中芯國際集成電路製造有限公司*
Semiconductor Manufacturing International Corporation
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 0981

2019
INTERIM REPORT

* For identification purposes only

CONTENTS

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

This interim report 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 cyclicality 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.

ADDITIONAL INFORMATION

References in this interim report to:

- "2019 AGM" are to the Company's annual general meeting held on June 21, 2019;
- "Board" are to the board of directors of the Company;
- "Company" or "SMIC" are to Semiconductor Manufacturing International Corporation;
- "Director" are to the director of the Company;
- "EUR" are to Euros;
- "Group" are to the Company and its subsidiaries;
- "HK$" are to Hong Kong dollars;
- "Hong Kong Stock Exchange Listing Rules" are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;
- "IFRS" are to International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "JPY" are to Japanese Yen;
- "Ordinary Share(s)" are to the ordinary share(s), in the share capital of the Company, of US$0.0004 each before December 7, 2016 and to the ordinary share(s) of US$0.004 each upon the share consolidation becoming effective on December 7, 2016;
- "RMB" are to Renminbi;
- "SEHK", "HKSE" or "Hong Kong Stock Exchange" are to The Stock Exchange of Hong Kong Limited;
- "US$" or "USD" are to U.S. dollars;

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

CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name (for identification purposes only)	中芯國際集成電路製造有限公司
Registered office	PO Box 2681 Cricket Square Hutchins Drive Grand Cayman KY1-1111 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong	Suite 3003 30th Floor No. 9 Queen's Road Central Hong Kong
Website	http://www.smics.com
Joint Company Secretaries	Gao Yonggang Liu Wei
Authorized representatives	Zhou Zixue Gao Yonggang
Places of listing	The Stock Exchange of Hong Kong Limited ("HKSE") On June 3, 2019, the Company filed the Form 25 with the U.S. Securities and Exchange Commission ("SEC") to effect the delisting of the Company's American Depositary Shares (ADSs). On June 14, 2019, the Company filed the Form 15F with the SEC to deregister and terminate its reporting obligations under the U.S. Securities Exchange Act. Since June 14, 2019, our ADSs are eligible for trading in the United States in the over-the-counter (OTC) market.
Stock code	981 (HKSE) SMICY (OTCQX)

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The Company recorded total revenue of approximately US$1.46 billion, gross profit margin of 18.7%, earnings before interest, tax, depreciation and amortization of US$600 million, for the first half of this year. The percentage of revenue from Mainland China and Hong Kong, North America and Eurasia were 55.5%, 29.7% and 14.8% respectively, among which, revenue from Eurasia experienced rapid growth, representing an increase of 43.9% as compared to that of last year.

Although the industry and company are facing challenges brought on by many uncertainties in the global macroeconomic situation, the company is adjusting, integrating and prudently expanding the overall capacity of the company. We are actively seeking growth opportunities through steady progress in expanding our customer base, enriching mature and specialty technology product mix and applications, and exploring value added opportunities, to prepare for future growth momentum.

We have achieved significant breakthrough in the research and development of advanced technology. Our first generation of FinFET technology is in risk production and is expected to contribute meaningful revenue by year-end. In addition, our second generation FinFET N+1 has already begun customer engagement. We maintain long and steady cooperation with our customers and clutch onto the opportunities emerging from 5G, IOT, automotive and other industry trends.

There were changes made in the composition of the Board. Dr. Chiang Shang-Yi retired as an independent non-executive Director upon the conclusion of the annual general meeting in June this year. The Board would like to express their gratitude to Dr. Chiang for his valuable contributions during his term of office. Dr. Young Kwang Leei was appointed as an independent non-executive Director of the Company with effect from August 7, 2019. The Board would like to take this opportunity to welcome Dr. Young to the Board of Directors.

2019 was the seventh year in which we have sponsored the "SMIC Liver Transplant Program for Children." The Company announced in June 2019 that it had donated RMB2.32 million to China Soong Ching Ling Foundation for the project. Our business partners in the industry have donated RMB1.38 million to this program. For the past seven years, a total donation of RMB24.80 million has been accumulated and; through which, 420 afflicted and impoverished children from across the country have successfully received treatment and are able to enjoy their new lives.

Currently, SMIC is undergoing a critical year of new phase of development when both challenges and opportunities exist. With the recovery of the industry and our corporate reform, we have gradually stepped out of the transitional period. We have experienced a substantial growth in mature technology platforms and a consistent breakthrough in the development of advanced technology.

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

Zhou Zixue
Chairman of the Board and Executive Director

Zhao Haijun, Liang Mong Song
Co-Chief Executive Officers and Executive Directors

Shanghai, China
August 29, 2019

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, sale 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	
Cross Currency Swap Contracts	**Notional value**	**Net fair value assets (liabilities)**	**Notional value**	**Net fair value assets (liabilities)**
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.

The Company is committed to remaining an exemplary corporate citizen and maintaining a high level of corporate governance in order to protect the interests of its shareholders.

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 interim report. 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 interim report:

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 2020 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 interim report, 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.

PROCEDURE REGARDING THE APPOINTMENT OF DIRECTORS

The standard procedure regarding the appointment of Directors, which was adopted by the Board on September 22, 2005, sets forth the process by which individuals are appointed as members of the Board. Under the policy, the Board will consider, among other factors, (i) the skills, qualifications and experience of the nominee, including other directorships held in listed public companies in the last three years and other major appointments; (ii) the nominee's shareholding in the Company; (iii) the independence of the nominee under Hong Kong Stock Exchange listing rules; and (iv) the impact with respect to the Company's status as a "foreign private issuer" under the United States securities laws. The Board then decides whether to appoint such nominee to fill a casual vacancy on the Board or to add the nominee to the existing Directors and to appoint such nominee into one of the three classes of Directors as stipulated in the Articles of Association of the Company.

BOARD COMMITTEE

The Board has established the following principal committees to assist it in performing its functions. Each of these committees consists of a majority of independent non-executive Directors who have been invited to serve as members. The committees are governed by their respective charters setting out clear terms of reference. The updated charters of the Board committees are available on the websites of the Company and the Hong Kong Stock Exchange.

AUDIT COMMITTEE

As of the date of this interim report, the Company's Audit Committee (the "Audit Committee") consisted of three members, namely Mr. Fan Ren Da Anthony ("Mr. Fan"), Mr. Zhou Jie and Mr. William Tudor Brown. None of the members of the Audit Committee has been an executive officer or employee of the Company or any of its subsidiaries.

The responsibilities of the Audit Committee include, among other things:

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;

- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;

- pre-approving all non-audit services to be provided by the Company's independent auditor;

- approving the remuneration and terms of engagement of the Company's independent auditor;

- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between the Company and the independent auditor;

- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor holding senior positions regardless of whether that person was a member of the Company's audit team;

- reviewing the Company's annual, interim and quarterly financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;

- reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below), the quality, adequacy and effectiveness of the Company's internal controls and any significant deficiencies or material weaknesses in the design or operation of internal controls;

- considering the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

- reviewing the Company's internal controls, risk assessment and management policies;

- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of the Company's legal and regulatory compliance procedures;

- establishing procedures for the treatment of complaints received by the Company regarding financial reporting, internal control or possible improprieties in other matters; and

- obtaining and reviewing reports from management, the Company's internal auditor and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

The Audit Committee reports its work, findings and recommendations to the Board regularly.

The Audit Committee meets at least four times a year on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues. The meeting schedule for a given year is planned in the preceding year. The Joint Company Secretaries assist the chairman of the Audit Committee in preparing the agenda for meetings and also assists the Audit Committee in complying with the relevant rules and regulations. The relevant papers for the Audit Committee meetings are dispatched to the Audit Committee in accordance with the CG Code. Members of the Audit Committee may include matters for discussion in the agenda if the need arises. Within reasonable time after an Audit Committee meeting is held, minutes are circulated to the members of the Audit Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Audit Committee meeting.

At each quarterly Audit Committee meeting, the Audit Committee reviews with the Chief Financial Officer and the Company's independent auditor the financial statements for the financial period and the financial and accounting principles, policies and controls of the Company and its subsidiaries. In particular, the Committee discusses (i) the changes in accounting policies and practices, if any; (ii) the going concern assumptions; (iii) compliance with accounting standards and applicable rules and other legal requirements in relation to financial reporting; and (iv) the internal controls of the Company and the accounting and financial reporting systems. Upon the recommendation of the Audit Committee, the Board approves the financial statements.

COMPENSATION COMMITTEE

As of the date of this interim report, the members of the Company's Compensation Committee (the "Compensation Committee") are Mr. William Tudor Brown (Chairman of Compensation Committee), Mr. Zhou Jie, Dr. Tong Guohua, Professor Lau Lawrence Juen-Yee ("Professor Lau") and Dr. Young Kwang Leei. Since Dr. Chiang Shang-Yi retired as independent non-executive Director at the 2019 AGM on June 21, 2019, the number of members of the Compensation Committee did not comprise a majority of independent non-executive Directors as required under rule 3.25 of the Hong Kong Stock Exchange Listing Rules. Following the appointment of Dr. Young Kwang Leei, an independent non-executive Director, as a member of the Compensation Committee on August 7, 2019, the Company has complied with the requirements under rule 3.25 of the Hong Kong Stock Exchange Listing Rules. None of these members of the Compensation Committee has been an executive officer or employee of the Company or any of its subsidiaries.

The responsibilities of the Compensation Committee include, among other things:

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

The Compensation Committee reports its work, findings and recommendations to the Board periodically but no fewer than four times per year.

The Compensation Committee meets at least four times per year and on such other occasions as may be required to discuss and vote upon significant issues affecting the compensation policy of the Company. The meeting schedule for a given year is planned in the preceding year. The Joint Company Secretaries assist the chairman of the Compensation Committee in preparing the agenda for meetings and also assists the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meeting are dispatched to Compensation Committee members in accordance with the CG Code. Members of the Compensation Committee may include matters for discussion in the agenda if the need arises. Within reasonable time after a Compensation Committee meeting is held, minutes are circulated to the members of the Compensation Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

NOMINATION COMMITTEE

As of the date of this interim report, the Company's Nomination Committee (the "Nomination Committee") comprised Dr. Zhou Zixue (Chairman of Nomination Committee), Mr. Lu Jun, Mr. William Tudor Brown, Professor Lau and Mr. Fan.

The responsibilities of the Nomination Committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience, as well as diversity of perspectives) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- monitoring the implementation of Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensuring that appropriate disclosures are made regarding board diversity in the Corporate Governance Report set out in the Company's Annual Report;
- identifying individuals suitably qualified to become Board members, consistent with criteria approved by the Board, and making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of independent non-executive Directors; and
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Co-Chief Executive Officers.

The Nomination Committee meets at least once a year and on such other occasions as may be required to discuss and vote upon significant issues relating to Board composition. The Joint Company Secretaries assist the chairman of the Nomination Committee in preparing the agenda for meetings and also assists the Nomination Committee in complying with the relevant rules and regulations. The relevant papers for the Nomination Committee meetings are dispatched to Nomination Committee members in accordance with the CG Code. Members of the Nomination Committee may include matters for discussion in the agenda if the need arises. Within reasonable time after a Nomination Committee meeting is held, minutes are circulated to the Nomination Committee members for their comment and review prior to their approval of the minutes at the following or a subsequent Nomination Committee meeting.

STRATEGIC ADVISORY COMMITTEE

As of the date of this interim report, the members of the Company's Strategic Advisory Committee ("Strategic Advisory Committee") are Dr. Chen Shanzhi (Chairman of Strategic Advisory Committee), Mr. Ren Kai, Mr. William Tudor Brown and Professor Lau Lawrence Juen-Yee.

The purpose of the Strategic Advisory Committee is to assist the Board and the management of the Company to evaluate and consider various strategic alternatives.

The responsibilities of the Strategic Advisory Committee include, among other things:

- to evaluate and consider any strategic alternative;
- to contribute and participate in discussions with potential strategic partners with respect to strategic alternative; and
- to make recommendations to the Board and the management of the Company with respect to strategic alternative.

INTERNAL AUDIT

Internal Audit works with and supports the Group's management team and the Audit Committee to evaluate the effectiveness of and contribute to the improvement of risk management, internal control, and corporate governance systems. On an annual basis, the risk-based audit plan and resources are reviewed and approved by the Audit Committee. In addition to its agreed plan, the Internal Audit audits areas of concern identified by senior management or conducts reviews and investigations on an ad hoc basis. Audit results are reported to the Chairman of the Board, the Co-Chief Executive Officers and relevant management of audited departments. A summary of audit reports is quarterly reported to the Audit Committee.

Based on this annual audit plan, the Internal Audit audits the practices, procedures, and internal controls in the Group. The scope of the audit includes:

- reviewing management's controls to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Group is in compliance;
- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;
- appraising the economy and efficiency with which resources are employed;
- identifying significant risks, including fraud risks, to the ability of the Group to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and
- evaluating the effectiveness of controls supporting the operations of the Group and providing recommendations as to how those controls could be improved.

In conducting these audits, the Internal Audit has free and full access to all necessary functions, records, properties and personnel.

After completing an audit, the Internal Audit furnishes the Group's management team with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. Appropriate managers of the Group are notified of any deficiencies cited by the Internal Audit, which will follow up with the implementation of audit recommendations. In addition, the Internal Audit reports their findings directly to the Audit Committee on at least a quarterly basis.

The Internal Audit has direct access to the Board through the chairman of the Audit Committee and may meet privately with the Audit Committee, without the presence of members of the Group's management or the independent accounting firm upon request.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board has adopted a code of business conduct and ethics (the "Code of Conduct") which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues including among others, fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the Company's Compliance Office, which will subsequently report such violation to the Audit Committee.

COMPLIANCE WITH LAWS AND REGULATIONS

For the six months ended June 30, 2019, the Group has complied with the substantial laws and regulations promulgated by the Chinese government in relation to the integrated circuit industry in China which have a significant impact on the Group.

PREFERENTIAL INDUSTRIAL POLICIES RELATING TO ICPES ("INTEGRATED CIRCUIT PRODUCTION ENTERPRISES")

Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"), Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing"), Semiconductor Manufacturing International (Tianjin) Corporation ("SMIC Tianjin"), Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIC Shenzhen"), Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") and SJ Semiconductor (Jiangyin) Corporation ("SJ Jiangyin") are entitled to the preferential industrial policies described below.

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013 and March 10, 2015, the Chinese government encourages (1) the design of integrated circuits, (2) the production of integrated circuits with a line width of less than 0.11 micron (including 0.11 micron), and (3) the advanced packaging and testing of BGA, PGA, CSP and MCM.

Under the Interim Provisions, imported equipment that is used for a qualifying domestic investment project and that falls within such project's approved total investment amount is exempt from custom duties except for such equipment listed in the Catalogue of Import Commodities for Domestic Investment Projects Not Entitled to Tax Exemptions, as stipulated by the State Council and amended in 2006, 2008 and 2012, as well as in the General Administration of Customs' announcement on the relevant matters arising from the implementation of the Industrial Restructuring Guidance Catalogue (2011) by the customs (Announcement No. 36 [2011] of the General Administration of Customs) and in the Notice of the State Council on Adjusting the Taxation Policies for Imported Equipment (Guo Fa [1997] No. 37).

ENVIRONMENTAL REGULATIONS

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations promulgated by the central and local governments, and our majority-owned Italian subsidiary (LFoundry, which was disposed by the Group on July 29, 2019) is subject to a variety of Italian and European Union environmental laws and regulations promulgated by the central and local governments, concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project's construction and operation phases.

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

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

PREFERENTIAL TAXATION POLICIES

The Company is incorporated in the Cayman Islands and not currently subject to taxation in the Cayman Islands. The subsidiaries of the Company are subject to different preferential taxation policies. For details, please refer to Note 11 to the consolidated financial statement.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax, or the EIT Law (became effective on January 1, 2008), the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

The EIT law applies a uniform 25% enterprise income tax rate to both tax resident enterprise and non-tax resident enterprise, except where a special preferential rate applies. In addition, according to the law of Italy on enterprise income tax, LFoundry income tax ("IRES") rate is 24%.

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

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

On April 20, 2012, State Tax Bureau issued CaiShui [2012] No. 27 ("Circular No. 27"), stipulating the income tax policies for the development of integrated circuit industry. Circular No. 1 was partially abolished by Circular No. 27 and the preferential taxation policy in Circular No. 1 was replaced by Circular No. 27.

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

On May 4, 2016, State Tax Bureau, Ministry of Finance and other joint ministries issued Caishui [2016] No. 49 ("Circular No. 49"), which highlights the implementation of the record-filing system, clarification on certain criteria for tax incentive entitlement and establishment of a post-record filing examination mechanism and enhancement of post-administration.

On March 28, 2018, State Tax Bureau, Ministry of Finance and other joint ministries issued Caishui [2018] No. 27 ("2018 Circular No. 27"), which further announced the tax encouragement for integrated circuit production enterprises established before and after January 1, 2018 and also updated the certain criteria for tax incentive entitlement. Circular No. 49 is partially abolished by 2018 Circular 27.

1. DIVIDENDS

The Board did not propose to declare an interim dividend for the six months ended June 30, 2019 (six months ended June 30, 2018: Nil).

2. 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.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below are the names of the parties (not being a director or chief executive of the Company) which were interested in five percent or more of the nominal value of the share capital of the Company and the respective numbers of shares in which they were interested as of June 30, 2019 as recorded in the register kept by the Company under section 336 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO").

Name of Shareholder	Nature of interest	Long/Short Position	Number of Ordinary Shares Held (Note 8)	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company (Note 1)	Derivatives (Note 8)	Total Interests (Note 8)	Percentage of Total Interest to Total Issued Share Capital of the Company (Note 1)
Datang Telecom Technology & Industry Holdings Co., Ltd.	Interest of corporation controlled	Long Position	859,522,595 (Note 2)	17.01%	122,118,935 (Note 3)	981,641,530	19.43%
Pagoda Tree Investment Company Limited	A concert party to an agreement to buy shares described in s.317(1)(a)	Long Position	859,522,595 (Note 4)	17.01%	122,118,935 (Note 4)	981,641,530	19.43%
China Integrated Circuit Industry Investment Fund Co., Ltd.	Interest of corporation controlled	Long Position	797,054,901 (Note 5)	15.78%	183,178,403 (Note 6)	980,233,304	19.40%
Tsinghua University	Interest of corporation controlled	Long Position	374,665,110 (Note 7)	7.42%	—	374,665,110	7.42%
Zhao Weiguo	Interest of corporation controlled	Long Position	350,301,600 (Note 8)	6.93%	—	350,301,600	6.93%

Notes:

(1) Based on 5,051,576,430 Ordinary Shares in issue as at June 30, 2019.

(2) 859,522,595 Shares are held by Datang Holdings (Hong Kong) Investment Company Limited ("Datang HK") which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang").

(3) On April 23, 2018, the Company entered into the Datang PSCS Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang PSCS Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang PSCS which are convertible into 122,118,935 Shares (assuming full conversion of the Datang PSCS at the initial Conversion Price of HK$12.78 per Share). In this regard, Datang and Datang HK are deemed to be interested in these 122,118,935 Shares under the SFO. Completion of the Datang PSCS Subscription Agreement has occurred on June 29, 2018.

(4) Lightmane Holdings Company Limited, a wholly-owned subsidiary of CNIC Corporation Limited, of which Compass Investment Company Limited, a wholly owned subsidiary of Pagoda Tree Investment Company Limited, has a 90% control, signed an agreement with Datang HK with terms falling under the Section 317(1)(a) or (b) of the SFO. Lightmane Holdings Company Limited, CNIC Corporation Limited, Compass Investment Company Limited, Pagoda Tree Investment Company Limited are therefore deemed to be interested in 981,641,530 Shares of the Company.

(5) 797,054,901 Shares are held by Xinxin (Hongkong) Capital Co., Ltd ("Xinxin HK"), a wholly-owned subsidiary of Xunxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.

(6) On April 23, 2018, the Company entered into the China IC Fund PSCS Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund PSCS Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the China IC Fund PSCS which are convertible into 183,178,403 Shares (assuming full conversion of the China IC Fund PSCS at the initial Conversion Price of HK$12.78 per Share). In this regard, China IC Fund and Xinxin HK are deemed to be interested in these 183,178,403 Shares under the Securities and Futures Ordinance (Cap. 571) (the "SFO"). Completion of the China IC Fund PSCS Subscription Agreement has occurred on August 29, 2018.

(7) Tsinghua University holds 374,665,110 Shares in long position through Tsinghua Unigroup Co., Ltd. (a 51% indirectly held subsidiary of Tsinghua University and a 49% indirectly held subsidiary of Zhao Weiguo) and another corporation controlled by it. On September 4, 2018, Tsinghua Holdings Co., Ltd., a subsidiary of Tsinghua University, entered into equity transfer agreements with each of Suzhou High-speed Rail New Town State-owned Assets Management and Operation Co., Ltd. and Hainan Union Asset Management Corporation to transfer 30% and 6% of the entire equity interest in Tsinghua Unigroup Co., Ltd. respectively.

(8) Zhao Weiguo holds 70% of Beijing Jiankun Investment Group Co., Ltd. which in turns holds 49% of Tsinghua Unigroup Co., Ltd. Zhao Weiguo is therefore deemed to be interested in 350,301,600 Shares held in long position through Tsinghua Unigroup Co., Ltd..

4. DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY

As of June 30, 2019, the interests or short positions of the Directors and Chief Executive of the Company in the Ordinary Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO, which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code were as follows:

Name of Director	Long/Short Position	Nature of Interests	Number of Ordinary Shares held (Note 20)	Derivatives Share Options (Note 20)	Derivatives Other (Note 20)	Total Interests (Note 20)	Percentage of aggregate interests to total issued share capital of the Company (Note 1)
Executive Directors							
Zhou Zixue	Long Position	Beneficial Owner	—	2,521,163 (Note 2)	1,080,498 (Note 3)	3,601,661	0.071%
Zhao Haijun	Long Position	Beneficial Owner	860,163	1,875,733 (Note 4)	— (Note 5)	2,735,896	0.054%
Liang Mong Song	—	—	—	—	—	—	—
Gao Yonggang	Long Position	Beneficial Owner	—	1,649,472 (Note 6)	85,505 (Note 7)	1,734,977	0.034%
Non-executive Directors							
Chen Shanzhi	Long Position	Beneficial Owner	—	664,687 (Note 8)	350,156 (Note 9)	1,014,843	0.020%
Zhou Jie	—	—	—	—	—	—	—
Ren Kai	—	—	—	—	—	—	—
Lu Jun	—	—	—	—	—	—	—
Tong Guo Hua	Long Position	Beneficial Owner	—	187,500 (Note 10)	187,500 (Note 11)	375,000	0.007%
Independent Non-executive Directors							
William Tudor Brown	Long Position	Beneficial Owner	—	150,000 (Note 12)	150,000 (Note 13)	300,000	0.006%
Cong Jingsheng Jason	Long Position	Beneficial Owner	123,750	187,500 (Note 14)	63,750 (Note 15)	375,000	0.007%
Lau Lawrence Juen-Yee	—	—	—	187,500 (Note 16)	187,500 (Note 17)	375,000	0.007%
Fan Ren Da Anthony	—	—	—	187,500 (Note 18)	187,500 (Note 19)	375,000	0.007%

Notes:

(1) Based on 5,051,576,430 Shares in issue as at June 30, 2019.

(2) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Shares at a price of HK$8.30 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(3) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of March 6, 2015, shall fully vest on March 6, 2019. As of June 30, 2019, 1,080,498 Restricted Share Units were vested.

(4) These options comprise: (a) options which were granted to Dr. Zhao on June 11, 2013 to purchase 1,505,854 Shares at a price of HK$6.40 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 10, 2023 or 90 days after termination of his service, (b) options which were granted to Dr. Zhao on September 7, 2017 to purchase 1,687,500 Shares at a price of HK$7.9 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of September 6, 2027 or 90 days after termination of his service as Co-Chief Executive Officer. As of June 30, 2019, 1,317,621 of these options have been exercised.

(5) On September 7, 2017, Dr. Zhao was granted an award of 1,687,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs will vest over one year commencing on the date on which Dr. Zhao commenced his term of office as Chief Executive Officer. As of June 30, 2019, 1,687,500 of these RSUs have been exercised.

(6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 314,531 Shares at a price of HK$6.4 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 1,360,824 Shares at a price of HK$6.24 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 288,648 Shares at a price of HK$6.4 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, 314,531 options have been exercised.

(7) On November 17, 2014, Dr. Gao was granted an award of 291,083 Restricted Share Units pursuant to the 2014 Equity Incentive Plan, consisting of (a) 240,145 Restricted Share Units, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017; and (b) 50,938 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. As of June 30, 2019, a total of 291,083 Restricted Share Units were vested, among which, 205,578 were settled in cash.

(8) These options comprise: (a) On May 24, 2010, Dr. Chen was granted options to purchase 314,531 Shares at a price of HK$6.4 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2016, options to purchase 98,958 Shares at a price of HK$6.42 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (c) On September 12, 2016, options to purchase 1,198 Shares at a price of HK$8.72 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. (d) On April 5, 2017, options to purchase 62,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. (e) On May 23, 2018, options to purchase 125,000 Shares at a price of HK$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (f) On May 21, 2019, options to purchase 62,500 Shares at a price of HK$8.580 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will vest on 1 January 2020 and will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(9) These Restricted Share Units comprise: (a) On May 25, 2016, 98,958 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (b) On September 12, 2016, 1,198 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (c) On April 5, 2017, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (d) On May 23, 2018, 125,000 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Among the 125,000 Restricted Share Units, 62,500 Restricted Share Units are vested immediately and 62,500 Restricted Share Units will vest on January 1, 2019. (e) On May 21, 2019, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. These Restricted Share Units will vest on January 1, 2020. As of June 30, 2019, none of these RSUs has been exercised.

(10) On April 5, 2017, Dr. Tong was granted options to purchase 187,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(11) On April 5, 2017, Dr. Tong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of February 14, 2017, shall fully vest on February 14, 2020. As of June 30, 2019, none of these RSUs has been exercised.

(12) These options comprise: (a) On May 23, 2018, options to purchase 87,500 Shares at a price of HK$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (b) On May 21, 2019, options to purchase 62,500 Shares at a price of HK$8.580 per Share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will vest on 1 January 2020 and will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(13) (a) On May 23, 2018, 87,500 Restricted Share Units were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. Among the 87,500 Restricted Share Units, 25,000 Restricted Share Units are vested immediately and 62,500 Restricted Share Units will vest on January 1, 2019. (b) On May 21, 2019, 62,500 Restricted Share Units were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. These Restricted Share Units will vest on January 1, 2020. As of June 30, 2019, none of these RSUs has been exercised.

(14) On April 5, 2017, Dr. Cong was granted options to purchase 187,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(15) On April 5, 2017, Dr. Cong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of February 14, 2017, shall fully vest on February 14, 2020. As of June 30, 2019, 123,750 of these Restricted Share Units were exercised.

(16) On September 13, 2018, Professor Lau was granted options to purchase 187,500 Shares at a price of HK$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(17) On September 13, 2018, Professor Lau was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of June 30, 2019, none of these Restricted Share Units was exercised.

(18) On September 13, 2018, Mr. Fan was granted options to purchase 187,500 Shares at a price of HK$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of June 30, 2019, none of these options has been exercised.

(19) On September 13, 2018, Mr. Fan was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of June 30, 2019, none of these Restricted Share Units was exercised.

(20) These interests have been adjusted upon the Share Consolidation taking effect from December 7, 2016 on the basis of consolidating every ten ordinary shares of US$0.0004 each into one ordinary share of US$0.004 each.

5. EMPLOYEES EQUITY INCENTIVE PLAN

Save as disclosed in this interim report, 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.

2004 STOCK OPTION PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/18	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/19	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Employees	2/17/2009	2/17/2009–2/16/2019	131,943,000	$0.35	479,700	—	237,200	—	242,500	—	—	$0.97	$0.32
Employees	5/11/2009	5/11/2009–5/10/2019	24,102,002	$0.43	290,600	—	900	—	289,700	—	—	$1.05	$0.44
Employees	2/23/2010	2/23/2010–2/22/2020	337,089,466	$0.99	4,793,631	—	125,170	—	394,645	—	4,273,816	$1.12	$0.99
Gao Yonggang	5/24/2010	5/24/2010–5/23/2020	3,145,319	$0.82	314,531	—	—	—	314,531	—	—	$1.16	$0.72
Chen Shanzhi	5/24/2010	5/24/2010–5/23/2020	3,145,319	$0.82	314,531	—	—	—	—	—	314,531	$—	$0.72
Employees	5/24/2010	5/24/2010–5/23/2020	18,251,614	$0.82	65,700	—	—	—	—	—	65,700	$—	$0.72
Employees	9/08/2010	9/8/2010–9/7/2020	46,217,577	$0.67	165,495	—	—	—	6,000	—	159,495	$1.02	$0.68
Employees	11/12/2010	11/12/2010–11/11/2020	39,724,569	$0.83	387,565	—	2,200	—	118,200	—	267,165	$1.06	$0.78
Employees	5/31/2011	5/31/2011–5/30/2021	148,313,801	$0.85	2,699,210	—	9,666	—	245,466	—	2,444,078	$1.05	$0.83
Others	9/08/2011	9/8/2011–9/7/2021	21,746,883	$0.58	594,688	—	—	—	—	—	594,688	$—	$0.56
Employees	9/08/2011	9/8/2011–9/7/2021	42,809,083	$0.58	316,913	—	53	—	36,800	—	280,060	$1.00	$0.56
Employees	11/17/2011	11/17/2011–11/16/2021	16,143,147	$0.51	128,200	—	—	—	4,600	—	123,600	$0.98	$0.51
Employees	5/22/2012	5/22/2012–5/21/2022	252,572,706	$0.45	5,788,263	—	—	—	810,455	—	4,977,808	$1.03	$0.45
Employees	9/12/2012	9/12/2012–9/11/2022	12,071,250	$0.37	93,275	—	6,000	—	19,400	—	67,875	$1.08	$0.37
Employees	11/15/2012	11/15/2012–11/14/2022	18,461,000	$0.47	204,166	—	450	—	16,800	—	186,916	$1.01	$0.47
Employees	5/07/2013	5/7/2013–5/6/2023	24,367,201	$0.76	382,196	—	2,512	—	16,616	—	363,068	$1.02	$0.77
Employees	6/11/2013	6/11/2013–6/10/2023	102,810,000	$0.82	3,242,429	—	10,000	—	339,455	—	2,892,974	$1.06	$0.79
Senior Management	6/11/2013	6/11/2013–6/10/2023	74,755,756	$0.82	188,233	—	—	—	—	—	188,233	$—	$0.79
Gao Yonggang	6/17/2013	6/17/2013–6/16/2023	13,608,249	$0.80	1,360,824	—	—	—	—	—	1,360,824	$—	$0.78
Employees	9/06/2013	9/6/2013–9/5/2023	22,179,070	$0.72	354,337	—	5,400	—	19,900	—	329,037	$0.98	$0.73
Employees	11/04/2013	11/4/2013-11/3/2023	19,500,000	$0.74	458,236	—	—	—	114,000	—	344,236	$1.01	$0.72
					22,622,723	—	399,551	—	2,989,068	—	19,234,104		

Options to purchase Ordinary Shares issued to new employees and then-existing employees generally vest at a rate pursuant to which 25% of the shares shall vest on the first anniversary of the vesting commencement date, an additional 1/36 of the remaining shares shall vest monthly thereafter over 3 years of the vesting commencement date, respectively.

2014 STOCK OPTION PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/18	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/19	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Gao Yonggang	6/12/2014	6/12/2014–6/11/2024	2,886,486	$0.82	288,648	—	—	—	—	—	288,648	$—	$0.82
Employees	6/12/2014	6/12/2014–6/11/2024	26,584,250	$0.82	615,208	—	—	—	284,646	—	330,562	$1.04	$0.82
Senior Management	11/17/2014	11/17/2014–11/16/2024	11,758,249	$1.09	582,778	—	—	—	—	—	582,778	$—	$1.10
Employees	11/17/2014	11/17/2014–11/16/2024	107,881,763	$1.09	4,129,056	—	278,854	—	218,885	—	3,631,317	$1.17	$1.10
Employees	2/24/2015	2/24/2015–2/23/2025	12,293,017	$0.91	481,748	—	—	—	120,000	—	361,748	$1.03	$0.88
Employees	5/20/2015	5/20/2015–5/19/2025	12,235,000	$1.06	365,456	—	18,520	—	19,104	—	327,832	$1.10	$1.05
Zhou Zixue	5/20/2015	5/20/2015–5/19/2025	25,211,633	$1.06	2,521,163	—	—	—	—	—	2,521,163	$—	$1.05
Employees	9/11/2015	9/11/2015–9/10/2025	1,120,000	$0.89	52,400	—	—	—	—	—	52,400	$—	$0.91
Employees	5/25/2016	5/25/2016–5/24/2026	5,146,000	$0.82	214,514	—	38,967	—	25,259	—	150,288	$1.03	$0.83
Chen Shanzhi	5/25/2016	5/25/2016–5/24/2026	989,583	$0.82	98,958	—	—	—	—	—	98,958	$—	$0.83
Chen Shanzhi	9/12/2016	9/12/2016–9/11/2026	11,986	$1.12	1,198	—	—	—	—	—	1,198	$—	$1.13
Tong Guohua	4/05/2017	4/5/2017–4/4/2027	187,500	$1.26	187,500	—	—	—	—	—	187,500	$—	$1.24
Cong Jingshen Jason	4/05/2017	4/5/2017–4/4/2027	187,500	$1.26	187,500	—	—	—	—	—	187,500	$—	$1.24
Chiang Shang-Yi	4/05/2017	4/5/2017–4/4/2027	187,500	$1.26	187,500	—	31,406	—	—	—	156,094	$—	$1.24
Chen Shanzhi	4/05/2017	4/5/2017–4/4/2027	62,500	$1.26	62,500	—	—	—	—	—	62,500	$—	$1.24
Employees	5/22/2017	5/22/2017–5/21/2027	345,000	$1.09	210,000	—	63,334	—	20,479	—	126,187	$1.10	$1.07
Zhao Haijun	9/07/2017	9/7/2017–9/6/2027	1,687,500	$1.01	1,687,500	—	—	—	—	—	1,687,500	$—	$1.00
Employees	5/23/2018	5/23/2018–5/22/2028	18,493,834	$1.34	16,386,344	—	1,434,125	—	—	—	14,952,219	$—	$1.33
Chen Shanzhi	5/23/2018	5/23/2018–5/22/2028	125,000	$1.34	125,000	—	—	—	—	—	125,000	$—	$1.33
William Tudor Brown	5/23/2018	5/23/2018–5/22/2028	87,500	$1.34	87,500	—	—	—	—	—	87,500	$—	$1.33
Fan Ren Da Anthony	9/13/2018	9/13/2018–9/12/2028	187,500	$1.09	187,500	—	—	—	—	—	187,500	$—	$1.07
Lau Lawrence Juen-Yee	9/13/2018	9/13/2018–9/12/2028	187,500	$1.09	187,500	—	—	—	—	—	187,500	$—	$1.07
Employees	11/19/2018	11/19/2018–11/18/2028	138,000	$0.87	138,000	—	—	—	—	—	138,000	$—	$0.84
Chen Shanzhi	5/21/2019	5/21/2019–5/20/2029	62,500	$1.09	—	62,500	—	—	—	—	62,500	$—	$1.11
William Tudor Brown	5/21/2019	5/21/2019-5/20/2029	62,500	$1.09	—	62,500	—	—	—	—	62,500	$—	$1.11
					28,985,471	125,000	1,865,206	—	688,373	—	26,556,892		

Options to purchase Ordinary Shares granted before January 1, 2018 and issued to new employees and then-existing employees generally vest at a rate pursuant to which 25% of the shares shall vest on the first anniversary of the vesting commencement date, an additional 1/36 of the remaining shares shall vest monthly thereafter over 3 years of the vesting commencement date, respectively.

Options to purchase Ordinary Shares granted after January 1, 2018 and issued to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date, respectively.

2014 EQUITY INCENTIVE PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	RSUs Outstanding as of 12/31/18	Additional RSUs Granted During Period	RSUs Lapsed During Period	RSUs Lapsed Due to Repurchase of Ordinary Shares During Period*	RSUs Exercised During Period	RSUs Cancelled During Period	RSUs Outstanding as of 6/30/19	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Granted (USD)
Gao Yonggang	11/17/2014	11/17/2017–11/16/2024	2,910,836	$0.00	85,505	—	—	—	—	—	85,505	$—	$1.10
Employees	5/20/2015	5/20/2015–5/19/2025	134,008,000	$0.00	2,406,075	—	76,675	—	2,329,400	—	—	$1.02	$1.05
Zhou Zixue	5/20/2015	5/20/2015–5/19/2025	10,804,985	$0.00	1,080,498	—	—	—	—	—	1,080,498	$—	$1.05
Employees	9/11/2015	9/11/2015–9/10/2025	1,640,000	$0.00	13,000	—	13,000	—	—	—	—	$—	$0.91
Employees	11/23/2015	11/23/2015–11/22/2025	400,000	$0.00	10,000	—	—	—	—	—	10,000	$—	$1.11
Employees	5/25/2016	5/25/2016–5/24/2026	68,070,000	$0.00	2,316,100	—	235,000	—	1,095,750	—	985,350	$1.02	$0.83
Chen Shanzhi	5/25/2016	5/25/2016–5/24/2026	989,583	$0.00	98,958	—	—	—	—	—	98,958	$—	$0.83
Chen Shanzhi	9/12/2016	9/12/2016–9/11/2026	11,986	$0.00	1,198	—	—	—	—	—	1,198	$—	$1.13
Employees	9/12/2016	9/12/2016–9/11/2026	1,560,000	$0.00	52,000	—	—	—	8,000	—	44,000	$1.07	$1.13
Employees	11/18/2016	11/18/2016–11/17/2026	2,268,600	$0.00	74,000	—	16,000	—	—	—	58,000	$—	$1.31
Employees	4/05/2017	4/5/2017–4/4/2027	376,000	$0.00	174,000	—	16,000	—	18,000	—	140,000	$0.84	$1.24
Tong Guohua	4/05/2017	4/5/2017–4/4/2027	187,500	$0.00	187,500	—	—	—	—	—	187,500	$—	$1.24
Cong Jingshen Jason	4/05/2017	4/5/2017–4/4/2027	187,500	$0.00	125,625	—	—	—	61,875	—	63,750	$1.05	$1.24
Chiang Shang-Yi	4/05/2017	4/5/2017–4/4/2027	187,500	$0.00	187,500	—	63,750	—	—	—	123,750	$—	$1.24
Chen Shanzhi	4/05/2017	4/5/2017–4/4/2027	62,500	$0.00	62,500	—	—	—	—	—	62,500	$—	$1.24
Employees	5/22/2017	5/22/2017–5/21/2027	7,469,000	$0.00	4,027,650	—	404,250	—	1,291,500	—	2,331,900	$1.02	$1.07
Zhao Haijun	9/07/2017	9/7/2017–9/6/2027	1,687,500	$0.00	1,687,500	—	—	—	1,687,500	—	—	$1.30	$1.00
Tzu-Yin Chiu	9/07/2017	9/7/2017–9/6/2027	187,500	$0.00	61,875	—	—	—	61,875	—	—	$1.45	$1.00
Employees	12/07/2017	12/7/2017–12/6/2027	364,000	$0.00	210,000	—	39,000	—	—	—	171,000	$—	$1.32
Employees	5/23/2018	5/23/2018–5/22/2028	6,957,966	$0.00	6,006,230	—	502,200	—	1,449,890	—	4,054,140	$1.02	$1.33
Chen Shanzhi	5/23/2018	5/23/2018–5/22/2028	125,000	$0.00	125,000	—	—	—	—	—	125,000	$—	$1.33
William Tudor Brown	5/23/2018	5/23/2018–5/22/2028	87,500	$0.00	87,500	—	—	—	—	—	87,500	$—	$1.33
Employees	9/13/2018	9/13/2018–9/12/2028	344,000	$0.00	344,000	—	39,000	—	76,000	—	229,000	$1.15	$1.07
Fan Ren Da Anthony	9/13/2018	9/13/2018–9/12/2028	187,500	$0.00	187,500	—	—	—	—	—	187,500	$—	$1.07
Lau Lawrence Juen-Yee	9/13/2018	9/13/2018–9/12/2028	187,500	$0.00	187,500	—	—	—	—	—	187,500	$—	$1.07
Employees	11/19/2018	11/19/2018–11/18/2028	54,000	$0.00	54,000	—	—	—	—	—	54,000	$—	$0.84
Chen Shanzhi	5/21/2019	5/21/2019-5/20/2029	62,500	$0.00	—	62,500	—	—	—	—	62,500	$—	$1.11
William Tudor Brown	5/21/2019	5/21/2019-5/20/2029	62,500	$0.00	—	62,500	—	—	—	—	62,500	$—	$1.11
					19,853,214	125,000	1,404,875	—	8,079,790	—	10,493,549		

Awards of the RSUs issued to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date, respectively.

SHARE OPTION PLAN FOR SUBSIDIARY

Details of the movements in the subsidiary share options of SJ Semiconductor Corporation during the six months ended June 30, 2019 is as follows:

Name/ Eligible Employees	Date Granted	Period during which Rights Exercisable	No of Options Granted	Exercise Price per Share (USD)	Options Outstanding as of 12/31/18	Additional Options Granted During Period	Options Exercised During Period	Options Cancelled During Period	Options Lapsed During Period	Options Outstanding as of 06/30/19
Employees	1/4/2015	1/4/2015–1/3/2024	4,560,000	$0.05	3,130,000	—	—	—	—	3,130,000
Employees	5/4/2015	5/4/2015–5/3/2024	1,380,000	$0.06	1,225,833	—	—	—	95,833	1,130,000
Employees	9/15/2015	9/15/2015–9/14/2024	2,390,000	$0.08	1,640,000	—	—	—	—	1,640,000
Employees	12/27/2016	12/27/2016–12/26/2025	7,698,750	$0.31	6,363,802	—	81,667	—	268,854	6,013,281
Employees	8/9/2017	8/9/2017–8/8/2026	1,598,750	$0.31	1,301,250	—	59,916	—	208,834	1,032,500
Employees	3/13/2018	3/13/2018–3/12/2028	7,349,500	$0.36	6,385,750	—	133,333	—	625,438	5,626,979
Employees	3/26/2019	3/26/2019–3/25/2029	8,782,332	$0.36	—	8,782,332	—	—	293,125	8,489,207
	Total		33,759,332		20,046,635	8,782,332	274,916	—	1,492,084	27,061,967

Options to purchase ordinary shares of SJ Semiconductor Corporation issued to new employees and then- existing employees of SJ Semiconductor Corporation generally vest at a rate pursuant to which 25% of the shares shall vest on the first anniversary of the vesting commencement date, an additional 1/36 of the remaining shares shall vest monthly thereafter over 3 years of the vesting commencement date, respectively.

6. 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.

7. 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.

8. 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.

9. 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 report with the unaudited interim financial statements of the Company for the six months ended June 30, 2019.

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

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)

		Six months ended	
	Notes	**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)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**321**	(126)
Cash flow hedges	24	**(22,480)**	34,712
Items that will not be reclassified to profit or loss			
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			
Non-current assets			
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
Current assets			
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

As of June 30, 2019 and December 31, 2018

(In USD'000)

	Notes	06/30/19 (unaudited)	12/31/18 (audited)
Equity and liabilities			
Capital and reserves			
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
Non-current liabilities			
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
Current liabilities			
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
	(Note 22)		(Note 23)			
Balance at December 31, 2017 (audited)	19,664	4,827,619	64,978	(497)	(1,111)	52,053
Adoption of IFRS9	—	—	—	—	1,111	—
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497)	—	52,053
Profit for the period	—	—	—	—	—	—
Other comprehensive income (loss) for the period	—	—	—	(665)	—	—
Total comprehensive income (loss) for the period	—	—	—	(665)	—	—
Issuance of ordinary shares	246	83,256	—	—	—	—
Exercise of stock options	65	17,662	(14,345)	—	—	—
Share-based compensation	—	—	6,227	—	—	—
Issuance of perpetual subordinated convertible securities	—	—	—	—	—	—
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—
Capital contribution from non-controlling interest	—	—	—	—	—	—
Deconsolidation of subsidiary due to loss of control	—	—	—	(1,774)	—	—
Subtotal	311	100,918	(8,118)	(1,774)	—	—
Balance at June 30, 2018 (unaudited)	19,975	4,928,537	56,860	(2,936)	—	52,053
Balance at December 31, 2018 (audited)	20,159	4,993,163	58,679	(38,409)	—	52,053
Profit (loss) for the period	—	—	—	—	—	—
Other comprehensive income (loss) for the period	—	—	—	(868)	—	—
Total comprehensive income (loss) for the period	—	—	—	(868)	—	—
Exercise of stock options	47	12,360	(9,796)	—	—	—
Share-based compensation	—	—	2,774	—	—	—
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—
Capital contribution from non-controlling interest	—	—	—	—	—	—
Transactions with non-controlling interest	—	—	—	—	—	—
Subtotal	47	12,360	(7,022)	—	—	—
Balance at June 30, 2019 (unaudited)	20,206	5,005,523	51,657	(39,277)	—	52,053

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)

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 24)					(Note 25)		
1,084	516	17,646	—	187,008	5,168,960	64,073	1,488,302	6,721,335
—	—	(17,646)	—	16,535	—	—	—	—
1,084	516	—	—	203,543	5,168,960	64,073	1,488,302	6,721,335
—	—	—	—	80,976	80,976	—	(22,231)	58,745
728	34,712	—	—	—	34,775	—	539	35,314
728	34,712	—	—	80,976	115,751	—	(21,692)	94,059
—	—	—	—	—	83,502	—	—	83,502
—	—	—	—	—	3,382	—	—	3,382
—	—	—	—	—	6,227	—	354	6,581
—	—	—	—	—	—	200,000	—	200,000
—	—	—	—	(650)	(650)	—	—	(650)
—	—	—	—	—	—	—	523,950	523,950
—	—	—	—	—	(1,774)	—	(15,629)	(17,403)
—	—	—	—	(650)	90,687	200,000	508,675	799,362
1,812	35,228	—	—	283,869	5,375,398	264,073	1,975,285	7,614,756
1,213	36,447	—	(637)	331,298	5,453,966	563,848	2,905,766	8,923,580
—	—	—	—	30,811	30,811	—	(32,251)	(1,440)
(1,532)	(22,480)	—	—	—	(24,880)	—	1,189	(23,691)
(1,532)	(22,480)	—	—	30,811	5,931	—	(31,062)	(25,131)
—	—	—	—	—	2,611	—	92	2,703
—	—	—	—	—	2,774	—	709	3,483
—	—	—	—	(5,650)	(5,650)	—	—	(5,650)
—	—	—	—	—	—	—	698,603	698,603
—	—	—	2,614	(3,097)	(483)	—	483	—
—	—	—	2,614	(8,747)	(748)	—	699,887	699,139
(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	06/30/18
At a point in time	**USD'000**	USD'000
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	06/30/18
At a point in time	**USD'000**	USD'000
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	12/31/18
	USD'000	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	06/30/18
	USD'000	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	06/30/18
	USD'000	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	06/30/18
	USD'000	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 though 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:

Financial assets	**06/30/19 USD'000**	12/31/18 USD'000
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)*

Financial liabilities	06/30/19 USD'000	12/31/18 USD'000
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

At amortized cost	06/30/19 USD'000	12/31/18 USD'000
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

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	**Short-term Notes**
	USD'000	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	**Short-term Notes**
	USD'000	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 Holdings 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 interim report.

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					
Financial assets at fair value through profit or loss					
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
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	—	6,846	—	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					
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	—	41,418	—	41,418
Other financial liabilities					
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.

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