SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
September 13, 2018

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 September, 2018

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:

x 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 x No

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

CONTENTS

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

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

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

ADDITIONAL INFORMATION

References in this interim report to:

- "2018 AGM" are to the Company's annual general meeting held on June 22, 2018;
- "Board" are to the board of directors of the Company;
- "China" or the "PRC" are to the People's Republic of China, excluding for the purpose of this interim report, Hong Kong, Macau and Taiwan;
- "Company" or "SMIC" are to Semiconductor Manufacturing International Corporation;
- "Director" are to the director of the Company;
- "EUR" are to Euros;
- "Group" are to the Company and its subsidiaries;
- "HK$" are to Hong Kong dollars;
- "Hong Kong Stock Exchange Listing Rules" are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;
- "IFRS" are to International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "JPY" are to Japanese Yen;
- "NYSE" or "New York Stock Exchange" are to the New York Stock Exchange, Inc.;
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"Ordinary Share(s)" are to the ordinary share(s), in the share capital of the Company, of US$0.0004 each before December 7, 2016 and to the ordinary share(s) of US$0.004 each upon the share consolidation becoming effective on December 7, 2016;

- "RMB" are to Renminbi;

- "SEC" are to the U.S. Securities and Exchange Commission;

- "SEHK", "HKSE" or "Hong Kong Stock Exchange" are to The Stock Exchange of Hong Kong Limited;

- "US$" or "USD" are to U.S. dollars;

- "U.S. GAAP" are to the generally accepted accounting principles in the United States.

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

CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name (for identification purposes only)	
Registered office	PO Box 2681 Cricket Square Hutchins Drive Grand Cayman KY1-1111 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong	Suite 3003 30th Floor No. 9 Queen's Road Central Hong Kong
Website	http://www.smics.com
Joint Company Secretaries	Gao Yonggang Liu Wei
Authorized representatives	Zhou Zixue Gao Yonggang
Places of listing	The Stock Exchange of Hong Kong Limited ("HKSE") New York Stock Exchange ("NYSE")
Stock code	981 (HKSE) SMI (NYSE)

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The Company recorded total revenue of approximately US$1.722 billion for the first half of this year, representing an increase of 11.5% over the corresponding period of last year. Gross profit amounted to US$438.0 million, representing an increase of approximately 5.6% over the corresponding period of last year. In general, wafer shipments for the first half of this year increased 11.0% as compared with that of the corresponding period of last year. Revenue from the PRC (excluding technology licensing revenue) increased 23.9% as compared with that of the corresponding period of last year. Revenue from North America-region decreased 14.0% as compared with that of the corresponding period of last year as a result of the inventory adjustment by major customers. We target to achieve high single-digit revenue growth for this year.

We have made significant breakthroughs in the research and development of advanced technology, which demonstrated noteworthy improvement in the efficiency of our research and development (“R&D”) efforts. We have completed the development of 28nm HKC+ and the first generation of FinFET technology, and have begun customer engagement. We would like to express our heartfelt gratitude to all of the members of our R&D team for their round the clock hard-work and dedication during the past quarters, enabling us to successfully accomplish these goals.

The Company also experienced changes in the composition of its Board of Directors. Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang retired as Independent Non-executive Directors of the Company upon the conclusion of the annual general meeting held in June this year. Dr. Tzu-Yin Chiu also resigned as Non- executive Director and Vice Chairman of the Company. The Board would like to express our heartfelt gratitude to these three Directors for their dedication and valuable contributions to the Company during their terms as Directors of SMIC. We are also pleased to welcome Professor Lawrence Juen-Yee Lau and Mr. Fan Ren Da Anthony as new members of the Board of SMIC.

During the first half of 2018, we were clearly aware of the slowing growth of the smartphone market, increasingly fierce competition in mature process technology and much greater pricing pressure than originally expected, as well as the increasingly complicated economic environments both at home and abroad. SMIC is now undergoing a critical period of new development, in which both challenges and opportunities exist at the same time. We continue our efforts and increase investment into R&D activities so as to achieve further breakthroughs in research and development as quickly as possible through parallel R&D activities, striving to become a leading world-class semiconductor foundry. We remain committed to diligently and carefully execute our business plan for the best interests of all of our shareholders. We would like to again express our sincere gratitude to our shareholders, customers, suppliers, and employees for their continued care and support of SMIC.

Zhou Zixue	**Zhao Haijun, Liang Mong Song**
Chairman of the Board and Executive Director	*Co-Chief Executive Officers and Executive Directors*

Shanghai, China

August 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Board of Directors (the "Board") of Semiconductor Manufacturing International Corporation (the "Company" or "SMIC") would like to announce the unaudited interim results of operations of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended June 30, 2018, and would like to express its gratitude to the shareholders and its staff for their support for the Group.

SALES

Sales increased by 11.5% from US$1,544.3 million for the six months ended June 30, 2017 to US$1,721.8 million for the six months ended June 30, 2018. Excluding the recognition of technology licensing revenue, sale increased from US$1,544.3 million for the six months ended June 30, 2017 to US$1,561.3 million for the six months ended June 30, 2018, primarily due to an increase in wafer shipments during this period. The number of wafer shipments increased by 11.0% from 2,109,919 8-inch wafer equivalents for the six months ended June 30, 2017 to 2,341,966 8-inch wafer equivalents for the six months ended June 30, 2018. The technology licensing revenue of US$160.4 million for the six months ended June 30, 2018 internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation (an associate of the Group) with no related cost of sales recognized by the Group.

COST OF SALES AND GROSS PROFIT

Cost of sales increased by 13.7% from US$1,129.3 million for the six months ended June 30, 2017 to US$1,283.7 million for the six months ended June 30, 2018, primarily due to an increase in wafer shipment and product-mix change during this period.

The Group had gross profit of US$438.0 million for the six months ended June 30, 2018 compared to gross profit of US$415.0 million for the six months ended June 30, 2017, representing an increase of 5.6%. Gross margin decreased to 25.4% for the six months ended June 30, 2018 from 26.9% for the six months ended June 30, 2017. Excluding the recognition of technology licensing revenue, gross margin decreased to 17.8% for the six months ended June 30, 2018 from 26.9% for the six months ended June 30, 2017, primarily due to product-mix change and lower average selling price during this period.

PROFIT FOR THE PERIOD FROM OPERATIONS

Profit from operations decreased from US$99.0 million for the six months ended June 30, 2017 to US$61.4 million for the six months ended June 30, 2018 primarily due to an increase of research and development expenses in the first half of 2018.

Research and development expenses increased by 23.4% from US$219.0 million for the six months ended June 30, 2017 to US$270.2 million for the six months ended June 30, 2018. The increase was mainly due to the increase of advanced technology research and development activities.

General and administrative expenses increased by US$6.7 million from US$93.6 million for the six months ended June 30, 2017 to US$100.3 million for the six months ended June 30, 2018.

Sales and marketing expenses decreased by US$3.2 million from US$19.8 million for the six months ended June 30, 2017 to US$16.7 million for the six months ended June 30, 2018.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

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Other operating incomes were US$10.5 million and US$16.4 million for the six months ended June 30, 2018 and 2017, respectively. The decrease was mainly due to less government funding received in the first half of 2018.

PROFIT FOR THE PERIOD

The Group had a profit of US$58.7 million for the six months ended June 30, 2018, compared to US$97.5 million for the six months ended June 30, 2017 mainly due to the net impact of 1) the factors described above, 2) more interest income, 3) increased foreign exchange gain, and 4) less gains on investment and disposal of equities.

FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE COMING YEAR

In 2018, the Group plans to spend approximately US$2.3 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 Beijing 300mm fab, Tianjin 200mm fab and Shanghai 300mm fab, and 2) research and development equipment, mask shops and intellectual property acquisition.

In addition, the Group budgeted approximately US$136.7 million in 2018 as capital expenditures for non- foundry operations. This is mainly for the construction of employee’s living quarters.

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

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

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2018, the Group incurred capital expenditures of US$880.9 million, compared to US$1,508.7 million for the six months ended June 30, 2017. The Group financed its capital expenditures primarily from cash flows generated from operating and financing activities.

The Group had US$1,414.3 million in cash and cash equivalent as of June 30, 2018. These cash and cash equivalent are held in the form of United States Dollars, Japanese Yen, Euro and Chinese Renminbi.

Net cash from operating activities decreased from US$392.1 million for the six months ended June 30, 2017 to US$205.4 million for the six months ended June 30, 2018, primarily due to 1) decreased gross margin excluding the recognition of technology licensing revenue, 2) increased research and development activities, and 3) less government funding received.

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Net cash used in investing activities was US$1,611.6 million for the six months ended June 30, 2018, primarily attributable to 1) purchases of plant and equipment mainly for the fabs in Shanghai, Beijing and Tianjin, 2) the net result of proceeds from selling and payments for financial assets at amortized cost and financial assets at fair value through profit or loss, and 3) payments for acquiring long-term investment. Net cash used in investing activities was US$1,850.3 million for the six months ended June 30, 2017, primarily attributable to 1) purchases of plant and equipment mainly for the fabs in Shanghai, Beijing and Shenzhen, 2) the net result of proceeds from selling and payments for acquiring financial assets, 3) payments for acquiring long-term investment, and 4) the net proceeds from disposal of property, plant and equipment and assets classified as held for sale.

Net cash generated from financing activities was US$968.0 million for the six months ended June 30, 2018, which was primarily 1) the net result of proceeds from new financing and repayments of bank borrowings, 2) the proceeds from issuance of perpetual subordinated convertible securities and new shares, and 3) the proceeds from the capital contribution of non-controlling interests. Net cash generated from financing activities was US$206.9 million for the six months ended June 30, 2017, which was primarily 1) the net result of proceeds from new financing and repayments of bank borrowings, and 2) the repayment of short-term notes.

As of June 30, 2018, the Group's outstanding long-term liabilities primarily consisted of US$539.3 million in secured bank loans, US$1,446.3 million in unsecured bank loans, US$410.8 million in convertible bonds and US$497.6 million in USD bonds of which, US$452.9 million was classified as the current portion of long-term loans.

2013 USD loan (SMIC Shanghai)

In August 2013, Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai") entered into a loan facility in the aggregate principal amount of US$470.0 million which is unsecured with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS' 300mm fab. As of June 30, 2018, SMIS had drawn down US$260.0 million and repaid US$259.1 million on this loan facility. The outstanding balance of US$0.9 million is repayable in advance on August 2018. The interest rate on this loan facility ranged from 5.96% to 6.61% in 2018.

2015 CDB RMB loan I (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS'

300mm fab. As of June 30, 2018, SMIS had drawn down RMB1,000.0 million (approximately US$151.1 million) on this loan facility. The outstanding balance is repayable from November 2021 to November 2030. The interest rate on this loan facility was 1.20% in 2018.

2015 CDB RMB loan II (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475.0 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS' 300mm fab. As of June 30, 2018, SMIS had drawn down RMB475.0 million (approximately US$71.8 million) on this loan facility. The outstanding balance is repayable from December 2018 to December 2025. The interest rate on this loan facility was 1.20% in 2018.

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2015 EXIM RMB loan (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of June 30, 2018, SMIS had drawn down RMB500.0 million (approximately US$75.6 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2018.

2017 EXIM RMB loan (SMIC Shanghai)

In March 2017, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2018, SMIS had drawn down RMB1,000.0 million (approximately US$151.1 million) on this loan facility. The outstanding balance is repayable in March and April 2019. The interest rate on this loan facility is 2.65% per annum in 2018.

2015 CDB RMB loan (SMIC Beijing)

In December 2015, Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing") entered into an RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB195.0 million with China Development Bank, which is unsecured. As of June 30, 2018, SMIB had drawn down RMB195.0 million and repaid RMB9.0 million on this loan facility. The outstanding balance of RMB186.0 million (approximately US$28.1 million) is repayable from December 2018 to December 2030. The interest rate on this loan facility was 1.20% in 2018.

2016 CDB RMB loan (SMIC Beijing)

In May 2016, SMIB entered into the RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460.0 million with China Development Bank, which is guaranteed by SMIC. As of June 30, 2018, SMIB had drawn down RMB1,460.0 million and repaid RMB35.0 million on this loan facility. The outstanding balance of RMB1,425.0 million (approximately US$215.4 million) is repayable from November 2018 to May 2031. The interest rate on this loan facility was 1.20% in 2018.

2016 EXIM RMB loan I (SMIC Beijing)

In December 2016, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB240.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2018, SMIB had drawn down RMB240.0 million (approximately US$36.3 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2018.

2016 EXIM RMB loan II (SMIC Beijing)

In January 2016, SMIB entered into the RMB loan, a three-year working capital loan facility in the principal amount of RMB400.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of June 30, 2018, SMIB had drawn down RMB400.0 million (approximately US$60.5 million) on this loan facility. The outstanding balance is repayable in January 2019. The interest rate on this loan facility was 2.65% in 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

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2017 EXIM RMB loan (SMIC Beijing)

In September 2017, SMIB entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIB's 300mm fab. As of June 30, 2018, SMIB had drawn down RMB500.0 million (approximately US$75.6 million) on this loan facility. The outstanding balance is repayable from September 2018 to September 2022. The interest rate on this loan facility is 2.92% per annum in 2018.

2018 EXIM RMB loan (SMIC Beijing)

In June 2018, SMIB entered into a loan facility in the aggregate principal amount of RMB200.0 million with The Export-Import Bank of China, which is secured by bank time deposits. This two-year bank facility was used for SMIB's 300mm fab. As of June 30, 2018, SMIB had drawn down RMB200.0 million (approximately US$30.2 million) on this loan facility. The outstanding balance is repayable in June 2020. The interest rate on this loan facility is 2.92% per annum in 2018.

2016 EXIM RMB loan (SMIC)

In May 2016, SMIC entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of June 30, 2018, SMIC had drawn down RMB500.0 million (approximately US$75.6 million) on this loan facility. The outstanding balance is repayable in May 2019. The interest rate on this loan facility is 3.05% in 2018.

2017 EXIM RMB loan (SMIC Tianjin)

In February 2017, Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin") entered into a RMB loan, a three-year working capital loan facility in the principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of June 30, 2018, SMIT had drawn down RMB500.0 million (approximately US$75.6 million) on this loan facility. The outstanding balance is repayable in February 2020. The interest rate on this loan facility is 4.04% per annum in 2018.

2017 CDB RMB loan (SMIC Shenzhen)

In December 2017, Semiconductor Manufacturing International (Shenzhen) Corporation (“SMIZ” or “SMIC Shenzhen”) entered into a loan facility in the aggregate principal amount of RMB5,400.0 million with China Development Bank, which is unsecured. This seven-year bank facility was used to finance the planned expansion for SMIZ’s 300mm fab. As of June 30, 2018, SMIZ had drawn down RMB2,211.0 million (approximately US$334.2 million) on this loan facility. The outstanding balance is repayable from December 2019 to December 2024. The interest rate on this loan facility is 4.46% per annum in 2018.

2017 EXIM RMB loan (SMIC Shenzhen)

In December 2017, SMIZ entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used to finance the planned expansion for SMIZ’s 300mm fab. As of June 30, 2018, SMIZ had drawn down RMB500.0 million and repaid RMB15.0 million on this loan facility. The outstanding balance of RMB485.0 million (approximately US$73.3 million) is repayable from September 2018 to September 2022. The interest rate on this loan facility is 3.40% per annum in 2018.

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2014 Cassa Depositie Prestiti loan (LFoundry)

In January 2014, LFoundry S.r.l. (“LFoundry”) entered into a loan facility in the aggregate principal amount of EUR35.8 million with Cassa Depositie Prestiti. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR10.2 and the manufacturing equipment located in LFoundry’s 200mm fab. As of June 30, 2018, LFoundry had drawn down EUR35.8 million and repaid EUR13.6 million on this loan facility. The outstanding balance of EUR22.7 million (its present value is EUR20.0 million, approximately US$23.3 million) including principal amount of EUR22.2 million and interest cash flow of EUR0.5 million is repayable from December 2018 to December 2023. The interest rate on this loan facility was 0.5% in 2018.

2014 MPS Capital Service loan (LFoundry)

In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR4.0 million with MPS Capital Service. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR1.1 million and the manufacturing equipment located in LFoundry’s 200mm fab. As of June 30, 2018, LFoundry had drawn down EUR4.0 million on this loan facility. The outstanding balance of EUR5.0 million (its present value is EUR4.3 million, approximately US$5.0 million) including principal amount of EUR4.0 million and interest cash flow of EUR1.0 million is repayable from June 2020 to December 2023. The interest rate on this loan facility was approximately 6% in 2018.

2014 Citizen Finetech Miyota loan (LFoundry)

In June 2014, LFoundry entered into a loan facility in the aggregate principal amount of JPY480.0 million with Citizen Finetech Miyota Co. Ltd. This five-year facility was used to finance the expansion of LFoundry’s 200mm fab. The facility is secured by the manufacturing equipment located in LFoundry’s 200mm fab. As of June 30, 2018, LFoundry had drawn down JPY480.0 million on this loan facility and repaid JPY58.0 million. The outstanding balance of JPY439.0 million (its present value is JPY411.0 million, approximately US$3.6 million) including principal amount of JPY422.0 million and interest cash flow of JPY17.0 million is repayable from July 2018 to December 2019. The interest rate on this loan facility is 4.04% per annum in 2018.

2017 Banca del Mezzogiorno loan (LFoundry)

In June 2017, LFoundry entered into a soft loan facility in the aggregate principal amount of EUR1.2 million with Banca del Mezzogiorno, which is unsecured. This nine-year facility was in relation to the admission of LFoundry to the benefits of the European Project called Horizon. As of June 30, 2018, LFoundry had drawn down EUR1.2 million (approximately US$1.5 million) on this loan facility. The principal amount is repayable from December 2018 to June 2026. The interest rate on this loan facility is 0.8% per annum in 2018

2018 Unicredit S.p.A. loan (LFoundry)

In June 2018, LFoundry entered into a loan facility in the aggregate principal amount of EUR2.0 million with Unicredit S.p.A. Bank, which is unsecured. This two-year facility was in order to perform an advanced payment to secure the raw wafers purchase commitment. As of June 30, 2018, LFoundry had drawn down EUR2.0 million (approximately US$2.3 million) on this loan facility. The principal amount is repayable from July 2018 to July 2020. The annual interest rate on this loan facility is 3 months Euribor rate, plus 0.9% per annum in 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Finance lease payables

In 2016, a leasing contract entered into by the Group with one of its suppliers for the construction and installation of gas generation equipment. This transaction was accounted for a finance leasing with remaining lease term of five years. As at June 30, 2018, the total net finance lease payables were US$5.3 million.

Loans from non-controlling interests shareholders

In 2016, LFoundry entered into a loan facility in the aggregate principal amount of EUR15.0 million with non-controlling interests shareholders of LFoundry. This seven-year facility was in relation to the construction of the new co-generation. LFoundry had drawn down EUR10.6 million on this loan facility. The outstanding balance of EUR10.6 million (approximately US$12.3 million) is repayable from March 2019 to December 2023. The interest rate on this loan facility was 3.5% in 2018.

Sales and leaseback borrowings

As of June 30, 2018, the three arrangements of sales and leaseback borrowings amounted to US$477.2 million (December 31, 2017: US$487.7 million) which were entered into by the Group and third-party financing companies in 2016 in the form of a sale and leaseback transaction with a repurchase option. A batch of production equipment of the Group was sold and leased back under the arrangements. 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 arrangements were accounted for as collateralized borrowings of the Group.

Short-term credit agreements

As of June 30, 2018, the Group had 31 short-term credit agreements that provided total credit facilities of up to US$2,267.6 million on a revolving basis. As of June 30, 2018, the Group had drawn down US$328.2 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate ranges from 1.93% to 3.13% per annum in 2018.

ISSUE OF EQUITY SECURITIES

1. Issue of new shares to Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang")

On June 29, 2018, pursuant to the share subscription agreement between the Company, Datang and Datang Holdings (Hongkong) Investment Company Limited ("Datang HK"), the Company allotted and issued 61,526,473 ordinary shares, representing an aggregate nominal value of approximately US$246,106, at the price of HK$10.65 per share. The net price per share under the issue is HK$10.65. The market price of the shares on the date of the share subscription agreement was HK$10.34.

The issue of shares to Datang will strengthen the relationship between Datang and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the placing of shares and issue of perpetual subordinated convertible securities as disclosed in the announcement of the Company dated November 29, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

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

Total proceeds raised from the issue	**Intended use of the proceeds as previously disclosed**	**Utilized proceeds during the six months ended June 30, 2018**	**Unutilized proceeds as of June 30, 2018**	**Expected timeline for the use of unutilized proceeds**
US$83.5 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$0	US$83.5 million will be utilized in accordance with the intended use as previously disclosed	Expected to be fully utilized by the end of June 30, 2019

2. Issue of perpetual subordinated convertible securities (the "PSCS") to Datang

On June 29, 2018, pursuant to the PSCS subscription agreement between the Company, Datang and Datang HK, the Company completed the issue of the PSCS in the principal amount of US$200.0 million. Assuming full conversion of the PSCS at the initial conversion price of HK$12.78, the PSCS will be convertible into 122,118,935 ordinary shares, representing an aggregate nominal value of approximately US$488,476. The net price per conversion share under the issue is HK$12.77. The market price of the shares on the date of the PSCS subscription agreement was HK$10.34.

The issue of PSCS to Datang will strengthen the relationship between Datang and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the placing of shares and issue of PSCS as disclosed in the announcement of the Company dated November 29, 2017.

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

Total proceeds raised from the issue	**Intended use of the proceeds as previously disclosed**	**Utilized proceeds during the six months ended June**	**Unutilized proceeds as of June 30, 2018**	**Expected timeline for the use of unutilized**

		30, 2018		**proceeds**
US$200.0 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$0	US$200.0 million will be utilized in accordance with the intended use as previously disclosed	Expected to be fully utilized by the end of June 30, 2019

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3. Issue of equity securities by the Company in the past financial years with proceeds brought forward

The details of funds raised from previous issue(s) and details of the use of proceeds during the six months ended June 30, 2018 for such issue(s) are as follows:

a) Placing of shares to the placees as disclosed in the announcement of the Company dated November 29, 2017

Total proceeds raised from the issue	**Proceeds from the issue brought forward as on January 1, 2018**	**Intended use of the proceeds as previously disclosed**	**Utilized proceeds during the six months ended June 30, 2018**	**Unutilized proceeds as of June 30, 2018**
US$329.1 million	US$329.1 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$329.1 million utilized in accordance with the intended use as previously disclosed	US$0

b) Issue of PSCS to the subscribers as disclosed in the announcement of the Company dated November 29, 2017

Total proceeds raised from the issue	**Proceeds from the issue brought forward as on January 1, 2018**	**Intended use of the proceeds as previously disclosed**	**Utilized proceeds during the six months ended June 30, 2018**	**Unutilized proceeds as of June 30, 2018**
US$65.0 million	US$65.0 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$65.0 million utilized in accordance with the intended use as previously disclosed	US$0

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MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

Capital contribution in Semiconductor Manufacturing South China Corporation ("SMSC")

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

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

Equity transfer and capital contribution in Ningbo Semiconductor International Corporation ("NSI")

On March 22, 2018, NSI, SMIC Holdings and China IC Fund entered into the equity transfer agreement, pursuant to which SMIC Holdings has agreed to sell the equity Interest to China IC Fund. Upon the completion of the equity transfer, the shareholding of SMIC Holdings in NSI will decrease from approximately 66.76% to 38.59%, and NSI will cease to be a subsidiary of the Company and its financial results will cease to be consolidated with the Group's results. There is no gain or loss expected to accrue to the Company as a result of the equity transfer. The equity transfer has been completed in April, 2018 and the Group recorded its ownership interest of NSI as investment in associate.

On March 23, 2018, NSI, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd, Beijing Integrated Circuit Design and Testing Fund, Ningbo Integrated Circuit Industry Fund and Infotech National Emerging

Fund entered into the capital increase agreement, pursuant to which (i) SMIC Holdings has agreed to make further cash contribution of RMB565.0 million (approximately US$89.4 million) into the registered capital of NSI. Its shareholding in NSI will decrease from approximately 38.59% to approximately 38.57%; (ii) China IC Fund has agreed to make further cash contribution of RMB500.0 million (approximately US$79.2 million) into the registered capital of NSI. Its shareholding in NSI will increase from approximately 28.17% to approximately 32.97%. The all above parties' performance of the Capital Contribution obligations will lead to an increase in the registered capital from RMB355 million to RMB1.82 billion (approximately US$56.2 million to US$288.1 million).

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Capital contribution in IPV Capital Global Technology Fund (the "IPV Fund")

On May 2, 2018, IPV Global Technology Management Limited as the general partner and China IC Fund, China IC Capital Co., Ltd ("China IC Capital", a wholly-owned investment fund company of SMIC) and other investor as the limited partners entered into the partnership agreement in relation to the establishment and management of the IPV Fund. The IPV Fund will be established in the PRC as a limited partnership for the purpose of equity investments, investment management and other activities, in order to maximize the profit of all partners. Pursuant to the partnership agreement, the total capital commitment to the IPV Fund is RMB1,616.2 million (approximately US$244.3 million) of which RMB800.0 million (approximately US$120.9 million) is to be contributed by China IC Fund and RMB165.0 million (approximately US$24.9 million) is to be contributed by China IC Capital. As of the date of this report, China IC Capital has contributed to RMB49.5 million (approximately US$7.5 million).

COMMITMENTS

As of June 30, 2018, the Group had commitments of US$307.4 million for facilities construction obligations in connection with the Company's Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities, US$705.1 million to purchase machinery and equipment mainly for the Shanghai, Beijing, Shenzhen and Jiangyin fabs and US$3.7 million to purchase intellectual property.

As of June 30, 2018, the Group had total future minimum lease payments under non-cancellable operating leases amounted to US$249.0 million.

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the capital structure. The capital structure of the Group consists of net debt and equity of the Group.

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

DEBT TO EQUITY RATIO

As of June 30, 2018, the Group's debt to equity ratio was approximately 45.3%, which was calculated by dividing the sum of the short-term and long-term borrowings, medium-term notes, convertible bonds and corporate bonds by total shareholders' equity. The net debt to equity ratio was approximately 9.7%, which was calculated by dividing the total debt minus cash and cash equivalents, current financial assets at fair value through profit or loss and financial assets at amortised cost by total shareholders' equity.

FOREIGN EXCHANGE RATE FLUCTUATION RISK

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

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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 fluctuation may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in RMB, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with IFRS.

Outstanding foreign exchange contracts

As of June 30, 2018, the Group had outstanding foreign currency forward exchange contract with notional amounts of US$29.8 million, which will mature in 2018. As of June 30, 2018, the fair value of foreign currency forward exchange contracts was approximately US$(0.8) million, which was recorded in derivative financial instruments in current liabilities.

As of December 31, 2017, the Group had outstanding foreign currency forward exchange contract with notional amounts of US$98.4 million, which matured in 2018. The Group does not enter into foreign currency exchange contracts for speculative purposes.

	As of June 30, 2018 (in US$ thousands)		As of December 31, 2017 (in US$ thousands)	
	Notional value	**Net fair value assets (liabilities)**	Notional value	Net fair value assets (liabilities)
Forward Exchange Agreement				
(Receive EUR/Pay US$)				
Contract Amount	29,750	(780)	2,500	(2)
(Receive RMB/Pay US$)				
Contract Amount	—	—	95,881	2,111