

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

September 06, 2016

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 6-K**

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

**For the month of August, 2016**

**Commission File Number: 001-31994**

**Semiconductor Manufacturing International  
Corporation**

(Translation of registrant's name into English)

**18 Zhangjiang Road**

**Pudong New Area, Shanghai 201203**

**People's Republic of China**

(Address of principal executive office)

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

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☒ Form 20-F   ☐ Form 40-F

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

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

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

☐ Yes   ☒ No

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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## **SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION**

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*(Incorporated in the Cayman Islands with limited liability)*

(STOCK CODE: 0981)

### **ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2016**

#### **FINANCIAL HIGHLIGHTS**

Revenue was a record high of US\$1,324.5 million for the six months ended June 30, 2016, compared to US\$1,056.4 million for the six months ended June 30, 2015, representing an increase of 25.4%.

Gross profit was a record high of US\$371.6 million for the six months ended June 30, 2016, compared to US\$326.3 million for the six months ended June 30, 2015, representing an increase of 13.9%.

Profit for the period attributable to owners of the company was also a record high of US\$159.1 million for the six months ended June 30, 2016, compared to US\$132.2 million for the six months ended June 30, 2015, representing a growth of 20.3%.

Revenue from China-region customers grew to an all-time high of 49.7% of total revenue for the six months ended June 30, 2016, compared to 49.1% for the six months ended June 30, 2015, representing a revenue growth of 26.9%.

Cash and cash equivalents and other financial assets totaled US\$1,890.4 million as of June 30, 2016, compared to US\$1,335.1 million as of June 30, 2015, representing a growth of 41.6%.

•The net debt to equity ratio remained low at 12.9% as of June 30, 2016.

## RESULTS

The Board of Directors (the “**Board**”) of Semiconductor Manufacturing International Corporation (the “**Company**” or “**SMIC**”) would like to announce the unaudited interim results of operations of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ended June 30, 2016.

## CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2016 and 2015

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

|                                                                   |       | Six months ended        |                         |
|-------------------------------------------------------------------|-------|-------------------------|-------------------------|
|                                                                   | Notes | 06/30/16<br>(unaudited) | 06/30/15<br>(unaudited) |
| Revenue                                                           | 6     | 1,324,533               | 1,056,413               |
| Cost of sales                                                     |       | (952,967 )              | (730,081 )              |
| Gross profit                                                      |       | 371,566                 | 326,332                 |
| Research and development expenses, net                            |       | (118,024 )              | (108,655 )              |
| Sales and marketing expenses                                      |       | (17,938 )               | (18,364 )               |
| General and administration expenses                               |       | (60,988 )               | (94,537 )               |
| Other operating income, net                                       | 7     | 6,940                   | 1,405                   |
| Profit from operation                                             |       | 181,556                 | 106,181                 |
| Interest income                                                   |       | 3,524                   | 2,325                   |
| Finance costs                                                     | 8     | (12,548 )               | (7,426 )                |
| Foreign exchange gains or losses                                  |       | 153                     | 5,080                   |
| Other gains or losses, net                                        | 9     | (15,907 )               | 18,213                  |
| Share of losses of investment using equity method                 |       | (9,490 )                | (124 )                  |
| Profit before tax                                                 | 10    | 147,288                 | 124,249                 |
| Income tax expense                                                | 11    | (1,035 )                | (978 )                  |
| Profit for the period                                             |       | 146,253                 | 123,271                 |
| Other comprehensive income (loss)                                 |       |                         |                         |
| Item that may be reclassified subsequently to profit or loss      |       |                         |                         |
| Exchange differences on translating foreign operations            |       | (7,326 )                | (3 )                    |
| Change in value of available-for-sale financial assets            |       | (476 )                  | 445                     |
| Others                                                            | 4     | —                       | —                       |
| Total comprehensive income for the period                         |       | 138,455                 | 123,713                 |
| Profit (loss) for the period attributable to:                     |       |                         |                         |
| Owners of the Company                                             |       | 159,061                 | 132,181                 |
| Non-controlling interests                                         |       | (12,808 )               | (8,910 )                |
|                                                                   |       | 146,253                 | 123,271                 |
| Total comprehensive income (loss) for the period attributable to: |       |                         |                         |
| Owners of the Company                                             |       | 151,267                 | 132,618                 |
| Non-controlling interests                                         |       | (12,812 )               | (8,905 )                |
|                                                                   |       | 138,455                 | 123,713                 |
| Earnings per share                                                |       |                         |                         |
| Basic                                                             | 13    | 0.00                    | 0.00                    |
| Diluted                                                           | 13    | 0.00                    | 0.00                    |

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## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At June 30, 2016 and December 31, 2015

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

|                                              | Notes | 06/30/16<br>(unaudited) | 12/31/15<br>(audited) |
|----------------------------------------------|-------|-------------------------|-----------------------|
| Assets                                       |       |                         |                       |
| Non-current assets                           |       |                         |                       |
| Property, plant and equipment                | 15    | 5,120,105               | 3,903,818             |
| Land use rights                              |       | 90,681                  | 91,030                |
| Intangible assets                            |       | 218,254                 | 224,279               |
| Investments in associates                    | 17    | 228,580                 | 181,331               |
| Investments in joint ventures                | 18    | 19,685                  | 17,646                |
| Deferred tax assets                          |       | 45,432                  | 44,942                |
| Derivative financial assets                  | 19    | 24,551                  | 30,173                |
| Other assets                                 |       | 31,723                  | 32,078                |
| Total non-current assets                     |       | 5,779,011               | 4,525,297             |
| Current assets                               |       |                         |                       |
| Inventories                                  | 21    | 404,265                 | 387,326               |
| Prepayment and prepaid operating expenses    |       | 51,493                  | 40,184                |
| Trade and other receivables                  | 22    | 657,406                 | 499,846               |
| Other financial assets                       | 20    | 303,721                 | 282,880               |
| Restricted cash                              | 23    | 228,381                 | 302,416               |
| Cash and cash equivalent                     |       | 1,586,671               | 1,005,201             |
|                                              |       | 3,231,937               | 2,517,853             |
| Assets classified as held-for-sale           | 14    | 57,333                  | 72,197                |
| Total current assets                         |       | 3,289,270               | 2,590,050             |
| Total assets                                 |       | 9,068,281               | 7,115,347             |
| Equity and liabilities                       |       |                         |                       |
| Capital and reserves                         |       |                         |                       |
| Ordinary shares                              | 24    | 16,876                  | 16,830                |
| Share premium                                |       | 4,914,385               | 4,903,861             |
| Reserves                                     |       | 86,908                  | 96,644                |
| Accumulated deficit                          |       | (1,128,418)             | (1,287,479)           |
| Equity attributable to owners of the Company |       | 3,889,751               | 3,729,856             |
| Non-controlling interests                    |       | 1,083,690               | 460,399               |
| Total equity                                 |       | 4,973,441               | 4,190,255             |
| Non-current liabilities                      |       |                         |                       |
| Borrowings                                   | 27    | 1,232,457               | 416,036               |
| Bonds payable                                | 30    | 494,048                 | 493,207               |
| Medium-term notes                            | 29    | 223,996                 | —                     |

|                               |    |           |           |
|-------------------------------|----|-----------|-----------|
| Deferred tax liabilities      |    | 8,126     | 7,293     |
| Deferred government funding   |    | 164,861   | 175,604   |
| Other financial liabilities   | 31 | 17,747    | —         |
| Other liabilities             |    | 41,364    | 65,761    |
| Total non-current liabilities |    | 2,182,599 | 1,157,901 |
| Current liabilities           |    |           |           |
| Trade and other payables      | 26 | 1,097,743 | 1,047,766 |
| Borrowings                    | 27 | 91,375    | 113,068   |
| Short-term notes              | 29 | 90,465    | —         |
| Convertible bonds             | 28 | 399,416   | 392,632   |
| Deferred government funding   |    | 83,973    | 79,459    |
| Accrued liabilities           |    | 148,555   | 132,452   |
| Other financial liabilities   | 31 | 422       | 1,459     |
| Current tax liabilities       |    | 292       | 355       |
| Total current liabilities     |    | 1,912,241 | 1,767,191 |
| Total liabilities             |    | 4,094,840 | 2,925,092 |
| Total equity and liabilities  |    | 9,068,281 | 7,115,347 |



## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2016 and 2015

(In USD'000)

|                                                                 | Ordinary<br>Shares<br>(Note<br>24) | Share<br>premium | Equity<br>settled<br>employee<br>benefits<br>reserve<br>(Note<br>25) | Foreign<br>currency<br>translation<br>reserve | Change<br>in<br>value<br>of<br>available<br>financial<br>assets | Convertible<br>bonds<br>equity<br>reserve<br>(Note<br>28) | Others | Accumulated<br>deficit | Attributable<br>to owner<br>of the<br>Company | Non-<br>controlling<br>interest | Total<br>Equity |
|-----------------------------------------------------------------|------------------------------------|------------------|----------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------|--------|------------------------|-----------------------------------------------|---------------------------------|-----------------|
| <b>Balance at<br/>December 31,<br/>2014 (audited)</b>           | 14,342                             | 4,376,630        | 64,540                                                               | 4,229                                         | —                                                               | 29,564                                                    | —      | (1,540,890)            | 2,948,415                                     | 359,307                         | 3,667,832       |
| Profit for the<br>period                                        | —                                  | —                | —                                                                    | —                                             | —                                                               | —                                                         | —      | 132,181                | 132,181                                       | (8,910)                         | 155,252         |
| Other<br>comprehensive<br>income (losses)<br>for the period     | —                                  | —                | —                                                                    | (3)                                           | 440                                                             | —                                                         | —      | —                      | 437                                           | 5                               | 442             |
| Total<br>comprehensive<br>income (losses)<br>for the period     | —                                  | —                | —                                                                    | (3)                                           | 440                                                             | —                                                         | —      | 132,181                | 132,618                                       | (8,905)                         | 155,794         |
| Issuance of<br>ordinary shares                                  | 1,880                              | 397,580          | —                                                                    | —                                             | —                                                               | —                                                         | —      | —                      | 399,460                                       | —                               | 399,460         |
| Exercise of<br>stock options                                    | 78                                 | 17,801           | (10,690)                                                             | —                                             | —                                                               | —                                                         | —      | —                      | 7,189                                         | —                               | 7,189           |
| Share-based<br>compensation                                     | —                                  | —                | 8,088                                                                | —                                             | —                                                               | —                                                         | —      | —                      | 8,088                                         | —                               | 8,088           |
| Deconsolidation<br>of subsidiaries<br>due to loss of<br>control | —                                  | —                | —                                                                    | —                                             | —                                                               | —                                                         | —      | —                      | —                                             | (148)                           | (148)           |
| Sub-total                                                       | 1,958                              | 415,381          | (2,602)                                                              | —                                             | —                                                               | —                                                         | —      | —                      | 414,737                                       | (148)                           | 414,737         |
| Balance at June<br>30, 2015<br>(unaudited)                      | 16,300                             | 4,792,011        | 61,938                                                               | 4,226                                         | 440                                                             | 29,564                                                    | —      | (1,408,709)            | 3,495,770                                     | 350,254                         | 3,912,263       |

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|                                                                |        |           |          |          |       |        |     |             |           |           |     |
|----------------------------------------------------------------|--------|-----------|----------|----------|-------|--------|-----|-------------|-----------|-----------|-----|
| Balance at<br>December 31,<br>2015 (audited)                   | 16,830 | 4,903,861 | 70,459   | (3,956 ) | 447   | 29,564 | 130 | (1,287,479) | 3,729,856 | 460,399   | 4,  |
| Profit for the<br>period                                       | —      | —         | —        | —        | —     | —      | —   | 159,061     | 159,061   | (12,808 ) | 1,  |
| Other<br>comprehensive<br>income (losses)<br>for the period    | —      | —         | —        | (7,326 ) | (472) | —      | 4   | —           | (7,794 )  | (4 )      | (7) |
| Total<br>comprehensive<br>income (losses)<br>for the period    | —      | —         | —        | (7,326 ) | (472) | —      | 4   | 159,061     | 151,267   | (12,812 ) | 1,  |
| Exercise of<br>stock options                                   | 46     | 10,524    | (9,902 ) | —        | —     | —      | —   | —           | 668       | —         | 6,  |
| Share-based<br>compensation                                    | —      | —         | 7,960    | —        | —     | —      | —   | —           | 7,960     | 103       | 8,  |
| Capital<br>contribution<br>from<br>non-controlling<br>interest | —      | —         | —        | —        | —     | —      | —   | —           | —         | 636,000   | 6,  |
| Sub-total                                                      | 46     | 10,524    | (1,942 ) | —        | —     | —      | —   | —           | 8,628     | 636,103   | 6,  |
| <b>Balance at<br/>June 30, 2016<br/>(unaudited)</b>            | 16,876 | 4,914,385 | 68,517   | (11,282) | (25 ) | 29,564 | 134 | (1,128,418) | 3,889,751 | 1,083,690 | 4,  |

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2016 and 2015

(In USD'000)

|                                                                                                                                            | Six months ended |             |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|
|                                                                                                                                            | 06/30/16         | 06/30/15    |
|                                                                                                                                            | (unaudited)      | (unaudited) |
| Cash flow from operating activities                                                                                                        |                  |             |
| Cash generated from operations                                                                                                             | 386,617          | 304,715     |
| Interest paid                                                                                                                              | (16,873 )        | (18,475 )   |
| Interest received                                                                                                                          | 3,165            | 2,284       |
| Income taxes (paid) received                                                                                                               | (755 )           | 326         |
| Net cash from operating activities                                                                                                         | 372,154          | 288,850     |
| Cash flow from investing activities:                                                                                                       |                  |             |
| Payments for property, plant and equipment                                                                                                 | (1,511,323)      | (459,951 )  |
| Payments for intangible assets                                                                                                             | (37,012 )        | (16,568 )   |
| Payments for land use rights                                                                                                               | —                | (9,265 )    |
| Net changes in restricted cash relating to investing activities                                                                            | (288 )           | 130,327     |
| Payments to acquire financial assets                                                                                                       | (378,518 )       | (1,209,318) |
| Proceeds on sale of financial assets                                                                                                       | 359,675          | 1,298,595   |
| Net proceeds after netting off land appreciation tax from disposal of property, plant and equipment and assets classified as held for sale | 5,098            | 53,142      |
| Proceeds from disposal of available-for-sale investment                                                                                    | 3,083            | 1,204       |
| Payments to acquire long-term investment                                                                                                   | (64,650 )        | (107,178 )  |
| Net cash outflow from deconsolidation of subsidiaries                                                                                      | —                | (248 )      |
| Payment for business combination                                                                                                           | (3,391 )         | —           |
| Net cash used in investing activities                                                                                                      | (1,627,326)      | (319,260 )  |
| Cash flow from financing activities:                                                                                                       |                  |             |
| Proceeds from borrowings                                                                                                                   | 1,026,044        | 136,882     |
| Repayment of borrowings                                                                                                                    | (134,770 )       | (349,927 )  |
| Proceeds from issuance of ordinary shares                                                                                                  | —                | 399,460     |
| Proceeds from issuance of medium-term and short-term notes                                                                                 | 316,627          | —           |
| Proceeds from exercise of employee stock options                                                                                           | 668              | 7,189       |
| Proceeds from non-controlling interest — capital contribution                                                                              | 636,000          | —           |
| Net cash from financing activities                                                                                                         | 1,844,569        | 193,604     |
| Net increase in cash and cash equivalents                                                                                                  | 589,397          | 163,194     |
| Cash and cash equivalents beginning of period                                                                                              | 1,005,201        | 603,036     |
| Effects of exchange rate changes on the balance of cash held in foreign currencies                                                         | (7,927 )         | (65 )       |
| Cash and cash equivalents end of period                                                                                                    | 1,586,671        | 766,165     |



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2016

### **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 PO Box 309, Ugland House, Grand Cayman, KY1-1104 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, and 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, 2015, which have been prepared in account 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.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Except for the application of new or revised accounting standards as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements as of and for the six months ended June 30, 2016 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, 2015.

In the current interim period, the Group has applied, for the first time, the following standards and amendments that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to IAS 1 Disclosure initiative

Amendments to IAS 27 Equity method in separate financial statements

Amendments to IFRSs Annual Improvements to IFRSs 2012–2014 Cycle

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these 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, 2015.

## 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, interest rate risk and 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, 2015.

There have been no changes in the risk management department since December 31, 2015 or in any risk management policies since December 31, 2015.

## 6. SEGMENT INFORMATION

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

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

|                              | <b>Revenue from<br/>external<br/>customers</b> |           |
|------------------------------|------------------------------------------------|-----------|
|                              | Six months ended                               |           |
|                              | 06/30/16                                       | 06/30/15  |
|                              | USD'000                                        | USD'000   |
| United States                | 369,205                                        | 384,052   |
| Mainland China and Hong Kong | 658,453                                        | 518,963   |
| Eurasia*                     | 296,875                                        | 153,398   |
|                              | 1,324,533                                      | 1,056,413 |

\* Not including Mainland China and Hong Kong

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.

| <b>Property, plant</b>      |           |           |
|-----------------------------|-----------|-----------|
| <b><u>and equipment</u></b> |           |           |
|                             | 06/30/16  | 12/31/15  |
|                             | USD'000   | USD'000   |
| United States               | 79        | 95        |
| Europe                      | 1,339     | 5         |
| Taiwan                      | 117       | 122       |
| Hong Kong                   | 2,936     | 3,040     |
| Mainland China              | 5,115,634 | 3,900,556 |
|                             | 5,120,105 | 3,903,818 |

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## 7. OTHER OPERATING INCOME

|                                                                                          | Six months ended |          |
|------------------------------------------------------------------------------------------|------------------|----------|
|                                                                                          | 06/30/16         | 06/30/15 |
|                                                                                          | USD'000          | USD'000  |
| Gain on disposal of property, plant and equipment and assets classified as held-for-sale | 5,204            | 1,141    |
| Others                                                                                   | 1,736            | 264      |
|                                                                                          | 6,940            | 1,405    |

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the six months ended June 30, 2016 was primarily from the sales of the staff living quarters in Beijing to employees.

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the six months ended June 30, 2015 was primarily due to the disposal of equipment.

## 8. FINANCE COSTS

|                                                                                                                   | Six months ended |          |
|-------------------------------------------------------------------------------------------------------------------|------------------|----------|
|                                                                                                                   | 06/30/16         | 06/30/15 |
|                                                                                                                   | USD'000          | USD'000  |
| Interest on:                                                                                                      |                  |          |
| Bank and other borrowings                                                                                         |                  |          |
| — wholly repayable within five years                                                                              | 6,416            | 8,577    |
| — not wholly repayable within five years                                                                          | 1,361            | —        |
| Interest on convertible bonds                                                                                     | 6,784            | 6,553    |
| Interest on corporate bonds                                                                                       | 11,154           | 11,117   |
| Interest on short-term notes                                                                                      | 225              | —        |
| Interest on medium-term notes                                                                                     | 691              | —        |
| Total interest expense for financial liabilities not classified as at fair value through profit or loss ("FVTPL") | 26,631           | 26,247   |
| Less: amounts capitalized                                                                                         | (14,083)         | (18,821) |
|                                                                                                                   | 12,548           | 7,426    |

The weighted average interest rate on funds borrowed generally is 2.82% per annum (six months ended June 30, 2015: 4.65% per annum).

## 9. OTHER GAINS AND LOSSES, NET

For the six months ended June 30, 2016, other gains or losses, the net loss was US\$15.9 million (six months ended June 30, 2015: US\$18.2 million net gain), within which the gain of fair value of the financial products were US\$2.5 million (six months ended June 30, 2015: US\$14.1 million) and the loss of fair value of the derivative financial instruments were US\$22.4 million (six months ended June 30, 2015: nil).

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**10. PROFIT BEFORE TAX**

|                                                                                 | Six months ended<br>06/30/16<br>USD'000 | 06/30/15<br>USD'000 |
|---------------------------------------------------------------------------------|-----------------------------------------|---------------------|
| Profit before tax has been arrived at after taking into account:                |                                         |                     |
| Depreciation and amortization of property, plant and equipment                  | 301,558                                 | 226,826             |
| Amortization of land use rights                                                 | 678                                     | 1,031               |
| Amortization of acquired intangible assets                                      | 26,356                                  | 22,515              |
| Impairment loss recognized on inventories                                       | 13,175                                  | 5,630               |
| Impairment loss (reversal) recognized in respect of trade and other receivables | (490 )                                  | 1,524               |
| Foreign exchange gains                                                          | (153 )                                  | (5,080 )            |

**11. INCOME TAX EXPENSE**

|                                                       | Six months ended<br>06/30/16<br>USD'000 | 06/30/15<br>USD'000 |
|-------------------------------------------------------|-----------------------------------------|---------------------|
| Current tax — Enterprise Income Tax Expense (Benefit) | 22 (34 )                                |                     |
| Current tax — Land Appreciation Tax                   | 670 16                                  |                     |
| Deferred tax                                          | 343 996                                 |                     |
| Total income tax expense                              | 1,035 978                               |                     |

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax, or the EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For

example, holding companies in Hong Kong that are also tax residents in Hong Kong (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation.

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

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

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

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

**II. INCOME TAX EXPENSE (CONTINUED)**

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.

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. After expiration of 10-year tax holiday in 2014, SMIS continued to enjoy preferential income tax rate as a integrated circuit enterprise. The income tax rate for SMIS for 2016 is 15% (2015: 15%).

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

In accordance with Circular No. 43 and 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. After that, the income tax rate will be 15%.

**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%.

**Semiconductor Manufacturing International (Shenzhen) Corporation (“SMIC Shenzhen”), Semiconductor 4) Manufacturing North China (Beijing) Corporation (“SMNC”) and SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)**

In accordance with Circular No. 43, Circular No. 27 and Circular No. 49, 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, 2017. SMIC Shenzhen, SMNC and SJ Jiangyin were in accumulative loss positions as of June 30, 2016 and the tax holiday has not begun to take effect.

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

12.

DIVIDEND

The Board did not recommend the payment of any dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: Nil).

13.

## EARNINGS PER SHARE

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

|                            | Six months ended |          |
|----------------------------|------------------|----------|
|                            | 06/30/16         | 06/30/15 |
|                            | USD'000          | USD'000  |
| Basic earnings per share   | 0.00             | 0.00     |
| Diluted earnings per share | 0.00             | 0.00     |

|                                                                                                  | Six months ended |                |
|--------------------------------------------------------------------------------------------------|------------------|----------------|
|                                                                                                  | 06/30/16         | 06/30/15       |
|                                                                                                  | USD'000          | USD'000        |
| Earnings                                                                                         |                  |                |
| Earnings used in the calculation of basic earnings per share                                     | 159,061          | 132,181        |
| Interest expense from convertible bonds                                                          | 6,784            | 6,553          |
| Earnings used in the calculation of diluted earnings per share                                   | 165,845          | 138,734        |
| Number of shares                                                                                 |                  |                |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share   | 42,133,206,570   | 36,537,953,311 |
| Effect of dilutive potential ordinary shares                                                     |                  |                |
| Employee option and restricted share units                                                       | 284,004,528      | 404,687,935    |
| Convertible bonds                                                                                | 3,932,570,996    | 3,932,570,996  |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | 46,349,782,094   | 40,875,212,242 |

For the six months ended June 30, 2016, the Group had 352,847,590 (six months ended June 30, 2015: 244,268,541) weighted average outstanding employee stock options which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

14.

## ASSETS CLASSIFIED AS HELD FOR SALE

|                                              | 06/30/16 | 12/31/15 |
|----------------------------------------------|----------|----------|
|                                              | USD'000  | USD'000  |
| Assets related to employee's living quarters | 57,333   | 72,197   |

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.

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## **15. PROPERTY, PLANT AND EQUIPMENT**

### **Construction in progress**

The construction in progress balance of approximately US\$2,125 million as of June 30, 2016, primarily consisted of US\$998 million and US\$542 million of the manufacturing equipment acquired to further expand the production capacity at two 12" fabs in Beijing and one 12" fab in Shanghai, respectively, US\$196 million of the manufacturing equipment acquired to further expand the production capacity at the 8" fab in Shenzhen, US\$35 million of the manufacturing equipment acquired to further expand the production capacity at the majority-owned fab with bumping services in Jiangyin, US\$97 million of machinery and equipment acquired to more research and development activities at the subsidiary, SMIC Advanced Technology Research & Development (Shanghai) Corporation in Shanghai. In addition, the amount of US\$77 million was related to the headquarter building in Shanghai and other US\$180 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the end of 2016.

### **Impairment losses recognized in the period**

The Group didn't record any impairment loss of property, plant and equipment for the six months ended June 30, 2016 and 2015.

### **Assets pledged as security**

As of June 30, 2016, property, plant and equipment with carrying amount of approximately US\$667 million (December 31, 2015: approximately US\$324 million) have been pledged to secure borrowings of the Group (see Note 27) under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

## **16. SUBSIDIARIES**

On May 10, 2016, the Company, SMIC Beijing, China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership) ("Beijing Semi Fund"), Beijing Industrial Developing Investment Management Co., Ltd. ("IDIMC") and Zhongguancun Development Group ("ZDG") have agreed to amend the previous joint venture agreement dated June 3, 2013, through an amendment to the joint venture agreement, pursuant to which: (i) the Company and SMIC Beijing's outstanding aggregate capital contribution obligations as contained in the previous joint venture agreement will decrease from US\$804.38 million to US\$708.38 million, and their aggregate shareholding in SMNC, will decrease from 55% to 51%; and (ii) China IC Fund has agreed to make cash contribution of US\$636 million into the registered capital of SMNC. Other parties' performance of their capital contribution obligations will lead to an increase in the registered capital of SMNC from US\$1.2 billion to US\$2.4 billion. The capital contribution from China IC Fund was completed in June 2016 (see Note 24). The decrease in shareholdings did

not change the fact that SMNC is a subsidiary of and controlled by the Company.

On June 24, 2016, the Company entered into a purchase and sale agreement to acquire 70% of the corporate capital of LFoundry S.r.l. in consideration of EUR49 million. The acquisition was completed on July 29, 2016.

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## 17. INVESTMENTS IN ASSOCIATES

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

| Name of company                                                                               | Place of establishment and operation | Class of share held | Percentage of ownership interest and voting power held by the Company |          |    |
|-----------------------------------------------------------------------------------------------|--------------------------------------|---------------------|-----------------------------------------------------------------------|----------|----|
|                                                                                               |                                      |                     | 06/30/16                                                              | 12/31/15 |    |
| 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 Corporation                                                               | Cayman Island                        | Ordinary            | 47.8%                                                                 | 47.8     | %  |
| Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke")**                  | Jiangsu, PRC                         | Ordinary            | 19.6%                                                                 | 19.6     | %  |
| Sino IC Leasing Co., Ltd. ("Sino IC Leasing")                                                 | Shanghai, PRC                        | Ordinary            | 11.4%*                                                                | 8.8      | %* |
| China Fortune-Tech Capital Co., Ltd ("China Fortune- Tech")                                   | Shanghai, PRC                        | Ordinary            | 45.0%                                                                 | 45.0     | %  |
| Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin")***                   | Beijing, PRC                         | Ordinary            | 32.6%                                                                 | 32.6     | %  |
| Shanghai Fortune-Tech Qitai Invest Center (Limited Partnership) ("Fortune-Tech Qitai")***     | Shanghai, PRC                        | Ordinary            | 33.0%                                                                 | 33.0     | %  |
| Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing")*** | Shanghai, PRC                        | Ordinary            | 66.2%*                                                                | 66.2     | %* |
| Suzhou Fortune-Tech Oriental Invest Center (Limited Partnership) ("Fortune-Tech Oriental")*** | Jiangsu, PRC                         | Ordinary            | 44.8%                                                                 | 44.8     | %  |

\* In accordance with investment agreements, the Group has significant influence over Sino IC Leasing and Fortune-Tech Zaixing.

On April 27, 2016, SilTech Semiconductor (Shanghai) Corporation Limited ("SilTech Shanghai") and Jiangsu Changjiang Electronics Technology Co., Ltd ("JCET") entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% equity interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET's issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 \*\* per share. Meanwhile, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. Both the disposal agreement and the subscription are not effective as of the date of this announcement and is waiting for the approval from China Securities Regulatory Commission.

The Group invested in these associates indirectly through China IC Capital Co., Ltd (the “Fund”), a wholly-owned investment fund company of the Company. The Fund is intended to invest primarily in integrated circuits related \*\*\* fund products and investment projects. The Group’s joint ventures invested indirectly through the Fund are disclosed in Note 18.

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

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## 18. INVESTMENTS IN JOINT VENTURES

Details of the Group's joint ventures, which are all unlisted companies invested directly through China IC Capital Co., Ltd, 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 Company |          |   |
|---------------------------------------------------------------------------------|--------------------------------------|---------------------|-----------------------------------------------------------------------|----------|---|
|                                                                                 |                                      |                     | 06/30/16                                                              | 12/31/15 |   |
| Shanghai Xinxin Investment Centre (Limited Partnership) ("Shanghai Xinxin")     | Shanghai, PRC                        | Ordinary            | 49.0%                                                                 | 49.0%    | % |
| Shanghai Chengxin Investment Center (Limited Partnership) ("Shanghai Chengxin") | Shanghai, PRC                        | Ordinary            | 42.0%                                                                 | 42.0%    | % |

## 19. DERIVATIVE FINANCIAL INSTRUMENT

As of June 30, 2016, the amount of the derivative financial instrument was US\$24.6 million (December 31, 2015: US\$30.2 million), which was a put option granted by JCET to sell the shares of Changjiang Xinke to JCET, pursuant to an investment exit agreement entered into by SilTech Shanghai (a subsidiary of the Company), JCET and Jiangsu Xinchao Technology Group Co., Ltd (a substantial shareholder of JCET). The fair value change of the derivative financial instrument was a loss of US\$5.7 million for the six months ended June 30, 2016 (six months ended June 30, 2015: nil). Please refer to note 33 for valuation techniques of the put option.

## 20. OTHER FINANCIAL ASSETS

|                                    | 30/06/16 | 12/31/15 |
|------------------------------------|----------|----------|
|                                    | USD'000  | USD'000  |
| Derivatives                        |          |          |
| Foreign currency forward contracts | —        | 172      |
| Cross currency swap contracts      | 78       | —        |
| Short-term investments             |          |          |
| Financial products sold by banks   | 296,970  | 257,583  |
| Bank deposits over 3 months        | 6,673    | 25,125   |
|                                    | 303,721  | 282,880  |

**21.**

**INVENTORIES**

|                  | 06/30/16 | 12/31/15 |
|------------------|----------|----------|
|                  | USD'000  | USD'000  |
| Raw materials    | 103,649  | 88,134   |
| Work in progress | 257,972  | 225,475  |
| Finished goods   | 42,644   | 73,717   |
|                  | 404,265  | 387,326  |

**22.**

**TRADE AND OTHER RECEIVABLES**

|                                           | 06/30/16  | 12/31/15  |
|-------------------------------------------|-----------|-----------|
|                                           | USD'000   | USD'000   |
| Trade receivables                         | 459,908   | 399,200   |
| Allowance for doubtful debts              | (40,836 ) | (41,976 ) |
|                                           | 419,072   | 357,224   |
| Other receivables and refundable deposits | 238,334   | 142,622   |
|                                           | 657,406   | 499,846   |

**22. TRADE AND OTHER RECEIVABLES (CONTINUED)**

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

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

|                    | 06/30/16 | 12/31/15 |
|--------------------|----------|----------|
|                    | USD'000  | USD'000  |
| Within 30 days     | 254,596  | 177,542  |
| Between 31–60 days | 146,953  | 151,377  |
| Over 60 days       | 58,359   | 70,281   |
| Total              | 459,908  | 399,200  |

The following is analysis of trade receivables (net of allowance for doubtful debt) by age, presented based on due date:

|                           | 06/30/16 | 12/31/15 |
|---------------------------|----------|----------|
|                           | USD'000  | USD'000  |
| Current                   | 387,944  | 312,479  |
| Past due but not impaired |          |          |
| Within 30 days            | 23,916   | 39,737   |
| Between 31–60 days        | 5,858    | 3,534    |
| Over 60 days              | 1,354    | 1,474    |
| Total                     | 419,072  | 357,224  |

**23. RESTRICTED CASH**

As of June 30, 2016, restricted cash consisted of US\$4.6 million (December 31, 2015: US\$1.1 million) of bank time deposits pledged against letters of credit and short-term borrowings, and US\$72.7 million (December 31, 2015: US\$74.0 million) of government funding received mainly for the reimbursement of research and development expenses to be incurred.

As of June 30, 2016 the restricted cash of US\$151.1 million (December 31, 2015: US\$227.3 million) was from a low interest cost entrusted loan granted by CDB Development Fund through China Development Bank, which is

designated to be used for future capacity expansion. The Company expects to spend the restricted cash within the next 12 months.

24.

## SHARES AND ISSUED CAPITAL

**Ordinary shares of US\$0.0004 each issued and fully paid**

|                                                                        | Six months ended<br>June 30, 2016 |                             | Six months ended<br>June 30, 2015 |                             |
|------------------------------------------------------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|                                                                        | Number of<br>shares               | Share<br>capital<br>USD'000 | Number of<br>shares               | Share<br>capital<br>USD'000 |
| Balance at January 1                                                   | 42,073,748,961                    | 16,830                      | 35,856,096,167                    | 14,342                      |
| Issuance of shares under the Group's employee stock<br>incentive plans | 116,568,495                       | 46                          | 194,006,796                       | 78                          |
| Ordinary shares issued at June 8, 2015                                 | —                                 | —                           | 4,700,000,000                     | 1,880                       |
| Balance at June 30                                                     | 42,190,317,456                    | 16,876                      | 40,750,102,963                    | 16,300                      |

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



**25.****SHARE-BASED PAYMENTS****Share options schemes**

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.

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

|                                                                      | Six months<br>ended<br>06/30/16 | 06/30/15 |
|----------------------------------------------------------------------|---------------------------------|----------|
|                                                                      | USD'000                         | USD'000  |
| Expense arising from equity-settled share-based payment transactions | 8,063                           | 8,088    |

**Movements during the period**

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

|                                         | 2016<br>Number | 2016<br>WAEP    | 2015<br>Number | 2015<br>WAEP |
|-----------------------------------------|----------------|-----------------|----------------|--------------|
| Outstanding at January 1                | 1,002,955,779  | <b>US\$0.08</b> | 1,163,627,269  | US\$0.08     |
| Granted during the period               | 14,592,477     | <b>US\$0.08</b> | 49,739,650     | US\$0.10     |
| Forfeited and expired during the period | (36,187,910 )  | <b>US\$0.12</b> | (53,333,368 )  | US\$0.14     |
| Exercised during the period             | (12,031,765 )  | <b>US\$0.05</b> | (103,399,197 ) | US\$0.07     |
| Outstanding at June 30                  | 969,328,581    | <b>US\$0.08</b> | 1,056,634,354  | US\$0.08     |

In the current interim period, share options were granted on May 25, 2016. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04.

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was US\$0.09.

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, 2016 and 2015:

|                                | 2016           |   | 2015    |   |
|--------------------------------|----------------|---|---------|---|
| Dividend yield (%)             | —              |   | —       |   |
| Expected volatility            | 45.66          | % | 45.38   | % |
| Risk-free interest rate        | 1.47           | % | 1.55    | % |
| Expected life of share options | <b>5 years</b> |   | 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.

**25. SHARE-BASED PAYMENTS (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):

|                             | 2016<br>Number | 2016<br>WAFV    | 2015<br>Number | 2015<br>WAFV |
|-----------------------------|----------------|-----------------|----------------|--------------|
| Outstanding at January 1    | 304,512,677    | <b>US\$0.10</b> | 274,057,667    | US\$0.09     |
| Granted during the period   | 77,456,477     | <b>US\$0.08</b> | 144,812,985    | US\$0.11     |
| Forfeited during the period | (6,249,000 )   | <b>US\$0.10</b> | (7,161,483 )   | US\$0.09     |
| Exercised during the period | (104,536,730)  | <b>US\$0.09</b> | (90,607,599 )  | US\$0.08     |
| Outstanding at June 30      | 271,183,424    | <b>US\$0.10</b> | 321,101,570    | US\$0.10     |

In the current interim period, RSUs were granted on May 25, 2016. The fair value of the RSUs determined at the date of grant using the Black-Scholes Option Pricing model was US\$0.08.

The weighted average closing price of the Company's shares immediately before the date on which the RSUs were exercised was US\$0.09.

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, 2016 and 2015:

|                         | 2016           | 2015    |
|-------------------------|----------------|---------|
| Dividend yield (%)      | —              | —       |
| Expected volatility     | 39.60 %        | 36.99 % |
| Risk-free interest rate | 0.91 %         | 0.60 %  |
| Expected life of RSUs   | <b>2 years</b> | 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.

(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):

|                             | 2016<br>Number | 2016<br>WAEP    |
|-----------------------------|----------------|-----------------|
| Outstanding at January 1    | 7,000,000      | <b>US\$0.06</b> |
| Granted during the period   | —              | —               |
| Forfeited during the period | —              | —               |
| Exercised during the period | —              | —               |
| Outstanding at June 30      | 7,000,000      | <b>US\$0.06</b> |

In the current interim period, there is no share option of the Subsidiary Plan was granted.

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\$0.08.

**26. TRADE AND OTHER PAYABLES**

|                                 | 06/30/16  | 12/31/15  |
|---------------------------------|-----------|-----------|
|                                 | USD'000   | USD'000   |
| Trade payables                  | 928,453   | 885,438   |
| Advance receipts from customers | 94,152    | 72,865    |
| Deposit received                | 44,408    | 47,468    |
| Other payable                   | 30,730    | 41,995    |
|                                 | 1,097,743 | 1,047,766 |

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

As of June 30, 2016, trade payables were US\$928.5 million (as of December 31, 2015: US\$885.4 million), within which the payables for property, plant and equipment were US\$650.0 million (as of December 31, 2015: US\$660.7 million).

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

|                    | 06/30/16 | 12/31/15 |
|--------------------|----------|----------|
|                    | USD'000  | USD'000  |
| Within 30 days     | 782,496  | 788,936  |
| Between 31–60 days | 43,962   | 36,596   |
| Over 60 days       | 101,995  | 59,906   |
| Total              | 928,453  | 885,438  |

An aged analysis of the trade payable is as follows:

|                       | 06/30/16 | 12/31/15 |
|-----------------------|----------|----------|
|                       | USD'000  | USD'000  |
| Current               | 815,851  | 814,553  |
| Overdue:              |          |          |
| Within 30 days        | 29,050   | 24,554   |
| Between 31 to 60 days | 32,617   | 10,458   |
| Over 60 days          | 50,935   | 35,873   |
|                       | 928,453  | 885,438  |

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## 27.

## BORROWINGS

|                                            | 06/30/16<br>USD'000 | 12/31/15<br>USD'000 |
|--------------------------------------------|---------------------|---------------------|
| At amortized cost                          |                     |                     |
| Short-term commercial bank loans           | 30,055              | 62,872              |
|                                            | 30,055              | 62,872              |
| Long-term debt by contracts                |                     |                     |
| 2013 USD Loan (SMIC Shanghai)              | 10,760              | 10,760              |
| 2015 USD Loan (SMIC Shanghai)              | 46,248              | 52,854              |
| 2015 RMB Loan I (SMIC Shanghai)            | 150,775             | 154,095             |
| 2015 RMB Loan II (SMIC Shanghai)           | 71,618              | 73,195              |
| 2015 EXIM RMB Loan (SMIC Shanghai)         | 75,387              | 73,966              |
| 2014 EXIM RMB Loan (SMIC Beijing)          | 36,186              | 36,983              |
| 2016 EXIM RMB Loan (SMIC Beijing)          | 60,310              | —                   |
| 2016 EXIM RMB Loan (SMIC)                  | 75,387              | —                   |
| 2015 CDB RMB Loan I(SMIC Beijing)          | 29,401              | 30,048              |
| 2016 CDB RMB Loan II(SMIC Beijing)         | 220,131             | —                   |
| 2015 RMB Entrust loan (SJ Jiangyin)        | 14,022              | 14,331              |
| 2015 CDB USD Loan (SJ Jiangyin)            | 2,000               | 20,000              |
| Others                                     | 501,552             | —                   |
|                                            | 1,293,777           | 466,232             |
| Less: current maturities of long-term debt | 61,320              | 50,196              |
| Non-current maturities of long-term debt   | 1,232,457           | 416,036             |
| Borrowing by repayment schedule:           |                     |                     |
| Within 1 year                              | 91,375              | 113,068             |
| Within 1–2 years                           | 42,882              | 15,830              |
| Within 2–5 years                           | 800,460             | 172,916             |
| Over 5 years                               | 389,115             | 227,290             |
|                                            | 1,323,832           | 529,104             |

As of June 30, 2016, property, plant and equipment with carrying amount of approximately US\$667 million (December 31, 2015: US\$324 million) have been pledged to secure borrowings of the Group (see Note 15).

Other borrowings represented US\$501.6 million (December 31, 2015: nil) of borrowings under three financing arrangements entered into by the Group with third-party financing companies in the form of a sale and leaseback transaction with a repurchase option. The subject sold and leased back under the financing arrangement is a batch of production equipment of the Group. As the repurchase prices are set at below US\$1.00 which are minimal compared to the expected fair value and the Group is certain that it will exercise the repurchase options, the above financing arrangements have been accounted for as collateralized borrowings of the Group.





28.

## CONVERTIBLE BONDS

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

On November 7, 2013, the Company issued zero coupon zero yield convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$200,000,000 (the “Original Bonds”). The issue price was 100% of the aggregate principal amount of the Original Bonds. The Original Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Bonds was approximately US\$179.4 million and the equity component was approximately US\$15.2 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

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

Please refer to the Company’s annual consolidated financial statements as at December 31, 2015 for the principal terms of the Original Bonds.

Subsequent to the initial recognition, the liability component of the Original Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Bonds was 3.69% per annum. The movement of the liability component and equity component of the Original Bonds for the period ended June 30, 2016 is set out below:

|                                    | Liability<br>Component<br>USD'000 | Equity<br>Component<br>USD'000 | Total<br>USD'000 |
|------------------------------------|-----------------------------------|--------------------------------|------------------|
| As at December 31, 2014            | 187,156                           | 15,210                         | 202,366          |
| Interest charged during the period | 3,434                             | —                              | 3,434            |
| As at June 30, 2015                | 190,590                           | 15,210                         | 205,800          |
| As at December 31, 2015            | 194,066                           | 15,210                         | 209,276          |
| Interest charged during the period | 3,560                             | —                              | 3,560            |
| As at June 30, 2016                | 197,626                           | 15,210                         | 212,836          |

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

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**28.CONVERTIBLE BONDS (CONTINUED)**

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

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

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

Subsequent to the initial recognition, the liability component of the Original Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Pre-emptive Bonds was 2.78% per annum. The movement of the liability component and equity component of the Original Pre-emptive Bonds for the period ended June 30, 2016 is set out below:

|                                    | Liability<br>Component<br>USD'000 | Equity<br>Component<br>USD'000 | Total<br>USD'000 |
|------------------------------------|-----------------------------------|--------------------------------|------------------|
| As at December 31, 2014            | 82,550                            | 5,565                          | 88,115           |
| Interest charged during the period | 1,133                             | —                              | 1,133            |
| As at June 30, 2015                | 83,683                            | 5,565                          | 89,248           |
| As at December 31, 2015            | 84,842                            | 5,565                          | 90,407           |
| Interest charged during the period | 1,164                             | —                              | 1,164            |
| As at June 30, 2016                | 86,006                            | 5,565                          | 91,571           |

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

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

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**28. CONVERTIBLE BONDS (CONTINUED)**

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

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

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

Subsequent to the initial recognition, the liability component of the Further Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Bonds was 3.79% per annum. The movement of the liability component and equity component of the Further Bonds for the period ended June 30, 2016 is set out below:

|                                    | Liability<br>Component<br>USD'000 | Equity<br>Component<br>USD'000 | Total<br>USD'000 |
|------------------------------------|-----------------------------------|--------------------------------|------------------|
| As at December 31, 2014            | 88,740                            | 7,148                          | 95,888           |
| Interest charged during the period | 1,650                             | —                              | 1,650            |
| As at June 30, 2015                | 90,390                            | 7,148                          | 97,538           |
| As at December 31, 2015            | 92,102                            | 7,148                          | 99,250           |
| Interest charged during the period | 1,713                             | —                              | 1,713            |
| As at June 30, 2016                | 93,815                            | 7,148                          | 100,963          |

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

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

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

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

**28. CONVERTIBLE BONDS (CONTINUED)**

(iv) Issue of US\$22.2 million zero coupon zero yield convertible bonds due 2018 (*Continued*)

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

Subsequent to the initial recognition, the liability component of the Further Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Pre-emptive Bonds was 3.22% per annum. The movement of the liability component and equity component of the Further Pre-emptive Bonds for the period ended June 30, 2016 is set out below:

|                                    | Liability<br>Component<br>USD'000 | Equity<br>Component<br>USD'000 | Total<br>USD'000 |
|------------------------------------|-----------------------------------|--------------------------------|------------------|
| As at December 31, 2014            | 20,948                            | 1,641                          | 22,589           |
| Interest charged during the period | 336                               | —                              | 336              |
| As at June 30, 2015                | 21,284                            | 1,641                          | 22,925           |
| As at December 31, 2015            | 21,622                            | 1,641                          | 23,263           |
| Interest charged during the period | 347                               | —                              | 347              |
| As at June 30, 2016                | 21,969                            | 1,641                          | 23,610           |

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

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

The holders of each convertible bond may require the Company to redeem all or some only of the convertible bonds at their principal amount on November 7, 2016. Accordingly, all the convertible bonds disclosed above were classified as current liabilities at the date of this announcement.

29.

## SHORT-TERM AND MEDIUM-TERM NOTES

On June 7 and June 8, 2016, the Company issued the one-year short-term notes of RMB600 million (approximately US\$90.5 million) and the three-year medium-term notes of RMB1,500 million (approximately US\$226.2 million) through National Association of Financial Market Institutional Investors (“NAFMII”). The short-term notes carry a coupon interest rate of 2.99% per annum with note interest payable annually on June 7, 2017 and the medium-term notes carry a coupon interest rate of 3.35% per annum with interest due annually on June 8, 2017, June 8, 2018 and June 10, 2019. As at the issue date, the net book value of the liabilities of short-term notes amounted to RMB600 million (approximately US\$90.5 million) and the net book value of the liabilities of medium-term notes amounted to RMB1,485.2 million (approximately US\$223.9 million).

|                                    | <b>Short-term</b> | <b>Medium-term</b> |
|------------------------------------|-------------------|--------------------|
|                                    | <b>notes</b>      | <b>notes</b>       |
|                                    | USD'000           | USD'000            |
| Principal amount                   | 90,465            | 226,162            |
| Transaction cost                   | —                 | (2,226 )           |
| Notes payable as at the issue date | 90,465            | 223,936            |

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**29. SHORT-TERM AND MEDIUM-TERM NOTES (CONTINUED)**

The movement of the short-term and medium-term notes for the period ended June 30, 2016 is set out below:

|                                               | Short-term<br>notes<br>USD'000 | Medium-term<br>notes<br>USD'000 |
|-----------------------------------------------|--------------------------------|---------------------------------|
| As at the date of issue                       | 90,465                         | 223,936                         |
| Interest charged during the period            | 225                            | 691                             |
| Interest payable recognized during the period | (225 )                         | (631 )                          |
| As at June 30, 2016                           | 90,465                         | 223,996                         |

Based on the issuance quota approved by NAFMII on April 11, 2016, the Company plans to issue the rest quota of the medium-term notes and short-term notes within 2 years.

**30. BONDS PAYABLE**

On October 7, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US\$500 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the issue date, the net book value of the liabilities amounted to US\$491.2 million after the deduction of (1) a discount of US\$5.2 million and (2) issue expenses of US\$3.6 million.

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

The movement of the corporate bonds for the period ended June 30, 2016 is set out below:

|                                               | USD'000   |
|-----------------------------------------------|-----------|
| As at December 31, 2014                       | 491,579   |
| Interest charged during the period            | 11,117    |
| Interest payable recognized during the period | (10,313 ) |

|                                               |           |
|-----------------------------------------------|-----------|
| As at June 30, 2015                           | 492,383   |
| As at December 31, 2015                       | 493,207   |
| Interest charged during the period            | 11,154    |
| Interest payable recognized during the period | (10,313 ) |
| As at June 30, 2016                           | 494,048   |

31. OTHER FINANCIAL LIABILITIES

|                                                                  | 06/30/16 | 12/31/15 |
|------------------------------------------------------------------|----------|----------|
|                                                                  | USD'000  | USD'000  |
| Derivatives carried at fair value through profit or loss (FVTPL) |          |          |
| Non-current:                                                     |          |          |
| Cross currency swap contracts                                    | 17,747   | —        |
| Current:                                                         |          |          |
| Cross currency swap contracts                                    | 422      | 1,459    |
|                                                                  | 18,169   | 1,459    |

## 32. COMMITMENTS FOR EXPENDITURE

### Purchase commitments

As of June 30, 2016, the Group had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Group's facility by December 31, 2016.

|                                                                  | 06/30/16 | 12/31/15  |
|------------------------------------------------------------------|----------|-----------|
|                                                                  | USD'000  | USD'000   |
| Commitments for the facility construction                        | 192,720  | 165,274   |
| Commitments for the acquisition of property, plant and equipment | 773,078  | 1,146,275 |
| Commitments for the acquisition of intangible assets             | 7,297    | 29,392    |
|                                                                  | 973,095  | 1,340,941 |

## 33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the period ended June 30, 2016.

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

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

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

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**33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

|                                                                                                           | Valuation technique(s) and key input                                                                                                                                                                          | 06/30/16 |         |         |         |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------|---------|---------|
|                                                                                                           |                                                                                                                                                                                                               | Level 1  | Level 2 | Level 3 | Total   |
|                                                                                                           |                                                                                                                                                                                                               | USD'000  | USD'000 | USD'000 | USD'000 |
| Financial assets at FVTPL                                                                                 |                                                                                                                                                                                                               |          |         |         |         |
| Short-term investment carried at fair value through profit or loss                                        | Discounted cash flow. Future cash flows are estimated based on contracted interest rates and discounted                                                                                                       | —        | 296,970 | —       | 296,970 |
| Cross currency swap contracts classified as other financial assets in the statement of financial position | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted | —        | 78      | —       | 78      |
| Available-for-sale investment                                                                             | Quoted prices in active markets                                                                                                                                                                               | 2,761    | —       | —       | 2,761   |
| Available-for-sale investment                                                                             | Recent transaction price                                                                                                                                                                                      | —        | —       | 14,845  | 14,845  |
| Derivative financial instrument                                                                           | Measured by Binational Model with key assumptions including exercise multiple (75%), risk free rate of interest (0.29%), expected volatility (47.1%) and rate of return (10%)                                 | —        | —       | 24,551  | 24,551  |
| Total                                                                                                     |                                                                                                                                                                                                               | 2,761    | 297,048 | 39,396  | 339,205 |

|                                                                                                                | Valuation technique(s) and key input                                                                                                                                                                          | 06/30/16 |         |         |         |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------|---------|---------|
|                                                                                                                |                                                                                                                                                                                                               | Level 1  | Level 2 | Level 3 | Total   |
|                                                                                                                |                                                                                                                                                                                                               | USD'000  | USD'000 | USD'000 | USD'000 |
| Financial liabilities at FVTPL                                                                                 |                                                                                                                                                                                                               |          |         |         |         |
| Cross currency swap contracts classified as other financial liabilities in the statement of financial position | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted | —        | 18,169  | —       | 18,169  |
| Total                                                                                                          |                                                                                                                                                                                                               | —        | 18,169  | —       | 18,169  |

**33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

|                                                                                                                |                                                                                                                                                                                                               | 12/31/15 |         |         |         |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------|---------|---------|
|                                                                                                                | Valuation technique(s) and key input                                                                                                                                                                          | Level 1  | Level 2 | Level 3 | Total   |
|                                                                                                                |                                                                                                                                                                                                               | USD'000  | USD'000 | USD'000 | USD'000 |
| Financial assets at FVTPL                                                                                      |                                                                                                                                                                                                               |          |         |         |         |
| Short-term investment carried at fair value through profit or loss                                             | Discounted cash flow. Future cash flows are estimated based on contracted interest rates and discounted                                                                                                       | —        | 257,583 | —       | 257,583 |
| Foreign currency forward contracts classified as other financial assets in the statement of financial position | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted | —        | 172     | —       | 172     |
| Available-for-sale investment                                                                                  | Quoted prices in active markets                                                                                                                                                                               | 3,300    | —       | —       | 3,300   |
| Available-for-sale investment                                                                                  | Recent transaction price                                                                                                                                                                                      | —        | —       | 15,173  | 15,173  |
| Derivative financial instrument                                                                                | Measured by Binational Model with key assumptions including exercise multiple (75%), risk free rate of interest (1.2%), expected volatility (46.8%) and rate of return (10%)                                  | —        | —       | 30,173  | 30,173  |
| Total                                                                                                          |                                                                                                                                                                                                               | 3,300    | 257,755 | 45,346  | 306,401 |

|                                                                                                                | Valuation technique(s) and key input                                                                                                                                                                          | 12/31/15 |         |         |         |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------|---------|---------|
|                                                                                                                |                                                                                                                                                                                                               | Level 1  | Level 2 | Level 3 | Total   |
|                                                                                                                |                                                                                                                                                                                                               | USD'000  | USD'000 | USD'000 | USD'000 |
| Financial liabilities at FVTPL                                                                                 |                                                                                                                                                                                                               |          |         |         |         |
| Cross currency swap contracts classified as other financial liabilities in the statement of financial position | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted | —        | 1,459   | —       | 1,459   |
| Total                                                                                                          |                                                                                                                                                                                                               | —        | 1,459   | —       | 1,459   |

**34. RELATED PARTY TRANSACTIONS**

The names of the related parties which had transactions with the Group for the period ended June 30, 2016 and the relationships with the Group are disclosed below.

| <b>Related party name</b>                                                                | <b>Relationship with the Group</b>                                                                  |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| China Academy of Telecommunication Technology                                            | A member of Datang Telecom Technology & Industry Group (“Datang Group”), which owns Datang Holdings |
| Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”)              | A substantial shareholder of the Company                                                            |
| Datang Microelectronics Technology Co., Ltd                                              | A member of Datang Group                                                                            |
| Datang Semiconductor Co., Ltd.                                                           | A member of Datang Group                                                                            |
| Leadcore Technology Co., Ltd. and Leadcore Technology (Hong Kong) Co., Ltd. (“Leadcore”) | A member of Datang Group                                                                            |
| Datang Telecom Group Finance Co., Ltd. (“Datang Finance”)                                | A member of Datang Group                                                                            |
| China Integrated Circuit Industry Investment Fund Co., Ltd., (“China IC Fund”)           | A substantial shareholder of the Company                                                            |
| Toppan                                                                                   | An associate of the Group                                                                           |
| Brite Semiconductor Corporation and its subsidiaries (“Brite”)                           | An associate of the Group                                                                           |
| China Fortune-Tech                                                                       | An associate of the Group                                                                           |
| Zhongxin Xiecheng                                                                        | An associate of the Group                                                                           |

**Trading transactions**

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

|                                              | Sale of goods    |          | Sale of services |          |
|----------------------------------------------|------------------|----------|------------------|----------|
|                                              | Six months ended |          | Six months ended |          |
|                                              | 06/30/16         | 06/30/15 | 06/30/16         | 06/30/15 |
|                                              | USD’000          | USD’000  | USD’000          | USD’000  |
| Datang Microelectronics Technology Co., Ltd. | 5,453            | 6,453    | —                | —        |
| Datang Semiconductor Co., Ltd.               | 528              | —        | —                | —        |
| Leadcore                                     | 757              | 2,616    | —                | —        |
| Toppan                                       | —                | —        | 1,923            | 2,319    |
| Brite                                        | 19,308           | 15,528   | —                | —        |
| China Fortune-Tech                           | —                | —        | 33               | 36       |

|                                               | Purchase of goods |          | Purchase of services |          |
|-----------------------------------------------|-------------------|----------|----------------------|----------|
|                                               | Six months ended  |          | Six months ended     |          |
|                                               | 06/30/16          | 06/30/15 | 06/30/16             | 06/30/15 |
|                                               | USD'000           | USD'000  | USD'000              | USD'000  |
| China Academy of Telecommunication Technology | —                 | —        | —                    | 365      |
| Toppan                                        | —                 | —        | 4,653                | 8,461    |
| Zhongxin Xiecheng                             | —                 | —        | 4                    | 624      |
| Brite                                         | 25                | —        | 898                  | 801      |
| China Fortune-Tech                            | —                 | —        | 17                   | 693      |
| Datang Finance                                | —                 | —        | 15                   | —        |



**34. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

|                                             | Amounts due from<br>related parties |                     | Amounts due<br>to related parties |                     |
|---------------------------------------------|-------------------------------------|---------------------|-----------------------------------|---------------------|
|                                             | 06/30/16<br>USD'000                 | 12/31/15<br>USD'000 | 06/30/16<br>USD'000               | 12/31/15<br>USD'000 |
| Datang Semiconductor Co., Ltd               | 549                                 | 61                  | —                                 | —                   |
| Datang Microelectronics Technology Co., Ltd | 4,894                               | 5,338               | —                                 | —                   |
| Leadcore                                    | 339                                 | 1,948               | 1,612                             | 3,667               |
| Toppan                                      | 965                                 | 317                 | 1,239                             | 1,148               |
| Brite                                       | 5,562                               | 5,661               | 7                                 | 141                 |
| China Fortune-Tech                          | 6                                   | 40                  | —                                 | —                   |

**Capital contribution**

In June 2016, China IC Fund made a capital contribution of US\$636 million into the registered capital of SMNC (the Company's majority-owned subsidiary in Beijing). Please refer to note 16 for details.

**Arrangements/contracts for sale of self-developed living quarter unit**

In the first half of 2016, the Group entered into arrangement/contracts with one of directors of the Company for sale of self-developed living quarter unit and the amount of the consideration is approximately US\$1.0 million. The consideration was not completed as of the date of this interim results announcement.

In 2015, the Group entered into arrangement/contracts with 4 of the Company's directors and key management for sale of self-developed living quarter units and the amount of the considerations was approximately US\$3.6 million, within which one transaction amounted to US\$0.9 million was completed in March 2016 and other 3 considerations were not completed as of the date of this interim results announcement.

**35. SUBSEQUENT EVENTS**

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\$450,000,000 (the "2016 Convertible Bonds"). The issue price was 100% of the

aggregate principal amount of the 2016 Convertible Bonds.

On June 24, 2016, the Company entered into a purchase and sale agreement to acquire 70% of the corporate capital of LFoundry S.r.l. in consideration of EUR49 million and the acquisition was completed on July 29, 2016.

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

### SALES

Sales increased by 25.4% from US\$1,056.4 million for the six months ended June 30, 2015 to US\$1,324.5 million for the six months ended June 30, 2016, primarily due to an increase in wafer shipments during this period. The number of wafer shipments increased by 26.6% from 1,423,861 8-inch wafer equivalents for the six months ended June 30, 2015 to 1,803,170 8-inch wafer equivalents for the six months ended June 30, 2016.

### COST OF SALES AND GROSS PROFIT

Cost of sales increased by 30.5% from US\$730.1 million for the six months ended June 30, 2015 to US\$953.0 million for the six months ended June 30, 2016, primarily due to an increase in wafer shipment during this period and increased manufacturing costs as the majority-owned fab in Beijing entered into mass production in December 2015.

The Group had a gross profit of US\$371.6 million for the six months ended June 30, 2016 compared to a gross profit of US\$326.3 million for the six months ended June 30, 2015, representing an increase of 13.9%. Gross margin decreased to 28.1% for the six months ended June 30, 2016 from 30.9% for the six months ended June 30, 2015. The decrease in gross margin was primarily due to increased manufacturing costs from the majority-owned fab in Beijing which entered into mass production in December 2015.

### PROFIT FOR THE PERIOD FROM OPERATIONS

Profit from operations increased from US\$106.2 million for the six months ended June 30, 2015 to US\$181.6 million for the six months ended June 30, 2016 primarily due to the combined effect of 1) an increase in wafer shipment, 2) a decrease in accrued employee bonus and 3) higher gain realized from the partial disposal of the living quarters in Beijing in the first half of 2016 partially offset by an increase in R&D activities.

Research and development expenses increased by 8.6% from US\$108.7 million for the six months ended June 30, 2015 to US\$118.0 million for the six months ended June 30, 2016. The increase was mainly due to an increase in R&D activities.

General and administrative expenses decreased by 35.5% from US\$94.5 million for the six months ended June 30, 2015 to US\$61.0 million for the six months ended June 30, 2016. The decrease was primarily due to 1) a decrease in accrued employee bonus and 2) a decrease in the pre-operating related expenses in the first half of 2016, as compared to the first half of 2015, after the majority-owned fab in Beijing entered into mass production in December 2015.

Sales and marketing expenses decreased by 2.3% from US\$18.4 million for the six months ended June 30, 2015 to US\$17.9 million for the six months ended June 30, 2016.

Other operating income were US\$1.4 million and US\$6.9 million for the six months ended June 30, 2015 and 2016, respectively, and the increase was due to the gains arising from the partial disposal of the Group's living quarters recorded in the first half of 2016.

As a result, the Group's profit from operations increased to US\$181.6 million for the six months ended June 30, 2016 from US\$106.2 million for the six months ended June 30, 2015.

#### PROFIT FOR THE PERIOD

Due to the factors described above, the Group had a profit of US\$146.3 million for the six months ended June 30, 2016 compared to US\$123.3 million for the six months ended June 30, 2015.

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## FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE COMING YEAR

In 2016, the Group plans to spend approximately US\$2.5 billion in capital expenditures for foundry operations, which are subject to adjustment based on market conditions. The capital expenditures are mainly for 1) the expansion of capacity in our majority-owned 12-inch fab in Beijing, 12-inch fab in Shanghai, 8-inch fab in Shenzhen and a new majority-owned 12-inch joint venture fab for bumping services in Jiangyin, 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology, and 3) research and development equipment, mask shops and intellectual property acquisition.

In addition, the Group budgeted approximately US\$50 million in 2016 as capital expenditures for non-foundry operations. This is mainly for the construction of living quarters for employees as part of the Group's employee retention program.

The Group's actual expenditures may differ from its planned expenditures for a variety of reasons, including changes in its business plan, process technology, market conditions, equipment prices, and 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, 2016, the Group incurred capital expenditures of US\$1,543.2 million compared to US\$513.0 million for the six months ended June 30, 2015. The Group financed its capital expenditures primarily from cash flows generated from operating and financing activities.

The Group had US\$1,586.7 million in cash and cash equivalents as of June 30, 2016. These cash and cash equivalents are held in the form of United States Dollars, Japanese Yen, Euro, and Chinese Renminbi. The net cash from operating activities increased by 28.8% from US\$288.9 million for the six months ended June 30, 2015 to US\$372.2 million for the six months ended June 30, 2016.

Net cash used in investing activities was US\$1,627.3 million for the six months ended June 30, 2016, primarily attributable to 1) purchases of plant and equipment for the fabs in Shanghai, Beijing, Shenzhen and Jiangyin, 2) the net result of proceeds from selling and payments for acquiring financial assets and 3) payments for acquiring long-term investments. Net cash used in investing activities was US\$319.3 million for the six months ended June 30, 2015, primarily attributable to 1) purchases of plant and equipment for the fabs in Shanghai and Beijing, 2) the net result of proceeds from selling and payments for acquiring financial assets and 3) payments for acquiring long-term investment.

Net cash generated from financing activities was US\$1,844.6 million for the six months ended June 30, 2016, which was primarily 1) the net result of proceeds from new financing and repayments of bank borrowings, 2) net proceeds from the issuance of medium-term and short-term notes and 3) capital contribution from China Integrated Circuit Industry Investment Fund Co., Ltd. (“**China IC Fund**”) into the registered capital of Semiconductor Manufacturing North China (Beijing) Corporation (“**SMNC**”) in the first half of 2016. Net cash generated from financing activities was US\$193.6 million for the six months ended June 30, 2015, which was primarily 1) the net result of proceeds from new bank borrowings and repayments of bank borrowings and 2) net proceeds from the issuance of new Ordinary Shares in the first half of 2015.

As of June 30, 2016, the Group’s outstanding long-term liabilities primarily consisted of US\$558.6 million in secured bank loans, US\$765.2 million in unsecured bank loans, US\$399.4 million in convertible bonds, US\$494.0 million in USD bond, US\$224.0 million in medium-term notes and US\$90.5 million in short-term notes. Of which, US\$61.3 million was classified as the current portion of long-term loans.

## **DISPOSAL OF 19.61% EQUITY INTEREST IN CHANGJIANG XINKE BY SILTECH SHANGHAI TO JCET AND ISSUE OF SHARES TO SILTECH SHANGHAI BY JCET AND PRIVATE PLACEMENT OF SHARES TO SILTECH SHANGHAI BY JCET**

On April 27, 2016, SilTech Semiconductor (Shanghai) Corporation Limited (“**SilTech Shanghai**”) and Jiangsu Changjiang Electronics Technology Co., Ltd (“**JCET**”) entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% equity interest in Suzhou Changjiang Electric Xinke Investment Co., Ltd. (“**Changjiang Xinke**”) to JCET in consideration of RMB664 million, which will be satisfied by JCET’s issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. This transaction has not completed at the date of this announcement and is waiting for the approval from the China Securities Regulatory Commission.

## **ACQUISITION OF 70% OF THE CORPORATE CAPITAL OF LFOUNDRY S.R.L.**

On June 24, 2016, the Company, LFoundry Europe GmbH (“**LFoundry Europe**”) and Marsica Innovation S.p.A (“**Marsica**”) entered into a sale and purchase agreement pursuant to which LFoundry Europe and Marsica agreed to sell and the Company agreed to purchase 70% of the corporate capital of LFoundry S.r.l. for an aggregate cash consideration of EUR49 million subject to adjustment. The acquisition was not completed as of June 30, 2016.

## **CAPITAL CONTRIBUTION FROM CHINA IC FUND INTO THE CAPITAL OF SMNC**

On May 10, 2016, the Company, SMIC Beijing, China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership) (“**Beijing Semi Fund**”), Beijing Industrial Developing Investment Management Co., Ltd. (“**IDIMC**”) and Zhongguancun Development Group (“**ZDG**”) have agreed to amend the previous joint venture agreement through an amended joint venture agreement, pursuant to which: (i) the Company and SMIC Beijing’s outstanding aggregate capital contribution obligations as contained in the previous joint venture agreement will decrease from US\$804.38 million to US\$708.38 million, and their aggregate shareholding in SMNC, will decrease from 55% to 51%; and (ii) China IC Fund has agreed to make cash contribution of US\$636 million into the registered capital of SMNC. The parties’ performance of their capital contribution obligations will lead to an increase in the registered capital of SMNC from US\$1.2 billion to US\$2.4 billion. The capital contribution from China IC Fund was completed in June 2016.

## **COMMITMENTS**

As of June 30, 2016, the Group had commitments of US\$192.7 million for facilities construction obligations in connection with the Group’s Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities, US\$773.0 million to purchase machinery and equipment mainly for the Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs and US\$7.3 million to purchase intellectual property.

#### DEBT TO EQUITY RATIO

As of June 30, 2016, the Group's debt to equity ratio was approximately 50.9%, which was calculated by dividing the sum of the short-term and long-term borrowings, short-term and medium-term notes, convertible bonds and corporate bonds by total shareholders' equity and the net debt to equity ratio was approximately 12.9%, which was calculated by dividing the total debt minus cash and cash equivalents and other financial assets by total shareholders' equity.

#### FOREIGN EXCHANGE RATE FLUCTUATION RISK

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

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



**CROSS CURRENCY SWAP FLUCTUATION RISK**

As of June 30, 2016, the Company had long-term loan facility agreements as well as medium-term and short-term notes in the aggregate principal amount of RMB4,300 million. The Company was primarily exposed to changes in the exchange rate for the RMB.

To minimize the currency risk, the Company entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the whole part of this RMB long-term loan to protect against the adverse effect of exchange rate fluctuations arising from some of the RMB denominated loans. The cross currency swap contracts did not qualify for hedge accounting in accordance with IFRS.

**Outstanding Foreign Exchange Contracts**

As of June 30, 2016, the Group had no outstanding foreign currency forward exchange contracts.

As of December 31, 2015, the Group had outstanding foreign currency forward exchange contract with notional amounts of US\$42.9 million, which matured in January 2016. As of December 31, 2015, the fair value of foreign currency forward exchange contracts was approximately US\$0.17 million, which was recorded in other current assets.

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

|                                                             | As of<br>June 30, 2016<br>(in US\$<br>thousands)<br><b>Notional</b><br>Fair<br>value | Fair<br>Value | As of<br>December 31,<br>2015<br>(in US\$<br>thousands)<br>Notional<br>Fair<br>value | Fair<br>Value |
|-------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|--------------------------------------------------------------------------------------|---------------|
| <b>Forward Exchange Agreement</b><br>(Receive Eur/Pay US\$) |                                                                                      |               |                                                                                      |               |
| Contract Amount                                             | —                                                                                    | —             | 42,872                                                                               | 172           |
| Total Contract Amount                                       | —                                                                                    | —             | 42,872                                                                               | 172           |

**Outstanding Cross Currency Swap Contracts**

As of June 30, 2016, the Company had outstanding cross currency swap contracts with notional amounts of US\$648.3 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of June 30, 2016, the fair value of cross currency swap contracts was approximately 0.1 million recorded as other financial assets and a liability of US\$18.2 million, which was recorded in other financial liabilities. The cross currency swap contracts will mature in the period from 2018 to 2021.

As of December 31, 2015, the Company had outstanding cross currency swap contracts with notional amounts of US\$74.0 million and the fair value of cross currency swap contracts was approximately a liability of US\$1.5 million. The cross currency swap contracts will mature in 2018.

|                                      | As of<br>June 30, 2016<br>(in US\$ thousands) |               | As of<br>December 31, 2015<br>(in US\$ thousands) |               |
|--------------------------------------|-----------------------------------------------|---------------|---------------------------------------------------|---------------|
|                                      | <b>Notional<br/>value</b>                     | Fair<br>Value | Notional<br>value                                 | Fair<br>Value |
| <b>Cross Currency Swap Contracts</b> |                                               |               |                                                   |               |
| (Receive RMB/Pay US\$)               |                                               |               |                                                   |               |
| Contract Amount                      | 648,332                                       | (18,091 )     | 73,966                                            | (1,459 )      |
| Total Contract Amount                | 648,332                                       | (18,091 )     | 73,966                                            | (1,459 )      |

## EMPLOYEES EQUITY INCENTIVE PLAN

Save as disclosed in this interim results announcement, there is no material change to the information disclosed in the 2015 annual report of the Group in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

## ISSUANCE OF EQUITY SECURITIES UNDER GENERAL MANDATE

### Issue of US\$450 million zero coupon zero yield convertible bonds due 2022

On June 7, 2016, the Company entered into a subscription agreement with J.P. Morgan Securities Plc (the “**Manager**”), pursuant to which the Manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for the zero coupon bonds (the “**2016 Convertible Bonds**”) to be issued by the Company in an aggregate principal amount of US\$450 million. The issue price of the 2016 Convertible Bonds was 100% of the aggregate principal amount. Assuming full conversion of the 2016 Convertible Bonds at the initial conversion price of HK\$0.9250 per Ordinary Share, the 2016 convertible bonds will be convertible into 3,778,881,081 Ordinary Shares which will be allotted and issued pursuant to the 2015 general mandate and will rank *pari passu* in all respects with the Ordinary Shares then in issue on the relevant conversion date. The issuance of the 2016 Convertible Bonds was completed on July 7, 2016.

## ISSUANCE OF OTHER SECURITIES

### Issue of short term and medium term notes

The Company issued medium-term notes of RMB1,500 million and short-term notes of RMB600 million through National Association of Financial Market Institutional Investors (“**NAFMII**”) during the first half of 2016. The medium-term notes carry a coupon interest rate of 3.35% with note interest payable annually on June 8, 2017, June 8, 2018 and June 10, 2019 and the short-term notes carry a coupon interest rate of 2.99% with note interest payable annually on June 7, 2017. As at the issue date, the net book value of the liabilities of medium-term notes amounted to RMB1,485 million and the book value of the liabilities of short-term notes amounted to RMB600 million.

Based on the issuance quota approved by NAFMII on April 11, 2016, the Company plans to issue the rest quota of the medium-term notes and short-term notes within 2 years.

## PROSPECTS AND FUTURE PLANS

In the first half of 2016, the Group achieved its historical high revenue of US\$1.32 billion, an increase of 25.4% compared to the first half of 2015. With high utilizations in Q1 and Q2 of 99% and 98%, the Group targets high utilizations in the second half given their current demand situation. The Group expects third quarter revenue to increase by 8% to 11% quarter over quarter and targets to grow mid to high 20's percent annually in 2016 compared to 2015, which includes the growth from acquiring LFoundry Europe. SMIC's EBITDA margin\* was around 35% in 2015; the Group targets EBITDA margin to increase for the full year of 2016 compared to 2015.

With regard to SMIC's future plans for capacity, the Group continues to expand its 8-inch and 12-inch capacities to address the great demand. The Group's planned consolidated capital expenditures are around US\$2.5 billion for 2016. Shanghai 12-inch fab has already reached its target 20,000 12-inch wafers per month. The Beijing JV fab hit 15,000 12-inch wafers per month at the end of the first half of 2016 and is targeted to reach 18,000 by year-end. The Group's fully-owned Beijing 12-inch fab is targeted to grow to 45,000 12-inch wafers per month capacity by year-end from the reported 37,000 at the end of the first half of 2016. Meanwhile, Shenzhen had reached 26,000 8-inch wafers per month capacity in the first half of 2016 and is targeted to be 31,000 by year-end. SMIC completed the acquisition of majority ownership of LFoundry Europe in Q3 of 2016; subsequently, the Group will consolidate LFoundry's 40,000 8-inch wafers per month capacity.

The Group targets to grow at a 20% compound annual growth rate over the next 3–4 years and continues to focus on delivering sustainable profitable growth and building value for all stakeholders.

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

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

|                               | For the six months ended |   |               |   |
|-------------------------------|--------------------------|---|---------------|---|
|                               | June 30,<br>2016         |   | June 30, 2015 |   |
|                               | <b>USD'000</b>           |   | USD'000       |   |
| Profit for the period         | 146,253                  |   | 123,271       |   |
| Finance costs                 | 12,548                   |   | 7,426         |   |
| Depreciation and amortization | 328,592                  |   | 250,372       |   |
| Income tax expense            | 1,035                    |   | 978           |   |
| EBITDA                        | 488,428                  |   | 382,047       |   |
| EBITDA margin                 | 36.9                     | % | 36.2          | % |

#### SHARE CAPITAL

During the six months ended June 30, 2016, the Company issued 11,257,432 and 45,981,176 Ordinary Shares as a result of the exercise of equity awards granted pursuant to the Company's 2004 stock option plan (the "**2004 Stock Option Plan**") and the Company's 2004 equity incentive plan (the "**2004 Equity Incentive Plan**"), respectively. During this period, there were 774,333 and 58,555,554 Ordinary Shares issued as a result of the exercise of equity awards granted pursuant to the Company's 2014 stock option plan (the "**2014 Stock Option Plan**") and the Company's 2014 equity incentive plan (the "**2014 Equity Incentive Plan**") which have replaced the 2004 Stock Option Plan and the 2004 Equity Incentive Plan, respectively, upon their termination.

|                                                                | Number of Shares Outstanding |
|----------------------------------------------------------------|------------------------------|
| Outstanding Share Capital as of June 30, 2016: Ordinary Shares | 42,190,317,456               |

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

#### REPURCHASE SALE OR REDEMPTION OF SECURITIES

The Company has not repurchased, sold or redeemed any of its securities during the six months ended June 30, 2016

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## 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](http://www.smics.com) under “Investor Relations > Corporate Governance > Policy and Procedures”, substantially incorporates the 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.

During the six months ended June 30, 2016, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Zhou Jie, a non-executive Director; Mr. Ren Kai, a non-executive director; Mr. Lu Jun, a non-executive Director; Mr. Sean Maloney, an independent non-executive Director and Ms. Carmen I-Hua Chang, an independent non-executive Director, were not able to attend the 2016 AGM and the extraordinary general meeting of the Company held on June 24, 2016 due to their other commitments.

Save as the aforesaid and in the opinion of the Directors, the Company has complied with all other Code Provisions set out in the CG Code during the six months ended June 30, 2016.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted an Insider Trading Compliance Program (the “**Insider Trading Policy**”) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the “**Model Code**”). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the six months ended June 30, 2016. 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 eleven Directors and one alternate Director as at the date of this interim results announcement. Directors may be elected to hold office until the expiration of their respective term upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of the Company's issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of the Company. Each class of Directors (including all non-executive Directors) serves a term of three years.



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

| Name of Director                                   | Category of Director                        | Class of Director | Year of Re-election |
|----------------------------------------------------|---------------------------------------------|-------------------|---------------------|
| Zhou Zixue                                         | Chairman, Executive Director                | Class I           | 2017                |
| Tzu-Yin Chiu                                       | Chief Executive Officer, Executive Director | Class I           | 2017                |
| Gao Yonggang                                       | Chief Financial Officer, Executive Director | Class I           | 2017                |
| William Tudor Brown                                | Independent Non-executive Director          | Class I           | 2017                |
| Chen Shanzhi<br>(Alternative Director: Li Yonghua) | Non-executive Director                      | Class II          | 2018                |
| Lip-Bu Tan                                         | Independent Non-executive Director          | Class II          | 2018                |
| Carmen I-Hua Chang                                 | Independent Non-executive Director          | Class II          | 2018                |
| Lu Jun                                             | Non-executive Director                      | Class II          | 2018                |
| Zhou Jie                                           | Non-executive Director                      | Class III         | 2019                |
| Sean Maloney                                       | Independent Non-executive Director          | Class III         | 2019                |
| Ren Kai                                            | Non-executive Director                      | Class III         | 2019                |

As of the date of this interim results announcement, the roles of Chairman and Chief Executive Officer are segregated and such roles are performed by Dr. Zhou Zixue and Dr. Tzu-Yin Chiu, respectively.

On an annual basis, each independent non-executive Director confirms his/her 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 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 Company Secretary assists the Chairman in preparing the agenda for the Board meetings and also assists 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 Company Secretary, who is 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/her duties. The Company Secretary continuously updates 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/her responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices.

## UPDATE TO DIRECTORS' INFORMATION

Changes in, updates to, previously disclosed information relating to the Directors

As required under Rules 13.51B and 13.51(2) of the Hong Kong Stock Exchange Listing Rules, certain changes in, and updates to, the information previously disclosed regarding the Directors during their respective term of office are set out below:

• Dr. Zhou Zixue was appointed as the chairman of Semiconductor Manufacturing North China (Beijing) Corporation on June 21, 2016.

Dr. Tzu-Yin Chiu was appointed as the director of the board of Semiconductor Manufacturing North China (Beijing) Corporation on June 20, 2016. Dr. Chiu was also appointed as the chairman of the board of LFoundry S.r.l. on July 29, 2016.

• Mr. William Tudor Brown ceased to be the independent non-executive director of P2i Limited on May 1, 2016.

• Ms. Carmen I-Hua Chang was appointed as the director of the board at STX Entertainment on November 3, 2015.

## WAIVER FROM COMPLIANCE WITH THE HONG KONG STOCK EXCHANGE LISTING RULES

Save as disclosed in the prospectus of the Company dated March 8, 2004, the Company has not received any waivers from compliance with the Hong Kong Stock Exchange Listing Rules which are still in effect.

## REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices accepted by the Company and the interim financial statements of the Company for the six months ended June 30, 2016.

## INTERIM REPORT

The Company's Interim report for the six months ended June 30, 2016 containing financial statements and notes to the accounts will be published on the website of the SEHK (<http://www.hkex.com.hk>) as well as the website of the Company (<http://www.smics.com>) in due course.

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

This interim results announcement contains, 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. 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 the best judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicalities and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity, financial stability in end markets and intensive intellectual property litigation in high tech industry.

In addition to the information contained in this interim results announcement, you should also consider the information contained in our other filings with the SEC, including our annual report on Form 20-F filed with the SEC on April 25, 2016, especially in the "**Risk Factors**" section and such other documents that we may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this interim results announcement may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated or, if no date is stated, as of the date of this interim results announcement.

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.

Semiconductor Manufacturing International Corporation  
Gareth Kung  
*Company Secretary*

Shanghai, August 31, 2016

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

Executive Directors

Zhou Zixue (*Chairman*)

Tzu-Yin Chiu (*Chief Executive Officer*)

Gao Yonggang (*Chief Financial Officer*)

Non-executive Directors

Chen Shanzhi (*Li Yonghua as his Alternate*)

Zhou Jie  
Ren Kai  
Lu Jun

Independent Non-executive Directors

William Tudor Brown

Sean Maloney

Lip-Bu Tan

Carmen I-Hua Chang

\*

*For identification purposes only*

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## **SIGNATURES**

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

Semiconductor Manufacturing International  
Corporation

Date: September 6, 2016 By: /s/ Dr. Tzu-Yin Chiu

Name: Dr. Tzu-Yin Chiu

Title: Chief Executive Officer, Executive Director