cross currency swap contracts	—	1,158	—
Other financial assets			
Cross currency swap contracts			
— cash flow hedges	—	—	4,739
Foreign currency forward contracts	—	—	2,111
Financial products sold by banks	—	—	117,928
Bank deposits to be matured over 3 months	—	—	559,034
	3,247,437	2,939,642	1,342,562

⁽¹⁾ The credit risk on bank deposits to be matured over 3 months is limited because the counterparties are banks with high credit-ratings.

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

The Group's exposure to various risks associated with the financial instruments is discussed in Note 38. The maximum exposure to credit risk at the end of the year is the carrying amount of each class of financial assets mentioned above.

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Financial liabilities			
Non-current			
Liabilities at amortized cost			
Borrowings (Note 31)	2,003,836	1,760,763	1,743,939
Lease liabilities (Note 17)	167,081	—	—
Bonds payable	—	—	496,689
Convertible bonds (Note 32)	—	418,592	403,329
Medium-term notes (Note 33)	214,193	—	228,483
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	58,243	15,540	—
Other financial liabilities			
Contingent consideration ⁽¹⁾	—	11,948	—
Cross currency swap contracts			
— cash flow hedges	—	—	1,919
Other liabilities			
Contingent consideration ⁽¹⁾	—	—	12,549
Long-term payables ⁽²⁾	21,780	39,128	57,593
Current			
Liabilities at amortized cost			
Trade and other payables (Note 35)	1,034,079	964,860	1,007,424
Borrowings (Note 31)	562,833	530,005	440,608
Lease liabilities (Note 17)	80,651	—	—
Bonds payable	—	498,551	—
Convertible bonds (Note 32)	630,428	—	—
Medium-term notes (Note 33)	—	218,247	—
Short-term notes (Note 33)	286,512	—	—
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	4,782	15,806	—
Other financial liabilities			
Contingent consideration ⁽¹⁾	11,747	—	—
Cross currency swap contracts			
— cash flow hedges	—	—	742
Foreign currency forward contracts	—	—	2
Other liabilities			
Long-term payables ⁽²⁾	17,901	32,263	40,627
	5,094,066	4,505,703	4,433,904

⁽¹⁾ The Group had contingent consideration in respect of a potential cash compensation accrued in 2017 that may be incurred depending on the profit of Suzhou Changjiang Electric Xinke Investment Co., Ltd. during the three years of 2017, 2018 and 2019. Contingent consideration was reclassified from other liabilities to other financial liabilities as of January 1, 2018, in compliance with IFRS 9.

⁽²⁾ Long-term payables for the purchased tangible assets were classified into the non-current and current liabilities as of December 31, 2019.

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

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 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.

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, 2019, 2018 and 2017:

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

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

December 31, 2019	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
<i>Financial assets at fair value through profit or loss</i>					
Listed equity securities	Using quoted market prices	749	—	—	749
Unlisted equity securities	Using recent transaction price or market approach	—	—	89,318	89,318
Monetary funds	Using observable prices	—	42,985	—	42,985
<i>Derivative financial instruments</i>					
Interest rate swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	1,872	—	1,872
		749	44,857	89,318	134,924
Financial liabilities					
<i>Derivative financial instruments</i>					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	63,025	—	63,025
<i>Other financial liabilities</i>					
Contingent consideration	Using discounted cash flow analysis	—	—	11,747	11,747
		—	63,025	11,747	74,772

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

December 31, 2018	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
<i>Financial assets at fair value through profit or loss</i>					
Listed equity securities	Using quoted market prices	1,508	—	—	1,508
Unlisted equity securities	Using recent transaction price or market approach	—	—	53,964	53,964
Financial products sold by banks	Using indicated return rate provided by financial institution	—	—	2,345	2,345
Monetary funds	Using observable prices	—	39,340	—	39,340
<i>Derivative financial instruments</i>					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	6,691	—	6,691
Cross currency swap contracts	Using forward exchange rates at the balance sheet date	—	1,158	—	1,158
		1,508	47,189	56,309	105,006
Financial liabilities					
<i>Derivative financial instruments</i>					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	31,346	—	31,346
<i>Other financial liabilities</i>					
Contingent consideration	Using discounted cash flow analysis	—	—	11,948	11,948
		—	31,346	11,948	43,294

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

December 31, 2017	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets measured at fair value					
Short-term investment carried at fair value through profit or loss	Using indicated return rate provided by financial institution	—	—	117,928	117,928
Available-for-sale investment	Using quoted market prices	2,531	—	—	2,531
Available-for-sale investment	Using discounted cash flow analysis	—	—	20,134	20,134
Cross currency swap contracts classified as other financial assets — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	22,337	—	22,337
Foreign currency forward contracts classified as other financial assets	Using forward exchange rates at the balance sheet date	—	2,111	—	2,111
		2,531	24,448	138,062	165,041
Financial liabilities measured at fair value					
Cross currency swap contracts classified as other financial liabilities — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	2,661	—	2,661
Foreign currency forward contracts classified as other financial liabilities	Using forward exchange rates at the balance sheet date	—	2	—	2
Contingent consideration	Using discounted cash flow analysis	—	—	12,549	12,549
		—	2,663	12,549	15,212

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The following table presents the changes in level 3 instruments for the twelve months ended December 31, 2019:

	Unlisted equity securities USD'000	Financial products sold by banks USD'000	Contingent consideration USD'000	Total USD'000
Opening balance as at December 31, 2018	53,964	2,345	(11,948)	44,361
Addition	7,091	11,106	—	18,197
Disposals	—	(13,409)	—	(13,409)
Gains (losses) recognized in other gains, net	28,263	(42)	201	28,422
Closing balance as at December 31, 2019	89,318	—	(11,747)	77,571

Valuation processes

The finance department performs the valuations of financial assets required for financial reporting purposes and reports directly to the chief financial officer. Discussions of valuation processes, results and change analyses are held by the chief financial officer and the financial team annually, in line with the Group's yearly reporting periods. The valuation is reviewed by the audit committee.

23. RESTRICTED CASH

As of December 31, 2019, the current restricted cash consisted of US\$316.4 million (December 31, 2018: US\$185.8 million and December 31, 2017: US\$14.9 million) of bank time deposits pledged against letters of credit and borrowings, and US\$488.1 million (December 31, 2018: US\$406.5 million and December 31, 2017: US\$235.3 million) of government funding received for the payment of the research and development equipment and expenses to be incurred.

24. INVENTORIES

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Raw materials	177,602	143,990	149,574
Work in progress	350,062	331,782	321,695
Finished goods	101,221	117,237	151,410
	628,885	593,009	622,679

The cost of inventories recognized as an expense during the year in respect of inventory provision was US\$35.3 million (2018: US\$6.4 million and 2017: US\$46.9 million).

25. TRADE AND OTHER RECEIVABLES

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Trade receivables	488,225	412,053	407,975
Allowance on doubtful trade receivables (Note 38)	(3,164)	(2,155)	(1,335)
	485,061	409,898	406,640
Value-added tax to be deducted	220,262	170,804	124,765
Other receivables	117,704	193,339	78,645
Refundable deposits ⁽¹⁾	13,116	63,787	6,258
	836,143	837,828	616,308

⁽¹⁾ As of December 31, 2018, the balance included a deposit of investing in land use right, amounted US\$45.5 million.

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	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Within 30 days	240,464	219,813	148,131
31–60 days	163,407	141,852	187,623
Over 60 days	84,354	50,388	72,221
Total trade receivables	488,225	412,053	407,975

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 38.

Due to the short-term nature of the current receivables, the carrying amounts of trade and other receivables are considered to be the same as their fair value.

26. ASSETS AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Assets classified as held-for-sale			
Assets of disposal group as held-for-sale	—	255,330	—
Machinery and equipment	7,090	5,846	—
Assets related to employee's living quarters	4,725	9,631	37,471
	11,815	270,807	37,471
Liabilities directly associated with assets classified as held-for-sale			
Liabilities of disposal group as held-for-sale	—	143,447	—

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.

As of December 31, 2018, the investment in SMIC Hong Kong International Limited and its subsidiaries was classified as the held-for-sale assets amounted to US\$255.3 million and the liabilities directly associated with the held-for-sale assets amounted to US\$143.4 million. The sale was completed with Wuxi Xichanweixin Semiconductor Co., Ltd. on July 29, 2019.

The consideration amounted to US\$162.8 million was considered to be fair and reasonable and in the interest of the Company and its shareholders taken as a whole. Based on the consideration deducted by the carrying value of the net asset, The Group recorded a gain of US\$81.4 million from the transaction.

27. SHARES AND ISSUED CAPITAL

FULLY PAID ORDINARY SHARES

	Number of shares	Share capital USD'000	Share premium USD'000
Balance at December 31, 2016	4,252,922,259	17,012	4,950,948
Issuance of shares under the Company's employee share option plan	32,723,622	130	35,178
Conversion of convertible bonds during the year	389,042,383	1,556	427,168
Share premium reduction	—	—	(910,849)
Ordinary shares issued at December 6, 2017	241,418,625	966	325,174
Balance at December 31, 2017	4,916,106,889	19,664	4,827,619
Issuance of shares under the Company's employee share option plan	24,071,936	97	25,121
Ordinary shares issued at June 29, 2018	61,526,473	246	83,256
Ordinary shares issued at August 29, 2018	57,054,901	228	77,148
Shares bought back on-market and cancelled	(18,941,000)	(76)	(19,981)
Balance at December 31, 2018	5,039,819,199	20,159	4,993,163
Issuance of shares under the Company's employee share option plan (Note 37)	17,049,713	68	18,752
Balance at December 31, 2019	5,056,868,912	20,227	5,011,915

On April 23, 2018, the Company entered into the China IC Fund Pre-emptive Share Subscription Agreement with China IC Fund and Xinxin (Hongkong) Capital Co., Ltd ("Xinxin HK", wholly-owned by China IC Fund), pursuant to which, on and subject to the terms of the China IC Fund Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the 57,054,901 Ordinary Shares at the price of HK\$10.65 per Ordinary Share. On August 29, 2018, the Company completed the issue of the China IC Fund pre-emptive shares in the principal amount of HK\$607.6 million (approximately US\$77.4 million).

On April 23, 2018, the Company entered into the Datang Pre-emptive Share Subscription Agreement with Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang") and Datang Holdings (Hongkong) Investment Company Limited ("Datang HK"), pursuant to which, on and subject to the terms of the Datang Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the 61,526,473 Ordinary Shares at the price of HK\$10.65 per Ordinary Share. On June 29, 2018, the Company completed the issue of the Datang pre-emptive shares in the principal amount of HK\$655.3 million (approximately US\$83.5 million).

27. SHARES AND ISSUED CAPITAL *(continued)*

FULLY PAID ORDINARY SHARES *(continued)*

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

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

On December 6, 2017, pursuant to the terms and conditions of the placing agreement entered by the Company and joint placing agents, the Company allotted and issued 241,418,625 placing shares, representing approximately 4.92% of the issued share capital of the Company as enlarged by the issue of the placing shares, to not less than six independent placees at the price of HK\$10.65 per placing share. The net proceeds are recorded as share capital of approximately US\$1.0 million and share premium of approximately US\$325.2 million in the statements of financial position after the deduction of issue expenses of US\$2.9 million. Net proceeds of issue are measured after deducting directly attributable transaction costs of the share issue.

On June 23, 2017, the Board has been approved by the shareholders at the Annual General Meeting to reduce the amount standing to the credit of the share premium account of the Company by an amount of US\$910.8 million and to apply such amount to eliminate the accumulated losses of the Company as of December 31, 2016.

On June 23, 2017, the Board has been approved by the shareholders at the Annual General Meeting to increase the authorized share capital of the Company to US\$42,000,000 divided into 10,000,000,000 ordinary shares and 500,000,000 preferred shares by the creation of an additional 5,000,000,000 ordinary shares in the share capital of the Company, which will rank pari passu with all existing ordinary shares.

STOCK INCENTIVE PLANS

The Company 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 37).

28. RESERVES

EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE

The equity-settled employee benefits reserve related to share options and RSUs granted by the Company to the Group's 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.

FOREIGN CURRENCY TRANSLATION RESERVE

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.

28. RESERVES *(continued)*

CONVERTIBLE BONDS EQUITY RESERVE

The conversion option from the issuance of convertible bonds classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument (i.e. convertible bond) 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 ordinary shares and share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, 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.

CASH FLOW HEDGES

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognized in other comprehensive income, as described in Note 38. Amounts will be reclassified to profit or loss when the associated hedged transaction affects profit or loss.

29. RETAINED EARNINGS

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law.

In 2019, 2018 and 2017 the Company did not declare or pay any cash dividends on the ordinary shares.

In 2019 and 2018, the Company paid the distribution to perpetual subordinated convertible securities holders amounted to US\$11.3 million and US\$6.3 million respectively.

The sale of SMIC Hong Kong International Limited and its subsidiaries completed with Wuxi Xichanweixin Semiconductor Co., Ltd. on July 29, 2019 decreased the retained earnings for the Company by US\$4.2 million and the non-controlling interests by US\$9.7 million.

On December 29, 2017, SMIC Shanghai and SJ Jiangyin had entered into an asset transfer agreement in relation to the disposal and sale of unvalued assets. The purpose of the disposal was to transfer the business operation of the Shanghai Testing Centre from SMIC Shanghai to SJ Jiangyin and merge the business operation of Shanghai Testing Centre to SJ Jiangyin. The transfer of business operation raised a gain in retained earnings of US\$7.3 million for the Company and a corresponding loss for non-controlling interests.

On June 23, 2017, the accumulated losses of the Company as of December 31, 2016 were eliminated by an amount of US\$910.8 million. Please refer to Note 27 for more details.

30. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

On April 23, 2018, the Company entered into the perpetual subordinated convertible securities ("PSCS") subscription agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the PSCS subscription agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for PSCS in an aggregate principal amount of US\$300.0 million. On August 29, 2018, the Company completed the issue of the PSCS in the principal amount of US\$300.0 million.

On April 23, 2018, the Company entered into the PSCS subscription agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the PSCS subscription agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for PSCS in an aggregate principal amount of US\$200.0 million. On June 29, 2018, the Company completed the issue of the PSCS in the principal amount of US\$200.0 million.

On December 14, 2017, the Company issued the PSCS at a par value of US\$250,000 each in the principal amount of US\$65.0 million.

The PSCS are included in equity in the Group's consolidated financial statements as the Group does not have a contractual obligation to deliver cash or other financial assets arising from the issue of the PSCS. The PSCS will remain as equity reserve until the PSCS are converted, in which case, the balance recognized in equity will be transferred to ordinary shares and share premium.

As at the issue date and the year ended December 31, 2019, the net book value of PSCS amounted to US\$563.8 million after the deduction of issue expenses of US\$1.2 million.

As at December 31, 2019, assuming full conversion of the PSCS, the PSCS will be convertible into 344,985,992 ordinary shares.

Up to the date of the authorization of the Group's consolidated financial statements for the year ended December 31, 2019, no PSCS have been converted into ordinary shares of the Company and the Company paid the distribution amounted to US\$11.3 million.

KEY TERMS OF THE PSCS

The PSCS will be paid semi-annually in arrears at 2.00% per annum with distribution payment date on June 14, and December 14, in each year, commencing on June 14, 2018.

The Company may elect to defer distribution unless payments is not made in full on a distribution payment date or a compulsory distribution payment event has occurred. The Company will procure that no dividend or other payment is made on any junior securities or parity securities; or redeem, reduce, cancel, buy-back or acquire for any consideration any junior securities or parity securities unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amounts; or it is permitted to do so by an extraordinary resolution of the securityholders.

The PSCS has no fixed redemption date. The Company may redeem the PSCS in whole, but not in part, at their principal amount, together with distribution accrued on or at any time after December 14, 2020 in certain specified circumstances specified in the agreements.

In the event of the winding-up of the Company, the rights and claims of the securityholders shall rank ahead of those persons whose claims are in respect of any junior securities of the Company, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company, other than the claims of holders of parity securities.

Securityholders may convert their PSCS into ordinary shares at any time on or after 40 days from the Issue date at the conversion price in effect on the relevant conversion date. The initial conversion ratio was 152,648.6697 shares per US\$250,000 principal amount at the initial conversion price, HK\$12.78 per Share with a fixed exchange rate of 7.8034 HK\$/US\$. The Conversion Price will be adjusted in certain circumstances, including subdivisions, consolidation or redenomination, rights issue, bonus issue, reorganization, capital distributions and certain other dilutive event.

Upon the occurrence of any delisting or suspension arising from or as a result of an application to HKSE having been initiated or made by the Group, the securityholders will have the right to require the Company to redeem all or some only of PSCS at their principal amount, together with any distribution accrued. In the opinion of the management of the Company, the occurrence of such events is highly remote.

31. BORROWINGS

At amortized cost	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Short-term commercial bank loans ⁽¹⁾	100,000	192,198	308,311
Short-term borrowings	100,000	192,198	308,311
2013 USD loan (SMIC Shanghai)	—	—	10,760
2015 CDB RMB loan I (SMIC Shanghai) ⁽²⁾	143,256	145,705	153,041
2015 CDB RMB loan II (SMIC Shanghai) ⁽³⁾	55,154	64,839	72,694
2015 CDB RMB loan (SMIC Beijing) ⁽⁴⁾	23,637	26,227	29,231
2016 CDB RMB loan (SMIC Beijing) ⁽⁵⁾	185,517	202,529	223,440
2017 CDB RMB loan (SMIC Shenzhen) ⁽⁶⁾	308,821	322,153	185,792
2015 EXIM RMB loan (SMIC Shanghai) ⁽⁷⁾	71,628	72,852	76,520
2017 EXIM RMB loan (SMIC Shanghai)	—	145,705	153,041
2018 EXIM RMB loan I (SMIC Shanghai) ⁽⁸⁾	136,093	138,419	—
2019 EXIM RMB loan I (SMIC Shanghai) ⁽⁹⁾	143,256	—	—
2019 EXIM RMB loan II (SMIC Shanghai) ⁽¹⁰⁾	93,117	—	—
2019 EXIM RMB loan III (SMIC Shanghai) ⁽¹¹⁾	200,000	—	—
2016 EXIM RMB loan I (SMIC Beijing)	—	—	36,730
2016 EXIM RMB loan II (SMIC Beijing)	—	58,282	61,216
2017 EXIM RMB loan (SMIC Beijing) ⁽¹²⁾	61,600	69,938	76,520
2018 EXIM RMB Loan I (SMIC Beijing) ⁽¹³⁾	28,651	29,141	—
2018 EXIM RMB Loan II (SMIC Beijing) ⁽¹⁴⁾	34,381	34,969	—
2019 EXIM RMB Loan I (SMIC Beijing) ⁽¹⁵⁾	8,595	—	—
2019 EXIM RMB Loan II (SMIC Beijing) ⁽¹⁶⁾	48,707	—	—
2019 EXIM RMB Loan III (SMIC Beijing) ⁽¹⁷⁾	35,098	—	—
2016 EXIM RMB loan (SMIC)	—	72,852	76,520
2019 EXIM RMB loan (SMIC) ⁽¹⁸⁾	199,067	—	—
2017 EXIM RMB loan (SMIC Tianjin) ⁽¹⁹⁾	71,628	72,852	76,520
2017 EXIM USD loan (SMIC Tianjin)	—	—	25,000
2018 EXIM RMB loan (SMIC Tianjin) ⁽²⁰⁾	83,805	78,680	—
2017 EXIM RMB loan (SMIC Shenzhen) ⁽²¹⁾	63,033	68,481	76,520
Loan to LFoundry S.r.l.	—	—	55,036
Others ⁽²²⁾	471,625	494,946	487,655
Long-term borrowings	2,466,669	2,098,570	1,876,236
	2,566,669	2,290,768	2,184,547
Current			
Short-term borrowings	100,000	192,198	308,311
Current maturities of long-term borrowings	462,833	337,807	132,297
	562,833	530,005	440,608
Non-current			
Non-current maturities of long-term borrowings	2,003,836	1,760,763	1,743,939
	2,566,669	2,290,768	2,184,547
Borrowing by repayment schedule			
Within 1 year	562,833	530,005	440,608
1–2 years	836,765	434,998	399,301
2–5 years	944,308	895,135	877,315
Over 5 years	222,763	430,630	467,323
	2,566,669	2,290,768	2,184,547

31. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS

- (1) As of December 31, 2019, the Group had 28 short-term credit agreements that provided total credit facilities up to US\$2,839.1 million on a revolving credit basis. As of December 31, 2019, the Group had drawn down US\$100.0 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 2.34% to 4.20% in 2019.
- (2) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS' 300mm fab. As of December 31, 2019, SMIS had drawn down RMB1,000.0 million (approximately US\$143.3 million) on this loan facility. The outstanding balance is repayable from November 2021 to November 2030. The interest rate on this loan facility was 1.20% in 2019.
- (3) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475.0 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS' 300mm fab. As of December 31, 2019, SMIS had drawn down RMB475.0 million and repaid RMB90.0 million on this loan facility. The outstanding balance of RMB385.0 million (approximately US\$55.2 million) is repayable from June 2020 to December 2025. The interest rate on this loan facility was 1.20% in 2019.
- (4) In December 2015, SMIB entered into an RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB195.0 million with China Development Bank, which is unsecured. As of December 31, 2019, SMIB had drawn down RMB195.0 million and repaid RMB30.0 million on this loan facility. The outstanding balance of RMB165.0 million (approximately US\$23.6 million) is repayable from June 2020 to December 2030. The interest rate on this loan facility was 1.20% in 2019.
- (5) In May 2016, SMIB entered into the RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460.0 million with China Development Bank, which is guaranteed by SMIC. As of December 31, 2019, SMIB had drawn down RMB1,460.0 million and repaid RMB165.0 million on this loan facility. The outstanding balance of RMB1,295.0 million (approximately US\$185.5 million) is repayable from May 2020 to May 2031. The interest rate on this loan facility was 1.20% in 2019.
- (6) In December 2017, SMIZ entered into a loan facility in the aggregate principal amount of RMB5,400.0 million with China Development Bank, which is unsecured. This seven-year bank facility was used to finance the planned expansion for SMIZ's 300mm fab. As of December 31, 2019, SMIZ had drawn down RMB2,211.0 million and repaid RMB55.3 million on this loan facility. The outstanding balance of RMB2,155.7 million (approximately US\$308.8 million) is repayable from December 2020 to December 2024. The interest rate on this loan facility is 4.46% per annum in 2019.
- (7) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. In December 2018, the tenor of this bank facility was extended for one and a half years. As of December 31, 2019, SMIS had drawn down RMB500.0 million (approximately US\$71.6 million) on this loan facility. The outstanding balance is repayable in June 2020. The interest rate on this loan facility was 2.65% in 2019.
- (8) In October 2018, SMIS entered into a loan facility in the aggregate principal amount of RMB950.0 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, 2019, SMIS had drawn down RMB950.0 million (approximately US\$136.1 million) on this loan facility. The outstanding balance is repayable in October 2020. The interest rate on this loan facility is 2.92% per annum in 2019.

31. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS *(continued)*

- (9) In March 2019, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 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, 2019, SMIS had drawn down RMB1,000.0 million (approximately US\$143.3 million) on this loan facility. The outstanding balance is repayable in March 2021. The interest rate on this loan facility is 2.92% per annum in 2019.
- (10) In April 2019, SMIS entered into a loan facility in the aggregate principal amount of RMB650.0 million with The Export-Import Bank of China, which is secured by bank time deposits. This two-year bank facility was used for working capital purposes. As of December 31, 2019, SMIS had drawn down RMB650.0 million (approximately US\$93.1 million) on this loan facility. The outstanding balance is repayable in April 2021. The interest rate on this loan facility is 2.92% per annum in 2019.
- (11) In August 2019, SMIS entered into a loan facility in the aggregate principal amount of US\$200.0 million with The Export-Import Bank of China, which is guaranteed by SMIC. This five-year bank facility was used for SMIS's 300mm fab. As of December 31, 2019, SMIS had drawn down US\$200.0 million on this loan facility. The outstanding balance is repayable from February 2020 to August 2024. The interest rate on this loan facility is 2.60% per annum in 2019.
- (12) In September 2017, SMIB entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIB's 300mm fab. As of December 31, 2019, SMIB had drawn down RMB500.0 million and repaid RMB70.0 million on this loan facility. The outstanding balance of RMB430.0 million (approximately US\$61.6 million) is repayable from March 2020 to September 2022. The interest rate on this loan facility is 2.92% per annum in 2019.
- (13) In June 2018, SMIB entered into a loan facility in the aggregate principal amount of RMB200.0 million with The Export-Import Bank of China, which is secured by bank time deposits. This two-year bank facility was used for SMIB's 300mm fab. As of December 31, 2019, SMIB had drawn down RMB200.0 million (approximately US\$28.7 million) on this loan facility. The outstanding balance is repayable in June 2020. The interest rate on this loan facility is 2.92% per annum in 2019.
- (14) In December 2018, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB240.0 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, 2019, SMIB had drawn down RMB240.0 million (approximately US\$34.4 million) on this loan facility. The outstanding balance is repayable in December 2020. The interest rate on this loan facility was 2.92% in 2019.
- (15) In January 2019, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB60.0 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, 2019, SMIB had drawn down RMB60.0 million (approximately US\$8.6 million) on this loan facility. The outstanding balance is repayable in December 2020. The interest rate on this loan facility was 2.92% in 2019.
- (16) In January 2019, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB340.0 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, 2019, SMIB had drawn down RMB340.0 million (approximately US\$48.7 million) on this loan facility. The outstanding balance is repayable in January 2021. The interest rate on this loan facility was 4.75% in 2019.

31. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS *(continued)*

- (17) In July 2019, SMIB entered into a loan facility in the aggregate principal amount of RMB260.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIB's 300mm fab. As of December 31, 2019, SMIB had drawn down RMB260.0 million and repaid RMB15.0 million on this loan facility. The outstanding balance of RMB245.0 million (approximately US\$35.1 million) is repayable from June 2020 to June 2024. The interest rate on this loan facility is 2.65% per annum in 2019.
- (18) In August 2019, SMIC entered into a loan facility in the aggregate principal amount of US\$199.1 million with Industrial and Commercial Bank of China (Asia), which is unsecured. This five-year bank facility was used to finance the planned expansion for 300mm fab. As of December 31, 2019, SMIC had drawn down US\$199.1 million on this loan facility. The outstanding balance is repayable from August 2020 to August 2024. The interest rate on this loan facility is 2.50% per annum in 2019.
- (19) In February 2017, SMIT entered into a RMB loan, a three-year working capital loan facility in the principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of December 31, 2019, SMIT had drawn down RMB500.0 million (approximately US\$71.6 million) on this loan facility. The outstanding balance is repayable in February 2020. The interest rate on this loan facility is 4.04% per annum in 2019.
- (20) In December 2018, SMIT entered into a loan facility in the aggregate principal amount of RMB596.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used to finance the planned expansion for SMIT's 300mm fab. As of December 31, 2019, SMIT had drawn down RMB585.0 million (approximately US\$83.8 million) on this loan facility. The outstanding balance of RMB585.0 million is repayable in December 2023. The interest rate on this loan facility is 2.92% per annum in 2019.
- (21) In December 2017, SMIZ entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used to finance the planned expansion for SMIZ's 300mm fab. As of December 31, 2019, SMIZ had drawn down RMB500.0 million and repaid RMB60.0 million on this loan facility. The outstanding balance of RMB440.0 million (approximately US\$63.0 million) is repayable from March 2020 to December 2022. The interest rate on this loan facility is 3.40% per annum in 2019.
- (22) Other borrowings represented several batches of production equipment of the Group sold and leased back under the below arrangements:

US\$31.1 million (December 31, 2018: US\$35.2 million) of borrowings under new two arrangements entered into by the Group and third-party financing companies in the form of a sale and leaseback transaction with a repurchase option.

US\$440.5 million (December 31, 2018: US\$459.7 million and December 31, 2017: US\$487.7 million) of borrowings under three arrangements entered into by the Group and third-party financing companies in the form of a sale and leaseback transaction with a repurchase option.

As the repurchase prices are set at below US\$1.0 which are minimal compared to the expected fair value and the Group is certain that it will exercise the repurchase options, the above arrangements have been accounted for as collateralized borrowings of the Group.

31. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS *(continued)*

As of December 31, 2019, property, plant and equipment and land use right with carrying amount of approximately US\$130.9 million (December 31, 2018: US\$207.2 million and December 31, 2017: US\$362.3 million) have been pledged to secure borrowings of the Group.

32. CONVERTIBLE BONDS

ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE 2022

The Company issued the convertible bonds (the “2016 Convertible Bonds”) at a par value of US\$250.0 thousand each with the aggregate principal amounts of US\$450.0 million issued on July 7, 2016 (the “2016 Issue”) and US\$200.0 million issued on December 10, 2019 (the “2019 Issue”).

The 2016 Convertible Bonds 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 2016 Convertible Bonds. For the 2016 Issue, such embedded derivatives are deemed to be clearly and closely related to the host contract and therefore do not need to be separately accounted for. For the 2019 Issue, such embedded derivatives are deemed to be not clearly and closely related to the host contract and therefore need to be separately accounted for. As of December 31, 2019, the fair value of embedded derivatives in relation to the 2019 Issue is not significant.

As at the date of issue, the fair value of the liability component of the 2016 Convertible Bonds was disclosed as below:

	2019 Issue USD'000	2016 Issue USD'000
Principal amount	200,000	450,000
Premium of issuance	32,000	—
Transaction cost	(2,525)	(9,194)
Liability component	(195,328)	(387,871)
Equity component	34,147	52,935

Subsequent to the initial recognition, the liability component of the 2016 Convertible Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the 2016 Convertible Bonds was 3.88% per annum as at December 31, 2019. The movement of the liability component and the equity component of the 2016 Convertible Bonds for the year ended December 31, 2019 is set out below:

	Liability Component USD'000	Equity Component USD'000	Total USD'000
Balance at December 31, 2016	395,210	52,935	448,145
Interest charged	14,913	—	14,913
Conversion options exercised	(6,794)	(882)	(7,676)
Balance at December 31, 2017	403,329	52,053	455,382
Interest charged	15,263	—	15,263
Balance at December 31, 2018	418,592	52,053	470,645
Issuance	195,328	34,147	229,475
Interest charged	16,508	—	16,508
Balance at December 31, 2019	630,428	86,200	716,628

32. CONVERTIBLE BONDS *(continued)*

ISSUE OF ZERO COUPON CONVERTIBLE BONDS DUE 2022 *(continued)*

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the 2016 Convertible Bonds mature.

As at December 31, 2019, 539,540,243 ordinary shares will be issued upon full conversion of the 2016 Convertible Bonds.

KEY TERMS OF THE 2016 CONVERTIBLE BONDS

The 2016 Convertible Bonds with no interest born will mature on July 7, 2022. If payment of principal or premium is improperly withheld or refused, such unpaid amount shall bear interest at the rate of 2.00% per annum. All the 2016 Convertible Bonds which are redeemed, converted or purchased by the Company will forthwith be cancelled.

The Company will redeem the outstanding 2016 Convertible Bonds at principal amount on July 7, 2022 or in certain specified circumstances specified in the agreements.

The Company may at any time and from time to time purchase the 2016 Convertible Bonds at any price in the open market or otherwise.

Bondholders may convert their bonds into ordinary shares at any time on or after August 17, 2016. Conversion shares will be issued upon full conversion of the 2016 Convertible Bonds based on the conversion price of HK\$9.25 with a fixed exchange rate of 7.7677 HK\$/US\$.

Upon the occurrence of a change of control of the Company, the bondholders 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 2016 Convertible Bonds. The bondholders will also have the right to require the Company to redeem all or some only of the 2016 Convertible Bonds of such holders on July 7, 2020 at their principal amount.

REDEMPTION OF ZERO COUPON CONVERTIBLE BONDS DUE 2018

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

33. MEDIUM-TERM AND SHORT-TERM NOTES

In 2019, the Company issued the three-year medium-term notes of RMB1,500.0 million (approximately US\$224.0 million) on March 1 (the “2019 Medium-term Notes”) and some short-term notes of RMB500.0 million (approximately US\$74.3 million) issued on April 29 for six months, RMB1,000.0 million (approximately US\$148.6 million) issued on April 29 for six months, RMB1,500.0 million (approximately US\$212.1 million) issued on October 11 for seventy-five days and RMB2,000.0 million (approximately US\$291.0 million) issued on July 23, 2019 for nine months all through National Association of Financial Market Institutional Investors (“NAFMII”).

The short-term notes of RMB2,000.0 million carry a coupon interest rate 3.10% per annum with note interest payable due on April 20, 2020. The 2019 Medium-term Notes carry a coupon rate of 3.57% per annum with interest due annually on February 28, 2020, February 28, 2021 and February 28, 2022.

The short-term notes of RMB500.0 million, RMB1,000.0 million and RMB1,500.0 million with the coupon rates of 3.05%, 3.10% and 2.5% per annum, respectively were repaid on October 23, 2019. The three-year medium-term notes of RMB1,500.0 million issued on June 8, 2016 with a coupon rate of 3.35% per annum was repaid on June 5, 2019.

As at the issue date, the net book values of the liabilities of medium-term and short-term notes issued in 2019 are set out as below:

	Medium-term Notes USD'000	Short-term Notes USD'000
Principal amount	224,024	725,891
Transaction cost	(984)	(256)
	223,040	725,635

The movement of the medium-term and short-term notes for the period ended December 31, 2019 is set out below:

	Medium-term Notes USD'000	Short-term Notes USD'000
Balance at December 31, 2018	218,247	—
Issuance	223,040	725,635
Repayment	(217,954)	(426,485)
Interest charged	10,102	8,193
Interest payable recognized	(9,533)	(7,937)
Foreign exchange gain	(9,709)	(12,894)
Balance at December 31, 2019	214,193	286,512

34. DEFERRED GOVERNMENT FUNDING

The Group received government funding under specific R&D projects (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US\$444.5 million, US\$265.0 million and US\$178.3 million and recognized US\$210.4 million, US\$105.3 million and US\$82.2 million as other operating income in 2019, 2018 and 2017 for several specific R&D projects respectively (please refer to Note 2 for details of the change in accounting policy of government funding). The government funding is recorded as a liability upon receipt and recognized as other operating income over the useful life of R&D equipment or until the milestones specified in the terms of the funding have been reached.

In addition, the Group received government funding for specific intended use of US\$82.9 million, US\$51.7 million and US\$51.6 million in 2019, 2018 and 2017, respectively. The Group recognized nil, US\$19.5 million and US\$24.2 million as reduction of interest expense (Note 8) and recognized US\$82.9 million, US\$32.2 million and US\$27.4 million as other operating income (Note 7) in 2019, 2018 and 2017, respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of interest expense or as other operating income until the requirements (if any) specified in the terms of the funding have been reached.

35. TRADE AND OTHER PAYABLES

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Trade payables	894,460	823,443	837,843
Deposit received	29,523	38,713	54,895
Other payable	110,096	102,704	114,686
	1,034,079	964,860	1,007,424

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

As of December 31, 2019, 2018 and 2017, payables for property, plant and equipment were US\$578.8 million, US\$461.6 million and US\$506.7 million, respectively.

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

Age of payables	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Within 30 days	548,963	657,172	658,804
31–60 days	49,741	50,815	68,358
Over 60 days	295,756	115,456	110,681
	894,460	823,443	837,843

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

36. ACCRUED LIABILITIES

The amounts of accrued liabilities as of December 31, 2019, 2018 and 2017 were US\$151.2 million, US\$164.6 million and US\$180.9 million, within which the amounts of accrued payroll expenses were US\$70.9 million, US\$73.7 million and US\$116.7 million, respectively.

37. SHARE-BASED PAYMENTS

STOCK INCENTIVE PLANS

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

The expense arising from equity-settled share-based payments for the year ended December 31, 2019 was US\$6.8 million (2018: US\$11.6 million and 2017: US\$18.2 million).

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 Company adopted the Equity Incentive Plan ("EIP") whereby the Company 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.

Share option plan for subsidiary ("Subsidiary Plan")

The options granted under the Subsidiary Plan shall entitle a participant of the Subsidiary Plan to purchase a specified number of subsidiary shares during a specified period at the price fixed by the relevant subsidiary committee at the time of grant or by a method specified by the relevant subsidiary committee at the time of grant and expire 10 years from the date of grant. The options 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.

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 Restricted Share Units ("RSUs") and share option plan for subsidiary ("Subsidiary Plan")):

	2019 Number	2019 WAEP	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Outstanding at January 1	51,608,194	US\$1.00	52,881,278	US\$0.83	72,482,764	US\$0.82
Granted during the period	1,230,500	US\$1.24	19,344,334	US\$1.33	6,071,477	US\$1.14
Forfeited and expired during the period	(4,742,797)	US\$1.08	(8,879,102)	US\$1.13	(3,842,461)	US\$1.33
Exercised during the period	(8,740,673)	US\$0.79	(11,738,316)	US\$0.68	(21,830,502)	US\$0.78
Outstanding at December 31	39,355,224	US\$1.04	51,608,194	US\$1.00	52,881,278	US\$0.83
Exercisable at December 31	18,661,149	US\$0.83	25,796,944	US\$0.79	39,511,002	US\$0.78

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 5.45 years (2018: 5.66 years and 2017: 5.21 years).

The range of exercise prices for options outstanding at the end of the year was from US\$0.34 to US\$1.35 (2018: from US\$0.34 to US\$1.34 and 2017: from US\$0.23 to US\$1.38).

The weighted average closing price of the Company's shares immediately before the dates while the share options were exercised was US\$1.21 (2018: US\$1.12 and 2017: US\$1.44).

37. SHARE-BASED PAYMENTS *(continued)*

MOVEMENTS DURING THE YEAR *(continued)*

(i) *(continued)*

During the year ended December 31, 2019, share options were granted on May 21, September 12 and November 26, 2019 with the fair values calculated by the Black-Scholes Option Pricing model of US\$0.65, US\$0.48 and US\$0.58, respectively (May 23, September 13 and November 19, 2018: US\$0.50, US\$0.73 and US\$0.38, respectively and April 5, May 22 and September 7, 2017: US\$0.56, US\$0.42 and US\$0.40, respectively).

The following table list the inputs to the Black-Scholes Option Pricing models used for the option granted during the years ended December 31, 2019, 2018 and 2017 respectively:

	2019	2018	2017
Dividend yield (%)	—	—	—
Expected volatility	43.64%	40.16%	42.80%
Risk-free interest rate	1.75%	2.84%	1.84%
Expected life of share options	6 years	5 years	6 years

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

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

37. 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 stock option plan and Subsidiary Plan):

	2019 Number	2019 WAFV	2018 Number	2018 WAFV	2017 Number	2017 WAFV
Outstanding at January 1	19,853,214	US\$1.12	28,701,097	US\$1.05	26,489,152	US\$0.98
Granted during the period	712,500	US\$1.22	8,068,466	US\$1.27	14,055,477	US\$1.11
Forfeited during the period	(2,449,355)	US\$1.10	(4,582,729)	US\$1.07	(950,412)	US\$1.04
Exercised during the period	(8,309,040)	US\$1.06	(12,333,620)	US\$1.03	(10,893,120)	US\$0.97
Outstanding at December 31	9,807,319	US\$1.16	19,853,214	US\$1.12	28,701,097	US\$1.05

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2019 was 7.66 years (2018: 8.29 years and 2017: 8.51 years).

The exercise prices for options outstanding was HKD0.031 (approximately US\$0.004).

The weighted average closing price of the Company’s shares immediately before the dates on which the RSUs were exercised was US\$1.33 (2018: US\$1.33 and 2017: US\$1.29).

During the year ended December 31, 2019, RSUs were granted on May 21, September 12 and November 26, 2019. The fair values calculated by the Black-Scholes Option Pricing model of US\$1.09, US\$1.25 and US\$1.28, respectively (May 23, September 13 and November 19, 2018: US\$1.30, US\$1.09 and US\$0.87, respectively and April 5, May 22, September 7 and December 7, 2017: US\$1.24, US\$1.09, US\$1.01 and US\$1.31, respectively).

The following table list the inputs to the models used for the plans for the years ended December 31, 2019, 2018 and 2017, respectively:

	2019	2018	2017
Dividend yield (%)	—	—	—
Expected volatility	45.23%	39.77%	39.45%
Risk-free interest rate	1.82%	2.54%	1.24%
Expected life of share options	1 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 Company’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.

37. SHARE-BASED PAYMENTS *(continued)*

MOVEMENTS DURING THE YEAR *(continued)*

(iii) The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options of the Subsidiary Plan during the year (excluding stock option plan and RSUs):

	2019 Number	2019 WAEP	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Outstanding at January 1	20,046,635	US\$0.25	14,918,802	US\$0.20	14,598,750	US\$0.19
Granted during the period	11,092,332	US\$0.36	7,349,500	US\$0.36	1,598,750	US\$0.31
Forfeited and expired during the period	(2,808,512)	US\$0.31	(2,029,167)	US\$0.29	(934,948)	US\$0.05
Exercised during the period	(277,832)	US\$0.33	(192,500)	US\$0.36	(343,750)	US\$0.25
Outstanding at December 31	28,052,623	US\$0.29	20,046,635	US\$0.25	14,918,802	US\$0.20
Exercisable at December 31	14,500,187	US\$0.22	10,333,724	US\$0.17	7,079,401	US\$0.15

The weighted average remaining contractual life for the share options outstanding as at December 31, 2019 was 7.9 years (2018: 7.9 years and 2017: 8.3 years).

The range of exercise prices for options outstanding at the end of the year was from US\$0.05 to US\$0.36 (2018: from US\$0.05 to US\$0.36 and 2017: from US\$0.05 to US\$0.31).

During the year ended December 31, 2019, share options of the Subsidiary Plan were granted on March 26 and December 3, 2019 with the fair values calculated by the Black-Scholes Option Pricing model of US\$0.19 and US\$0.21, respectively (March 13, 2018: US\$0.19 and August 9, 2017: US\$0.11).

The following table list the inputs to the Black-Scholes Option Pricing models used for the option of the Subsidiary Plan granted during the years ended December 31, 2019, 2018 and 2017, respectively:

	2019	2018	2017
Dividend yield (%)	—	—	—
Expected volatility	50%	53.0%	32.0%
Risk-free interest rate	1.6%–2.2%	2.70%	1.90%
Expected life of share options	6 years	6 years	6 years

The risk-free rate for periods within the contractual life of the option of the Subsidiary Plan is based on the yield of the US Treasury Bond. The expected term of options of the Subsidiary Plan granted represents the period of time that options of the Subsidiary Plan granted are expected to be outstanding. Expected volatilities are based on the average volatility of the relevant subsidiary's set of public comparables with the time period commensurate with the expected term of the options. The dividend yield is based on the relevant subsidiary's intended future dividend plan.

The valuation of the options of the Subsidiary Plan are based on the best estimates from the relevant subsidiary 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.

38. RISK MANAGEMENT

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 capital structure of the Group consists of net debt and equity of the Group.

The Group manages its capital through issuing/repurchasing shares and raising/repayment of debts and 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.

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

	12/31/19	12/31/18	12/31/17
	USD'000	USD'000	USD'000
Net debt (Note 39)	(612,661)	(398,755)	790,936
Equity	10,197,862	8,923,580	6,721,335
Net debt to equity ratio	-6.0%	-4.5%	11.8%

FINANCIAL RISK MANAGEMENT

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 foreign currency risk, interest rate 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 contracts to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debts and financial asset at amortized cost 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, 2019, 2018 and 2017.

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

38. RISK MANAGEMENT *(continued)*

FOREIGN CURRENCY RISK

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing 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		
	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
EUR	7,242	50,601	125,171	568	37,800	72,181
JPY	52,529	54,166	30,422	33,103	41,589	29,245
RMB	2,929,860	2,757,762	2,410,284	3,154,481	2,989,434	1,765,846
Others	59,967	51,829	43,824	4,725	905	8,688

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.

	EUR			JPY			RMB			Others		
	2019 USD'000	2018 USD'000	2017 USD'000	2019 USD'000	2018 USD'000	2017 USD'000	2019 USD'000	2018 USD'000	2017 USD'000	2019 USD'000	2018 USD'000	2017 USD'000
Profit or loss	(334)	(640)	(2,650)	(1,022)	(662)	(62)	11,822	12,193	(33,918)	(2,906)	(2,679)	(1,848)
Equity	(334)	(640)	(2,650)	(1,022)	(662)	(62)	11,822	12,193	(33,918)	(2,906)	(2,679)	(1,848)

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:

	Average exchange rate			Foreign currency			Notional value			Net fair value assets (liabilities)		
	2019	2018	2017	12/31/19 FC'000	12/31/18 FC'000	12/31/17 FC'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Buy EUR												
Less than 3 months	—	—	1.2019	—	—	2,080	—	—	2,500	—	—	(2)
Buy RMB												
Less than 3 months	—	—	6.7622	—	—	648,364	—	—	95,881	—	—	2,111
							—	—	98,381	—	—	2,109

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

38. RISK MANAGEMENT *(continued)*

FOREIGN CURRENCY RISK *(continued)*

Cross currency swap contracts

It is the policy of the Group to enter into cross currency swap contracts to protect against volatility of future cash flows caused by the changes in exchange rates associated with outstanding debt denominated in a currency other than the US dollar.

In 2019, 2018 and 2017, the Group entered into or issued several RMB denominated loan facility agreements, short-term notes and medium-term notes (the "RMB Debts") in the aggregate principal amount of RMB2,760.9 million, RMB3,321.5 million and RMB3,714.0 million (approximately US\$395.5 million, US\$484.0 million and US\$568.4 million), respectively. In addition in 2019 and 2018, the Group held several RMB denominated financial assets at amortized cost (the "RMB Assets") in the aggregate principal amount of RMB5,872.2 million and RMB2,130.1 million (approximately US\$841.2 million and US\$258.0 million). The Group was primarily exposed to changes in the exchange rate for the RMB.

To minimize the currency risk, the Group entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the whole part of these RMB Debts and repurchase schedule of the whole part of these RMB Assets to protect against the adverse effect of exchange rate fluctuations arising from the RMB Debts and Assets. As of December 31, 2019, the Group had outstanding cross currency swap contracts with notional amounts of RMB8,077.3 million (approximately US\$1,157.1 million, as of December 31, 2018: US\$1,388.2 million and 2017: US\$979.2 million) to buy RMB and notional amounts of RMB2,803.9 million (approximately US\$401.7 million, as of December 31, 2018: US\$441.3 million and 2017: nil) to sell RMB.

The cross currency swap contracts were designated as hedging instrument of cash flow hedges since October 2016. Any gains or losses arising from changes in fair value of cross currency swap contracts are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

During the year, US\$0.5 million gain of fair value change of cross currency swap as cash flow hedges was recognized in other gains, net (Note 9, 2018: US\$2.3 million gain and 2017: US\$2.2 million gain). The following foreign-exchange related amounts of cash flow hedges were recognized in profit or loss and other comprehensive income or loss:

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Other comprehensive income (loss) on cash flow hedges recognized during the year:			
Total fair value (loss) gain included in other comprehensive income (loss)	(51,331)	(48,714)	95,185
Reclassified from other comprehensive income (loss) to offset foreign exchange gains or losses	24,807	84,645	(60,042)
	(26,524)	35,931	35,143
Balance of cash flow hedges reserve at beginning of the year	36,447	516	(34,627)
Balance of cash flow hedges reserve at end of the year	9,923	36,447	516

38. RISK MANAGEMENT *(continued)*

FOREIGN CURRENCY RISK *(continued)*

Cross currency swap contracts *(continued)*

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average exchange rate			Foreign currency			Notional value			Net fair value assets (liabilities)		
	2019	2018	2017	12/31/19 FC'000	12/31/18 FC'000	12/31/17 FC'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Buy RMB												
Within 1 year	6.7906	6.8681	6.6369	800,000	5,852,000	1,040,000	114,605	852,663	159,163	(2,920)	(11,650)	3,997
1–5 years	6.6379	6.8635	6.6356	7,277,254	3,675,529	5,358,000	1,042,512	535,542	819,993	(58,243)	(10,274)	15,679
Sell RMB												
Within 1 year	7.0092	6.8912	—	2,803,930	3,028,809	—	401,680	441,312	—	(1,862)	(1,573)	—
							1,558,797	1,829,517	979,156	(63,025)	(23,497)	19,676

The Group does not enter into cross currency swap contracts for speculative purposes.

INTEREST RATE RISK

The Group is exposed to interest rate risk relates primarily to the Group's long-term borrowing 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.

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, 2019 would increase by US\$2.3 million (2018: profit increase by US\$0.9 million and 2017: profit increase by US\$0.4 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

38. RISK MANAGEMENT *(continued)*

INTEREST RATE RISK *(continued)*

Interest rate swap contracts

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

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

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

	Average fixed rate			Foreign currency			Notional value			Net fair value assets		
	2019	2018	2017	12/31/19 FC'000	12/31/18 FC'000	12/31/17 FC'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Receive floating pay fixed rates												
1–5 years	2.6%	—	—	200,000	—	—	28,651	—	—	1,872	—	—

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is linking to 3 month Libor. The Company will settle the difference between the fixed and floating interest rate on a net basis.

PRICE RISK

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 22).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

CREDIT RISK

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 receivables, other financial assets at amortized cost and financial assets at FVPL.

38. RISK MANAGEMENT *(continued)*

CREDIT RISK *(continued)*

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 the four 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 the four largest customers did not exceed 2%, 2%, 1% and 1% respectively of gross monetary assets at the end of current year. Concentration of credit risk to any other counterparty did not exceed 1% 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 net sales and gross accounts receivable is disclosed in Note 6.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance as at December 31, 2019, December 31, 2018 and January 1, 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

	Current USD'000	31–60 days USD'000	61–90 days USD'000	91–120 days USD'000	Over 120 days USD'000	Total USD'000
December 31, 2019						
Expected loss rate	0.1%	2%	4%	15%	44%	
Trade receivables	433,875	36,792	10,027	5,733	1,798	488,225
Allowance on doubtful trade receivables	376	736	401	860	791	3,164
	Current USD'000	31–60 days USD'000	61–90 days USD'000	91–120 days USD'000	Over 120 days USD'000	Total USD'000
December 31, 2018						
Expected loss rate	0.1%	2%	4%	14%	44%	
Trade receivables	385,633	11,174	10,742	2,508	1,996	412,053
Allowance on doubtful trade receivables	276	173	481	342	883	2,155
	Current USD'000	31–60 days USD'000	61–90 days USD'000	91–120 days USD'000	Over 120 days USD'000	Total USD'000
January 1, 2018						
Expected loss rate	0.1%	2%	4%	15%	42%	
Trade receivables	394,079	9,796	1,960	732	1,408	407,975
Allowance on doubtful trade receivables	343	212	79	110	591	1,335

38. RISK MANAGEMENT *(continued)*

CREDIT RISK *(continued)*

Trade receivables *(continued)*

The closing allowance on doubtful trade receivables as at December 31, 2019 reconcile to the opening balance as follows:

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Balance at the beginning of the year	2,155	1,335	1,491
Addition in allowance on doubtful trade receivables	1,449	964	301
Reversal of allowance on doubtful trade receivables	(373)	(27)	(438)
Amounts written off during the year as uncollectible	(67)	—	(19)
Reclassified as held-for-sale	—	(117)	—
Balance at the end of the year	3,164	2,155	1,335

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

Other financial assets at amortized cost

Other financial assets at amortized cost include bank deposits will mature over 3 months, debentures, refundable deposits and other receivables. The main credit risk on bank deposits will mature over 3 months is limited because the counterparties are banks with high credit-ratings. All of the Group's financial assets at amortized cost are considered to have low credit risk as no significant increase in credit risk since the initial recognition.

Based on the assessment, the loss allowance recognized during the year for other financial assets at amortized cost was immaterial to 12 months expected losses. Thus there were no loss allowance for other financial assets at amortized cost as at December 31, 2019, December 31, 2018 and as at December 31, 2017 reconciles to the opening loss allowance on January 1, 2018.

Financial assets at fair value through profit or loss

The Group is also exposed to credit risk in relation to financial assets that are measured at fair value through profit or loss. The maximum exposure at the end of the year is the carrying amount of these investments, amounted to US\$133.1 million (December 31, 2018: US\$97.2 million).

LIQUIDITY RISK

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.

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(continued)*

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, 2019							
Interest-bearing bank	Fixed	2.54%	178,342	44,593	570,108	223,472	1,016,515
and other borrowings	Floating	2.49%	22,009	319,658	1,216,555	—	1,558,222
Lease payable		3.70–5.00%	26,630	62,960	175,356	—	264,946
Convertible bonds		3.88%	—	642,500	—	—	642,500
Medium-term notes		3.57%	7,997	—	240,018	—	248,015
Short-term notes		3.10%	—	293,174	—	—	293,174
Trade and other payables			781,731	15,770	230,443	6,135	1,034,079
Other liabilities			—	31,087	22,382	—	53,469
			1,016,709	1,409,742	2,454,862	229,607	5,110,920

		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, 2018							
Interest-bearing bank	Fixed	2.26%	2,192	124,797	282,735	270,316	680,040
and other borrowings	Floating	2.70%	215,561	190,894	1,050,020	161,621	1,618,096
Convertible bonds		3.79%	—	—	442,500	—	442,500
Bonds payable		4.52%	—	500,000	—	—	500,000
Medium-term notes		3.70%	—	226,162	—	—	226,162
Trade and other payables			911,415	15,129	36,105	2,211	964,860
Other liabilities			14,570	19,670	53,768	—	88,008
			1,143,738	1,076,652	1,865,128	434,148	4,519,666

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(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, 2017							
Interest-bearing bank	Fixed	3.20%	140,338	24,757	313,497	338,632	817,224
and other borrowings	Floating	2.36%	16,712	87,753	958,367	307,003	1,369,835
Convertible bonds		3.79%	—	—	442,500	—	442,500
Bonds payable		4.52%	—	—	500,000	—	500,000
Medium-term notes		3.70%	—	—	226,162	—	226,162
Finance lease payables		3.68%	434	1,308	4,935	—	6,677
Trade and other payables			880,795	5,492	161,169	3,004	1,050,460
Other liabilities			—	20,661	77,011	—	97,672
			1,038,279	139,971	2,683,641	648,639	4,510,530

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, 2019							
Trade and other receivables			811,050	25,093	—	—	836,143
Cash and cash equivalent, restricted cash* and financial assets at amortized cost		3.01%	4,094,674	640,549	174,622	—	4,909,845
Financial assets at fair value through profit or loss			42,985	—	—	90,067	133,052
			4,948,709	665,642	174,622	90,067	5,879,040

		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, 2018							
Trade and other receivables			837,828	—	—	—	837,828
Cash and cash equivalent, restricted cash* and financial assets at amortized cost		2.29%	2,698,067	1,293,246	—	—	3,991,313
Financial assets at fair value through profit or loss			41,805	—	—	55,472	97,277
			3,577,700	1,293,246	—	55,472	4,926,418

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(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, 2017						
Trade and other receivables		616,308	—	—	—	616,308
Cash and cash equivalent, restricted cash* and short-term investments	1.25%	2,231,089	276,723	116,282	—	2,624,094
Available-for-sale financial assets		—	—	—	24,844	24,844
		2,847,397	276,723	116,282	24,844	3,265,246

* The above restricted cash excludes the cash received from government funds.

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 borrowings, of which US\$2,739.1 million were unused at the end of the reporting period (2018: US\$2,518.5 million and 2017: US\$1,810.2 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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.

	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, 2019					
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
— inflows	—	400,000	719,514	—	1,119,514
— (outflows)	—	(405,265)	(746,905)	—	(1,152,170)
Net settled:					
— net outflows	(1,044)	(1,479)	(15,756)	—	(18,279)
	(1,044)	(6,744)	(43,147)	—	(50,935)

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(continued)*

Liquidity and interest risk tables (continued)

	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, 2018					
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
— inflows	—	607,595	508,984	—	1,116,579
— (outflows)	—	(613,270)	(528,383)	—	(1,141,653)
Net settled:					
— net outflows	(8,783)	—	(738)	—	(9,521)
Cross currency swap contracts					
Gross settled:					
— inflows	—	262,652	—	—	262,652
— (outflows)	—	(261,472)	—	—	(261,472)
	(8,783)	(4,495)	(20,137)	—	(33,415)

	Less than 3 months to 3 months USD'000	1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
December 31, 2017					
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
— inflows	—	37,703	512,067	—	549,770
— (outflows)	—	(34,254)	(480,984)	—	(515,238)
Net settled:					
— net inflows	—	2,854	20,730	—	23,584
	—	6,303	51,813	—	58,116

39. CASH FLOW INFORMATION

NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Net Debt			
Cash and cash equivalent	2,238,840	1,786,420	1,838,300
Liquid investments ⁽¹⁾	2,319,355	2,038,493	683,812
Borrowings	(2,566,669)	(2,290,768)	(2,184,547)
Lease liabilities	(247,732)	—	—
Bonds payable	—	(498,551)	(496,689)
Convertible bonds	(630,428)	(418,592)	(403,329)
Medium-term notes	(214,193)	(218,247)	(228,483)
Short-term notes	(286,512)	—	—
	612,661	398,755	(790,936)

39. CASH FLOW INFORMATION *(continued)*

NET DEBT RECONCILIATION *(continued)*

	Liabilities from financing activities							Cash and cash equivalents	Liquid investments	Total
		Lease	Bonds	Convertible	Medium-term	Short-term				
	Borrowings	liabilities	payable	bonds	notes	notes	Subtotal			
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at December 31, 2016	(1,442,768)	—	(494,909)	(786,611)	(214,502)	(86,493)	(3,025,283)	2,126,011	31,543	(867,729)
Net cash flows	(657,643)	—	—	—	—	87,858	(569,785)	(309,862)	642,862	(236,785)
Conversion options exercised	—	—	—	399,099	—	—	399,099	—	—	399,099
Foreign exchange loss	(84,136)	—	—	—	(13,246)	(1,365)	(98,747)	22,151	9,468	(67,128)
Other changes ⁽²⁾	—	—	(1,780)	(15,817)	(735)	—	(18,332)	—	(61)	(18,393)
Balance at December 31, 2017	(2,184,547)	—	(496,689)	(403,329)	(228,483)	—	(3,313,048)	1,838,300	683,812	(790,936)
Net cash flows	(245,650)	—	—	—	—	—	(245,650)	(20,913)	1,360,995	1,094,432
Reclassified as held- for-sale	58,467	—	—	—	—	—	58,467	(14,554)	—	43,913
Foreign exchange gain	80,962	—	—	—	10,978	—	91,940	(16,413)	(8,094)	67,433
Other changes ⁽²⁾	—	—	(1,862)	(15,263)	(742)	—	(17,867)	—	1,780	(16,087)
Balance at December 31, 2018	(2,290,768)	—	(498,551)	(418,592)	(218,247)	—	(3,426,158)	1,786,420	2,038,493	398,755
Recognized on adoption of IFRS 16	—	(279,681)	—	—	—	—	(279,681)	—	—	(279,681)
Balance at January 1, 2019	(2,290,768)	(279,681)	(498,551)	(418,592)	(218,247)	—	(3,705,839)	1,786,420	2,038,493	119,074
Net cash flows	(300,040)	89,215	500,000	(229,680)	(6,070)	(299,400)	(245,975)	461,382	447,155	662,562
Acquisition of leases	—	(56,959)	—	—	—	—	(56,959)	—	—	(56,959)
Equity component of convertible bonds	—	—	—	34,147	—	—	34,147	—	—	34,147
Foreign exchange gain	24,139	—	—	—	9,709	12,894	46,742	(8,962)	(54,339)	(16,559)
Other changes ⁽²⁾	—	(307)	(1,449)	(16,303)	415	(6)	(17,650)	—	(111,954)	(129,604)
Balance at December 31, 2019	(2,566,669)	(247,732)	—	(630,428)	(214,193)	(286,512)	(3,945,534)	2,238,840	2,319,355	612,661

⁽¹⁾ Liquid investments comprise current investments of financial products sold by banks, monetary funds, bank deposits to be matured over 3 months and debentures, being the financial assets disclosed in Note 22.

⁽²⁾ Other changes include non-cash movements, including accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid.

NON-CASH INVESTING ACTIVITIES

No acquisition of tangible and intangible assets by means of long-term payables occurred for the year ended December 31, 2019 (December 31, 2018: nil and December 31, 2017: US\$97.6 million), respectively. Non-cash investing activities in relation to leases are disclosed in Note 17.

40. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the year ended December 31, 2019 and the relationships with the Group are disclosed below:

Related party name	Relationship with the Group
Datang Microelectronics Technology Co., Ltd.	A subsidiary of Datang Group
Datang Semiconductor Co., Ltd.	A subsidiary of Datang Group
Leadcore Technology Co., Ltd. and Leadcore Technology (Hong Kong) Co., Ltd. ("Leadcore")	A subsidiary of Datang Group
Xingtang Telecommunications Technology Co., Ltd. ("Xingtang")	A subsidiary of Datang Group
Toppan SMIC Electronic (Shanghai) Co., ("Toppan")	An associate of the Group
Brite Semiconductor (Shanghai) Corporation and its subsidiaries ("Brite")	An associate of the Group
China Fortune-Tech Capital Co., Ltd. ("China Fortune-Tech")	An associate of the Group
Jiangsu Changjiang Electronics Technology Co., Ltd. ("JCET") and its subsidiaries	An associate of the Group
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")	An associate of the Group
Semiconductor Manufacturing Electronics (Shaoxing) Corp. ("SMEC")	An associate of the Group
Ningbo Semiconductor International Corporation ("NSI")	An associate of the Group
Semiconductor Global Solutions Corporation ("SGS")	An associate of the Group

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			Sale of services		
	Year ended			Year ended		
	12/31/19	12/31/18	12/31/17	12/31/19	12/31/18	12/31/17
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Datang Microelectronics Technology Co., Ltd. ⁽¹⁾	8,669	9,783	15,667	—	—	—
Datang Semiconductor Co., Ltd. ⁽¹⁾	76	117	535	—	—	—
Leadcore ⁽¹⁾	922	2,018	3,960	—	—	—
Xingtang ⁽¹⁾	199	—	—	—	—	—
Toppan	—	—	—	—	4,050	3,896
Brite	43,535	33,568	44,212	415	—	—
JCET and its subsidiaries	26,901	64	17	690	89	48
SMEC	36,920	11,346	—	9,303	—	—
NSI	4,816	862	—	785	2,128	—
SGS	—	—	—	11	—	—

40. RELATED PARTY TRANSACTIONS (continued)

	Purchase of goods			Purchase of services		
	Year ended			Year ended		
	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Datang Microelectronics Technology Co., Ltd ⁽¹⁾	—	—	—	23	106	—
Toppan	6,063	7,277	11,275	99	32	59
Brite	—	—	—	—	96	2,016
China Fortune-Tech	—	—	—	297	352	959
SMEC	152	—	—	490	—	—
JCET and its subsidiaries	7,231	9,923	1,778	896	819	620
Sino IC Leasing ⁽¹⁾	—	—	—	— ⁽²⁾	87,071	51,739

	Sale of equipment			Grant of licensing		
	Year ended			Year ended		
	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Sino IC Leasing ⁽²⁾	—	306,750	661,455	—	—	—
SMEC ⁽³⁾	3,150	68,829	—	—	163,845	—

	Purchase of equipment			Increase of right-of-use assets		
	Year ended			Year ended		
	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
SGS	736	—	—	—	—	—
Sino IC Leasing ⁽²⁾	—	—	—	54,692	—	—
JCET and its subsidiaries ⁽⁵⁾	22	—	—	2,267	—	—

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

	Amounts due from related parties			Amounts due to related parties		
	Year ended			Year ended		
	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/19 USD'000	12/31/18 USD'000	12/31/17 USD'000
Datang Microelectronics Technology Co., Ltd	810	3,379	4,279	—	—	—
Datang Semiconductor Co., Ltd	36	10	302	—	—	—
Leadcore	143	936	—	—	—	—
Toppan	—	2,365	670	492	737	888
Brite	15,534	10,775	12,951	—	—	—
JCET and its subsidiaries	13,497	47	21	2,582	948	3
SMEC	37,243	104,506	—	70	—	—
NSI	6,146	2,922	—	—	—	—
SGS	4	—	—	46	—	—
Sino IC Leasing	—	44,702 ⁽⁴⁾	—	245,768 ⁽²⁾	—	—

⁽¹⁾ The related party transactions in respect of (1) above constituted non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules. Details are disclosed in the section Non-exempt Continuing Connect Transactions in the annual report. The other party transactions did not constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules.

40. RELATED PARTY TRANSACTIONS *(continued)*

- ⁽²⁾ In February 2017, July 2017 and July 2018, there were three, seven and four arrangements in consideration of US\$250.6 million, US\$410.8 million and US\$306.8 million, respectively entered into by the Group with the subsidiaries of Sino IC Leasing in the form of a sale and leaseback transaction with a repurchase option.

As the repurchase prices are set at the expected fair value and the Group is not reasonably certain that it will exercise the repurchase options, the above transactions have been accounted for a disposal of property, plant and equipment followed with an operating lease. The total discounted future minimum lease payments under the lease arrangements was recorded as right-of-use assets.

With the adoption of IFRS 16 from January 1, 2019, the Group recognized right-of-use assets and lease liabilities for the leases engaged with Sino IC Leasing. Please refer to Note 17. As of December 31, 2019, the balance of lease liabilities amounted to US\$245.8 million. For year ended December 31, 2019, the increase of right-of-use assets was US\$54.7 million, the interest expenses recognized were US\$10.3 million and the payment of lease liabilities was US\$89.2 million.

- ⁽³⁾ In 2018, the technology licensing internally developed and not capitalized was authorized to SMEC with the revenue of US\$163.8 million and no related cost of sales recognized by the Group.
- ⁽⁴⁾ On July 6, 2018 and August 10, 2018, SMIC Beijing has respectively subscribed for, an amount of RMB200.0 million (approximately US\$30.2 million) and RMB100.0 million (approximately US\$14.6 million) out of the total issue of an aggregate principal amount of RMB500.0 million of the oriented debt financing instrument issued by Sino IC Leasing, which was recorded as financial assets at amortized cost.
- ⁽⁵⁾ With the adoption of IFRS 16 from January 1, 2019, the Group recognized right-of-use assets and lease liabilities for the leases engaged with JCET and its subsidiaries. Please refer to Note 17. As of December 31, 2019, the balance of lease liabilities amounted to US\$1.9 million. For year ended December 31, 2019, the increase of right-of-use assets was US\$2.3 million, the interest expenses recognized were US\$0.1 million and the payment of lease liabilities was US\$0.5 million.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT PERSONNEL

Directors and senior management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The remuneration of directors and senior management personnel during the year are as follows:

	Year ended 12/31/19 USD'000	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000
Salaries, bonus and benefits	3,184	3,973	4,853
Equity-settled share-based payments	751	2,390	8,264
	3,935	6,363	13,117

The remuneration of directors and senior management personnel is determined by the Compensation Committee having regard to the Group's profitability, business achievement, individual performance and market trends.

ARRANGEMENTS/CONTRACTS FOR SALE OF SELF-DEVELOPED LIVING QUARTER UNIT

In January 2018, the Group sold self-developed living quarter unit amounted to US\$1.2 million to one director of the Company. In May 2018, the Group entered into arrangement/contracts with one senior management of the company for sale of self-developed living quarter unit and the amount of the consideration was approximately US\$1.1 million. The transaction was completed in March 2019.

In July 2018, the Group entered into arrangement/contracts with one director of the company for sale of self-developed living quarter unit and the amount of the consideration was approximately US\$0.9 million. The transaction was completed in September 2019.

41. COMMITMENTS

CAPITAL COMMITMENTS

As of December 31, 2019, 2018 and 2017, 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, 2020.

	12/31/19	12/31/18	12/31/17
	USD'000	USD'000	USD'000
Commitments for the facility construction	126,233	333,211	484,468
Commitments for the acquisition of machinery and equipment	1,645,867	1,209,335	476,132
Commitments for the acquisition of intangible assets	7,507	5,732	5,596
	1,779,607	1,548,278	966,196

NON-CANCELLABLE OPERATING LEASES

The Group leases certain of its production equipment under operating lease arrangements. Leases are negotiated for terms ranging from three to five years. Please refer to Note 40 for details.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	12/31/19	12/31/18	12/31/17
	USD'000	USD'000	USD'000
Within 1 year	—	121,588	91,181
1–5 years	—	230,952	203,684
	—	352,540	294,865

From January 1, 2019, the Group has recognized right-of-use assets for these leases. Please see Note 17 for further information.

42. FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENT OF FINANCIAL POSITION

	(In USD'000)		
	12/31/19	12/31/18	12/31/17
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	63,414	48,168	47,090
Intangible assets	20,630	32,437	59,138
Investment in subsidiaries	5,311,361	5,051,780	4,779,485
Investments in associates	147,425	145,285	132,427
Derivative financial instruments	—	5,266	—
Other financial assets	—	—	11,732
Other assets	11,354	141,603	372,275
Total non-current assets	5,554,184	5,424,539	5,402,147
<i>Current assets</i>			
Prepayment and prepaid operating expenses	1,173	298	428
Trade and other receivables	28,557	28,982	29,061
Due from subsidiaries	2,190,675	2,027,008	1,609,556
Financial asset at amortized cost	—	40,000	—
Derivative financial instruments	—	1,323	—
Other financial assets	—	—	95,440
Cash and cash equivalent	95,097	107,795	140,411
Total current assets	2,315,502	2,205,406	1,874,896
Total assets	7,869,686	7,629,945	7,277,043

42. FINANCIAL INFORMATION OF PARENT COMPANY *(continued)*

STATEMENT OF FINANCIAL POSITION *(continued)*

	(In USD'000)		
	12/31/19	12/31/18	12/31/17
Equity and liabilities			
<i>Capital and reserves</i>			
Ordinary shares, \$0.004 par value, 10,000,000,000 shares authorized, 5,056,868,912, 5,039,819,199 and 4,916,106,889 shares issued and outstanding at December 31, 2019, 2018 and 2017, respectively	20,227	20,159	19,664
Share premium	5,011,915	4,993,163	4,827,619
Reserves	86,749	109,346	134,669
Retained earnings	550,506	331,298	187,008
Equity attributable to owners of the Company	5,669,397	5,453,966	5,168,960
Perpetual subordinated convertible securities	563,848	563,848	64,073
Total equity	6,233,245	6,017,814	5,233,033
<i>Non-current liabilities</i>			
Borrowings	187,267	—	76,520
Convertible bonds	—	418,592	403,329
Bonds payable	—	—	496,689
Medium-term notes	214,193	—	228,483
Derivative financial instruments	41,174	8,711	—
Other financial liabilities	—	—	1,885
Other liabilities	—	—	520
Total non-current liabilities	442,634	427,303	1,207,426
<i>Current liabilities</i>			
Trade and other payables	19,444	18,033	17,489
Due to subsidiaries	176,393	351,017	804,476
Borrowings	61,800	72,852	—
Convertible bonds	630,428	—	—
Bonds payable	—	498,551	—
Medium-term notes	—	218,247	—
Short-term notes	286,512	—	—
Accrued liabilities	16,310	13,789	13,877
Derivative financial instruments	2,920	12,339	—
Other financial liabilities	—	—	742
Total current liabilities	1,193,807	1,184,828	836,584
Total liabilities	1,636,441	1,612,131	2,044,010
Total equity and liabilities	7,869,686	7,629,945	7,277,043

42. FINANCIAL INFORMATION OF PARENT COMPANY *(continued)*

STATEMENT OF CHANGES IN EQUITY

	(In USD'000)												
	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available- for-sale financial assets	Convertible bonds equity reserve	Defined benefit pension reserve	Cash flow hedges	Share of other comprehensive income of joint ventures accounted for using equity method	Others	Retained earnings (accumulated deficit)	Perpetual subordinated convertible securities	Total equity
Balance at December 31, 2016	17,012	4,950,948	65,703	(22,087)	1,245	81,678	1,520	(34,627)	—	131	(910,849)	—	4,150,674
Profit for the year	—	—	—	—	—	—	—	—	—	—	179,679	—	179,679
Other comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—	(436)	35,143	17,646	(131)	—	—	71,456
Total comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—	(436)	35,143	17,646	(131)	179,679	—	251,135
Exercise of stock options	130	35,178	(18,220)	—	—	—	—	—	—	—	—	—	17,088
Share-based compensation	—	—	17,495	—	—	—	—	—	—	—	—	—	17,495
Conversion options of convertible bonds exercised during the year	1,556	427,168	—	—	—	(29,625)	—	—	—	—	—	—	399,099
Issuance of ordinary shares	966	325,174	—	—	—	—	—	—	—	—	—	—	326,140
Perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	—	64,073	64,073
Share premium reduction	—	(910,849)	—	—	—	—	—	—	—	—	910,849	—	—
Gain on transfer of business operation	—	—	—	—	—	—	—	—	—	—	7,329	—	7,329
Subtotal	2,652	(123,329)	(725)	—	—	(29,625)	—	—	—	—	918,178	64,073	831,224
Balance at December 31, 2017	19,664	4,827,619	64,978	(497)	(1,111)	52,053	1,084	516	17,646	—	187,008	64,073	5,233,033
Adoption of IFRS 9	—	—	—	—	1,111	—	—	—	(17,646)	—	16,535	—	—
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497)	—	52,053	1,084	516	—	—	203,543	64,073	5,233,033
Profit for the year	—	—	—	—	—	—	—	—	—	—	134,055	—	134,055
Other comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—	—	—	(78)
Total comprehensive income (losses) for the year	—	—	—	(36,138)	—	—	129	35,931	—	—	134,055	—	133,977
Issuance of ordinary shares	474	160,404	—	—	—	—	—	—	—	—	—	—	160,878
Cancellation of treasury stock	(76)	(19,981)	—	—	—	—	—	—	—	—	—	—	(20,057)
Exercise of stock options	97	25,121	(17,211)	—	—	—	—	—	—	—	—	—	8,007
Share-based compensation	—	—	10,912	—	—	—	—	—	—	—	—	—	10,912
Perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	—	499,775	499,775
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(6,300)	—	(6,300)
Deconsolidation of subsidiary due to loss of control	—	—	—	(1,774)	—	—	—	—	—	—	—	—	(1,774)
Share of other capital reserve of associates accounted for using equity method	—	—	—	—	—	—	—	—	—	(637)	—	—	(637)
Subtotal	495	165,544	(6,299)	(1,774)	—	—	—	—	—	(637)	(6,300)	499,775	650,804
Balance at December 31, 2018	20,159	4,993,163	58,679	(38,409)	—	52,053	1,213	36,447	—	(637)	331,298	563,848	6,017,814
Profit for the year	—	—	—	—	—	—	—	—	—	—	234,681	—	234,681
Other comprehensive income (losses) for the year	—	—	—	(17,794)	—	—	(1,532)	(26,524)	—	—	—	—	(45,850)
Total comprehensive income (losses) for the year	—	—	—	(17,794)	—	—	(1,532)	(26,524)	—	—	234,681	—	188,831
Exercise of stock options	68	18,752	(11,884)	—	—	—	—	—	—	—	—	—	6,936
Share-based compensation	—	—	5,756	—	—	—	—	—	—	—	—	—	5,756
Issuance of convertible bond	—	—	—	—	—	34,147	—	—	—	—	—	—	34,147
Transaction with non-controlling interests	—	—	—	—	—	—	—	—	—	(5,013)	(3,854)	—	(8,867)
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(11,300)	—	(11,300)
Deconsolidation of subsidiaries due to loss of control	—	—	—	(72)	—	—	319	—	—	—	(319)	—	(72)
Subtotal	68	18,752	(6,128)	(72)	—	34,147	319	—	—	(5,013)	(15,473)	—	26,600
Balance at December 31, 2019	20,227	5,011,915	52,551	(56,275)	—	86,200	—	9,923	—	(5,650)	550,506	563,848	6,233,245

43. SUBSEQUENT EVENTS

ISSUE OF CORPORATE BONDS

On February 27, 2020, the Company issued 5-year unsecured corporate bonds for a total amount of US\$600.0 million. The corporate bonds carry a coupon interest rate of 2.693% with bond interest payable semi-annually on February 27 and August 27. The net proceeds (net of fees, commissions and expenses) from the issue of the bonds were approximately US\$596.4 million.

EFFECT OF OUTBREAK OF NOVEL CORONAVIRUS

Since January 2020, there was a widespread of a novel coronavirus (named COVID-19 by the World Health Organization) within the PRC. Certain businesses in major cities in the PRC had been temporarily suspended after the Chinese New Year holidays in order to contain and mitigate the current outbreak. However, the Group managed to maintain the majority of its business operation.

Based on the current assessment and subject to the development of the COVID-19 epidemic, the Directors of the Group are of the view that the COVID-19 epidemic is unlikely to have a material and adverse effect on the Group's overall operation and financial performance after 31 December 2019.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors of the Company on March 31, 2020.

ANNUAL REPORT

The Annual Report for the year ended December 31, 2019 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

Gao Yonggang

Executive Director, Chief Financial Officer and Joint Company Secretary

Shanghai, PRC, March 31, 2020

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

Executive Directors

Zhou Zixue (*Chairman*)

Zhao Haijun (*Co-Chief Executive Officer*)

Liang Mong Song (*Co-Chief Executive Officer*)

Gao Yonggang (*Chief Financial Officer and Joint Company Secretary*)

Non-executive Directors

Chen Shanzhi

Zhou Jie

Ren Kai

Lu Jun

Tong Guohua

Independent non-executive Directors

William Tudor Brown

CONG Jingsheng Jason

LAU Lawrence Juen-Yee

FAN Ren Da Anthony

YOUNG Kwang Leei

* *For identification purpose only*