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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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2019

FINANCIAL HIGHLIGHTS

- Revenue was US\$1,459.8 million for the six months ended June 30, 2019, compared to US\$1,721.8 million and US\$1,561.3 million excluding the technology licensing revenue for the six months ended June 30, 2018.
- Gross profit was US\$273.2 million for the six months ended June 30, 2019, compared to US\$438.0 million and US\$277.6 million excluding the technology licensing revenue for the six months ended June 30, 2018.
- Gross margin excluding the technology licensing revenue increased from 17.8% for the six months ended June 30, 2018 to 18.7% for the six months ended June 30, 2019.
- Earnings before interest, tax, depreciation and amortization margin increased from 37.0% for the six months ended June 30, 2018 to 41.1% for the six months ended June 30, 2019.
- The net debt to equity ratio remained low at 4.8% June 30, 2019.

RESULTS

The Board of Directors (the “**Board**”) of Semiconductor Manufacturing International Corporation (the “**Company**” or “**SMIC**”) would like to announce the unaudited interim results of operations of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ended June 30, 2019.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2019 and 2018

(In USD'000, except per share data)

	Notes	Six months ended	
		06/30/19 (unaudited)	06/30/18 (unaudited)
Revenue	6	1,459,781	1,721,757
Cost of sales		(1,186,553)	(1,283,748)
Gross profit		273,228	438,009
Research and development expenses, net		(201,044)	(270,172)
Sales and marketing expenses		(15,663)	(16,652)
General and administration expenses		(107,726)	(99,478)
Net impairment losses recognized on financial assets		(1,705)	(829)
Other operating income, net	7	34,525	10,520
(Loss) profit from operations		(18,385)	61,398
Interest income		66,311	25,495
Finance costs	8	(31,465)	(24,170)
Foreign exchange gains		5,625	6,269
Other gains, net	9	10,312	6,699
Share of net (loss) profit of investment using equity method		(26,349)	1,438
Profit before tax	10	6,049	77,129
Income tax expense	11	(7,489)	(18,384)
(Loss) profit for the period		(1,440)	58,745
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		321	(126)
Cash flow hedges	24	(22,480)	34,712
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gains or losses on defined benefit plans		(1,532)	728
Total comprehensive (loss) income for the period		(25,131)	94,059
Profit (loss) for the period attributable to:			
Owners of the Company		30,811	80,976
Non-controlling interests		(32,251)	(22,231)
		(1,440)	58,745
Total comprehensive income (loss) for the period attributable to:			
Owners of the Company		5,931	115,751
Non-controlling interests		(31,062)	(21,692)
		(25,131)	94,059
Earnings per share			
Basic	13	\$0.00	\$0.02
Diluted	13	\$0.00	\$0.02

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019 and December 31, 2018

(In USD'000)

	Notes	06/30/19 (unaudited)	12/31/18 (audited)
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	14	7,610,109	6,777,970
Right-of-use assets	33	230,854	—
Land use right		129,338	105,436
Intangible assets		110,295	122,854
Investments in associates	15	1,131,478	1,135,442
Investments in joint ventures	16	16,631	15,687
Deferred tax assets		46,326	45,426
Financial assets at fair value through profit or loss	17	55,591	55,472
Derivative financial instruments	17	2,225	5,266
Other assets		6,901	11,176
Total non-current assets		9,339,748	8,274,729
<i>Current assets</i>			
Inventories	18	647,154	593,009
Prepayment and prepaid operating expenses		51,647	28,161
Trade and other receivables	19	904,077	837,828
Financial assets at fair value through profit or loss	17	25,161	41,685
Financial assets at amortized cost	17	2,205,246	1,996,808
Derivative financial instruments	17	5,796	2,583
Restricted cash	20	1,157,668	592,290
Cash and cash equivalent		1,518,578	1,786,420
		6,515,327	5,878,784
Assets classified as held-for-sale	21	250,670	270,807
Total current assets		6,765,997	6,149,591
Total assets		16,105,745	14,424,320

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As of June 30, 2019 and December 31, 2018

(In USD'000)

	Notes	06/30/19 (unaudited)	12/31/18 (audited)
Equity and liabilities			
<i>Capital and reserves</i>			
Ordinary shares	22	20,206	20,159
Share premium		5,005,523	4,993,163
Reserves		80,058	109,346
Retained earnings		353,362	331,298
Equity attributable to owners of the Company		5,459,149	5,453,966
Perpetual subordinated convertible securities	25	563,848	563,848
Non-controlling interests		3,574,591	2,905,766
Total equity		9,597,588	8,923,580
<i>Non-current liabilities</i>			
Borrowings	26	1,849,016	1,760,763
Lease liabilities	33	157,213	—
Convertible bonds	27	426,365	418,592
Medium-term notes	29	217,336	—
Deferred tax liabilities		7,288	1,639
Deferred government funding		434,916	393,902
Derivative financial instruments	17	39,584	15,540
Other financial liabilities	17	—	11,948
Other liabilities	17	46,525	39,128
Total non-current liabilities		3,178,243	2,641,512
<i>Current liabilities</i>			
Trade and other payables	30	1,092,458	964,860
Contract liabilities		65,355	44,130
Borrowings	26	756,162	530,005
Lease liabilities	33	82,189	—
Bonds payable	28	499,513	498,551
Short-term notes	29	218,191	—
Medium-term notes		—	218,247
Deferred government funding		295,159	244,708
Accrued liabilities		138,086	164,604
Derivative financial instruments	17	1,834	15,806
Other financial liabilities	17	11,928	—
Current tax liabilities		1,197	2,607
Other liabilities	17	22,703	32,263
		3,184,775	2,715,781
Liabilities directly associated with assets classified as held-for-sale	21	145,139	143,447
Total current liabilities		3,329,914	2,859,228
Total liabilities		6,508,157	5,500,740
Total equity and liabilities		16,105,745	14,424,320

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2019 and 2018

(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	Attributable to owner of the Company	Perpetual subordinated convertible securities	Non- controlling interest	Total equity
	(Note 22)		(Note 23)					(Note 24)					(Note 25)		
Balance at December 31, 2017 (audited)	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 IFRS9	—	—	—	—	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 period	—	—	—	—	—	—	—	—	—	—	80,976	80,976	—	(22,231)	58,745
Other comprehensive income (loss) for the period	—	—	—	(665)	—	—	728	34,712	—	—	—	34,775	—	539	35,314
Total comprehensive income (loss) for the period	—	—	—	(665)	—	—	728	34,712	—	—	80,976	115,751	—	(21,692)	94,059
Issuance of ordinary shares	246	83,256	—	—	—	—	—	—	—	—	—	83,502	—	—	83,502
Exercise of stock options	65	17,662	(14,345)	—	—	—	—	—	—	—	—	3,382	—	—	3,382
Share-based compensation	—	—	6,227	—	—	—	—	—	—	—	—	6,227	—	354	6,581
Issuance of perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	—	—	200,000	—	200,000
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(650)	(650)	—	—	(650)
Capital contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	523,950	523,950
Deconsolidation of subsidiary due to loss of control	—	—	—	(1,774)	—	—	—	—	—	—	—	(1,774)	—	(15,629)	(17,403)
Subtotal	311	100,918	(8,118)	(1,774)	—	—	—	—	—	—	(650)	90,687	200,000	508,675	799,362
Balance at June 30, 2018 (unaudited)	19,975	4,928,537	56,860	(2,936)	—	52,053	1,812	35,228	—	—	283,869	5,375,398	264,073	1,975,285	7,614,756
Balance at December 31, 2018 (audited)	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 (loss) for the period	—	—	—	—	—	—	—	—	—	—	30,811	30,811	—	(32,251)	(1,440)
Other comprehensive income (loss) for the period	—	—	—	(868)	—	—	(1,532)	(22,480)	—	—	—	(24,880)	—	1,189	(23,691)
Total comprehensive income (loss) for the period	—	—	—	(868)	—	—	(1,532)	(22,480)	—	—	30,811	5,931	—	(31,062)	(25,131)
Exercise of stock options	47	12,360	(9,796)	—	—	—	—	—	—	—	—	2,611	—	92	2,703
Share-based compensation	—	—	2,774	—	—	—	—	—	—	—	—	2,774	—	709	3,483
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—	—	—	—	—	(5,650)	(5,650)	—	—	(5,650)
Capital contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	698,603	698,603
Transactions with non-controlling interest	—	—	—	—	—	—	—	—	—	2,614	(3,097)	(483)	—	483	—
Subtotal	47	12,360	(7,022)	—	—	—	—	—	—	2,614	(8,747)	(748)	—	699,887	699,139
Balance at June 30, 2019 (unaudited)	20,206	5,005,523	51,657	(39,277)	—	52,053	(319)	13,967	—	1,977	353,362	5,459,149	563,848	3,574,591	9,597,588

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2019 and 2018

(In USD'000)

	Six months ended	
	06/30/19 (unaudited)	06/30/18 (unaudited)
Cash flow from operating activities		
Cash generated from operations	378,313	236,491
Interest paid	(57,050)	(33,859)
Interest received	45,419	16,494
Income taxes paid	(10,474)	(13,711)
Net cash from operating activities	356,208	205,415
Cash flow from investing activities		
Payments to acquire financial assets at fair value through profit or loss	(22,030)	(178,051)
Proceeds from sale of financial assets at fair value through profit or loss	43,609	179,887
Payments to acquire financial assets at amortized cost	(1,802,611)	(2,847,140)
Proceeds from maturity of financial assets at amortized cost	1,120,916	2,227,470
Payments for property, plant and equipment	(1,153,026)	(905,378)
Net proceeds after netting off land appreciation tax from disposal of property, plant and equipment and assets classified as held for sale	5,639	24,663
Payments for intangible assets	(5,339)	(5,235)
Payments for land use right	(1,402)	—
Proceeds from release of restricted cash relating to investing activities	26,529	4,802
Net cash outflow from deconsolidation of subsidiaries	—	(5,549)
Payments to acquire joint ventures and associates	(19,206)	(112,718)
Proceeds from disposal of joint ventures	—	4,847
Distributions received from associates	153	761
Net cash used in investing activities	(1,806,768)	(1,611,641)
Cash flow from financing activities		
Proceeds from borrowings	782,249	397,943
Repayment of borrowings	(475,848)	(240,163)
Principal elements of lease payments	(40,380)	—
Proceeds from issuance of new shares	—	83,502
Proceeds from issuance of perpetual subordinated convertible securities	—	200,000
Proceeds from issuance of short-term notes	222,853	—
Proceeds from issuance of medium-term notes	224,024	—
Repayment of medium-term notes	(217,954)	—
Distribution paid to perpetual subordinated convertible securities holders	(5,650)	(650)
Proceeds from exercise of employee stock options	2,703	3,382
Proceeds from non-controlling interests — capital contribution	698,603	523,950
Net cash from financing activities	1,190,600	967,964
Net decrease in cash and cash equivalents	(259,960)	(438,262)
Cash and cash equivalent, beginning of period	1,786,420	1,838,300
Effects of exchange rate changes on the balance of cash and cash equivalent held in foreign currencies	6,084	14,222
	1,532,544	1,414,260
Cash and cash equivalent of disposal group as held-for-sale	(13,966)	—
Cash and cash equivalent, end of period	1,518,578	1,414,260

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019

1. GENERAL INFORMATION

Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) was established as an exempted 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. SMIC and its subsidiaries (hereinafter collectively referred to as the “Group”) are mainly engaged in the computer-aided design, manufacturing, testing, packaging, trading of integrated circuits and other semiconductor services, as well as designing and manufacturing semiconductor masks.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The interim condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRSs.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Except for the adoption of IFRS 16 on January 1, 2019, the accounting policies and methods of computation used in the condensed consolidated financial statements as of and for the six months ended June 30, 2019 are the same as those followed in the preparation of the Group’s annual financial statements as of and for the year ended December 31, 2018.

New and revised standards, amendments and interpretations to existing standards have been issued and relevant to the Group but are not effective for the financial year beginning on January 1, 2019:

New or revised IFRS	Effective date
IFRS 17 — Insurance Contracts	On or after January 1, 2022
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 10 and IAS 28 — Sale or contribution of assets between an investor and its association or joint venture	Not yet determined

The Group is yet to assess the impact of the above new and revised standards, amendments and interpretations to existing standards on the Group’s condensed consolidated financial statements.

4. ESTIMATES

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended December 31, 2018.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2018.

There have been no changes in the risk management department since December 31, 2018 or in any risk management policies since December 31, 2018.

6. SEGMENT INFORMATION

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

	Revenue from external customers	
	Six months ended	
	06/30/19 USD'000	06/30/18 USD'000
At a point in time		
North America ⁽¹⁾	433,259	531,566
Mainland China and Hong Kong	810,264	1,039,923
Eurasia ⁽²⁾	216,258	150,268
	1,459,781	1,721,757

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

⁽²⁾ Not including Mainland China and Hong Kong.

The Group's operating revenue by product and service type is detailed below:

	Revenue from external customers	
	Six months ended	
	06/30/19 USD'000	06/30/18 USD'000
At a point in time		
Sales of wafers	1,372,480	1,495,078
Mask making, testing and others ⁽¹⁾	87,301	226,679
	1,459,781	1,721,757

⁽¹⁾ Including the recognized technology licensing revenue of US\$160.4 million for six months ended June 30, 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.

6. SEGMENT INFORMATION (CONTINUED)

LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognized the liabilities related to contracts with customers as contract liabilities of US\$65.4 million as of June 30, 2019 (December 31, 2018: US\$44.1 million). The contract liabilities comprises of the prepayments received from customers, to which wafers have not been transferred.

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 expands its capacity at the existing fabs. The following table summarizes property, plant and equipment of the Group by geographical location.

	Property, plant and equipment	
	06/30/19 USD'000	12/31/18 USD'000
North America	1	15
Europe	1,523	1,603
Asia ⁽¹⁾	49	66
Hong Kong	2,322	2,415
Mainland China	7,606,214	6,773,871
	7,610,109	6,777,970

⁽¹⁾ Not including Mainland China and Hong Kong.

7. OTHER OPERATING INCOME, NET

	Six months ended	
	06/30/19 USD'000	06/30/18 USD'000
Gain on disposal of property, plant and equipment and assets classified as held-for-sale ⁽¹⁾	2,795	1,994
Government funding	31,730	5,498
Impairment loss recognized in property, plant and equipment	—	(443)
Others	—	3,471
	34,525	10,520

⁽¹⁾ The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the six months ended June 30, 2019 and 2018 were primarily due to the gain arising from the sales of the staff living quarters to employees.

8. FINANCE COSTS

	Six months ended	
	06/30/19	06/30/18
	USD'000	USD'000
Interest on:		
Bank and other borrowings	28,892	23,475
Corporate bonds	11,275	11,233
Convertible bonds	7,773	7,490
Medium-term notes	6,139	4,307
Lease liabilities	5,595	—
Short-term notes	1,119	—
	60,793	46,505
Less: amounts capitalized	(29,328)	(22,335)
	31,465	24,170

The weighted average interest rate on funds borrowed generally is 2.99% per annum (six months ended June 30, 2018: 2.74% per annum).

9. OTHER GAINS, NET

	Six months ended	
	06/30/19	06/30/18
	USD'000	USD'000
Net gain (loss) arising on financial instruments at fair value through profit or loss ("FVPL")		
Financial products sold by banks and monetary fund	1,684	1,842
Equity securities	211	(558)
Cross currency swap contracts— cash flow hedges	505	706
Cross currency swap contracts	17	—
Foreign currency forward contracts	—	(2,889)
	2,417	(899)
Others	7,895	7,598
	10,312	6,699

10. PROFIT BEFORE TAX

	Six months ended	
	06/30/19	06/30/18
	USD'000	USD'000
Profit before tax has been arrived at after taking into account:		
Depreciation of property, plant and equipment	543,662	505,358
Amortization of land use rights	1,268	1,099
Amortization of intangible assets	17,207	29,587
Impairment losses recognized on inventory	41,928	29,065
Impairment losses recognized in respect of trade receivables	1,705	829
Foreign exchange gains	(5,625)	(6,269)
Expense arising from equity settled share-based payment transactions	3,483	6,581

11. INCOME TAX EXPENSE

	Six months ended	
	06/30/19	06/30/18
	USD'000	USD'000
Current tax — Land Appreciation Tax	866	64
Current tax — Enterprise Income Tax	2,535	20,285
Deferred tax	4,088	(1,965)
	7,489	18,384

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation. According to the law of Italy on enterprise income tax, LFoundry S.r.l.'s ("LFoundry", the Company's majority-owned subsidiary in Avezzano, Italy) income tax rate is 24%.

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

(1) 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 is 15% in 2019 (2018: 15%).

(2) 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.

(3) 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. After that, the income tax rate will be 15%.

(4) SEMICONDUCTOR MANUFACTURING INTERNATIONAL (SHENZHEN) CORPORATION ("SMIC SHENZHEN"), SEMICONDUCTOR MANUFACTURING NORTH CHINA (BEIJING) CORPORATION ("SMNC") AND SJ SEMICONDUCTOR (JIANGYIN) CORPORATION ("SJ JIANGYIN")

In accordance with Circular No. 43, Circular No. 1 and Caishui Circular [2012] No. 27 ("Circular No. 27"), SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to its first profit-making year after utilizing all prior tax losses on or before December 31, 2018. SMIC Shenzhen, SMNC and SJ Jiangyin were in accumulative loss positions as of June 30, 2019 and the tax holiday has not begun to take effect.

(5) OTHER PRC ENTITIES

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

12. DIVIDEND

The Board did not recommend the payment of any dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

13. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on following data.

	Six months ended	
	06/30/19 USD'000	06/30/18 USD'000
Earnings attributable to owners of the company	30,811	80,976
Distribution to perpetual subordinated convertible securities holders	(5,650)	(650)
Earnings used in the calculation of basic earnings per share	25,161	80,326
Weighted average number of ordinary shares used in the calculation of basic earnings per share	5,045,596,900	4,925,308,885
Basic earnings per share	\$0.00*	\$0.02

The calculation of diluted earnings per share attributable to the owners of the Company is based on following data.

	Six months ended	
	06/30/19 USD'000	06/30/18 USD'000
Earnings used in the calculation of basic and diluted earnings per share	25,161	80,326
Weighted average number of ordinary shares used in the calculation of basic earnings per share	5,045,596,900	4,925,308,885
Employee option and restricted share units	16,104,810	43,034,663
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	5,061,701,710	4,968,343,548
Diluted earnings per share	\$0.00*	\$0.02

* Earnings per share were US\$0.0050 (basic) and US\$0.0050 (diluted) for the six months ended June 30, 2019.

For the six months ended June 30, 2019, the Group had 24,662,024 weighted average outstanding employee stock options (six months ended June 30, 2018: 3,911,445) excluded from the computation of diluted earnings per share due to the exercise price higher than the average market price of the ordinary shares, 371,589,975 potential shares upon the conversion of convertible bonds (six months ended June 30, 2018: 371,589,975) and 344,985,992 potential shares upon the conversion of perpetual subordinated convertible securities (six months ended June 30, 2018: 39,688,654) excluded from the computation of diluted earnings per share due to anti-dilutive effect.

14. PROPERTY, PLANT AND EQUIPMENT

CONSTRUCTION IN PROGRESS

The construction in progress balance of approximately US\$2,753.2 million as of June 30, 2019, primarily consisted of US\$546.5 million used for the machinery and equipment of the two 300mm fabs in Beijing; US\$1,315.6 million, US\$532.1 million and US\$125.1 million used for the facilities construction, machinery and equipment of the fabs in Shanghai, the fabs in Shenzhen and the fab in Tianjin, respectively; US\$119.0 million used for purchasing machinery and equipment acquired for more research and development activities; in addition, US\$114.9 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 PERIOD

For the six months ended June 30, 2019, the Group did not recorded impairment loss of equipment (six months ended June 30, 2018: US\$0.4 million). The whole amount of impairment loss for the six months ended June 30, 2018 was recognized as other operating expense in profit or loss.

ASSETS PLEDGED AS SECURITY

As of June 30, 2019, property, plant and equipment with carrying amount of approximately US\$150.4 million (December 31, 2018: approximately US\$207.2 million) have been pledged to secure borrowings of the Group under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

CAPITAL COMMITMENTS

As of June 30, 2019, the Group had commitments for the facility construction amounted to US\$188.7 million (December 31, 2018: US\$333.2 million) and commitments for the acquisition of machinery and equipment amounted to US\$407.4 million (December 31, 2018: US\$1,209.3 million).

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 depreciated over the useful life of the assets. Capitalized interest of US\$29.3 million for the six months ended June 30, 2019 (six months ended June 30, 2018: US\$22.3 million) was added to the cost of the underlying assets and was depreciated over the respective useful life of the assets. For the six months ended June 30, 2019, the Group recorded depreciation expenses relating to the capitalized interest of US\$13.7 million (six months ended June 30, 2018: US\$11.6 million).

15. INVESTMENT IN ASSOCIATES

Details of the Group'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 company	Place of establishment and operation	Class of share held	Percentage of ownership interest and voting power held by the Group	
			06/30/19	12/31/18
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	Shanghai, PRC	Ordinary	30.0%	30.0%
Zhongxin Xiecheng Investment (Beijing) Co., Ltd ("Zhongxin Xiecheng")	Beijing, PRC	Ordinary	49.0%	49.0%
Brite Semiconductor (Shanghai) Corporation ("Brite Shanghai")	Shanghai, PRC	Ordinary	46.6%	46.6%
Jiangsu Changjiang Electronics Technology Co., Ltd ("JECT")	Jiangsu, PRC	Ordinary	14.3%⁽¹⁾	14.3% ⁽¹⁾
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")	Shanghai, PRC	Ordinary	7.4%⁽¹⁾	7.4% ⁽¹⁾
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	Shanghai, PRC	Ordinary	19.5%⁽¹⁾	19.5% ⁽¹⁾
Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin") ⁽²⁾	Beijing, PRC	Limited partner interest	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%
Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing") ⁽²⁾	Shanghai, PRC	Limited partner interest	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%
Juyuan Juxin Integrated Circuit Fund ("Juyuan Juxin") ⁽²⁾	Shanghai, PRC	Limited partner interest	31.6%	31.6%
Ningbo Semiconductor International Corporation ("NSI")	Ningbo, PRC	Ordinary	38.6%	38.6%
Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC")	Shaoxing, PRC	Ordinary	23.5%	23.5%
Semiconductor Global Solutions ("SGS")	Ningbo, PRC	Ordinary	30.0%	35.0%
Shanghai IC Manufacturing Innovation Center Co., Ltd ("Shanghai Innovation Center")	Shanghai, PRC	Ordinary	33.3%	50.0% ⁽¹⁾

⁽¹⁾ In accordance with investment agreements, the Group has significant influence over, 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 "China IC Capital"), a wholly-owned investment fund company of SMIC. China IC Capital is intended to invest primarily in integrated circuits related fund products and investment projects.

Above associates are accounted for using the equity method in these condensed consolidated financial statements.

16. INVESTMENTS IN JOINT VENTURES

Details of the Group's joint ventures, unlisted companies invested directly through China IC Capital (Ningbo) Co., Ltd, at the end of the reporting periods are as follows:

Name of company	Place of establishment and operation	Class of share held	Percentage of ownership interest and voting power held by the Group	
			06/30/19	12/31/18
Shanghai Xinxin Investment Center (Limited Partnership) ("Shanghai Xinxin")	Shanghai, PRC	Limited partner interest	49.0%	49.0%
Shanghai Chengxin Investment Center (Limited Partnership) ("Shanghai Chengxin")	Shanghai, PRC	Limited partner interest	31.5%	31.5%

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

	06/30/19 USD'000	12/31/18 USD'000
Financial assets		
Non-current		
Financial assets at fair value through profit or loss		
Listed equity securities	515	1,508
Unlisted equity securities	55,076	53,964
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	2,225	5,266
Current		
Financial assets at fair value through profit or loss		
Financial products sold by banks and monetary fund	25,161	41,685
Financial assets at amortized cost		
Bank deposits will mature over 3 months ⁽¹⁾	2,115,686	1,952,106
Debentures	89,560	44,702
Trade and other receivables (Note 19)	904,077	837,828
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	4,621	1,425
Cross currency swap contracts	1,175	1,158
	3,198,096	2,939,642

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

The maximum exposure to credit risk at the end of the period is the carrying amount of each class of financial assets mentioned above.

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

	06/30/19 USD'000	12/31/18 USD'000
Financial liabilities		
Non-current		
Liabilities at amortized cost		
Borrowings (Note 26)	1,849,016	1,760,763
Lease liabilities	157,213	—
Convertible bonds (Note 27)	426,365	418,592
Medium-term notes (Note 29)	217,336	—
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	39,584	15,540
Other financial liabilities		
Contingent consideration ⁽¹⁾	—	11,948
Other liabilities		
Long-term payables ⁽²⁾	46,525	39,128
Current		
Liabilities at amortized cost		
Trade and other payables (Note 30)	1,092,458	964,860
Borrowings (Note 26)	756,162	530,005
Lease liabilities	82,189	—
Bonds payable (Note 28)	499,513	498,551
Medium-term notes	—	218,247
Short-term notes (Note 29)	218,191	—
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	1,834	15,806
Other financial liabilities		
Contingent consideration ⁽¹⁾	11,928	—
Other liabilities		
Long-term payables ⁽²⁾	22,703	32,263
	5,421,017	4,505,703

⁽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. ("Changjiang Xinke") during the three years of 2017, 2018 and 2019.

⁽²⁾ Long-term payables for the purchased tangible and intangible assets were amounted to US\$46.5 million and US\$22.7 million in non-current and current liabilities as of June 30, 2019, respectively.

18. INVENTORIES

	06/30/19 USD'000	12/31/18 USD'000
Raw materials	148,243	143,990
Work in progress	374,890	331,782
Finished goods	124,021	117,237
	647,154	593,009

19. TRADE AND OTHER RECEIVABLES

	06/30/19 USD'000	12/31/18 USD'000
Trade receivables	510,437	412,053
Allowance on doubtful trade receivables	(3,838)	(2,155)
	506,599	409,898
Other receivables	378,440	364,143
Refundable deposits ⁽¹⁾	19,038	63,787
	904,077	837,828

⁽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	06/30/19 USD'000	12/31/18 USD'000
Within 30 days	228,604	219,813
Between 31–60 days	184,635	141,852
Over 60 days	97,198	50,388
Total trade receivables	510,437	412,053

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.

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

20. RESTRICTED CASH

As of June 30, 2019, the current restricted cash consisted of US\$599.3 million (December 31, 2018: US\$185.8 million) of bank time deposits pledged against letters of credit and short-term borrowings, and US\$558.4 million (December 31, 2018: US\$406.5 million) of government funding received for the payment of the research and development equipment and expenses to be incurred.

21. ASSETS CLASSIFIED AS HELD-FOR-SALE

	06/30/19 USD'000	12/31/18 USD'000
Assets classified as held-for-sale		
Assets of disposal group as held-for-sale	236,175	255,330
Machinery and equipment	8,332	5,846
Assets related to employee's living quarters	6,163	9,631
	250,670	270,807
Liabilities directly associated with assets classified as held-for-sale		
Liabilities of disposal group as held-for-sale	145,139	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 at June 30, 2019, investment in SMIC Hong Kong International Limited and its subsidiaries of US\$91.0 million was classified as held-for-sale assets and liabilities as the effect to sell the subsidiary has commenced and the sales was completed with Wuxi Xichanweixin Semiconductor Co., Ltd. on July 29, 2019 and the details are disclosed as follows:

	06/30/19 USD'000
Assets of disposal group as held-for-sale	
Property, plant and equipment	120,236
Goodwill	3,933
Inventories	43,585
Restricted cash	12,887
Trade and other receivables	19,658
Cash and cash equivalent	28,403
Other assets	7,473
	236,175
Liabilities of disposal group as held-for-sale	
Borrowings	62,852
Trade and other payables	34,618
Deferred tax liabilities	13,777
Defined benefited obligation	27,833
Other liabilities	6,059
	145,139

22. SHARES AND ISSUED CAPITAL

	Six months ended 06/30/19		Six months ended 06/30/18	
	Number of shares	Share capital USD'000	Number of shares	Share capital USD'000
Balance at January 1	5,039,819,199	20,159	4,916,106,889	19,664
Issuance of shares under the Company's employee stock incentive plans	11,757,231	47	16,140,786	65
Ordinary shares issued on June 29, 2018	—	—	61,526,473	246
Balance at June 30	5,051,576,430	20,206	4,993,774,148	19,975

Fully paid ordinary shares, which have a par value of US\$0.004, carry one vote per share and carry a right to dividends.

23. SHARE-BASED PAYMENT

STOCK INCENTIVE PLANS

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

For the six months ended June 30, 2019, the Group recognized expense arising from equity-settled share-based payment transactions US\$3.5 million (six months ended June 30, 2018: US\$6.6 million).

23. SHARE-BASED PAYMENT (CONTINUED)

MOVEMENTS DURING THE PERIOD

- (i) The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the period, excluding restricted share units ("RSUs") and share option plan for subsidiary ("Subsidiary Plan"):

	Six months ended 06/30/19		Six months ended 06/30/18	
	Number	WAEP	Number	WAEP
Outstanding at January 1	51,608,194	US\$1.00	52,881,278	US\$0.83
Granted during the period	125,000	US\$1.10	18,831,334	US\$1.34
Forfeited and expired during the period	(2,264,757)	US\$1.16	(1,149,404)	US\$1.02
Exercised during the period	(3,677,441)	US\$0.70	(4,167,513)	US\$0.80
Outstanding at June 30	45,790,996	US\$1.02	66,395,695	US\$0.97

In the current interim period, share options were granted on May 21, 2019. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model was US\$0.65.

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was US\$1.06.

The following table lists the inputs to the Black-Scholes Option Pricing model used for the options granted during the six months ended June 30, 2019 and 2018:

	Six months ended	
	06/30/19	06/30/18
Dividend yield (%)	—	—
Expected volatility	39.61%	39.82%
Risk-free interest rate	2.83%	2.83%
Expected life of share options	5 years	5 years

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

The valuation of the options is based on the best estimates from the Group 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.

23. SHARE-BASED PAYMENT (CONTINUED)

MOVEMENTS DURING THE PERIOD (CONTINUED)

- (ii) The following table illustrates the number and weighted average fair value ("WAFV") of, and movements in, RSUs during the period, excluding share option plan and Subsidiary Plan:

	Six months ended 06/30/19		Six months ended 06/30/18	
	Number	WAFV	Number	WAFV
Outstanding at January 1	19,853,214	US\$1.12	28,701,097	US\$1.05
Granted during the period	125,000	US\$1.10	7,295,466	US\$1.30
Forfeited and expired during the period	(1,404,875)	US\$1.09	(1,855,854)	US\$1.05
Exercised during the period	(8,079,790)	US\$1.04	(11,973,273)	US\$0.02
Outstanding at June 30	10,493,549	US\$1.15	22,167,436	US\$1.12

In the current interim period, RSUs were granted on May 21, 2019. The fair value of the RSUs determined at the date of grant using the Black-Scholes Option Pricing model was US\$1.09.

The weighted average closing price of the Company's shares immediately before the date on which the RSUs were exercised was US\$1.08 per share.

The following table lists the inputs to the Black-Scholes Option Pricing model used for the RSUs granted during the six months ended June 30, 2019 and 2018:

	Six months ended	
	06/30/19	06/30/18
Dividend yield (%)	—	—
Expected volatility	39.11%	39.26%
Risk-free interest rate	2.53%	2.52%
Expected life of RSUs	2 years	2 years

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

The valuation of the RSUs is based on the best estimates from the Group 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.

23. SHARE-BASED PAYMENT (CONTINUED)

MOVEMENTS DURING THE PERIOD (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 period, excluding share option plan and RSUs:

	Six months ended 06/30/19		Six months ended 06/30/18	
	Number	WAEP	Number	WAEP
Outstanding at January 1	20,046,635	US\$0.25	14,918,802	US\$0.20
Granted during the period	8,782,332	US\$0.36	7,349,500	US\$0.36
Forfeited and expired during the period	(1,492,084)	US\$0.32	(601,876)	US\$0.29
Exercised during the period	(274,916)	US\$0.33	—	—
Outstanding at June 30	27,061,967	US\$0.28	21,666,426	US\$0.25

In the current interim period, share option of the Subsidiary Plan was granted on March 26, 2019. The fair value of the share option of the Subsidiary Plan determined at the date of grant using the Black-Scholes Option Pricing model was US\$0.19.

The range of exercise prices for share options of the Subsidiary Plan outstanding at the end of the period was from US\$0.05 to US\$0.36 (six months ended June 30, 2018: US\$0.05 to US\$0.36).

24. CASH FLOW HEDGES

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

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

	Six months ended	
	06/30/19	06/30/18
	USD'000	USD'000
Other comprehensive income (loss) on cash flow hedges recognized as:		
Fair value (losses) gains	(26,445)	4,436
Offset foreign exchange gains	3,965	30,276
	(22,480)	34,712
Balance of cash flow hedges reserve at beginning of the period	36,447	516
Balance of cash flow hedges reserve at end of the period	13,967	35,228

Please refer to Note 17 for the outstanding balances of these hedging instruments.

25. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

On December 14, 2017, the Company issued the perpetual subordinated convertible securities (the "PSCS") at a par value of US\$250,000 each in the principal amount of US\$65.0 million and the net book value of PSCS amounted to US\$64.1 million after the deduction of issue expenses of US\$0.9 million.

On June 29, 2018, the Company issued the PSCS at a par value of US\$250,000 each in the principal amount of US\$200.0 million.

On August 29, 2018, the Company issued the PSCS at a par value of US\$250,000 each in the principal amount of US\$300.0 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 June 30, 2019, the net book value of PSCS amounted to US\$563.8 million.

As at June 30, 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 six months ended June 30, 2019, no PSCS have been converted into ordinary shares of the Company, and the Company paid the distribution amounted to US\$5.7 million.

26. BORROWINGS

	06/30/19 USD'000	12/31/18 USD'000
At amortized cost		
Short-term commercial bank loans ⁽¹⁾	507,490	192,198
Short-term borrowings	507,490	192,198
2015 CDB RMB loan I (SMIC Shanghai) ⁽²⁾	145,461	145,705
2015 CDB RMB loan II (SMIC Shanghai) ⁽³⁾	60,366	64,839
2015 CDB RMB loan (SMIC Beijing) ⁽⁴⁾	25,092	26,227
2016 CDB RMB loan (SMIC Beijing) ⁽⁵⁾	196,372	202,529
2017 CDB RMB loan (SMIC Shenzhen) ⁽⁶⁾	321,614	322,153
2015 EXIM RMB loan (SMIC Shanghai) ⁽⁷⁾	72,730	72,852
2017 EXIM RMB loan (SMIC Shanghai)	—	145,705
2018 EXIM RMB loan I (SMIC Shanghai) ⁽⁸⁾	138,188	138,419
2019 EXIM RMB loan I (SMIC Shanghai) ⁽⁹⁾	145,461	—
2019 EXIM RMB loan II (SMIC Shanghai) ⁽¹⁰⁾	94,550	—
2016 EXIM RMB loan II (SMIC Beijing)	—	58,282
2017 EXIM RMB loan (SMIC Beijing) ⁽¹¹⁾	66,185	69,938
2018 EXIM RMB Loan I (SMIC Beijing) ⁽¹²⁾	29,092	29,141
2018 EXIM RMB Loan II (SMIC Beijing) ⁽¹³⁾	34,911	34,969
2019 EXIM RMB loan I (SMIC Beijing) ⁽¹⁴⁾	8,728	—
2019 EXIM RMB loan II (SMIC Beijing) ⁽¹⁵⁾	49,457	—
2016 EXIM RMB loan (SMIC)	—	72,852
2017 EXIM RMB loan (SMIC Tianjin) ⁽¹⁶⁾	72,730	72,852
2018 EXIM RMB loan (SMIC Tianjin) ⁽¹⁷⁾	78,549	78,680
2019 EXIM RMB loan (SMIC Tianjin) ⁽¹⁸⁾	6,546	—
2017 EXIM RMB loan (SMIC Shenzhen) ⁽¹⁹⁾	66,185	68,481
Others ⁽²⁰⁾	485,471	494,946
Long-term borrowings	2,097,688	2,098,570
	2,605,178	2,290,768
Current		
Short-term borrowings	507,490	192,198
Current maturities of long-term borrowings	248,672	337,807
	756,162	530,005
Non-current		
Non-current maturities of long-term borrowings	1,849,016	1,760,763
	2,605,178	2,290,768
Borrowing by repayment schedule:		
Within 1 year	756,163	530,005
Within 1–2 years	990,305	434,998
Within 2–5 years	498,135	895,135
Over 5 years	360,575	430,630
	2,605,178	2,290,768

26. BORROWINGS (CONTINUED)

SUMMARY OF BORROWING ARRANGEMENTS

- (1) As of June 30, 2019, the Group had 31 short-term credit agreements that provided total credit facilities up to US\$2,751.2 million on a revolving credit basis. As of June 30, 2019, the Group had drawn down US\$507.5 million under these credit agreements. The interest rate on this loan facility ranged from 2.52% 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 June 30, 2019, SMIS had drawn down RMB1,000.0 million (approximately US\$145.5 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 June 30, 2019, SMIS had drawn down RMB475.0 million and repaid RMB60.0 million on this loan facility. The outstanding balance of RMB415 million (approximately US\$60.4 million) is repayable from December 2019 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 June 30, 2019, SMIB had drawn down RMB195.0 million and repaid RMB22.5 million on this loan facility. The outstanding balance of RMB172.5 million (approximately US\$25.1 million) is repayable from December 2019 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 June 30, 2019, SMIB had drawn down RMB1,460.0 million and repaid RMB110.0 million on this loan facility. The outstanding balance of RMB1,350.0 million (approximately US\$196.4 million) is repayable from November 2019 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 June 30, 2019, SMIZ had drawn down RMB2,211.0 million (approximately US\$321.6 million) on this loan facility. The outstanding balance is repayable from December 2019 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 June 30, 2019, SMIS had drawn down RMB500.0 million (approximately US\$72.7 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 June 30, 2019, SMIS had drawn down RMB950.0 million (approximately US\$138.2 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.
- (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 June 30, 2019, SMIS had drawn down RMB1,000.0 million (approximately US\$145.5 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 unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2019, SMIS had drawn down RMB650.0 million (approximately US\$94.6 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 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 June 30, 2019, SMIB had drawn down RMB500.0 million and repaid RMB45.0 million on this loan facility. The outstanding balance of RMB455.0 million (approximately US\$66.2 million) is repayable from September 2019 to September 2022. The interest rate on this loan facility is 2.92% per annum in 2019.

26. BORROWINGS (CONTINUED)

SUMMARY OF BORROWING ARRANGEMENTS (CONTINUED)

- (12) 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 June 30, 2019, SMIB had drawn down RMB200.0 million (approximately US\$29.1 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.
- (13) 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 June 30, 2019, SMIB had drawn down RMB240.0 million (approximately US\$34.9 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.
- (14) 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 June 30, 2019, SMIB had drawn down RMB60.0 million (approximately US\$8.7 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 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 June 30, 2019, SMIB had drawn down RMB340.0 million (approximately US\$49.5 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.
- (16) 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 June 30, 2019, SMIT had drawn down RMB500.0 million (approximately US\$72.7 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.
- (17) In December 2018, SMIT entered into a loan facility in the aggregate principal amount of RMB540.0 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 June 30, 2019, SMIT had drawn down RMB540.0 million (approximately US\$78.5 million) on this loan facility. The outstanding balance of RMB540.0 million is repayable in December 2023. The interest rate on this loan facility is 2.92% per annum in 2019.
- (18) In March 2019, SMIT entered into a RMB loan, a five-year working capital loan facility in the principal amount of RMB45.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for working capital purposes. As of June 30, 2019, SMIT had drawn down RMB45.0 million (approximately US\$6.5 million) on this loan facility. The outstanding balance is repayable in December 2023. The interest rate on this loan facility is 2.92% per annum in 2019.
- (19) 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 June 30, 2019, SMIZ had drawn down RMB500.0 million and repaid RMB45.0 million on this loan facility. The outstanding balance of RMB455.0 million (approximately US\$66.2 million) is repayable from September 2019 to December 2022. The interest rate on this loan facility is 3.40% per annum in 2019.
- (20) Other borrowings represented several batches of production equipment of the Group sold and leased back under the below arrangements:

US\$33.4 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\$452.1 million (December 31, 2018: US\$459.7 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.

As of June 30, 2019, property, plant and equipment and land use right with carrying amount of approximately US\$150.4 million (December 31, 2018: US\$207.2 million) have been pledged to secure borrowings of the Group.

27. CONVERTIBLE BONDS

On July 7, 2016, the Company issued zero coupon convertible bonds at a par value of US\$250,000 each with an aggregate principal amount of US\$450.0 million (the “2016 Convertible Bonds”). The issue price was 100% of the aggregate principal amount of the 2016 Convertible Bonds. The 2016 Convertible Bonds issued 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, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the 2016 Convertible Bonds was approximately US\$387.9 million and the equity component was approximately US\$52.9 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD'000
Principal amount	450,000
Transaction cost	(9,194)
Liability component as at the date of issue	(387,871)
Equity component as at the date of issue	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 3.78% per annum. The movement of the liability component and the equity component of the 2016 Convertible Bonds for the six months ended June 30, 2019 is set out below:

	Liability Component	Equity Component	Total
	USD'000	USD'000	USD'000
As at December 31, 2017	403,329	52,053	455,382
Interest charged	7,490	—	7,490
As at June 30, 2018	410,819	52,053	462,872
As at December 31, 2018	418,592	52,053	470,645
Interest charged	7,773	—	7,773
As at June 30, 2019	426,365	52,053	478,418

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

28. BONDS PAYABLE

On October 7, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US\$500.0 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the issue date, the net book value of the liabilities amounted to US\$491.2 million after the deduction of (1) a discount of US\$5.2 million and (2) issue expenses of US\$3.6 million.

	USD'000
Principal amount	500,000
Discount of bonds payable	(5,185)
Transaction cost	(3,634)
Bonds payable as at the date of issue	491,181

28. BONDS PAYABLE (CONTINUED)

The movement of the corporate bonds for the period ended June 30, 2019 is set out below:

	USD'000
As at December 31, 2017	496,689
Interest charged	11,233
Interest payable recognized	(10,313)
As at June 30, 2018	497,609
As at December 31, 2018	498,551
Interest charged	11,275
Interest payable recognized	(10,313)
As at June 30, 2019	499,513

29. MEDIUM-TERM AND SHORT-TERM NOTES

On February 28, and April 26, 2019, the Company issued the three-year medium-term notes of RMB1,500.0 million (approximately US\$224.0 million) and the six-month short-term notes of RMB1,500.0 million (approximately US\$222.9 million) through National Association of Financial Market Institutional Investors ("NAFMII"). The medium-term notes carry a coupon interest rate of 3.57% per annum with interest due annually on February 28, 2020, February 28, 2021 and February 28, 2022 and the short-term notes carry a coupon interest rate ranged from 3.05% to 3.10% per annum with note interest payable annually on October 26, 2019. As at the issue date, the net book value of the liabilities of medium-term notes amounted to RMB1,493.4 million (approximately US\$223.0 million) and the net book value of the liabilities of short-term notes amounted to RMB1,500.0 million (approximately US\$222.9 million).

	Medium-term Notes USD'000	Short-term Notes USD'000
Principal amount	224,024	222,853
Transaction cost	(984)	—
Notes payable as at the date of issue	223,040	222,853

The movement of the medium-term and short-term notes for the six months ended June 30, 2019 is set out below:

	Medium-term Notes USD'000	Short-term Notes USD'000
As at the date of issue	223,040	222,853
Interest charged	2,725	1,119
Interest payable recognized	(2,621)	(1,119)
Foreign exchange gain	(5,808)	(4,662)
As at June 30, 2019	217,336	218,191

30. TRADE AND OTHER PAYABLES

	06/30/19 USD'000	12/31/18 USD'000
Trade payables	941,477	823,443
Deposit received	43,701	38,713
Other payable	107,280	102,704
	1,092,458	964,860

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

As of June 30, 2019, trade payables were US\$941.5 million (December 31, 2018: US\$823.4 million), within which the payables for property, plant and equipment were US\$644.8 million (December 31, 2018: US\$461.6 million).

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	06/30/19 USD'000	12/31/18 USD'000
Within 30 days	646,701	657,172
Between 31–60 days	49,270	50,815
Over 60 days	245,506	115,456
	941,477	823,443

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

31. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the period ended June 30, 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 Telecom Technology & Industry Co., Ltd. ("Datang")
Datang Semiconductor Co., Ltd.	A subsidiary of Datang
Leadcore Technology Co., Ltd. and Leadcore Technology (Hong Kong) Co., Ltd. ("Leadcore")	A subsidiary of Datang
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	An associate of the Group
Brite Semiconductor (Shanghai) Corporation and its subsidiaries ("Brite")	An associate of the Group
China Fortune-Tech 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

31. RELATED PARTY TRANSACTIONS (CONTINUED)

TRADING TRANSACTIONS

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

	Six months ended		Six months ended	
	06/30/19	06/30/18	06/30/19	06/30/18
	USD'000	USD'000	USD'000	USD'000
	Sale of goods		Sale of services	
Datang Microelectronics Technology Co., Ltd.	5,008	5,386	2	—
Datang Semiconductor Co., Ltd.	—	117	—	—
Leadcore	113	1,012	—	—
Toppan	—	—	1,957	799
Brite	16,551	16,564	4	—
JCET and its subsidiaries	3,309	25	50	32
SMEC	7,931	—	7,831	—
NSI	1,566	—	590	1,530
	Purchase of goods		Purchase of services	
Datang Microelectronics Technology Co., Ltd.	—	—	23	65
Toppan	2,540	3,424	47	19
Brite	—	—	—	100
China Fortune-Tech	—	—	151	178
JCET and its subsidiaries	3,866	5,988	468	338
SMEC	120	—	259	—
	Sale of equipment		Grant of licensing	
SMEC	2,114	—	—	160,423 ⁽¹⁾

31. RELATED PARTY TRANSACTIONS (CONTINUED)

TRADING TRANSACTIONS (CONTINUED)

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

	06/30/19 USD'000	12/31/18 USD'000	06/30/19 USD'000	12/31/18 USD'000
	Amounts due from		Amounts due to	
Datang Microelectronics Technology Co., Ltd	3,058	3,379	—	—
Datang Semiconductor Co., Ltd	—	10	—	—
Leadcore	—	936	—	—
Toppan	688	2,365	613	737
Brite	14,217	10,775	—	—
JCET and its subsidiaries	3,590	47	308	948
SMEC	28,884	104,506	81	—
NSI	4,464	2,922	—	—
Sino IC Leasing	45,695 ⁽²⁾	44,702 ⁽²⁾	239,402 ⁽³⁾	—

- (1) In 2018, the technology licensing internally developed and not capitalized was authorized to SMEC with the revenue of US\$160.4 million and no related cost of sales recognized by the Group.
- (2) 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.
- (3) As the adoption of IFRS 16 since January 1, 2019, the Group recorded US\$279.7 million in lease liabilities as the lease arrangements engaged between Group and Sino IC Leasing.

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 not completed as of the date of this announcement.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST

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

VALUATION TECHNIQUES AND ASSUMPTIONS APPLIED FOR THE PURPOSES OF MEASURING FAIR VALUE

The fair 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 CONDENSED 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 period ended June 30, 2019.

- 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).

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 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	515	—	—	515
Unlisted equity securities	Using valuation multiples	—	—	55,076	55,076
Financial products sold by banks	Using indicated return rate provided by financial institution	—	—	4,069	4,069
Monetary funds	Using observable prices	—	21,092	—	21,092
<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	—	6,846	—	6,846
Cross currency swap contracts	Using forward exchange rates at the balance sheet date	—	1,175	—	1,175
		515	29,113	59,145	88,773
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	—	41,418	—	41,418
<i>Other financial liabilities</i>					
Contingent consideration	Using discounted cash flow analysis	—	—	11,928	11,928
		—	41,418	11,928	53,346

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS RECOGNIZED IN THE CONDENSED 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					
Financial assets at fair value through profit or loss					
Listed equity securities	Using quoted market prices	1,508	—	—	1,508
Unlisted equity securities	Using valuation multiples	—	—	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
Derivative financial instruments					
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					
Derivative financial instruments					
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
Other financial liabilities					
Contingent consideration	Using discounted cash flow analysis	—	—	11,948	11,948
		—	31,346	11,948	43,294

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The following table presents the changes in level 3 instruments for the six months ended June 30, 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	—	11,106	—	11,106
Disposals	—	(9,340)	—	(9,340)
Gains (losses) recognized in other gains, net	1,112	(42)	20	1,090
Closing balance as at June 30, 2019	55,076	4,069	(11,928)	47,217

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) (CONTINUED)

Valuation inputs and relationships to fair value

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

	Fair value at June 30, 2019	Valuation techniques	Unobservable input	Range of inputs	Relationship of unobservable inputs to fair value
Unlisted equity securities	55,076	Valuation multiples	Average P/B multiple of peers	1.21x	The higher the P/B multiple, the higher the fair value
Financial products sold by banks	4,069	Indicated return rate provided by financial institution	Indicated return rate	1.35% — 3.95%	The higher the indicated return rate, the lower the fair value
Contingent consideration	(11,928)	Discounted cash flow analysis	The profit of Changjiang Xinke during the three years of 2017, 2018 and 2019	Less than the cap of cash compensation	The higher the profits, the lower the fair value

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.

33. CHANGES IN ACCOUNTING POLICIES

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 condensed consolidated statement of financial position on January 1, 2019.

(1) ADJUSTMENTS RECOGNIZED ON ADOPTION OF IFRS 16

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

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other 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 condensed 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 equipment.

The change in accounting policy affected the following items in the condensed 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.

Practical expedients applied

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
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

33. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(2) THE GROUP'S LEASING ACTIVITIES AND HOW THESE ARE ACCOUNTED FOR

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 property, plant 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.

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.

34. SUBSEQUENT EVENT

As at June 30, 2019, investment in SMIC Hong Kong International Limited and its subsidiaries were classified as held-for-sale assets and liabilities as the effect to sell the subsidiary has commenced and the sales was completed with Wuxi Xichanweixin Semiconductor Co., Ltd. on July 29, 2019. Based on the consideration deducted by the carrying value of the net asset, it is expected that the Company would record an unaudited gain of US\$79.6 million from the transaction.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Board of Directors (the "Board") of Semiconductor Manufacturing International Corporation (the "Company" or "SMIC") would like to announce the unaudited interim results of operations of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended June 30, 2019, and would like to express its gratitude to the shareholders and its staff for their support for the Group.

SALES

Sales were US\$1,459.8 million for the six months ended June 30, 2019, compared to US\$1,721.8 million for the six months ended June 30, 2018. Excluding the recognition of technology licensing revenue, sales were US\$1,459.8 million for the six months ended June 30, 2019, compared to US\$1,561.3 million for the six months ended June 30, 2018, which was primarily effected by product mix change and lower average selling price during this period. The number of wafer shipments was 2,373,953 8-inch wafer equivalents for the six months ended June 30, 2019, compared to 2,341,966 8-inch wafer equivalents for the six months ended June 30, 2018.

COST OF SALES

Cost of sales decreased by 7.6% from US\$1,283.7 million for the six months ended June 30, 2018 to US\$1,186.6 million for the six months ended June 30, 2019, primarily due to product-mix change during this period.

GROSS PROFIT

The Group had gross profit of US\$273.2 million for the six months ended June 30, 2019, compared to gross profit of US\$438.0 million for the six months ended June 30, 2018 and US\$277.5 million excluding technology licensing revenue for the six months ended June 30, 2018.

Gross margin was 18.7% for the six months ended June 30, 2019, compared to 25.4% for the six months ended June 30, 2018. Excluding the recognition of technology licensing revenue, gross margin increased to 18.7% for the six months ended June 30, 2019 from 17.8% for the six months ended June 30, 2018, primarily due to product-mix change.

(LOSS) PROFIT FOR THE PERIOD FROM OPERATIONS

(Loss) profit from operations was US\$18.4 million loss for the six months ended June 30, 2019, compared to US\$61.4 million profit for the six months ended June 30, 2018. Excluding the recognition of technology licensing revenue, loss from operations decreased from US\$99.0 million loss for the six months ended June 30, 2018 to US\$18.4 million loss for the six months ended June 30, 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 were US\$201.0 million for the six months ended June 30, 2019, compared to US\$270.2 million for the six months ended June 30, 2018. Excluding the deduction of the government funding, research and development expenses increased by US\$26.4 million from US\$306.1 million for the six months ended June 30, 2018 to US\$332.5 million for the six months ended June 30, 2019. The increase was mainly due to the increased activities in advanced technology research and development.

General and administrative expenses increased by US\$8.2 million from US\$99.5 million for the six months ended June 30, 2018 to US\$107.7 million for the six months ended June 30, 2019. The change was mainly due to the start-up cost relating to our majority-owned Shanghai 300mm fab in the first half of 2019.

Sales and marketing expenses were US\$15.7 million for the six months ended June 30, 2019, compared to US\$16.7 million for the six months ended June 30, 2018.

Other operating incomes were US\$34.5 million and US\$10.5 million for the six months ended June 30, 2019 and 2018, respectively. The increase was mainly due to more government funding received in the first half of 2019.

(LOSS) PROFIT FOR THE PERIOD

The Group had a loss of US\$1.4 million for the six months ended June 30, 2019, compared to a profit of US\$58.7 million for the six months ended June 30, 2018, which was mainly effected by 1) the factors described above, 2) more interest net income, 3) more gains on investment in financial instruments, and 4) more losses on investment in entities accounted for using equity method.

FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE COMING YEAR

In 2019, the Group plans to spend approximately US\$2.1 billion in capital expenditures for foundry operations which are subject to adjustment based on market conditions. The capital expenditures are mainly for the equipment and facility in our majority-owned Shanghai 300mm fab and FinFET R&D line.

In addition, the Group budgeted approximately US\$105.8 million in 2019 as capital expenditures for non-foundry operations. This is 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 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.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2019, the Group incurred capital expenditures of US\$1,347.7 million, compared to US\$880.9 million for the six months ended June 30, 2018. The Group financed its capital expenditures primarily from cash flows generated from operating and financing activities.

The Group had US\$1,518.6 million in cash and cash equivalent as of June 30, 2019. These cash and cash equivalent are held in the form of United States Dollars, Japanese Yen, Euro and Chinese Renminbi.

Net cash from operating activities increased from US\$205.4 million for the six months ended June 30, 2018 to US\$356.2 million for the six months ended June 30, 2019, primarily due to 1) increased gross margin excluded the recognition of technology licensing revenue, 2) more interest income received, and 3) more government funding received, deducted by 4) the increased payment for research and development activities.

Net cash used in investing activities was US\$1,806.8 million for the six months ended June 30, 2019, primarily attributable to 1) purchases of plant and equipment, 2) the net cash outflow from selling and payments for financial assets, and 3) payments for acquiring long-term investment.

Net cash generated from financing activities was US\$1,190.6 million for the six months ended June 30, 2019, which was primarily 1) the net result of proceeds from new financing and repayments of bank borrowings, 2) the proceeds from issuance of medium notes and short-term notes, and 3) the proceeds from the capital contribution of non-controlling interests.

As of June 30, 2019, the Group's outstanding long-term loans primarily consisted of US\$609.1 million in secured bank loans, US\$1,488.6 million in unsecured bank loans, US\$426.4 million in convertible bonds and US\$499.5 million in USD bonds, of which US\$452.9 million was classified as the current portion of long-term loans. A summary of borrowing arrangements is disclosed in Note 26 to our financial statements for reference.

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”). The consideration for the sale and purchase of the sale shares amounted to US\$112.8 million and was considered to be fair and reasonable and in the interest of the Company and its shareholders taken as a whole. Further, the Purchaser agreed to either (i) purchase from the Target Company (or from the Vendor to whom the Target Company will have assigned such right before the closing) the creditor’s rights for the outstanding balance (being the total outstanding principal and total aggregate accrued interest) under the outstanding principal amount of the loan granted by the Target Company and/or the Vendor’s affiliate to LFoundry (the “Majority Loan”); or (ii) fund an amount equal to the total outstanding principal and the total aggregate accrued interest of the Majority Loan to LFoundry to enable LFoundry to repay the Majority Loan in full.

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.

CAPITAL CONTRIBUTION IN SEMICONDUCTOR MANUFACTURING SOUTH CHINA CORPORATION (“SMSC”)

According to the joint venture agreements entered into by the Group and the non-controlling interests (“NCI”) of SMSC, additional capital injection into SMSC was completed in June 2019. The additional capital injection from the Group and NCI amounted to US\$648.9 million and US\$698.6 million for the six months ended June 30, 2019, respectively.

The principal business of SMSC includes wafer manufacturing, wafer probing and bumping, technology development, design service, mask manufacturing, assembly and final testing of integrated circuits and sales of self-manufactured products. SMSC is expected to establish and build up large-scale manufacturing capacity focusing on 14 nanometer and below process and manufacturing technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. The Group believes that the investment in SMSC is attractive and able to generate sustainable and attractive returns in the near future.

COMMITMENTS

As of June 30, 2019, the Group had commitments of US\$188.7 million for facilities construction obligations in connection with the Group’s facilities, US\$407.4 million to purchase machinery and equipment mainly for its fabs and US\$4.3 million to purchase intellectual property.

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.

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

GEARING RATIO

As of June 30, 2019, the Group's debt to equity ratio was approximately 43.8%, which was calculated by dividing the sum of the short-term and long-term borrowings, lease liabilities, short-term notes, medium-term notes, convertible bonds and corporate bonds by total shareholders' equity. The net debt to equity ratio was approximately 4.8%, which was calculated by dividing the total debt minus cash and cash equivalents, current financial assets at fair value through profit or loss and financial assets at amortized cost by total shareholders' equity.

EXCHANGE RATE AND INTEREST RATE RISKS

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

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

OUTSTANDING CROSS CURRENCY SWAP CONTRACTS

As of June 30, 2019, the Group had outstanding cross currency swap contracts with notional amounts of RMB9,120.5 million to buy RMB and notional amounts of RMB6,097.0 million to sell RMB. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of June 30, 2019, the fair value of cross currency swap contracts was approximately US\$(33.4) million, of which approximately US\$8.0 million was recorded in derivative financial instruments in assets and approximately US\$(41.4) million was recorded in derivative financial instruments in liabilities. The cross currency swap contracts will mature during the period 2019 to 2024.

(in US\$ thousands)	As of June 30, 2019		As of December 31, 2018	
		Net fair value assets (liabilities)		Net fair value assets (liabilities)
Cross Currency Swap Contracts	Notional value		Notional value	
Receive RMB/Pay US\$	9,120,529	(36,011)	1,388,205	(21,924)
Pay RMB/Receive US\$	6,097,039	2,613	441,312	(1,573)
	15,217,568	(33,397)	1,829,517	(23,497)

INTEREST RATE SENSITIVITY ANALYSIS

The sensitivity analyses 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. There is no material change to the information disclosed in the 2018 annual report.

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

EBITDA is defined as (loss) 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 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.

(in US\$ thousands)	Six months ended	
	06/30/19	06/30/18
(Loss) profit for the period	(1,440)	58,745
Finance costs	31,465	24,170
Depreciation and amortization	562,137	536,044
Income tax expense	7,489	18,384
EBITDA	599,651	637,343
EBITDA Margin	41.1%	37.0%

PROSPECTS AND FUTURE PLANS

In the first half of 2019, the Group made encouraging progress in accelerating technology and improving competitiveness. Looking at 2019, SMIC’s first quarter bottomed out and second quarter bounced back with increased demand as inventory digested, SMIC expects to see continuous momentum in the second half. In addition, SMIC targets a “high teens to twenty” percentage range gross margin.

SMIC achieved significant progress in its first generation of FinFET development as 14nm is in risk production. There are more than a dozen tape out projects, and the Company’s FinFET customer base is expanding. SMIC expects to start seeing meaningful revenue contribution from 14nm technology by year-end. FinFET technology is ready for auto-related applications, with successful tape out delivery. Meanwhile, SMIC is expecting several tape outs of 12nm technology around the end of 2019. SMIC is starting to engage with customers for second generation FinFET N+1 business opportunities. In addition, 28nm HKC+ has begun shipments and has strong demand. We also see strength coming from mature node applications such as CMOS RF, CIS BSI/ISP. SMIC continues to focus on building comprehensive platforms and advancing technology to provide complete services and solutions.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 22 to the condensed consolidated financial statement.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Ordinary Shares during the six months ended June 30, 2019.

CORPORATE GOVERNANCE PRACTICES

The 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") which an issuer, such as the Company, is expected to comply with or advise as to reasons for deviations from 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 is 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", substantially incorporates Code Provisions and the Recommended Practices of the CG Code. The Company will seek to comply with the Code Provisions of the CG Code whenever practicable. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

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 six months ended June 30, 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LIST 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 six months ended June 30, 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.

THE BOARD

The Board has a duty to the Company's shareholders to direct and oversee the affairs of the Company in order to maximize shareholder value. The Board, acting by itself and through its various committees, actively participates in and is responsible for the determination of the overall strategy of the Company, the establishment and monitoring of the achievement of corporate goals and objectives, the oversight of the Company's financial performance and the preparation of the accounts, the establishment of corporate governance practices and policies, and the review of the Company's system of internal controls. The management of the Company is responsible for the implementation of the overall strategy of the Company and its daily operations and administration. The Board has access to the senior management of the Company to discuss enquiries on management information.

The Board consists of fourteen Directors as at the date of this announcement. Directors may be elected to hold office until the expiration of their respective term upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of the Company's issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of the Company. Each class of Directors (including all non-executive Directors) serves a term of three years.

The following table sets forth the names, classes and categories of the Directors as at the date of this announcement:

Name of Director	Category of Director	Class of Director	Year of Re-election
Zhou Zixue	Chairman, Executive Director	Class I	2020
Gao Yonggang	Chief Financial Officer and Executive Director	Class I	2020
William Tudor Brown	Independent Non-executive Director	Class I	2020
Tong Guohua	Non-executive Director	Class I	2020
Zhao Haijun	Co-Chief Executive Officer and Executive Director	Class II	2021
Chen Shanzhi	Non-executive Director	Class II	2021
Lu Jun	Non-executive Director	Class II	2021
Lau Lawrence Juen-Yee	Independent Non-executive Director	Class II	2021
Fan Ren Da Anthony	Independent Non-executive Director	Class II	2021
Liang Mong Song	Co-Chief Executive Officer and Executive Director	Class III	2022
Zhou Jie	Non-executive Director	Class III	2022
Ren Kai	Non-executive Director	Class III	2022
Cong Jingsheng Jason	Independent Non-executive Director	Class III	2022
Young Kwang Leei ⁽¹⁾	Independent Non-executive Director	Class III	2020 & 2022

⁽¹⁾ Dr. Young Kwang Leei ("Dr. Young"), whose initial appointment as Director took effect from August 7, 2019, shall retire from office at the annual general meeting of the Company ("2020 AGM") pursuant to Article 126 of the Company's Articles of Association. Dr. Young will, being eligible, offer himself for re-election as a Class III Director at the 2020 AGM to hold office until the 2022 annual general meeting of the Company.

Rule 3.10A of the Hong Kong Stock Exchange Listing Rules provides that an issuer must appoint independent non-executive directors representing at least one-third of the board. Following the retirement of Dr. Chiang Shang-Yi as an independent non-executive Director upon the conclusion of the 2019 AGM, the number of independent non-executive Directors fell below the requirement set out under rule 3.10A of the Hong Kong Stock Exchange Listing Rules. On August 7, 2019, following the appointment of Dr. Young as an independent non-executive Director, the number of independent non-executive director of the Board was restored to at least one-third of the Board as required under rule 3.10A of the Hong Kong Stock Exchange Listing Rules.

As of the date of this announcement, the roles of Chairman and Co-Chief Executive Officers are segregated. The role of Chairman is performed by Dr. Zhou Zixue and the roles of Co-Chief Executive Officers are performed by Dr. Zhao Haijun and Dr. Liang Mong Song.

On an annual basis, each independent non-executive Director confirms his independence to the Company, and the Company considers these Directors to be independent as such term is defined in the Hong Kong Stock Exchange Listing Rules. There are no relationships among members of the Board, including between the Chairman of the Board and the Co-Chief Executive Officer.

The Board meets at least four times a year at approximately quarterly intervals and on such other occasions as may be required to discuss and vote upon significant issues affecting the Company. The schedule of Board meetings for a given year is planned in the preceding year. The joint company secretaries of the Company (the "Joint Company Secretaries") assist the Chairman in preparing the agenda for the Board meetings and also assist the Board in complying with applicable laws, rules and regulations. The relevant papers for the Board meetings are dispatched to Board members in accordance with the CG Code. Directors may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Board meeting, minutes are circulated to all Directors for their review and comments prior to their approval of the minutes at the following or subsequent Board meeting. Transactions in which any Directors are considered to have a conflict of interest which the Board has determined to be material are dealt with by physical Board meetings rather than written resolutions and the interested Directors are not counted in the quorum of such Board meetings and abstain from voting on the relevant matters.

All Directors have access to the Joint Company Secretaries, who are responsible for assisting the Board in complying with applicable procedures regarding compliance matters. Every Board member is entitled to have access to documents tabled at the Board meeting or filed into the Company's minutes book. Furthermore, the Board has established the procedures pursuant to which a Director, upon reasonable request, may seek independent professional advice at the Company's expense in order for such Director to discharge his duties. The Joint Company Secretaries continuously update all Directors on the latest development of the Hong Kong Stock Exchange Listing Rules and other applicable regulatory requirements to ensure the Company's compliance with and maintenance of good corporate governance practices. Each new Director is provided with training with respect to his responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices.

UPDATES TO INFORMATION RELATING TO DIRECTORS AND CHIEF EXECUTIVE

As required under rule 13.51B of the Hong Kong Stock Exchange Listing Rules, certain changes in, and updates to, the information previously disclosed regarding the Directors and chief executive during their respective terms of office are set out below:

- Dr. Chiang Shang-Yi, independent non-executive Director, did not offer himself for re-election to the Board of Directors of the Company and his term with the Board expired on June 21, 2019.
- Dr. Young Kwang Leei was appointed as a Class III independent non-executive Director and a member of the Compensation Committee with effect from August 7, 2019.

EMPLOYEES EQUITY INCENTIVE PLAN

Save as disclosed in this announcement, there is no material change to the information disclosed in the 2018 annual report of the Group in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

WAIVER FROM COMPLIANCE WITH THE HONG KONG STOCK EXCHANGE LISTING RULES

Save as disclosed in the prospectus of the Company dated March 8, 2004 and our announcement dated July 3, 2017 regarding waiver from strict compliance with rules 3.28 and 8.17 of the Hong Kong Stock Exchange Listing Rules, the Company has not received any waivers from compliance with the Hong Kong Stock Exchange Listing Rules which are still in effect.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices accepted by the Company and the interim financial statements of the Company for the six months ended June 30, 2019.

INTERIM REPORT

The Company's Interim report for the six months ended June 30, 2019 containing financial statements and notes to the accounts will be published on the website of the SEHK (<http://www.hkex.com.hk>) as well as the website of the Company (<http://www.smics.com>) in due course.

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This result announcement may contain, in addition to historical information, “forward-looking statements” within the meaning of the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995 and Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward-looking statements are based on SMIC’s current assumptions, expectations and projections about future events. SMIC uses words like “believe”, “anticipate”, “intend”, “estimate”, “expect”, “project” and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting judgment of SMIC’s senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC’s actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicity and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC’s customers, bad debt risk, timely introduction of new technologies, SMIC’s ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity and financial stability in end markets.

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

By order of the Board

Semiconductor Manufacturing International Corporation

Gao Yonggang

Executive Director, Chief Financial Officer and Joint Company Secretary

Shanghai, China, August 29, 2019

As at the date of this announcement, the directors of the Company are:

Executive Directors

ZHOU Zixue (*Chairman*)

ZHAO Haijun (*Co-Chief Executive Officer*)

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

GAO Yonggang (*Chief Financial Officer*)

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 purposes only*