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# Listing on SSE STAR Market





## FORWARD-LOOKING STATEMENT

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

## CONTENTS

02	Definitions
03	Corporate Information
04	Letter to Shareholders
05	Principal Accounting Data and Financial Indicators
08	Management Discussion and Analysis
30	Changes in Ordinary Shares and Bonds
33	Corporate Governance Report
41	Other Information
51	Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income
52	Condensed Consolidated Statements of Financial Position
54	Condensed Consolidated Statements of Changes in Equity
56	Condensed Consolidated Statements of Cash Flows
57	Notes to the Condensed Consolidated Financial Statements

## DEFINITIONS

Definitions in this interim report to:

- “Company” or “SMIC” are to Semiconductor Manufacturing International Corporation;
- “Group” are to the Company and its subsidiaries;
- “2020 AGM” are to the Company’s annual general meeting held on June 23, 2020;
- “Board” are to the board of directors of the Company;
- “Director” are to the director of the Company;
- “China” or the “PRC” are to the People’s Republic of China;
- “CSRC” are to China Securities Regulatory Commission;
- “SEHK”, “HKSE” or “Hong Kong Stock Exchange” are to The Stock Exchange of Hong Kong Limited;
- “SSE” are the Shanghai Stock Exchange;
- “SSE STAR Market” are Shanghai Stock Exchange Sci-Tech Innovation Board;
- “Hong Kong 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;
- “CAS” are to the China Accounting Standards for Business Enterprises as issued by the PRC Ministry of Finance;
- “Ordinary Share(s)” are to the ordinary share(s) of US\$0.004 in the share capital of the Company;
- “RMB” are to Renminbi Yuan;
- “US\$” or “USD” are to U.S. dollars;
- “HK\$” are to Hong Kong dollars;
- “EUR” are to Euros;
- “JPY” are to Japanese Yen.

All definitions in this 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, 28 nanometer and 14 nanometer include the stated resolution of the process technology, as well as 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 report has been prepared in accordance with IFRS.

## CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name (for identification purposes only)	中芯國際集成電路製造有限公司
Registered office	PO Box 2681 Cricket Square Hutchins Drive Grand Cayman KY1-1111 Cayman Islands
Head office and place of business in Mainland China	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 address	<a href="http://www.smics.com">http://www.smics.com</a>
Places of listing	The Stock Exchange of Hong Kong Limited ("HKSE") The Shanghai Stock Exchange Sci-Tech Innovation Board (Listed on July 16, 2020) ("SSE STAR Market")
Stock code	00981 (HKSE) 688981 (SSE STAR Market) (Listed on July 16, 2020)
Authorized Representative under Hong Kong Listing Rules	Zhou Zixue Gao Yonggang
Joint Company Secretaries	Gao Yonggang Liu Wei
Domestic representative of the information disclosure	Guo Guangli



## LETTER TO SHAREHOLDERS

### DEAR SHAREHOLDERS,

In the first half of this year, the Company recorded total revenue of approximately US\$1.843 billion, representing a historical high with a year-on-year growth of 26.3%, gross profit margin of 26.2% with a year-on-year growth of 7.4 percentage points, net profit attributable to the parent company of approximately US\$202 million, also representing a historical high with a year-on-year growth of 5.6 times, and earnings before interest, tax, depreciation and amortization of US\$766 million, representing a year-on-year growth of 45.1%.

This year marks the 20th anniversary of the establishment of the Company. On July 16, shares of the Company were successfully listed on the Sci-Tech innovation Board, signifying a new start in our journey of development. The proceeds from the offering amounted to approximately RMB52.5 billion and will be used mainly for our technology and innovation, which will help the Company further enhance its technological capability, enrich its product portfolio, expand its production capacity scale, and enhance the Company's overall IC foundry capabilities for various technology nodes and process platforms.

Our advanced process technology research and development and business operations have progressed seamlessly. Mass production for our first-generation of advanced technology has been smooth, and new tape out projects continue to be carried out with domestic and global customers. Steady progress has been made for the second-generation of our advanced technology platform; this advanced process technology is now in customer product qualification stage. With regard to mature processes, the capacity continues to be fully loaded, and the demand for applications such as CMOS image sensors, power ICs, fingerprint sensors, and specialty memory has been strong.

This year, the global macro economy still faces many uncertainties, and the development of the semiconductor industry will encounter an abundance of opportunities and challenges. Leveraging our reforms over the recent years, we have cultivated and retained more competent management, R&D, operations and support teams, accelerated innovation and development, successfully developed and utilized diversified technology platforms, prudently planned and expanded our production capacity, improved our operational efficiency and optimized our product mix. In order to better serve our customers and capture market opportunities, the Company initiates a new round of capital expenditure plans to further enhance the Company's core competitive edge and drive the Company's continuous growth.

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

**Zhou Zixue**  
*Chairman of the Board and Executive Director*

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

Shanghai, China  
August 27, 2020

## PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS

The data presented as below are prepared in accordance with International Financial Reporting Standards ("IFRS").

### PRINCIPAL ACCOUNTING DATA

	Six months ended		
	06/30/20	06/30/19	06/30/20 as compared with 06/30/19
	USD'000	USD'000	%
Revenue	1,843,375	1,459,781	26.3
Profit for the period attributable to owners of the company	202,133	30,811	556.0
Profit (loss) for the period attributable to owners of the company, net of nonrecurring profit or loss <sup>(1)</sup>	82,631	(101,999)	—
Net cash generated from operating activities	407,548	356,208	14.4
Earnings before interest, tax, depreciation and amortization ("EBITDA")	765,525	527,715	45.1

	As of		
	06/30/20	12/31/19	06/30/20 as compared with 12/31/19
	USD'000	USD'000	%
Equity attributable to owners of the Company	6,670,821	5,669,397	17.7
Total assets	20,388,178	16,437,820	24.0

### PRINCIPAL FINANCIAL INDICATORS

	Six months ended		
	06/30/20	06/30/19	06/30/20 as compared with 06/30/19
			%
Gross margin	26.2%	18.7%	7.5%
Profit margin	9.6%	-0.1%	9.7%
EBITDA margin	41.5%	36.2%	5.3%
Basic earnings per share	\$0.04	\$0.00	\$0.04
Diluted earnings per share	\$0.04	\$0.00	\$0.04
Basic earnings per share, net of nonrecurring profit or loss <sup>(1)</sup>	\$0.01	\$(0.02)	\$0.03
Return on equity attributable to owners of the company	3.4%	0.6%	2.8%
Return on equity attributable to owners of the company, net of nonrecurring profit or loss <sup>(1)</sup>	1.3%	-2.0%	—

<sup>(1)</sup> Nonrecurring profit or loss is prepared in accordance with the CSRC Interpretative Announcement No.1 of the Information Disclosure.

## PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS

### DISCREPANCIES IN ACCOUNTING DATA BETWEEN DIFFERENT ACCOUNTING STANDARDS

Discrepancies between profit (loss) and equity in the financial report disclosed under the International Financial Reporting Standards and under the China Accounting Standards for Business Enterprises (“CAS”).

Profit (loss) for the period	Six months ended			
	06/30/20 RMB'000	06/30/19 RMB'000	06/30/20 USD'000	06/30/19 USD'000
Prepared in accordance with CAS	1,210,273	101,942	170,654	15,057
Adjustments to items and amounts:				
The equity method on one-quarter-lag basis to pick up the investment income or loss	44,682	(111,692)	6,300	(16,497)
Prepared in accordance with IFRS	1,254,955	(9,750)	176,954	(1,440)

Equity	As of			
	06/30/20 RMB'000	12/31/19 RMB'000	06/30/20 USD'000	12/31/19 USD'000
Prepared in accordance with CAS	93,307,453	71,259,024	13,177,675	10,209,473
Adjustments to items and amounts:				
The equity method on one-quarter-lag basis to pick up the investment income or loss	—	(81,038)	—	(11,611)
Prepared in accordance with IFRS	93,307,453	71,177,986	13,177,675	10,197,862

For the six months ended June 30, 2019, under IFRS, the Group applied the equity method on one-quarter-lag basis to account for its investments income or loss of certain associates (“investees”) because the report release date of the Group was earlier than the report release dates of investees and the financial statements of investees were not available on the report release date of the Group. The Group recognized the investment income or loss and other comprehensive income (“OCI”) and adjusted the cost of investment in associates based on its share of net profit or loss and OCI determined by prior quarter financial data of the investees. Under CAS, the investment income or loss and OCI should be recognized based on the financial data of investees in the accounting period of the investor, the Group.

For the six months ended June 30, 2020, given the financial information of the associates can be obtained in a timely manner, in the preparation of IFRS financial statements, the Group chose to recognize the investment income or loss and OCI based on accounting data of investees in the same accounting period as the Group’s to eliminate the accounting treatment difference between IFRS and CAS.



## PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS

### NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

	Six months ended			
	06/30/20 RMB'000	06/30/19 RMB'000	06/30/20 USD'000	06/30/19 USD'000
(Loss) gain on disposal of property, plant and equipment and assets classified as held-for-sale	(5,000)	8,301	(715)	1,266
Government funding	701,112	1,124,788	99,716	163,165
Net gain arising on financial instruments at FVPL	203,022	16,596	28,572	2,417
Share of gain arising on financial instruments at FVPL of investment using equity method	228,090	46,118	32,132	6,683
Others	(16,836)	34,666	(2,373)	5,371
	1,110,388	1,230,469	157,332	178,902
Effects of income tax	(168,844)	(164,098)	(24,022)	(24,237)
Impact on non-controlling interests	(97,053)	(147,969)	(13,808)	(21,855)
	844,491	918,402	119,502	132,810

According to Interpretative Announcement No. 1 [2008] of the Information Disclosure of the Companies Public Offering Securities — Nonrecurring Profit or Loss as issued by CSRC, nonrecurring profit or loss refers to the profit and loss arising from various transactions and events that have no direct relationship with the normal business of a company and that are related to the normal business operation due to its special nature and contingency with affecting the statements users to make a correct judgment on the company's operating performance and profitability.

## MANAGEMENT DISCUSSION AND ANALYSIS

The data presented as below for the six months ended June 30, 2019 (“the corresponding period”), for the six months ended June 30, 2020 (“the reporting period”), as of December 31, 2019 (“the end of last year”) and as of June 30, 2020 (“the end of the reporting period”), in accordance with IFRS, are derived from and should be read in conjunction with the condensed consolidated financial statements, including the related notes found elsewhere in this report.

### ANALYSIS ON BUSINESS

	Six months ended		
	06/30/20	06/30/19	06/30/20
	USD'000	USD'000	as compared with 06/30/19 %
Revenue	1,843,375	1,459,781	26.3
Cost of sales	(1,361,201)	(1,186,553)	14.7
Research and development expenses	(324,485)	(332,479)	-2.4
Sales and marketing expenses	(10,913)	(15,663)	-30.3
General and administration expenses	(133,612)	(107,726)	24.0
Finance costs, net <sup>(1)</sup>	37,370	40,471	-7.7

## MANAGEMENT DISCUSSION AND ANALYSIS

### GROSS PROFIT

Gross profit increased by 76.5% from US\$273.2 million for the corresponding period to US\$482.2 million for the reporting period, primarily due to the product-mix change and the increase in wafer shipments and the average selling price during this period.

### PROFIT (LOSS) FOR THE PERIOD FROM OPERATIONS

Profit (loss) from operations increase from US\$18.4 million loss for the corresponding period to US\$112.0 million profit for the reporting period, primarily due to the combined effect of the changes of revenue, cost of sales and gross profit mentioned above, and the below following changes:

Research and development expenses was US\$324.5 million for the reporting period, compared to US\$332.5 million for the corresponding period.

Sales and marketing expenses were US\$10.9 million for the reporting period, compared to US\$15.7 million for the corresponding period.

General and administrative expenses increased from US\$107.7 million for the corresponding period to US\$133.6 million for the reporting period. The change was mainly due to the increased start-up cost relating to our effectively controlled Shanghai 12-inch fab before its entering into mass production in June 2020.

Other operating incomes were US\$99.7 million and US\$166.0 million for the reporting and corresponding periods, respectively.



## TOTAL ASSETS

Total assets increased by 24.0% from US\$16,437.8 million at the end of last year to US\$20,388.2 million at the end of the reporting period, primarily due to 1) the increase in the purchase of property, plant equipment, 2) the increased trade and other receivables resulted from revenue increasing, 3) new capital receivable from non-controlling interests, 4) the increase in the payment of financial assets at amortized cost and 5) the net increase in cash and cash equivalent.

## TOTAL LIABILITIES

Total liabilities increased from US\$6,240.0 million at the end of last year to US\$7,210.5 million at the end of the reporting period, mainly due to 1) the increase in the payables for property, plant equipment and 2) issuance of new bonds.

## TOTAL EQUITY

Total equity increased by 29.2% from US\$10,197.9 million at the end of last year to US\$13,177.7 million at the end of the reporting period, primarily due to 1) the change in the assets and liabilities described above, 2) conversion options of convertible bonds and perpetual subordinated convertible securities exercised during the period and 3) capital contribution from non-controlling interest.

## ASSETS PLEDGED AS SECURITY

Property, plant and equipment and land use right with carrying amount of approximately US\$121.8 million have been pledged to secure borrowings of the Group under mortgages. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

## CAPITALIZED INTEREST

Interest incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is depreciated over as accounting policy. Capitalized interests of US\$29.6 million and US\$29.3 million for the reporting and corresponding periods, respectively, were added to the cost of the underlying assets and are depreciated over as accounting policy. For the reporting and corresponding periods, the Group recorded depreciation expenses relating to the capitalized interest of US\$20.9 million and US\$15.9 million respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### CASH FLOWS

#### Six months ended

	06/30/20	06/30/19	06/30/20 as compared with 06/30/19
	USD'000	USD'000	%

## MANAGEMENT DISCUSSION AND ANALYSIS

Net cash generated from financing activities was US\$2,569.2 million for the reporting period, which was primarily due to 1) the net result of proceeds from new financing and repayments of bank borrowings, 2) the proceeds from issuance of bonds and 3) the proceeds from the capital contribution of non-controlling interests.

### NET DEBTS

	06/30/20 USD'000	12/31/19 USD'000
<b>Debts</b>		
Borrowings	(2,744,614)	(2,566,669)
Lease liabilities	(292,268)	(247,732)
Bonds payable	(596,625)	—
Convertible bonds	(65,000)	(630,428)
Medium-term notes	(211,313)	(214,193)
Short-term notes	(211,840)	(286,512)
	(4,121,660)	(3,945,534)
Cash and cash equivalent	3,130,068	2,238,840
Restricted cash	595,064	804,547
Liquid investments <sup>(1)</sup>	3,272,024	2,319,355
	2,875,496	1,417,208

<sup>(1)</sup> Liquid investments comprise current investments of financial products sold by banks, monetary funds, bank deposits to be matured over 3 months and debentures

At the end of the reporting period, the Group's outstanding debts was amounted to US\$4,121.7 million, primarily consisted of secured bank loans of US\$579.6 million, unsecured bank loans of US\$2,165.0 million, lease liabilities, bonds payable, convertible bonds, medium-term notes and short-term notes, of which US\$1,424.9 million was the current portion of debts.

### CAPITAL EXPENDITURES

The Group's planned 2020 capital expenditures are approximately US\$6.7 billion, mainly for the capacity expansion in equipment and machinery.

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 approved by the Board 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.

### EXCHANGE RATE AND INTEREST RATE RISKS

The Group's revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. The Group also enters into

### Cross currency swap contracts

To minimize the currency risk, the Group entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the whole part of these RMB debts and repurchase schedule of the whole part of these RMB assets to protect against the adverse effect of exchange rate fluctuations arising from the RMB debts and assets. The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average exchange rate		Foreign currency		Notional value		Net fair value assets (liabilities)	
	2020	2019	06/30/20 RMB'000	12/31/19 RMB'000	06/30/20 USD'000	12/31/19 USD'000	06/30/20 USD'000	12/31/19 USD'000
<b>Buy RMB</b>								
Within 1 year	6.6846	6.7906	2,488,000	800,000	351,373	114,605	(25,367)	(2,920)
1-5 years	6.6209	6.6379	4,950,979	7,277,254	699,212	1,042,512	(63,768)	(58,243)
<b>Sell RMB</b>								
Within 1 year	7.0467	7.0092	16,217,178	2,803,930	2,290,303	401,680	6,848	(1,862)
			23,656,157	10,881,184	3,340,888	1,558,797	(82,287)	(63,025)

### Interest rate swap contracts

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest expense occurred. The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

	Average fixed rate		Foreign currency		Notional value		Net fair value assets (liabilities)	
	2020	2019	06/30/20 RMB'000	12/31/19 RMB'000	06/30/20 USD'000	12/31/19 USD'000	06/30/20 USD'000	12/31/19 USD'000
Receive floating pay fixed rates								
Within 1 year	2.6%	2.6%	200,000	200,000	28,245	28,651	(8,306)	1,872

## CAPITAL MANAGEMENT

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

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

	06/30/20 USD'000	12/31/19 USD'000
<b>Gearing ratio</b>		
Net debt	(2,875,496)	(1,417,208)
Equity	13,177,675	10,197,862
	<b>-21.8%</b>	<b>-13.9%</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

### COMMITMENTS

At the end of the reporting period, the Group had commitments of US\$203.0 million for facilities construction obligations in connection with the Group's facilities, US\$3,395.3 million to purchase machinery and equipment mainly for its fabs and US\$6.2 million to purchase intellectual property.

### MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

#### CAPITAL CONTRIBUTION IN SEMICONDUCTOR MANUFACTURING SOUTH CHINA CORPORATION ("SMSC")

On May 15, 2020, SMIC Holdings Corporation ("SMIC Holdings") entered into the joint venture agreement (the "New JV Agreement") and the capital contribution agreement (the "New Capital Contribution Agreement") with China Integrated Circuit Industry Investment Fund Co., Ltd. ("China IC Fund"), China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. ("China IC Fund II"), Shanghai Integrated Circuit Industry Investment Fund ("Shanghai IC Fund") and Shanghai Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. ("Shanghai IC Fund II") to amend the previous joint venture agreement. Pursuant to the New JV Agreement and the New Capital Contribution Agreement, SMIC Holdings agreed to make further capital contribution and China IC Fund II and Shanghai IC Fund II, as new shareholders of SMSC, agreed to make capital contribution of US\$1.5 billion and US\$750 million respectively into the registered capital of SMSC.

As a result of the Capital Contribution: (i) the Registered Capital of SMSC will be increased from US\$3.5 billion to US\$6.5 billion; (ii) the Company's equity interest in SMSC, through SMIC Holdings, will decrease from 50.1% to 38.515%; (iii) SMSC will be owned as to 14.562%, 23.077%, 12.308% and 11.538% by China IC Fund, China IC Fund II, Shanghai IC Fund and Shanghai IC Fund II, respectively.

Following the completion, the Company will have effective control over SMSC and accordingly the financial results of SMSC will be consolidated into the consolidated financial statements of the Group under the relevant accounting policy. For further details, please refer to the announcement of the Company dated May 15, 2020.

#### ENTERING INTO OF COOPERATION FRAMEWORK AGREEMENT

On 31 July 2020, the Company entered into the cooperation framework agreement (the "Cooperation Framework Agreement") with Beijing Economic-Technological Development Area Management Committee ("BDAC"). Pursuant to the Cooperation Framework Agreement, the Company and BDAC, intend to jointly establish a joint venture company in respect of the development and operation of the development of 12-inch wafers production facilities in Beijing (the "Project").

The Project will be developed in two phases. It is intended that the joint venture company will carry on the development and operation of the Project, which will focus on the production of 28 nanometer and above integrated circuits with a goal of achieving eventual production capacity of about 100,000 12-inch wafers per month for the first phase of the Project. The second phase of the Project will be initiated as and when appropriate based on customer and market demand.

Subject to the entering into of the definitive agreement, the estimated investment and initial registered capital of the first phase of the Project will be US\$7.6 billion and US\$5 billion, respectively. Approximately 51% of the initial registered capital will be contributed by the Company. The Company and BDAC will jointly drive other third-party investors to complete the remaining capital contribution. The capital contribution and equity holding can be subsequently adjusted according to the capital contributions of other third-party investors. The Company will be responsible for the operation and management of the Joint Venture Company.

The Cooperation Framework Agreement may or may not lead to the entering into of the definitive agreement and the transactions contemplated thereunder may or may not be consummated. The proposed establishment of the joint venture company, if materialized, may constitute a notifiable transaction of the Company under the Hong Kong Listing Rules. The Company will comply with the applicable Hong Kong Listing Rules in relation to the proposed establishment of the joint venture company. For further details, please refer to the announcement of the Company on HKSE dated July 31, 2020.

## CONNECTED AND RELATED PARTIES TRANSACTIONS

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### 1. *Framework Agreement with Sino IC Leasing Co., Ltd. — 2016 to 2020 — and Supplemental Agreement to Framework Agreement*

On March 30, 2016, the Company and Sino IC Leasing Co., Ltd. (“Sino IC Leasing”) entered into a framework agreement (“Framework Agreement with Sino IC Leasing”), pursuant to which Sino IC Leasing should provide to the Company a range of financial services (including but not limited to leasing, factoring, loan entrustment, bills acceptance and discounting services) and certain other related services (including but not limited to financial advisory and consulting services), ending on December 31, 2020.

Sino IC Leasing should support the needs of the Company in its business expansion for funds in both RMB and other foreign currencies. Sino IC Leasing should provide the following services to the Company within the scope permitted by the relevant PRC laws, regulations and policies, as well as the internal operational and management policies of the Company:

##### 1. *Finance related Services*

The finance related services which Sino IC Leasing will provide to the Company include but are not limited to leasing, factoring, loan entrustment, bills acceptance and discounting services.

##### 2. *Other related Services*

The other related services which Sino IC Leasing will provide to the Company include but are not limited to financial advisory and consulting services.

The annual caps under the Framework Agreement with Sino IC Leasing are set out below.

Annual Caps	For the year ended December 31,				
	2020 US\$ billion	2019 US\$ billion	2018 US\$ billion	2017 US\$ billion	2016 US\$ billion
Financial services Cap (the maximum rental and fees charged for provision of financial services per calendar year)	1.5	1.5	1.5	1.5	1.5
Other related services Cap (the maximum fees charged for provision of other related services per calendar year)	0.15	0.15	0.15	0.15	0.15

The price for the services provided by Sino IC Leasing to the Company contemplated under the Framework Agreement with Sino IC Leasing would be determined by reference to 1) the current market conditions and the terms (including the prices) which are comparable to the quotes from independent third parties (to the extent available) providing services of a similar nature with comparable scale in the ordinary and usual course of business based on normal commercial terms and on arm’s length negotiations; 2) as well as the reasonable market prices which are applicable around that time; and 3) subject to compliance with requirements for related party transactions and connected transactions of the Hong Kong Stock Exchange.

## MANAGEMENT DISCUSSION AND ANALYSIS

As China IC Fund holds approximately 17.55% equity interest in the Company at time of entering into the Framework Agreement with Sino IC Leasing through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Hong Kong Listing Rules. China IC Fund also holds approximately 35.21% equity interest in Sino IC Leasing at time of entering into the Framework Agreement with Sino IC Leasing, therefore Sino IC Leasing is a connected person of the Company under the Hong Kong Listing Rules by virtue of being an associate of a connected person of the Company as defined under Rule 14A.13 of the Hong Kong Listing Rules. The Framework Agreement with Sino IC Leasing and the transactions contemplated thereunder constitute non-exempt continuing connected transactions subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules. As the term of the Framework Agreement with Sino IC Leasing exceeds three years, the independent financial adviser, Messis Capital Ltd., also explained why a period longer than three years is required and confirmed that it is normal business practice for an agreement of this type to be of such duration.

The Framework Agreement with Sino IC Leasing and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with Sino IC Leasing were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on August 10, 2016 as required under Chapter 14A of the Hong Kong Listing Rules.

On December 21, 2016, the Company and Sino IC Leasing entered into a supplemental agreement ("Supplemental Agreement") to amend the Framework Agreement with Sino IC Leasing.

Pursuant to the Supplemental Agreement, the Company and Sino IC Leasing agreed that (1) the Framework Agreement with Sino IC Leasing should apply not only to Sino IC Leasing but also to its subsidiaries and (2) references therein to Sino IC Leasing should include references to its subsidiaries. The Supplemental Agreement is subject to applicable laws and regulations, including the Hong Kong Listing Rules.

The unaudited actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with Sino IC Leasing and the Supplemental Agreement during the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020	
	US\$ million	
Financial Services		52.8
Other Related Services		—

### 2. *Framework Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2018 to 2020 — and Amendment Agreement to Framework Agreement*

On December 6, 2017 the Company and its subsidiary, Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") entered into a framework agreement in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee. The framework agreement is for a term of three years commencing on January 1, 2018 and ending on December 31, 2020 ("Framework Agreement with SMNC 2018–2020").

The Company and SMNC agreed to enter into one or more of the following types of transactions with each other including the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee:

1. Purchase and sale of spare parts, raw materials, photomasks and finished products;
2. Rendering of or receiving services, including, without limitation, (a) processing and testing service; (b) sales service; (c) overseas market promotion and customer service; (d) procurement service; (e) research, development and experiment support service; (f) comprehensive administration, logistics, production management and IT service; and (g) water, electricity, gas and heat provision service;



3. Leasing of assets, such as plant, office premises and equipment;
4. Transfer of assets;
5. Provision of technical authorization or licensing by the Company and/or its subsidiaries (other than SMNC and its subsidiaries) ("Group A") to SMNC and/or its subsidiaries ("Group B"), as well as the sharing of research and development costs in relation to 28-nanometer technologies; and
6. Provision of guarantee by Group A for SMNC's financing activities.

The price of the transactions contemplated under the Framework Agreement with SMNC 2018–2020 ("Continuing CTs") will be determined in accordance with the following general principles (in ascending order):

- (1) the price prescribed or approved by state or local price control department (if any);
- (2) a reasonable price in accordance with the industry guided price;
- (3) the comparable local market price, which shall be determined after arm's length negotiation between both parties with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender;
- (4) where there is no comparable local market price, the price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate;
- (5) where none of the above general pricing principles are applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.

Where general pricing principles (2) to (5) apply, to the extent possible, each of Group A and Group B will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price.

As to the price prescribed by the state or local price control department, state-prescribed fees apply to water and electricity, which are relevant to the cost of such services and are determined by prices published from time by time by

## MANAGEMENT DISCUSSION AND ANALYSIS

The Framework Agreement with SMNC 2018–2020 and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with SMNC 2018–2020 were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on February 8, 2018 as required under Chapter 14A of the Hong Kong Listing Rules.

On December 6, 2019, the Company (on behalf of itself and its subsidiaries (other than SMNC)) and SMNC (on behalf of itself and its subsidiaries) entered into an amendment agreement to the Framework Agreement with SMNC 2018–2020 (the “SMNC Amendment Agreement”) to revise the existing annual cap for the transfer of assets between the Company and SMNC contemplated under the Framework Agreement with SMNC 2018–2020, which amounted to US\$200 million (or its equivalent in other currencies) for the year ending December 31, 2020 (the “Existing Annual Cap”).

Pursuant to the SMNC Amendment Agreement, the parties have agreed to revise the Existing Annual Cap such that the maximum annual transaction value for the transfer of assets between the Company and SMNC contemplated under the Framework Agreement with SMNC 2018–2020 shall be adjusted from US\$200 million (or its equivalent in other currencies) to US\$550 million (or its equivalent in other currencies) for the year ending December 31, 2020. Save for the said revision, all other terms of the Framework Agreement with SMNC 2018–2020 including the applicable pricing policies shall remain unchanged and the Framework Agreement with SMNC 2018–2020 remains valid and enforceable.

The breakdown for the annual caps for the continuing CTs and the transactions contemplated under the SMNC Amendment Agreement are set out below.

Annual Caps	For the year ended December 31,		
	2020 US\$ million	2019 US\$ million	2018 US\$ million
Purchase and sale of goods	1,500	1,100	900
Rendering of or receiving services	200	150	100
Leasing of assets	200	200	200
Transfer of assets	550 (revised)	200	200
Provision of technical authorization or licensing (including the sharing of research and development costs)	100	100	100
Provision of guarantee	1,000	1,000	1,000
<b>Total</b>	<b>3,550 (revised)</b>	<b>2,750</b>	<b>2,500</b>

As China IC Fund holds approximately 15.06% and 15.77% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, at the time of entering into the Framework Agreement with SMNC 2018–2020 and at the time of entering into the SMNC Amendment Agreement, respectively, it is a connected person of the Company at the issuer level under the Hong Kong Listing Rules. As China IC Fund holds 32.00% equity interest in the registered capital of SMNC as at the date of entering into the Framework Agreement with SMNC 2018–2020, and at the time of entering into the SMNC Amendment Agreement, SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Hong Kong Listing Rules. The Framework Agreement with SMNC 2018–2020 and the SMNC Amendment Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions subject to the reporting, announcement and independent shareholders’ approval requirements of Chapter 14A of the Hong Kong Listing Rules.

The SMNC Amendment Agreement and all transactions contemplated thereunder; and the revised annual cap in respect of the SMNC Amendment Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on February 13, 2020 as required under Chapter 14A of the Hong Kong Listing Rules.

The unaudited actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SMNC 2018–2020 and the SMNC Amendment Agreement during the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020	
	US\$ million	
Purchase and sale of goods		428.5
Rendering of or receiving services		63.3
Leasing of assets		—
Transfer of assets		191.5
Provision of technical authorization or licensing (including the sharing of research and development costs)		—
Provision of guarantee		52.7
Total		736.0

### 3. *Centralized Fund Management Agreement with Semiconductor Manufacturing South China Corporation (“SMSC”) — 2017 to 2020 — and SMSC Amendment Agreement*

On June 1, 2017, the Company and its subsidiaries, Semiconductor Manufacturing International (Beijing) Corporation (“SMIC Beijing”) and SMSC entered into the Centralized Fund Management Agreement (the “SMSC Centralized Fund Management Agreement”), pursuant to which: (i) the Company will procure its wholly-owned subsidiary SMIC Beijing to out Centralized management of the Company’s RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMSC and its Controlling Subsidiaries will participate in the Company’s centralized fund management system, which will be managed by SMIC Beijing in accordance with the relevant PRC laws and regulations. The SMSC Centralized Fund Management Agreement is for a term commencing on June 1, 2017 and ending on December 31, 2020.

The price of the services provided by SMIC Beijing to SMSC contemplated under the SMSC Centralized Fund Management Agreement will be fair in the context of connected transactions and determined according to the market principle on an arm’s length basis, and will be subject to compliance with regulatory requirements of the Hong Kong Stock Exchange and relevant requirements for connected transactions that are applicable to the parties.

In relation to the transactions contemplated under the Centralized Fund Management Agreement with SMSC, the Internal Deposit Services to be provided by SMIC Beijing to SMSC will constitute continuing connected transactions by way of financial assistance received by SMIC Beijing from a connected person. Pursuant to Rule 14A.90 of the Hong Kong Listing Rules, as the Internal Deposit Services are conducted on normal commercial terms and not secured by the assets of the Group, the provision of the Internal Deposit Services is fully exempt from the reporting, announcement and/or the independent shareholders’ approval requirements under the Hong Kong Listing Rules.

The terms in respect of the Collection and Payment Services and Foreign Exchange Services, Internal Loan Services, Provision of Letter of Credit Services and Other Financial Services provided by SMIC Beijing to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

The annual caps under the SMSC Centralized Fund Management Agreement are set out below.

Annual Caps	For the year ended December 31,		
	2020 US\$ million	2019 US\$ million	2018 US\$ million
Collection and Payment and Foreign Exchange Cap	2,000	2,000	2,000
Internal Loan Cap	2,000	2,000	2,000
Letter of Credit Cap	2,000	2,000	2,000
Other Financial Services Cap	50	50	50



## MANAGEMENT DISCUSSION AND ANALYSIS

On March 19, 2019, the Company and its subsidiaries, SMIC Beijing and SMSC, entered into an amendment agreement (the "SMSC Amendment Agreement") to revise the existing annual caps for the provision of internal deposit services contemplated under the SMSC Centralised Fund Management Agreement, which amount to US\$2,000 million (or its equivalent in other currencies) for the year ended December 31, 2018 and the years ending December 31, 2019 and 2020, respectively (the "Existing SMSC Internal Deposit Services Annual Caps"). Pursuant to the SMSC Amendment Agreement, the parties have agreed to revise the Existing SMSC Internal Deposit Services Annual Caps as set out in the SMSC Centralised Fund Management Agreement such that the maximum annual transaction value for the internal deposit services provided by SMIC Beijing to SMSC contemplated under the SMSC Centralised Fund Management Agreement shall be adjusted from US\$2,000 million (or its equivalent in other currencies) for the years ending December 31, 2019 and 2020, respectively, to US\$3,500 million (or its equivalent in other currencies) for the years ending December 31, 2019 and 2020, respectively (the "Revised SMSC Internal Deposit Services Annual Caps"). Save for the revision set out above, all other terms of the SMSC Centralised Fund Management Agreement remain unchanged and the SMSC Centralised Fund Management Agreement remains valid and enforceable.

China IC Fund holds approximately 27.00% of the equity interest in SMSC as at the time of entering into the SMSC Amendment Agreement, SMSC is a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules and is thus a connected person of the Company under the Hong Kong Listing Rules.

The SMSC Centralized Fund Management Agreement and all transactions contemplated thereunder; and the annual caps in respect of the SMSC Centralized Fund Management Agreement were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on November 7, 2018 as required under Chapter 14A of the Hong Kong Listing Rules.

The unaudited actual transaction amounts generated by the Company from the fund management services entered into pursuant to the SMSC Centralized Fund Management Agreement and the SMSC Amendment Agreement during the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020	
	US\$ million	
Collection and Payment Services and Foreign Exchange Services		1,500.0
Internal Loan Services		—
Letter of Credit Services		454.3
Other Financial Services		—

#### 4. *Centralized Fund Management Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2019 to 2021 — and Revision*

On November 29, 2018, the Company, SMIC Beijing and SMNC entered into a centralized fund management agreement ("Centralized Fund Management Agreement with SMNC") in relation to: (i) the Company authorising its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMNC participating in the Group's centralized fund management system. SMIC Beijing will provide internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SMNC pursuant to the Centralized Fund Management Agreement with SMNC. The Centralized Fund Management Agreement with SMNC is for a term of three years commencing on January 1, 2019 and ending on December 31, 2021.

The Company will authorise its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations. Based on such authorization, SMIC Beijing will provide the following fund management services to SMNC within the scope permitted by the relevant PRC policies.

The price of the services provided by SMIC Beijing to SMNC contemplated under the Centralized Fund Management Agreement with SMNC will be fair and reasonable under the Hong Kong Listing Rules, determined according to the market principle on arm's length basis, subject to compliance with requirements for connected transactions of the Hong Kong Stock Exchange and relevant requirements for connected transactions that are applicable to the parties. The Company will ensure that the prices charged to SMNC will not be more favourable than prices charged to its other subsidiaries which are not connected persons under the Hong Kong Listing Rules.

In relation to the transactions contemplated under the Centralized Fund Management Agreement with SMNC, the Internal Deposit Services to be provided by SMIC Beijing to SMNC will constitute continuing connected transactions by way of financial assistance received by SMIC Beijing from a connected person. Pursuant to Rule 14A.90 of the Hong Kong Listing Rules, as the Internal Deposit Services are conducted on normal commercial terms and not secured by the assets of the Group, the provision of the Internal Deposit Services is fully exempt from the reporting, announcement and/or the independent shareholders' approval requirements under the Hong Kong Listing Rules.

The terms (including fees charged by SMIC Beijing and exchange rates) in respect of the Collection and Payment Services and Foreign Exchange Services, Provision of Letter of Credit Services and Other Financial Services provided by SMIC Beijing to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SMNC for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Hong Kong Listing Rules; and (2) fees charged to SMIC Beijing by other third-party commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

The terms (including interest rates) in respect of the Internal Loan Services provided by SMIC Beijing to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SMNC by SMIC Beijing will be based on arm's length negotiations by the parties. The Company will make reference to the benchmark interest rate (if any) prescribed by the People's Bank of China ("PBOC") applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

The annual caps under the Centralized Fund Management Agreement with SMNC are set out below.

Annual Caps	For the year ended December 31,		
	2021 US\$ million	2020 US\$ million	2019 US\$ million
Collection and Payment and Foreign Exchange Cap	200	200	200
Internal Loan Cap	500	500	500
Letter of Credit Cap	500	500	500
Other Financial Services Cap	50	50	50

On February 14, 2019, the Directors (including the independent non-executive Directors) have approved the revision of the existing annual caps for the provision of internal deposit services contemplated under the Centralised Fund Management Agreement with SMNC, which amount to US\$2,000 million (or its equivalent in other currencies) for the years ending December 31, 2019, 2020 and 2021, respectively (the "Existing SMNC Internal Deposit Services Annual Caps") such that the maximum annual transaction value for the internal deposit services provided by SMIC Beijing to SMNC contemplated under the Centralised Fund Management Agreement with SMNC shall be adjusted from US\$2,000 million (or its equivalent in other currencies) for the years ending December 31, 2019, 2020 and 2021, respectively, to US\$3,500 million (or its equivalent in other currencies) for the years ending December 31, 2019, 2020 and 2021, respectively (the "Revised SMNC Internal Deposit Services Annual Caps"). Save for the revision set out above (the "Revision"), all other terms of the Centralised Fund Management Agreement with SMNC remain unchanged and the Centralised Fund Management Agreement with SMNC remains valid and enforceable.

## MANAGEMENT DISCUSSION AND ANALYSIS

As China IC Fund holds approximately 15.81% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited as at the time of the Revision, it is a connected person of the Company at the issuer level under the Hong Kong Listing Rules. As at the time of the Revision, the registered capital of SMNC is held as to approximately 51.00% and 32.00% by the Group and China IC Fund, respectively. SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules and thus a connected person of the Company under the Hong Kong Listing Rules.

The Centralized Fund Management Agreement with SMNC and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on January 11, 2019 as required under Chapter 14A of the Hong Kong Listing Rules.

The unaudited actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement with SMNC during the reporting period are set out below.

Transactions	US\$ million
Collection and Payment Services and Foreign Exchange Services	35.0
Internal Loan Services	—
Letter of Credit Services	—
Other Financial Services	—

### 5. *Centralized Fund Management Contract with SJ Semiconductor Corporation (“SJ Cayman”) — 2019 to 2021*

On December 6, 2018, the Company, SMIC Beijing and SJ Cayman entered into centralized fund management agreement (“Centralized Fund Management Agreement with SJ Cayman”) in relation to: (i) the Company authorising its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Group’s RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SJ Cayman participating in the Group’s Centralized fund management system. The principal terms of the Centralized Fund Management Agreement with SJ Cayman. The Centralized Fund Management Agreement with SJ Cayman is for a term of three years commencing on January 1, 2019 and ending on December 31, 2021.

The Company will authorise its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Group’s RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations. Based on such authorization, SMIC Beijing will provide the following fund management services to SJ Cayman within the scope permitted by the relevant PRC policies.

The price of the services provided by SMIC Beijing to SJ Cayman contemplated under the Centralized Fund Management Agreement with SJ Cayman will be fair and reasonable under the Hong Kong Listing Rules, determined according to the market principle on arm’s length basis, subject to compliance with requirements for connected transactions of the Hong Kong Stock Exchange and relevant requirements for connected transactions that are applicable to the parties. The Company will ensure that the prices charged to SMNC will not be more favourable than prices charged to its other subsidiaries which are not connected persons under the Hong Kong Listing Rules.

In relation to the transactions contemplated under the Centralized Fund Management Agreement with SJ Cayman, the Internal Deposit Services to be provided by SMIC Beijing to SJ Cayman will constitute continuing connected transactions by way of financial assistance received by SMIC Beijing from a connected person. Pursuant to Rule 14A.90 of the Hong Kong Listing Rules, as the Internal Deposit Services are conducted on normal commercial terms and not secured by the assets of the Group, the provision of the Internal Deposit Services is fully exempt from the reporting, announcement and/or the independent shareholders’ approval requirements under the Hong Kong Listing Rules.



The terms (including fees charged by SMIC Beijing and exchange rates) in respect of the Collection and Payment Services and Foreign Exchange Services, Provision of Letter of Credit Services and Other Financial Services provided by SMIC Beijing to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Cayman for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Hong Kong Listing Rules; and (2) fees charged to SMIC Beijing by other third-party commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

The terms (including interest rates) in respect of the Internal Loan Services provided by SMIC Beijing to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SJ Cayman by SMIC Beijing will be based on arm's length negotiations by the parties. The Company will make reference to the benchmark interest rate (if any) prescribed by the PBOC applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

The annual caps under the Centralized Fund Management Agreement with SJ Cayman are set out below.

Annual Caps	For the year ended December 31,		
	2021 US\$ million	2020 US\$ million	2019 US\$ million
Collection and Payment and Foreign Exchange Cap	130	130	130
Internal Loan Cap	130	130	130
Letter of Credit Cap	130	130	130
Other Financial Services Cap	50	50	50

As China IC Fund holds approximately 15.82% equity interest in the Company through its wholly-owned subsidiary at the time of entering into the a Centralized Fund Management Agreement with SJ Cayman, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Hong Kong Listing Rules. China IC Fund holds approximately 29.38% equity interest in SJ Cayman as at the date of entering into the a Centralized Fund Management Agreement with SJ Cayman, a majority owned subsidiary of the Company, through its wholly-owned subsidiary, Xun Xin. SJ Cayman is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules and thus a connected person of the Company under the Hong Kong Listing Rules.

On November 29, 2018, the Company and SMIC Beijing entered into a centralized fund management agreement with SMNC, another connected subsidiary of the Company (as defined under Rule 14A.16 of the Hong Kong Listing Rules), which is owned as to approximately 51.00% and 32.00% by the Group and China IC Fund, respectively, details of which are set out in the announcement of the Company dated November 29, 2018. Pursuant to Rule 14A.81 of the Hong Kong Listing Rules, as the nature of the transactions entered into by the Company and SMIC Beijing are similar, the transactions contemplated under the Centralized Fund Management Agreement with SJ Cayman shall be aggregated.

The Centralized Fund Management Agreement with SJ Cayman and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on January 11, 2019 as required under Chapter 14A of the Hong Kong Listing Rules.

## MANAGEMENT DISCUSSION AND ANALYSIS

The unaudited actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement with SJ Cayman during the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020	
	US\$ million	
Collection and Payment Services and Foreign Exchange Services	—	
Internal Loan Services	30.0	
Letter of Credit Services	—	
Other Financial Services	—	

### 6. *Renewed Framework Agreement with Datang Telecom Technology & Industry Holding Co., Ltd. (“Datang Holdings”) — 2019 to 2021*

On January 23, 2019, the Company entered into a renewed framework agreement with Datang Holdings (“Renewed Framework Agreement”), pursuant to which the Group and Datang Holdings (including its associates) agree to engage in business collaboration including but not limited to foundry service. The term of the Renewed Framework Agreement is three years commencing from January 1, 2019. The pricing for the transactions contemplated under the Renewed Framework Agreement is determined by reference to reasonable market price available from or to independent third parties in the ordinary and usual course of business based on normal commercial terms and on an arm’s length negotiation, or on the actual production cost incurred plus a reasonable profit margin with reference to the general range of profit margins in the industry, and will be determined on terms not less favourable than those applicable to sales by independent third parties to the Company or its subsidiaries and not more favourable than those applicable to sales by the Company or its subsidiaries to independent third parties (if any). In relation to the provision of foundry services by the Company to Datang Holdings, the Company will have reference to the terms (including pricing) which it offers to independent third party customers for services of a comparable nature and quantity, as well as the reasonable market prices which are applicable.

The annual caps for the transactions contemplated under the Renewed Framework Agreement (“Non-Exempt Continuing Connected Transactions”) with Datang Holdings are set out below:

Annual Caps	For the year ended December 31,		
	2021 US\$ million	2020 US\$ million	2019 US\$ million
The maximum revenue on an aggregate basis expected to be generated by the Company from the Non-Exempt Continuing Transactions	48	35	20

The unaudited actual transaction amounts generated by the Group from the transactions entered into pursuant to the Renew Framework Agreement with Datang Holdings during the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020	
	US\$ million	
The revenue generated by the Group under the Renewed Framework Agreement	2.2	

As Datang Holdings is the holding company of Datang Holdings (Hongkong) Investment Company Limited, a substantial shareholder of the Company holding approximately 17.05% of the total issued share capital of the Company as at the time of entering into the Renewed Framework Agreement, Datang Holdings is an associate of Datang (Hongkong) and hence a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. The Non-Exempt Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules and are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

## **7. Framework Agreement with Ningbo Semiconductor International Corporation — 2019 to 2021**

On May 15, 2019, the Company and Ningbo Semiconductor International Corporation ("NSI") entered into the Framework Agreement in relation to supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorisation or licensing (the "NSI Framework Agreement"). The NSI Framework Agreement has a term of three years commenced on January 1, 2019 and ending on December 31, 2021.

The Company and NSI agreed to enter into one or more of the following types of transactions with each other contemplated under the NSI Framework Agreement including the purchase and sale of goods, rendering of or receiving services, leasing of assets, transfer of assets and provision of technical authorisation or licensing:

- a. Purchase and sale of spare parts, raw materials, photomasks and finished products;
- b. Rendering of or receiving services, including, without limitation (a) processing and testing service; (b) procurement service; (c) research, development and experiment support service; (d) comprehensive, logistics, production management and IT service; and (e) water, electricity, gas and heat provision service;
- c. Leasing of assets, such as plant, office premises and equipment;
- d. Transfer of assets; and
- e. Provision of technical authorisation or licensing by the Company to NSI.

The price of the continuing connected transactions contemplated under the NSI Framework Agreement will be determined in accordance with the following general principles in ascending order:

- (1) the price prescribed or approved by state or local price control department (if any);
- (2) a reasonable price in accordance with the industry guided price;
- (3) the comparable local market price, which shall be determined after arm's length negotiation between both parties with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender through equalization calculation;
- (4) where there is no comparable local market price, the price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate; or
- (5) where none of the above general pricing principles are applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.



## MANAGEMENT DISCUSSION AND ANALYSIS

Where general pricing principles (2) to (5) apply, to the extent possible, each of the Company and NSI will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price. As to the price prescribed by the state or local price control department, state-prescribed fees apply to water and electricity, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority. Under the Pricing Law of the PRC, the PRC government may implement a state-

## 8. *Framework Agreement with Semiconductor Manufacturing South China Corporation — 2020 to 2021*

On December 6, 2019, the Company and its subsidiaries, SMSC entered into a framework agreement in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee. The framework agreement is for a term of two years commencing on January 1, 2020 and ending on December 31, 2021 (“Framework Agreement with SMSC 2020–2021”).

The Company and SMSC agreed to enter into one or more of the following types of transactions with each other including the supply of goods and services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee:

- a. Purchase and sale of spare parts, raw materials, photomasks and finished products;
- b. Rendering of or receiving services, including, without limitation, (a) processing and testing service; (b) sales service; (c) overseas market promotion and customer service; (d) procurement service; (e) research, development and experiment support service; (f) comprehensive administration, logistics, production management, IT and other service; and (g) water, electricity, gas and heat provision service;
- c. Leasing of assets, such as plant, office premises and equipment;
- d. Transfer of assets;
- e. Provision of technical authorization or licensing as well as the sharing of research and development costs; and
- f. Provision of guarantee by the Company and/or its subsidiaries (other than SMSC) (“Group D”) for SMSC’s financing activities.

The price of the continuing connected transactions contemplated under the Framework Agreement with SMSC 2020–2021 will be determined in accordance with the following general principles in ascending order:

- (1) the price prescribed or approved by state or local price control department (if any);
- (2) a reasonable price in accordance with the industry guided price;
- (3) the comparable local market price, which shall be determined after arm’s length negotiation between both parties with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender;
- (4) where there is no comparable local market price, the price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate;
- (5) where none of the above general pricing principles are applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.

Where general pricing principles (2) to (5) apply, to the extent possible, each of the Group D and SMSC will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price.

## MANAGEMENT DISCUSSION AND ANALYSIS

The breakdown for the annual caps for the continuing connected transactions contemplated under the Framework Agreement with SMSC 2020–2021 is set out below:

Annual Caps	For the year ended December 31,	
	2021 US\$ million	2020 US\$ million
Purchase and sale of goods	832	299
Rendering of or receiving services	401	133
Leasing of assets	42	42
Transfer of assets	104	90
Provision of technical authorization or licensing (including the sharing of research and development costs)	617	606
Provision of guarantee	1,000	1,000
<b>Total</b>	<b>2,996</b>	<b>2,170</b>

China IC Fund holds approximately 15.77% interest in the Company through its wholly-owned subsidiary at the time of entering into the Framework Agreement with SMSC 2020–2021, Xinxin (Hongkong) Capital Co., Limited. Accordingly, it is a connected person of the Company at the issuer level pursuant to the Hong Kong Listing Rules. As at the date of entering into the Framework Agreement with SMSC 2020–2021, the registered capital of SMSC is held as to approximately 50.10% and 27.04% by the Group and China IC Fund, respectively. SMSC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Hong Kong Listing Rules and thus a connected person of the Company under the Hong Kong Listing Rules.

The Framework Agreement with SMSC 2020–2021 and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with SMSC 2020–2021 were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on February 13, 2020 as required under Chapter 14A of the Hong Kong Listing Rules.

The unaudited actual transaction amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SMSC 2020–2021 during the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020	
	US\$ million	
Purchase and sale of goods	49.9	
Rendering of or receiving services		
Leasing of assets		
Transfer of assets		
Provision of technical authorization or licensing (including the sharing of research and development costs)		
Provision of guarantee		



## 9. Framework Agreement with SJ Semiconductor Corporation — 2020 to 2022

On December 26, 2019, the Company and its subsidiary SJ Semiconductor Corporation (“SJ Cayman”) entered into a framework agreement in relation to the supply of goods and services, leasing of assets, transfer of assets and provision of technical authorization or licensing with a term commencing on January 1, 2020 and ending on December 31, 2022 and subject to the terms and conditions provided therein (“Framework Agreement with SJ Cayman 2020–2022”).

The Company and SJ Cayman agreed to enter into one or more of the following types of transaction with each other including supply of goods and services, leasing of assets, transfer of assets and provision of technical authorization or licensing:

- a. Purchase and sale of spare parts and raw materials;
- b. Rendering of or receiving services including, without limitation, (a) processing and testing service; (b) procurement service; (c) research, development and experiment support service; and (d) comprehensive administration, logistics, production management and IT service;
- c. Leasing of assets, such as plant, office premises and equipment;
- d. Transfer of assets; and
- e. Provision of technical authorization or licensing by the Company to SJ Cayman.

The price of the transactions contemplated under the Framework Agreement with SJ Cayman 2020–2022 (“Continuing Connected Transactions with SJ Cayman 2020–2022”) will be determined in accordance with the following general principles in ascending order:

- (1) the price prescribed or approved by state or local price control department (if any);
- (2) a reasonable price in accordance with the industry guided price for a particular type of service or product issued by the relevant industry association (if any);
- (3) the comparable local market price, which shall be determined after arm’s length negotiation between both parties of the contract with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender. The Company will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price;
- (4) where there is no comparable local market price, price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate. The expected range of profit is from 5% to 10%, which is in line with the industry and not lower than the profit rate charged by the Company or SJ Cayman (as applicable) to independent third parties (to the extent available).

As to price prescribed by the state or local price control department, state-prescribed fees apply to water, electricity, gas and communication services involved in providing procurement service and comprehensive administration, logistics, production management and IT service, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority. Under the Pricing Law of the PRC, the state may implement state-prescribed or guidance price for specific goods and services if necessary, such price will be promulgated in accordance with the requirements of relevant laws, regulations or administrative rules from time to time. If any state-prescribed price or guidance price becomes available to the Continuing Connected Transactions with SJ Cayman in the future, the parties will execute such price first in accordance with pricing principle (1) above.

## MANAGEMENT DISCUSSION AND ANALYSIS

The annual caps for the Continuing Connected Transactions with SJ Cayman 2020–2022 are set out below:

Annual Caps	For the year ended December 31,		
	2022 US\$ million	2021 US\$ million	2020 US\$ million
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company	28	23	19
Supply of goods and services and transfer of equipment by SJ Cayman	118	91	70

China IC Fund holds approximately 15.77% equity interest in the Company through its wholly-owned subsidiary Company, Xinxin (Hongkong) Capital Co., Limited as at the date of entering into the Framework Agreement with SJ Cayman 2020–2022. Accordingly, it is a connected person of the Company at the issuer level under the Hong Kong Listing Rules. As at the date of entering into the Framework Agreement with SJ Cayman 2020–2022, the Company holds approximately 55.97% equity interest in SJ Cayman and China IC Fund holds approximately 29.36% equity interest in SJ Cayman through its wholly-owned subsidiary, Xun Xin. SJ Cayman is therefore a connected subsidiary of the Company as defined under rule 14A.16 of the Hong Kong Listing Rules and thus a connected person of the Company under the Hong Kong Listing Rules.

The unaudited actual transaction amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SJ Cayman 2020–2022 for the reporting period are set out below.

Transactions	The Unaudited Actual Transaction Amounts for the six months ended June 30, 2020
	US\$ million
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company	4.7
Supply of goods and services and transfer of equipment by SJ Cayman	28.3

## RELATED PARTY TRANSACTIONS

In addition to the above, the Group entered into certain transactions with parties regarded as “related parties” under IFRS, some of which are not regarded as connected transactions as defined under the Hong Kong Listing Rules. Details of these related party transactions are disclosed in Note 31 to the condensed consolidated financial statements.

## PROSPECTS

In the first half of 2020, though shadowed by COVID-19, SMIC saw positive momentum and strong demand, as the company prepared for the next stage of growth. Looking at 2020, SMIC reached record high revenue in the first and second quarters, and expects to see healthy growth this year. In addition, SMIC targets a “mid to high teens” percentage annual revenue growth.

SMIC continues to carry on new tape out projects with domestic and global customers in advanced technology. Applications have been expanded to the consumer and media-related sectors, such as AI, RF, IoT, auto, etc. The second generation of advanced technology is on track, and is in the customer product qualification stage. Meanwhile, SMIC continues to receive demand for shipments from mature application platforms such as Power ICs, CMOS Image Sensors, RF-IoT, and Specialty memory. Momentum from customers looks positive, as SMIC maintains close to full utilization and has improved its product mix and fab efficiency. SMIC is committed to prudent planning based on customers’ demands and is cautiously ramping up its advanced technology line. To meet the demand for mature nodes and to debottleneck our current capacity tightness, SMIC will add 30,000 wafers per month 8-inch capacity and 20,000 wafers per month 12-inch capacity by the end of this year. SMIC stays committed to R&D activities to meet growth-driving market opportunities both on mature and advanced nodes.

## CHANGES IN ORDINARY SHARES AND BONDS

### ORDINARY SHARES

#### CHANGES IN ORDINARY SHARE

	Number of shares
Balance at January 1, 2020	5,056,868,912
Issuance of shares under the Company's employee Stock incentive plans	11,456,856
Conversion options of convertible bonds exercised	484,956,370
Conversion options of perpetual subordinated convertible securities exercised	137,383,794
Balance at June 30, 2020	5,690,665,932

#### ISSUE OF EQUITY SECURITIES

##### *Issue of new shares*

On June 1, 2020, an ordinary resolution was proposed and approved at the extraordinary general meeting of the Company in relation to the approval of the Company's proposed issue of no more than 1,685,620,000 ordinary shares to be subscribed for in RMB by investors in the PRC, listed on the SSE STAR Market and traded in RMB (the "RMB Share Issue"), under the specific mandate granted by the shareholders at that meeting. The Board considers that the RMB Share Issue would enable the Company to access the PRC capital market by way of equity financing and improve its capital structure while maintaining its international development strategy.

On July 16, 2020, the Company made its trading debut on SSE STAR Market and became the first overseas listed Red-Chip company that was dual-listed on the Main Board of the Hong Kong Stock Exchange and SSE STAR Market.

By way of the RMB Share Issue on the SSE STAR Market, 1,685,620,000 ordinary shares of the Company were subscribed. The subscribers included qualified off-line investors as well as natural persons, legal persons, other institutional investors (except persons prohibited by PRC laws and regulations, rules and regulatory documents), connected persons of the Company as strategic investors and such other target subscribers meeting the relevant qualification requirements of the China Securities Regulatory Commission ("CSRC"), who maintain stock accounts with the SSE. The gross proceeds were RMB46,287.1 million (equivalent to US\$6,615.8 million, before the exercise of over-allotment option). After deducting issuance costs (including underwriting fees and other issuance costs), the net proceeds were RMB45,662.8 million (equivalent to US\$6,526.5 million), which resulted in an increase of RMB47.2 million (equivalent to US\$6.7 million) in share capital and an increase of RMB45,615.6 million in capital reserves (equivalent to US\$6,519.8 million). The issue price of each ordinary share was RMB27.46. For further details about the RMB Share Issue, please refer to the circulars of the Company dated May 9, 2020 and June 6, 2020.

On August 6, 2020, the Board reviewed and approved the proposal for replacement of the proceeds from this issue with the self-raised funds invested in advance, and agreed that the Company shall utilize the proceeds from the public offering to replace the self-raised funds invested in advance of RMB4,494.5 million (equivalent to US\$647.5 million) as at July 31, 2020 for 12-inch SN1 project and research and development ("R&D") project for advanced and matured technology production line, and the issuance expenses of RMB3.2 million (equivalent to US\$0.5 million). The time for the replacement of the funds was within six months from the time the proceeds from this issue were received, which is in compliance with relevant regulations of the CSRC and the SSE.



## CHANGES IN ORDINARY SHARES AND BONDS

In accordance with the Over-allotment Option mechanism, during the post-listing stabilization period of this Issue of the Company, which is from the date when the shares of this issue started trading on the SSE to and including the 30th calendar day after listing, Haitong Securities, the authorized lead underwriter has the right to utilize the proceeds from the over-allotment of the shares to purchase shares of the Company by counterparty best price method as prescribed by SSE over the continuous bidding time and the quoted bid price is not allowed to exceed the issue price of this issue.

As of August 14, 2020, Haitong Securities has fully exercised the over-allotment options. The Company issued an additional 252,843,000 shares based on the initial issuance of 1,685,620,000 shares at the issue price of RMB27.46 per share of this Issue, accounting for 15% of the initial shares of this issue. The total amount of funds raised by the Company from such exercise is approximately RMB6,943.1 million (equivalent to US\$1,000.1 million). The total amount of funds raised from the this issue is approximately RMB53,230.2 million (equivalent to US\$7,615.9 million). The net amount of funds raised after deducting the issuance expenses of approximately RMB714.6 million (equivalent to US\$102.2 million) is approximately RMB52,515.6 million (equivalent to US\$7,513.7 million). The net price to each ordinary share was RMB27.09.

The total funds raised from the RMB Share 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	Replaced proceeds during the period of this report	Utilized proceeds as of the release date of this report	Unutilized proceeds as of the release date of this report	Expected timeline for the use of unutilized proceeds
US\$7,513.7 million	12-inch SN1 project, R&D project for advanced and matured technology production line, and for supplemental working capital purpose	US\$648.0 million	US\$648.0 million	US\$6,865.7 million	Before the end of 2021

### *Issue of US\$200 million zero coupon convertible bonds due 2022*

Issue of US\$200 million zero coupon convertible bonds due 2022 were disclosed in the announcement of the Company dated November 18, 2019 and listed on the Singapore Exchange on December 10, 2019.

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

Total proceeds raised from the issue	Proceeds from the issue brought forward as on January 1, 2020	Intended use of the proceeds as previously disclosed	Utilized proceeds as of the release date of this report	Unutilized proceeds as of the release date of this report
US\$229.5million	US\$229.5million	The Company's capital expenditure for capacity expansion and general corporate purposes	US\$229.5 million	US\$0 million

## CHANGES IN ORDINARY SHARES AND BONDS

### BONDS

#### CHANGES IN BONDS

On February 27, 2020, the Company issued 5-year unsecured corporate bonds for a total amount of US\$600.0 million. The corporate bonds carry a coupon interest rate of 2.693% with bond interest payable semi-annually on February 27 and August 27. As at the issue date, the net book value of the liabilities amounted to US\$596.4 million after deducting commissions and other estimated expenses payable in connection with the offering of the Bonds.

On January 13, 2020, the Company issued short-term notes in a principal amount of RMB1,500.0 million (approximately US\$216.3million) with a maturity date of May 28, 2020 and with a interest rate of 2.4%. On April 16, 2020, the Company issued short-term notes in a principal amount of RMB1, 500.0 million (approximately US\$213.1 million) with a maturity date of August 5, 2020 and with a interest rate of 1.9%. Such short-term notes were issued through China Interbank Market Dealers Association.

The nine-month short-term notes in a principal amount of RMB2,000.0 million (approximately US\$219.0 million) with an interest rate of 3.10% issued on July 23, 2019 were repaid on April 17, 2020. The short-term notes in a principal amount of RMB1,500.0 million (approximately US\$216.3 million) with an interest rate of 2.4% issued on January 13, 2020 were repaid on May 28, 2020.

# CORPORATE GOVERNANCE REPORT

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

## CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Hong Kong 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 Code Provisions and the Recommended Practices of the CG Code. The Company will seek to comply with the Code Provisions of the CG Code whenever practicable. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

Code Provision A.4.2 of the CG Code requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. According to Article 132 of the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following annual general meeting of the Company after appointment and shall then be eligible for re-election at that meeting.

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the six months ended June 30, 2020.

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

The Company has adopted an Insider Trading Compliance Program (the “Insider Trading Policy”) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong 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, 2020. The senior management of the Company as well as all officers, directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

## THE BOARD

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

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



## CORPORATE GOVERNANCE REPORT

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

Name of Director	Category of Director	Class of Director	Year of Re-election
Zhou Zixue	Chairman, Executive Director	Class I	2023
Gao Yonggang	Chief Financial Officer and Executive Director	Class I	2023
William Tudor Brown	Independent Non-executive Director	Class I	2023
Tong Guohua	Non-executive Director	Class I	2023
Zhao Haijun	Co-Chief Executive Officer and Executive Director	Class II	2021
Chen Shanzhi	Non-executive Director	Class II	2021
Lu Jun	Non-executive Director	Class II	2021
Lau Lawrence Juen-Yee	Independent Non-executive Director	Class II	2021
Fan Ren Da Anthony	Independent Non-executive Director	Class II	2021
Liang Mong Song	Co-Chief Executive Officer and Executive Director	Class III	2022
Zhou Jie	Non-executive Director	Class III	2022
Ren Kai	Non-executive Director	Class III	2022
Cong Jingsheng Jason	Independent Non-executive Director	Class III	2022
Young Kwang Leei	Independent Non-executive Director	Class III	2022

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

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

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

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

## CORPORATE GOVERNANCE REPORT

### PROCEDURE REGARDING THE APPOINTMENT OF DIRECTORS

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

### BOARD COMMITTEE

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

### AUDIT COMMITTEE

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

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

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor; including reviewing the experience, independence, qualifications and performance of the senior members of the independent auditor team; pre-approving all non-audit services to be provided by the Company's independent auditor; approving the remuneration and terms of engagement of the Company's independent auditor;
- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, and any steps taken to deal with these issues;
- reviewing the Company's annual, interim and quarterly financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the Company's internal controls, risk assessment and management policies;
- establishing procedures for the treatment of complaints received by the Company regarding financial reporting, internal control or possible improprieties in other matters; and
- making recommendations to the Board concerning the management and government policies and practices of the Company formulated and reviewed by the Audit Committee.

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

## CORPORATE GOVERNANCE REPORT

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

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

### COMPENSATION COMMITTEE

As of the date of this interim report, the members of the Company's Compensation Committee (the "Compensation Committee") are Mr. William Tudor Brown (Chairman of Compensation Committee), Mr. Zhou Jie, Dr. Tong Guohua, Professor Lau Lawrence Juen-Yee and Dr. Young Kwang Leei. None of these members of the Compensation Committee has been an executive officer or employee of the Company or any of its subsidiaries.

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

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

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

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



## CORPORATE GOVERNANCE REPORT

### NOMINATION COMMITTEE

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

The responsibilities of the Nomination Committee include:

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

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

### STRATEGIC COMMITTEE

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

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

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

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

## CORPORATE GOVERNANCE REPORT

### INTERNAL AUDIT

Internal Audit supports the Audit Committee to evaluate the effectiveness of and contribute to the improvement of risk management, internal control, and governance systems. On an annual basis, the risk-based audit plan, the budget and the staffing plan are reviewed and approved by the Audit Committee and the Chairman of the Board. In addition to the agreed plan, the Internal Audit Department shall check and investigate major problems identified by senior managers. Major internal control audit results, will be reported to the Audit Committee, the Chairman and the Co-Chief Executive Officers. A summary of audit reports is quarterly reported to the Audit Committee.

Responsibilities of the internal audit includes:

- Reviewing the management's internal control measures, ensuring authenticity, accuracy and integrity of financial and operation information and ensuring the reliability and soundness of approaches for identification, measurement, classification and reporting;
- Reviewing the internal control systems established or to be established, ensuring that the Company is currently in compliance with plans, procedures, systems, regulations and laws that have a significant impact on operations and reporting;
- Reviewing the means of asset protection and verifying the existence of assets when appropriate;
- Identifying major risks affecting the Company's achievement of business objectives, reporting related risks to the management and supervising the management to take appropriate protective measures;
- Reviewing whether internal control measures supporting operation of the Company are effective and putting forward suggestions on problems detected;
- Ensuring that the work of internal and external auditors on internal control is coordinated;
- Assisting in establishing and improving the anti-fraud mechanism, identifying the key areas, key links and main contents of anti-fraud, and rationally concerning and reviewing possible fraud in the internal audit process.

The Internal Audit Department shall have an independent status within the Company and shall not be involved in the day to day operation management of the Company. The Internal Audit Department has no operating responsibility or authority over the departmental operations that it audits.

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

After completing the audit, all audit results shall be reported to the management and the management will determine and implement necessary corrective measures to eliminate defects of the internal control system.

The Internal Audit may meet privately with the Audit Committee, without the presence of members of the Group's management or the independent auditor upon request.

### CODE OF BUSINESS CONDUCT AND ETHICS

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

## CORPORATE GOVERNANCE REPORT

### COMPLIANCE WITH LAWS AND REGULATIONS

For the six months ended June 30, 2020, the Group has complied with the substantial laws and regulations promulgated by the Chinese government in relation to the integrated circuit industry in China which have a significant impact on the Group.

#### PREFERENTIAL INDUSTRIAL POLICIES RELATING TO ICPES (“INTEGRATED CIRCUIT PRODUCTION ENTERPRISES”)

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

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013, March 10, 2015 and October 30, 2019, the Chinese government encourages (1) the design of integrated circuits, (2) the production of integrated circuits with a line width of less than 0.8 micron (including 0.8 micron), and (3) the advanced packaging and testing of BGA, PGA, CSP, MCM, LGA, SIP, FC, WLP and MEMS.

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

#### ENVIRONMENTAL REGULATIONS

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations promulgated by the central and local governments, concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project’s construction and operation phases.

A key document that must be submitted for approval of a project’s construction is an environmental impact assessment report that is reviewed by the relevant authorities.



## CORPORATE GOVERNANCE REPORT

### PREFERENTIAL TAXATION POLICIES

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

According to the PRC's Enterprise Income Tax Law (No. 63 of the Order of the President of the People's Republic of China, effective from January 1, 2008), a foreign-invested enterprise must withhold and pay the withholding income tax at a rate of 10% when distributing its profits to its immediate holding company (a non-Chinese resident company) in or after 2008. If there is a preferential tax agreement between the Mainland China and the jurisdiction where the foreign-invested company is located, a lower withholding income tax rate can be applied. For example, according to the memorandum on tax treatment between the Mainland China and the Hong Kong Special Administrative Region, a holding company located in Hong Kong that is also a Hong Kong tax resident (which should have commercial substance and submit an application for the tax benefits with the competent tax authority) can withhold and pay the withholding tax at a rate of 5%.

According to the PRC's Enterprise Income Tax Law and the Announcement of the State Administration of Taxation on Issues Concerning the Implementation of Preferential Income Tax Policies for High-tech Enterprises (Announcement No. 24 of 2017 of the State Administration of Taxation), a high-tech enterprise that needs full support from the PRC's government will enjoy a 15% tax rate reduction for Enterprise Income Tax. Upon qualified as a high-tech enterprise, it will enjoy a preferential tax from the year of the issuance of the high-tech enterprise certificate.

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

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

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

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

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

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

## OTHER INFORMATION

### 1. DIVIDENDS

The Board did not propose to declare an interim dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: Nil).

### 2. CONTROLLING SHAREHOLDERS OR DE FACTO CONTROLLER

The Company has no controlling shareholders nor de facto controller.

### 3. SUBSTANTIAL SHAREHOLDERS

Set out below are the names of the parties (not being a director or chief executive of the Company) which were interested in five percent or more of the nominal value of the share capital of the Company and the respective numbers of shares in which they were interested as of June 30, 2020 as recorded in the register kept by the Company under section 336 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO").

Name of Shareholder	Nature of interest	Long/Short Position	Number of Ordinary Shares Held	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company <sup>(1)</sup>	Derivatives	Total Interests	Percentage of Total Interest to Total Issued Share Capital of the Company <sup>(1)</sup>
China Information and Communication Technology Group Co., Ltd.	Interest of corporation controlled	Long Position	859,522,595 (Note 2)	15.10%	—	859,522,595	15.10%
Datang Telecom Technology & Industry Holdings Co., Ltd.	Interest of corporation controlled	Long Position	859,522,595 (Note 2)	15.10%	—	859,522,595	15.10%
Pagoda Tree Investment Company Limited	A concert party to an agreement to buy shares described in s.317(1)(a)	Long Position	859,522,595 (Note 3)	15.10%	—	859,522,595	15.10%
China Integrated Circuit Industry Investment Fund Co., Ltd. ("China IC Fund")	Interest of corporation controlled	Long Position	797,054,901 (Note 4)	14.01%	183,178,403 (Note 5)	980,233,304	17.23%

Notes:

- (1) Based on 5,690,665,932 Ordinary Shares in issue as at June 30, 2020.
- (2) 859,522,595 Shares are held by Datang Holdings (Hongkong) Investment Company Limited ("Datang HK") which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang Holding"), which in turn is wholly-owned by China Information and Communication Technology Group Co., Ltd.
- (3) Lightmane Holdings Company Limited, a wholly-owned subsidiary of CNIC Corporation Limited, of which Compass Investment Company Limited, a wholly owned subsidiary of Pagoda Tree Investment Company Limited, has a 90% control, signed an agreement with Datang HK with terms falling under the Section 317(1)(a) or (b) of the SFO. Lightmane Holdings Company Limited, CNIC Corporation Limited, Compass Investment Company Limited, Pagoda Tree Investment Company Limited are therefore deemed to be interested in 859,522,595 Shares of the Company.
- (4) 797,054,901 Shares are held by Xinxin (Hongkong) Capital Co., Ltd ("Xinxin HK"), a wholly-owned subsidiary of Xunxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.
- (5) On April 23, 2018, the Company entered into the China IC Fund PSCS Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund PSCS Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the China IC Fund PSCS which are convertible into 183,178,403 Shares (assuming full conversion of the China IC Fund PSCS at the initial Conversion Price of HK\$12.78 per Share). In this regard, China IC Fund and Xinxin HK are deemed to be interested in these 183,178,403 Shares under the Securities and Futures Ordinance (Cap. 571) (the "SFO"). Completion of the China IC Fund PSCS Subscription Agreement has occurred on August 29, 2018.

#### 4. DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY

As of June 30, 2020, the interests or short positions of the Directors and Chief Executive of the Company in the Ordinary Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO, which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code were as follows:

Name of Director	Long/Short Position	Nature of Interests	Number of Ordinary Shares held	Derivatives Share Options	Other	Total Interests	Percentage of aggregate interests to total issued share capital of the Company <sup>(1)</sup>
<b>Executive Directors</b>							
Zhou Zixue	Long Position	Beneficial Owner	—	3,180,280 (Note 2)	1,340,306 (Note 3)	4,520,586	0.079%
Zhao Haijun	Long Position	Beneficial Owner	163	2,095,439 (Note 4)	86,603 (Note 5)	2,182,205	0.038%
Liang Mong Song	Long Position	Beneficial Owner	—	659,117 (Note 6)	259,808 (Note 7)	918,925	0.016%
Gao Yonggang	Long Position	Beneficial Owner	—	2,236,265 (Note 8)	316,805 (Note 9)	2,553,070	0.045%
<b>Non-executive Directors</b>							
Chen Shanzhi	Long Position	Beneficial Owner	—	412,656 (Note 10)	412,656 (Note 11)	825,312	0.015%
Zhou Jie	—	—	—	—	—	—	—
Ren Kai	—	—	—	—	—	—	—
Lu Jun	—	—	—	—	—	—	—
Tong Guo Hua	Long Position	Beneficial Owner	—	242,466 (Note 12)	242,466 (Note 13)	484,932	0.009%
<b>Independent Non-executive Directors</b>							
William Tudor Brown	Long Position	Beneficial Owner	—	212,500 (Note 14)	212,500 (Note 15)	425,000	0.007%
Cong Jingsheng Jason	Long Position	Beneficial Owner	123,750	242,466 (Note 16)	118,716 (Note 17)	484,932	0.009%
Lau Lawrence Juen-Yee	Long Position	Beneficial Owner	—	187,500 (Note 18)	187,500 (Note 19)	375,000	0.007%
Fan Ren Da Anthony	Long Position	Beneficial Owner	—	187,500 (Note 20)	187,500 (Note 21)	375,000	0.007%
Young Kwang Leei	Long Position	Beneficial Owner	—	187,500 (Note 22)	187,500 (Note 23)	375,000	0.007%

Notes:

- (1) Based on 5,690,665,932 Shares in issue as at June 30, 2020.
- (2) (a) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Shares at a price of HK\$8.30 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2020, Dr. Zhou was granted options to purchase 659,117 Shares at a price of HK\$18.096 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, none of these options has been exercised.
- (3) (a) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of March 6, 2015, shall fully vest on March 6, 2019. (b) On May 25, 2020, Dr. Zhou was granted an award of 259,808 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting, consisting of (i) 86,603 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2019 and which shall fully vest on March 1, 2023, and (ii) 173,205 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. As of June 30, 2020, none of these RSUs has been exercised.



## OTHER INFORMATION

- (4) These options comprise: (a) options which were granted to Dr. Zhao on June 11, 2013 to purchase 1,505,854 Shares at a price of HK\$6.40 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 10, 2023 or 90 days after termination of his service, (b) options which were granted to Dr. Zhao on September 7, 2017 to purchase 1,687,500 Shares at a price of HK\$7.9 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of September 6, 2027 or 90 days after termination of his service as Co-Chief Executive Officer. (c) On May 25, 2020, Dr. Zhao was granted options to purchase 219,706 Shares at a price of HK\$18.096 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, 1,317,621 of these options have been exercised.
- (5) On May 25, 2020, Dr. Zhao was granted an award of 86,603 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. As of June 30, 2020, none of these RSUs has been exercised.
- (6) On May 25, 2020, Dr. Liang was granted options to purchase 659,117 Shares at a price of HK\$18.096 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, none of these options has been exercised.
- (7) On May 25, 2020, Dr. Liang was granted an award of 259,808 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting, consisting of (i) 86,603 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2019 and which shall fully vest on March 1, 2023, and (ii) 173,205 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. As of June 30, 2020, none of these RSUs has been exercised.
- (8) These options comprise: (a) options which were granted to Dr. Gao on June 17, 2013 to purchase 1,360,824 Shares at a price of HK\$6.24 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 12, 2014 to purchase 288,648 Shares at a price of HK\$6.4 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. (c) On May 25, 2020, Dr. Gao was granted options to purchase 586,793 Shares at a price of HK\$18.096 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, none of these options has been exercised.
- (9) (a) On November 17, 2014, Dr. Gao was granted an award of 291,083 Restricted Share Units pursuant to the 2014 Equity Incentive Plan, consisting of (i) 240,145 Restricted Share Units, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017; and (ii) 50,938 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. (b) On May 25, 2020, Dr. Gao was granted an award of 231,300 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting, consisting of (i) 74,016 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2019 and which shall fully vest on March 1, 2023, and (ii) 157,284 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. As of June 30, 2020, 205,578 of these Restricted Share Units were exercised.
- (10) These options comprise: (a) On May 25, 2016, options to purchase 98,958 Shares at a price of HK\$6.42 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (b) On September 12, 2016, options to purchase 1,198 Shares at a price of HK\$8.72 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. (c) On April 5, 2017, options to purchase 62,500 Shares at a price of HK\$9.834 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. (d) On May 23, 2018, options to purchase 125,000 Shares at a price of HK\$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (e) On May 21, 2019, options to purchase 62,500 Shares at a price of HK\$8.580 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. (f) On May 25, 2020, options to purchase 62,500 Shares at a price of HK\$18.096 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, none of the options has been exercised.

- (11) These Restricted Share Units comprise: (a) On May 25, 2016, 98,958 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (b) On September 12, 2016, 1,198 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (c) On April 5, 2017, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (d) On May 23, 2018, 125,000 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Among the 125,000 Restricted Share Units, 62,500 Restricted Share Units are vested immediately and 62,500 Restricted Share Units shall vest on 1 January 2019. (e) On May 21, 2019, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. These Restricted Share Units shall vest on January 1, 2020. (f) On May 25, 2020, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These Restricted Share Units shall vest on January 1, 2021. As of June 30, 2020, none of these RSUs has been exercised.
- (12) (a) On April 5, 2017, Dr. Tong was granted options to purchase 187,500 Shares at a price of HK\$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2020, options to purchase 5v Tm[(2)9.8 (0)( on)9.8 ( the)9.8 ( earlier)]TJEAs

## OTHER INFORMATION

- (19) On September 13, 2018, Professor Lau was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of June 30, 2020, none of these Restricted Share Units was exercised.
- (20) On September 13, 2018, Mr. Fan was granted options to purchase 187,500 Shares at a price of HK\$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, none of these options has been exercised.
- (21) On September 13, 2018, Mr. Fan was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of June 30, 2020, none of these Restricted Share Units was exercised.
- (22) On September 12, 2019, Dr. Young was granted options to purchase 187,500 Ordinary Shares at a price of HK\$9.820 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on September 11, 2029 or 120 days after termination of his service as a Director to the Board. As of June 30, 2020, none of these options has been exercised.
- (23) On September 12, 2019, Dr. Young was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2014 Equity Incentive Plan. These RSUs will vest on each anniversary of August 7, 2019 at the rate of 33%, 33% and 34% over a period of three years, and will fully vest on August 7, 2022. As of June 30, 2020, none of these Restricted Share Units was exercised.



## 5. EMPLOYEES EQUITY INCENTIVE PLAN

Save as disclosed in this interim report, there is no material change to the information disclosed in the 2019 annual report of the Group in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

### 2004 STOCK OPTION PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/19	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of			Options Outstanding as of 6/30/20	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
								Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period		Options were Exercised	Options were Granted
Employees	2/23/2010	2/23/2010-2/22/2020	337,089,466	0.99	2,403,429	—	955,798	—	1,447,631	—	—	1.87	0.99
Shanzhi Chen	5/24/2010	5/24/2010-5/23/2020	3,145,319	0.82	314,531	—	—	—	314,531	—	—	2.31	0.72
Employees	5/24/2010	5/24/2010-5/23/2020	18,251,614	0.82	6,000	—	—	—	6,000	—	—	2.24	0.72
Employees	9/8/2010	9/8/2010-9/7/2020	46,217,577	0.67	135,600	—	—	—	127,500	—	8,100	1.74	0.68
Employees	11/12/2010	11/12/2010-11/11/2020	39,724,569	0.83	234,165	—	—	—	177,550	—	56,615	1.58	0.78
Employees	5/31/2011	5/31/2011-5/30/2021	148,313,801	0.85	1,808,789	—	8,000	—	609,590	—	1,191,199	2.08	0.83
Others	9/8/2011	9/8/2011-9/7/2021	21,746,883	0.58	244,688	—	—	—	244,688	—	—	1.56	0.56
Employees	9/8/2011	9/8/2011-9/7/2021	42,809,083	0.58	194,202	—	1,777	—	81,591	—	110,834	2.06	0.56
Employees	11/17/2011	11/17/2011-11/16/2021	16,143,147	0.51	116,750	—	—	—	23,779	—	92,971	2.08	0.51
Employees	5/22/2012	5/22/2012-5/21/2022	252,572,706	0.45	4,280,882	—	12,416	—	975,640	—	3,292,826	1.98	0.45
Employees	9/12/2012	9/12/2012-9/11/2022	12,071,250	0.37	59,300	—	—	—	19,200	—	40,100	2.15	0.37
Employees	11/15/2012	11/15/2012-11/14/2022	18,461,000	0.47	162,116	—	—	—	13,200	—	148,916	1.89	0.47
Employees	5/7/2013	5/7/2013-5/6/2023	24,367,201	0.76	334,318	—	83	—	198,933	—	135,302	1.99	0.77
Employees	6/11/2013	6/11/2013-6/10/2023	102,810,000	0.82	2,278,417	—	7,000	—	503,641	—	1,767,776	2.12	0.79
Senior Management	6/11/2013	6/11/2013-6/10/2023	74,755,756	0.82	188,233	—	—	—	—	—	188,233	2.12	0.79
Yonggang Gao	6/17/2013	6/17/2013-6/16/2023	13,608,249	0.80	1,360,824	—	—	—	—	—	1,360,824	0.00	0.78
Employees	9/6/2013	9/6/2013-9/5/2023	22,179,070	0.72	219,412	—	2,800	—	38,362	—	178,250	2.13	0.73
Employees	11/4/2013	11/4/2013-11/3/2023	19,500,000	0.74	212,241	—	2,400	—	92,591	—	117,250	1.92	0.72
					14,553,897	—	990,274	—	4,874,427	—	8,689,196		

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

## OTHER INFORMATION

### 2014 STOCK OPTION PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/19	Additional Options Granted During Period	Options Lapsed During Period	Options Repurchased During Period	Options Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 6/30/20	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
													Options on which Options were Exercised	Options on which Options were Granted
Yonggang Gao	6/12/2014	6/12/2014-6/11/2024	2,886,486	0.82	288,648	—	—	—	—	—	—	288,648	—	0.82
Employees	6/12/2014	6/12/2014-6/11/2024	26,584,250	0.82	330,562	—	—	—	52,859	—	—	2,277,293	2.03	1.84
Senior Management	11/17/2014	11/17/2014-11/16/2024	11,758,249	1.09	582,778	—	—	—	—	—	—	582,778	—	1.10
Employees	11/17/2014	11/17/2014-11/16/2024	97,855,763	1.09	2,939,935	—	—	—	—	—	—	—	—	—

## 2014 EQUITY INCENTIVE PLAN

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	RSUs Outstanding as of 12/31/19	Additional RSUs Granted During Period	RSUs Lapsed During Period	RSUs Lapsed Due to Repurchase of			RSUs Outstanding as of 6/30/20	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Granted (USD)
								Ordinary Shares During Period	RSUs Exercised During Period	RSUs Cancelled During Period		Restricted Share Units	Restricted Share Units
Yonggang Gao	11/17/2014	2014/11/17-2024/11/16	2,910,836	0.004	85,505	—	—	—	—	—	85,505	—	1.10
Zi Xue Zhou	5/20/2015	5/20/2015-5/19/2025	10,804,985	0.004	1,080,498	—	—	—	—	—	1,080,498	—	1.05
Employees	5/25/2016	5/25/2016-5/24/2026	68,070,000	0.004	864,400	—	6,900	—	841,500	—	16,000	1.95	0.83
Shanzhi Chen	5/25/2016	5/25/2016-5/24/2026	989,583	0.004	98,958	—	—	—	—	—	98,958	—	0.83
Shanzhi Chen	9/12/2016	9/12/2016-9/11/2026	11,986	0.004	1,198	—	—	—	—	—	1,198	—	1.13
Employees	9/12/2016	9/12/2016-9/11/2026	1,560,000	0.004	16,000	—	—	—	8,000	—	8,000	1.94	1.13
Employees	11/18/2016	11/18/2016-11/17/2026	2,268,600	0.004	29,000	—	—	—	—	—	29,000	—	1.31
Employees	4/5/2017	4/5/2017-4/4/2027	376,000	0.004	61,000	—	8,000	—	18,000	—	35,000	1.64	1.24
GUO HUA TONG	4/5/2017	4/5/2017-4/4/2027	187,500	0.004	187,500	—	—	—	—	—	187,500	—	1.24
JASON CONG	4/5/2017	4/5/2017-4/4/2027	187,500	0.004	63,750	—	—	—	—	—	63,750	—	1.24
Shanzhi Chen	4/5/2017	4/5/2017-4/4/2027	62,500	0.004	62,500	—	—	—	—	—	62,500	—	1.24
Employees	5/22/2017	5/22/2017-5/21/2027	7,469,000	0.004	2,106,300	—	97,250	—	1,017,250	—	991,800	1.95	1.07
Employees	12/7/2017	12/7/2017-12/6/2027	364,000	0.004	114,000	—	—	—	—	—	114,000	—	1.32
Employees	5/23/2018	5/23/2018-5/22/2028	6,957,966	0.004	3,564,960	—	156,125	—	1,140,040	—	2,268,795	1.95	1.33
Shanzhi Chen	5/23/2018	5/23/2018-5/22/2028	125,000	0.004	125,000	—	—	—	—	—	125,000	—	1.33
WILLIAM TUDOR BROWN	5/23/2018	5/23/2018-5/22/2028	87,500	0.004	87,500	—	—	—	—	—	87,500	—	1.33
Employees	9/13/2018	9/13/2018-9/12/2028	344,000	0.004	219,000	—	24,000	—	55,000	—	140,000	2.32	1.07
Anthony Fan	9/13/2018	9/13/2018-9/12/2028	187,500	0.004	187,500	—	—	—	—	—	187,500	—	1.07
Lawrence Lau	9/13/2018	9/13/2018-9/12/2028	187,500	0.004	187,500	—	—	—	—	—	187,500	—	1.07
Employees	11/19/2018	11/19/2018-11/18/2028	54,000	0.004	40,500	—	—	—	—	—	40,500	—	0.84
Shanzhi Chen	5/21/2019	5/21/2019-5/20/2029	62,500	0.004	62,500	—	—	—	—	—	62,500	—	1.11
WILLIAM TUDOR BROWN	5/21/2019	5/21/2019-5/20/2029	62,500	0.004	62,500	—	—	—	—	—	62,500	—	1.11
Employees	9/12/2019	9/12/2019-9/11/2029	330,000	0.004	242,250	—	29,250	—	24,000	—	189,000	1.93	1.25
YOUNG Kwang Leei	9/12/2019	9/12/2019-9/11/2029	187,500	0.004	187,500	—	—	—	—	—	187,500	—	1.25
Employees	11/26/2019	11/26/2019-11/25/2029	70,000	0.004	70,000	—	—	—	—	—	70,000	—	1.25



## OTHER INFORMATION

### SHARE OPTION PLAN FOR SUBSIDIARY

Details of the movements in the subsidiary share options of SJ Semiconductor Corporation during the reporting period is as follows:

Name/ Eligible Employees	Date Granted	Period during which Rights Exercisable	No of Options Granted	Exercise Price per Share (USD)	Options Outstanding as of 12/31/19	Additional Options Granted During Period	Options Exercised During Period	Options Cancelled During Period	Options Lapsed During Period	Options Outstanding as of 06/30/20
Employees	1/4/2015	1/4/2015-1/3/2025	4,560,000	0.05	2,880,000	—	—	—	—	2,880,000
Employees	5/4/2015	5/4/2015-5/3/2025	1,380,000	0.06	1,130,000	—	—	—	—	1,130,000
Employees	9/15/2015	9/15/2015-9/14/2025	2,390,000	0.08	1,640,000	—	250,000	—	12,860	1,377,140
Employees	12/27/2016	12/27/2016-12/26/2026	7,753,750	0.31	5,642,656	—	213,543	—	44,113	5,385,000
Employees	8/9/2017	8/9/2017-8/8/2027	1,598,750	0.31	1,032,500	—	262,500	—	111,198	658,802
Employees	3/13/2018	3/13/2018-3/12/2028	7,349,500	0.36	5,229,302	—	79,375	—	235,625	4,914,302
Employees	3/26/2019	3/26/2019-3/25/2029	5,488,832	0.36	4,894,665	—	28,958	—	161,042	4,704,665
Employees	12/03/2019	12/03/2019-12/02/2029	5,603,500	0.36	5,603,500	—	—	—	385,000	5,218,500
Employees	03/03/2020	03/03/2020-03/02/2030	3,577,833	0.45	—	3,577,833	—	—	283,333	3,294,500
Total			39,702,165	—	28,052,623	3,577,833	834,376	—	1,233,171	29,562,909

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

## 6. MATERIAL LITIGATION AND ARBITRATION

The Company has no material litigation and arbitration during the reporting period. Please refer Note 33 to the condensed consolidated financial statements for other litigation and arbitration.

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

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Ordinary Shares during the reporting period (during the period six month ended June 30, 2019: nil).

## 8. UPDATES TO INFORMATION RELATING TO DIRECTORS AND CHIEF EXECUTIVE

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

- Prof. Lau Lawrence Juen-Yee, independent non-executive Director ceased to serve as an INED of Hysan Development Company Limited (Stock Code: 00014) since May 13, 2020.

## 9. WAIVER FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

Save for the relevant waivers as disclosed in the prospectus of the Company dated March 8, 2004, and the circular of the Company dated May 9, 2020 regarding waiver from strict compliance with certain provisions of the Hong Kong Listing Rules relating to corporate communication, requirements for certification of transfers and requirements for securities registration services, the Company has not received any waivers from compliance with the Hong Kong Listing Rules which are still in effect as at the date of this report.

## 10. REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices accepted by the Company and the interim report with the unaudited interim financial statements of the Company for the six months ended June 30, 2020.

By order of the Board

**Semiconductor Manufacturing International Corporation**

**Gao Yonggang**

*Executive Director, Chief Financial Officer and Joint Company Secretary*

Shanghai, China  
August 27, 2020

# SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

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

For the six months ended June 30, 2020 and 2019

(In USD'000, except per share data)





# SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and December 31, 2019

(In USD'000)

	Notes	06/30/20 (unaudited)	12/31/19 (audited)
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	14	9,340,611	7,757,247
Right-of-use assets	15	425,701	376,867
Intangible assets		88,763	96,943
Investments in associates	16	1,132,823	1,139,317
Investments in joint ventures	17	57,886	27,117
Deferred tax assets		26,994	62,975
Financial assets at fair value through profit or loss	18	129,399	90,067
Derivative financial instruments	18	—	1,872
Other assets		2,638	11,574
<b>Total non-current assets</b>		<b>11,204,815</b>	<b>9,563,979</b>
<i>Current assets</i>			
Inventories	19	669,202	628,885
Prepayment and prepaid operating expenses		53,310	34,256
Trade and other receivables	20	1,448,234	836,143
Financial assets at fair value through profit or loss	18	—	42,985
Financial assets at amortized cost	18	3,272,024	2,276,370
Derivative financial instruments	18	8,248	—
Restricted cash	21	595,064	804,547
Cash and cash equivalent		3,130,068	2,238,840
		9,176,150	6,862,026
Assets classified as held-for-sale		7,213	11,815
<b>Total current assets</b>		<b>9,183,363</b>	<b>6,873,841</b>
<b>Total assets</b>		<b>20,388,178</b>	<b>16,437,820</b>

# SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and December 31, 2019

(In USD'000)

	Notes	06/30/20 (unaudited)	12/31/19 (audited)
<b>Equity and liabilities</b>			
<i>Capital and reserves</i>			
Ordinary shares	22	22,763	20,227
Share premium		5,898,540	5,011,915
Other reserves		1,879	86,749
Retained earnings		747,639	550,506
Equity attributable to owners of the Company		6,670,821	5,669,397
Perpetual subordinated convertible securities	25	339,307	563,848
Non-controlling interests		6,167,547	3,964,617
<b>Total equity</b>		<b>13,177,675</b>	<b>10,197,862</b>
<i>Non-current liabilities</i>			
Borrowings	26	1,690,928	2,003,836
Lease liabilities	15	197,850	167,081
Bonds payable	28	596,625	—
Medium-term notes	29	211,313	214,193
Deferred tax liabilities		—	—

# SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2020 and 2019

(In USD'000)

	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available-for- sale financial assets	Convertible bonds equity reserve
	(Note 22)		(Note 23)			
<b>Balance at December 31, 2018 (audited)</b>	20,159	4,993,163	58,679	(38,409)	—	52,053
Profit for the period	—	—	—	—	—	—
Other comprehensive income (losses) for the period	—	—	—	(868)	—	—
Total comprehensive income (losses) for the period	—	—	—	(868)	—	—
Exercise of stock options	47	12,360	(9,796)	—	—	—
Share-based compensation	—	—	2,774	—	—	—
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—
Transaction with non-controlling interests	—	—	—	—	—	—
<b>Subtotal</b>	47	12,360	(7,022)	—	—	—
<b>Balance at June 30, 2019 (unaudited)</b>	20,206	5,005,523	51,657	(39,277)	—	52,053
<b>Balance at December 31, 2019 (audited)</b>	20,227	5,011,915	52,551	(56,275)	—	86,200
Profit for the period	—	—	—	—	—	—
Other comprehensive income (losses) for the period	—	—	—	(2,919)	—	—
Total comprehensive income (losses) for the period	—	—	—	(2,919)	—	—
Exercise of stock options	46	14,499	(6,664)	—	—	—
Share-based compensation	—	—	4,800	—	—	—
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—
Conversion options of convertible bonds exercised during the period	1,940	648,135	—	—	—	(75,102)
Conversion options of perpetual subordinated convertible securities exercised during the period	550	223,991	—	—	—	—



# SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2020 and 2019

(In USD'000)

Defined benefit pension reserve	Cash flow Hedges	Share of other comprehensive income of joint ventures accounted for using equity method	Others	Retained earnings	Attributable to owner of the Company	Perpetual subordinated convertible securities	Non-controlling interest	Total equity
	(Note 24)					(Note 25)		
1,213	36,447	—	(637)	331,298	5,453,966	563,848	2,905,766	8,923,580
—	—	—	—	30,811	30,811	—	(32,251)	(1,440)
(1,532)	(22,480)	—	—	—	(24,880)	—	1,189	(23,691)
(1,532)	(22,480)	—	—	30,811	5,931	—	(31,062)	(25,131)
—	—	—	—	—	2,611	—	92	2,703
—	—	—	—	—	2,774	—	709	3,483
—	—	—	—	(5,650)	(5,650)	—	—	(5,650)
—	—	—	—	—	—	—	698,603	698,603
—	—	—	2,614	(3,097)	(483)	—	483	—
—	—	—	2,614	(8,747)	(748)	—	699,887	699,139
(319)	13,967	—	1,977	353,362	5,459,149	563,848	3,574,591	9,597,588
—	9,923	—	(5,650)	550,506	5,669,397	563,848	3,964,617	10,197,862
—	—	—	—	202,133	202,133	—	(25,179)	176,954
—	(28,435)	—	—	—	(31,354)	—	(103)	(31,457)
—	(28,435)	—	—	202,133	170,779	—	(25,282)	145,497
—	—	—	—	—	7,881	—	207	8,088
—	—	—	—	—	4,800	—	1,148	5,948
—	—	—	—	(5,000)	(5,000)	—	—	(5,000)
—	—	—	—	—	574,973	—	—	574,973
—	—	—	—	—	224,541	(224,541)	—	—
—	—	—	—	—	—	—	2,249,930	2,249,930
—	—	—	23,073	—	23,073	—	(23,073)	—
—	—	—	377	—	377	—	—	377
—	—	—	23,450	(5,000)	830,645	(224,541)	2,228,212	2,834,316
—	(18,512)	—	17,800	747,639	6,670,821	339,307	6,167,547	13,177,675

# SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2020 and 2019

(In USD'000)

	Six months ended	
	06/30/20 (unaudited)	06/30/19 (unaudited)
<b>Cash flow from operating activities</b>		
Cash generated from operations	410,266	378,313
Interest paid	(56,037)	(57,050)
Interest received	72,756	45,419
Income taxes paid	(19,437)	(10,474)
Net cash from operating activities	407,548	356,208
<b>Cash flow from investing activities</b>		
Payments to acquire financial assets at fair value through profit or loss	(14,123)	(22,030)
Proceeds from sale of financial assets at fair value through profit or loss	45,760	43,609
Payments to acquire financial assets at amortized cost	(2,847,538)	(1,802,611)
Proceeds from maturity of financial assets at amortized cost	2,084,901	1,120,916
Payments for property, plant and equipment	(1,396,896)	(1,153,026)
Net proceeds after netting off land appreciation tax from disposal of property, plant and equipment and assets classified as held for sale	497	5,639
Payments for intangible assets	(1,746)	(5,339)
Payments for land use right	—	(1,402)
Proceeds from release of restricted cash relating to investing activities	57,755	26,529
Payments to acquire associates	(11,532)	(19,206)
Proceeds from disposal of associates	18,260	—
Distributions received from associates	83	153
Net cash used in investing activities	(2,064,579)	(1,806,768)
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	519,440	782,249
Repayment of borrowings	(313,600)	(475,848)
Principal elements of lease payments	(47,270)	(40,380)
Proceeds from issuance of bonds	596,768	—
Proceeds from short-term notes	429,353	222,853
Repayment of short-term notes	(493,477)	—
Proceeds from medium-term notes	—	224,024
Repayment of medium-term notes	—	(217,954)
Distribution paid to perpetual subordinated convertible securities holders	(5,000)	(5,650)
Proceeds from exercise of employee stock options	8,088	2,703
Proceeds from non-controlling interests — capital contribution	1,874,931	698,603
Net cash from financing activities	2,569,233	1,190,600
Net decrease in cash and cash equivalents	912,202	(259,960)
Cash and cash equivalent, beginning of period	2,238,840	1,786,420
Effects of exchange rate changes on the balance of cash and cash equivalent held in foreign currencies	(20,974)	6,084
<b>Cash and cash equivalent, ending of period</b>	<b>3,130,068</b>	<b>1,532,544<sup>(1)</sup></b>

<sup>(1)</sup> As of June 30, 2019, cash and cash equivalent included US\$0.1 million that were presented as assets classified as held-for-sale in the consolidated statement of financial position.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

## 1. GENERAL INFORMATION

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

SMIC is an investment holding company. SMIC and its subsidiaries (hereinafter collectively referred to as the “Group”)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 6. SEGMENT INFORMATION *(continued)*

#### LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The group has recognized the liabilities related to contracts with customers as contract liabilities of US\$88.4 million as of June 30, 2020 (December 31, 2019: US\$92.3 million). The contract liabilities comprises of the prepayments received from customers, to which wafers have not been transferred.

#### UNSATISFIED PERFORMANCE OBLIGATIONS

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

#### SEGMENT ASSETS

The Group's business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expands its capacity at the existing fabs. The following table summarizes property, plant and equipment of the Group by geographical location.

	Property, plant and equipment	
	06/30/20 USD'000	12/31/19 USD'000
North America	96	—
Europe	1,423	1,454
Asia <sup>(1)</sup>	37	42
Hong Kong	2,138	2,228
Mainland China	9,336,917	7,753,523
	9,340,611	7,757,247

<sup>(1)</sup> Not including Mainland China and Hong Kong.

### 7. OTHER OPERATING INCOME, NET

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
(Loss) gain on disposal of property, plant and equipment and assets classified as held-for-sale	(51)	2,795
Government funding	99,716	163,165
	99,665	165,960

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 8. FINANCE COSTS

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
<b>Interest on</b>		
Bank and other borrowings	35,232	28,892
Corporate bonds	5,701	11,275
Convertible bonds	9,545	7,773
Medium-term notes	3,958	6,139
Lease liabilities	5,753	5,595
Short-term notes	5,772	1,119
	65,961	60,793
Less: amounts capitalized	(29,583)	(29,328)
	36,378	31,465

The weighted average interest rate on funds borrowed generally is 2.97% per annum (six months ended June 30, 2019: 2.99% per annum).

### 9. OTHER GAINS, NET

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
<b>Net gain arising from financial instruments at fair value through profit or loss ("FVPL")</b>		
Financial products sold by banks and monetary funds	—	1,684
Equity securities	28,572	211
Cross currency swap contracts— cash flow hedges	—	505
Cross currency swap contracts	—	17
	28,572	2,417
Others	1,770	7,895
	30,342	10,312

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 10. PROFIT BEFORE TAX

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
<b>Profit before tax has been arrived at after taking into account</b>		
Depreciation of property, plant and equipment	578,597	543,662
Depreciation of right-of-use assets	70,371	50,095
Amortization of land use rights	1,478	1,268
Amortization of intangible assets	15,497	17,207
Impairment losses (reversed) recognized on inventory	(43,387)	41,928
Net impairment losses recognized in respect of financial assets	822	1,705
Foreign exchange losses	3,756	5,625
Expense arising from equity settled share-based payment transactions	5,948	3,483

### 11. INCOME TAX EXPENSE

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
Current tax — Land Appreciation Tax	—	866
Current tax — Enterprise Income Tax	28,748	2,535
Deferred tax	1,621	4,088
	<b>30,369</b>	<b>7,489</b>

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

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

#### Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai")

SMIS has obtained a certificate of new high-tech enterprise on November 23, 2017. The income tax rate for SMIS is 15% in 2020 (2019: 15%).

#### Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin")

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. SMIT has obtained a certificate of new high-tech enterprise on November 28, 2019. The income tax rate for SMIT was 12.5% in 2020 (2019:12.5%).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 11. INCOME TAX EXPENSE *(continued)*

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

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. SMIB has obtained new high-tech enterprise certificates dated December 30, 2015 and November 30, 2018. The income tax rate for SMIB is 12.5% in 2020 (2019: 0%).

#### Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”)

SMNC has obtained a certificate of new high-tech enterprise on December 2, 2019. The income tax rate for SMNC is 15% in 2020 (2019: 15%).

#### SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)

SJ Jiangyin has new high-tech enterprise certificates dated November 30, 2016 and November 22, 2019. The income tax rate for SJ Jiangyin is 15% in 2020 (2019: 15%).

#### Other PRC entities

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

### 12. DIVIDEND

The Board did not recommend the payment of any dividend for the six months ended June 30, 2020 (six months ended June 30, 2019: Nil).

### 13. EARNINGS PER SHARE

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

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
Earnings attributable to owners of the company	202,133	30,811
Distribution to perpetual subordinated convertible securities holders	(5,000)	(5,650)
Earnings used in the calculation of basic earnings per share	197,133	25,161
Weighted average number of ordinary shares used in the calculation of basic earnings per share	5,216,527,827	5,045,596,900
Basic earnings per share	\$0.04	\$0.00



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 13. EARNINGS PER SHARE *(continued)*

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

	Six months ended	
	06/30/20 USD'000	06/30/19 USD'000
Earnings used in the calculation of basic earnings per share	197,133	25,161
Interest expense from convertible bonds	9,131	—
Distribution to perpetual subordinated convertible securities holders	5,000	—
Earnings used in the calculation of diluted earnings per share	211,264	25,161
Weighted average number of ordinary shares used in the calculation of basic earnings per share	5,216,527,827	5,045,596,900
Employee option and restricted share units	25,048,756	

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

#### CAPITAL COMMITMENTS

As of June 30, 2020, the Group had commitments for the facility construction amounted to US\$203.0 million (December 31, 2019 US\$126.2 million) and commitments for the acquisition of machinery and equipment amounted to US\$3,395.3 million (December 31, 2019: US\$1,645.9 million).

#### CAPITALIZED INTEREST

Interest, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over as accounting policy. Capitalized interest of US\$29.6 million for the six months ended June 30, 2020 (six months ended June 30, 2019: \$29.3 million) was added to the cost of the underlying assets and was amortized as accounting policy. For the six months ended June 30, 2020, the Group recorded depreciation expenses relating to the capitalized interest of US\$20.9 million (six months ended June 30, 2019: \$15.9 million).

### 15. LEASES

	06/30/20 USD'000	12/31/19 USD'000
<b>Right-of-use assets</b>		
Buildings	2,435	1,884
Machinery and equipment	280,227	236,719
Land use right	143,039	138,264
	<b>425,701</b>	<b>376,867</b>
<b>Lease liabilities</b>		
Current	94,418	80,651
Non-current	197,850	167,081
	<b>292,268</b>	<b>247,732</b>
	<b>Six month ended</b>	
	06/30/20	06/30/19
<b>Depreciation of right-of-use assets</b>		
Buildings	497	—
Machinery and equipment	47,638	48,827
Land use right	1,477	1,268
	<b>49,612</b>	<b>50,095</b>
<b>Interest expense</b>	<b>5,753</b>	<b>5,595</b>
<b>Cash outflow for leases</b>	<b>47,270</b>	<b>40,380</b>

Additions to the right-of-use assets for the six month ended June 30, 2020 were US\$92.2 million.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 16. INVESTMENT IN ASSOCIATES

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

Name of company	Place of establishment and operation	Class of share held	Percentage of ownership interest and voting power held by the Group	
			06/30/20	12/31/19
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	Shanghai, PRC	Ordinary	30.0%	30.0%
Zhongxin Xiecheng Investment (Beijing) Co., Ltd ("Zhongxin Xiecheng")	Beijing, PRC	Ordinary	49.0%	49.0%
Brite Semiconductor (Shanghai) Corporation ("Brite Shanghai")	Shanghai, PRC	Ordinary	46.6%	46.6%
Jiangsu Changjiang Electronics Technology Co., Ltd ("JECT") <sup>(1)</sup>	Jiangsu, PRC	Ordinary	14.3%	14.3%
Sino IC Leasing Co., Ltd. ("Sino IC Leasing") <sup>(1)</sup>	Shanghai, PRC	Ordinary	7.4%	7.4%
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech") <sup>(1)</sup>	Shanghai, PRC	Ordinary	19.5%	19.5%
Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin") <sup>(2)</sup>	Beijing, PRC	Limited partner interest	32.6%	32.6%
Shanghai Fortune-Tech Qitai Invest Center (Limited Partnership) ("Fortune-Tech Qitai") <sup>(2)</sup>	Shanghai, PRC	Limited partner interest	33.0%	33.0%
Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing") <sup>(1) (2)</sup>	Shanghai, PRC	Limited partner interest	66.2%	66.2%
Suzhou Fortune-Tech Oriental Invest Fund Center (Limited Partnership) ("Fortune-Tech Oriental") <sup>(2)</sup>	Jiangsu, PRC	Limited partner interest	44.8%	44.8%
Juyuan Juxin Integrated Circuit Fund ("Juyuan Juxin") <sup>(2)</sup>	Shanghai, PRC	Limited partner interest	31.6%	31.6%
Ningbo Semiconductor International Corporation ("NSI")	Ningbo, PRC	Ordinary	38.6%	38.6%
Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC")	Shaoxing, PRC	Ordinary	23.5%	23.5%
Semiconductor Global Solutions ("SGS") <sup>(1) (3)</sup>	Ningbo, PRC	Ordinary	18.7%	27.3%
Shanghai IC Manufacturing Innovation Center Co., Ltd ("Shanghai Innovation Center")	Shanghai, PRC	Ordinary	33.3%	33.3%
Suzhou Fortune-Tech Zhuxin Capital Co., Ltd ("Suzhou Zhuxin") <sup>(2)</sup>	Suzhou, PRC	Limited partner interest	29.7%	—

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

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

<sup>(3)</sup> Subject to the amended joint venture agreement, revised on June 12, 2020, the Company's shareholding in SGS decreased to approximately 18.69%.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 17. INVESTMENTS IN JOINT VENTURES

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

Name of company	Place of establishment and operation	Class of share held	Percentage of ownership interest and voting power held by the Group	
			06/30/20	12/31/19
Shanghai Xinxin Investment Center (Limited Partnership) ("Shanghai Xinxin")	Shanghai, PRC	Limited partner interest	49.0%	49.0%

### 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The group holds the following financial instruments:

	06/30/20 USD'000	12/31/19 USD'000
<b>Financial assets</b>		
<b>Non-current</b>		
Financial assets at fair value through profit or loss		
Listed equity securities	43,534	749
Unlisted equity securities	85,865	89,318
Derivative financial instruments		
Interest rate swap contracts — cash flow hedges	—	1,872
<b>Current</b>		
Financial assets at fair value through profit or loss		
Monetary funds	—	42,985
Financial assets at amortized cost		
Bank deposits to be matured over 3 months <sup>(1)</sup>	3,270,611	2,274,937
Entrusted loans to related parties	1,413	1,433
Trade and other receivables (Note 19)	1,438,234	836,143
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	8,248	—
	<b>4,847,905</b>	<b>3,247,437</b>

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial liabilities	06/30/20 USD'000	12/31/19 USD'000
<b>Non-current</b>		
Liabilities at amortized cost		
Borrowings (Note 26)	1,690,928	2,003,836
Lease liabilities (Note 15)	197,850	167,081
Bonds payable (Note 28)	596,625	—
Medium-term notes (Note 29)	211,313	214,193
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	63,768	58,243
Interest rate swap contracts — cash flow hedges	8,306	—
Other liabilities		
Long-term payables <sup>(2)</sup>	13,959	21,780
<b>Current</b>		
Liabilities at amortized cost		
Trade and other payables (Note 30)	1,772,732	1,034,079
Borrowings (Note 26)	1,053,686	562,833
Lease liabilities (Note 15)	94,418	80,651
Convertible bonds (Note 27)	65,000	630,428
Short-term notes (Note 29)	211,840	286,512
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	26,767	4,782
Other financial liabilities		
Contingent consideration <sup>(1)</sup>	11,581	11,747
Other liabilities		
Long-term payables <sup>(2)</sup>	23,002	17,901
	<b>6,041,775</b>	<b>5,094,066</b>

<sup>(1)</sup> The group had contingent consideration in respect of a potential cash compensation accrued in 2017 that may be incurred depending on the profit of Changjiang Xinke during the three years of 2017, 2018 and 2019.

<sup>(2)</sup> Long-term payables for the purchased tangible assets were classified into the non-current and current liabilities as of June 30, 2020, respectively.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 19. INVENTORIES

	06/30/20 USD'000	12/31/19 USD'000
Raw materials	242,669	177,602
Work in progress	372,801	350,062
Finished goods	53,732	101,221
	<b>669,202</b>	<b>628,885</b>

The cost of inventories deducted for the six months ended in June 30, 2020 in respect of reversal of inventory provision was US\$43.4 million (for the six months ended in June 30, 2019, inventory provision of US\$41.9million was recognized).

### 20. TRADE AND OTHER RECEIVABLES

	06/30/20 USD'000	12/31/19 USD'000
Trade receivables	576,566	488,225
Allowance on doubtful trade receivables	(2,121)	(3,164)
	<b>574,445</b>	<b>485,061</b>
Other receivables <sup>(1)</sup>	495,773	67,212
Allowance on doubtful other receivables	(1,865)	—
	<b>493,908</b>	<b>67,212</b>
Value-added tax to be deducted	307,929	220,262
Interest receivable	59,954	50,492
Refundable deposits	11,998	13,116
	<b>1,448,234</b>	<b>836,143</b>

<sup>(1)</sup> As at June 30, 2020, the balance included US\$375 million receivables from non-controlling interests in relation to capital injection.

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

Age of trade receivables	06/30/20 USD'000	12/31/19 USD'000
Within 6 months	568,899	474,901
6 months–1 year	4,736	11,583
1–2 years	2,027	824
2–3 years	222	235
Over 3 years	682	682
	<b>576,566</b>	<b>488,225</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 20. TRADE AND OTHER RECEIVABLES (continued)

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

The following is an aged analysis of other receivables and refundable deposits presented based on the invoice date at the end of the reporting period.

Age of other receivables and refundable deposits	06/30/20 USD'000	12/31/19 USD'000
Within 6 months	444,111	2,752
6 months–1 year	23,193	40,921
1–2 years	11,255	8,449
2–3 years	26,862	26,603
Over 3 years	2,350	1,603
	<b>507,771</b>	<b>80,328</b>

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

### 21. RESTRICTED CASH

As of June 30, 2020, the current restricted cash consisted of US\$158.2 million (December 31, 2019: US\$ 316.4 million) of bank time deposits pledged against letters of credit and short-term borrowings, and US\$436.9 million (December 31, 2019: US\$488.1 million) of government funding received for the payment of the research and development equipment and expenses to be incurred.

### 22. SHARES AND ISSUED CAPITAL

	Six months ended 06/30/20		Six months ended 06/30/19	
	Number of shares	Share capital USD'000	Number of shares	Share capital USD'000
Balance at January 1	5,056,868,912	20,227	5,039,819,199	20,159
Issuance of shares under the Company's employee Stock incentive plans	11,456,856	46	11,757,231	47
Conversion options of convertible bonds exercised	484,956,370	1,940	—	—
Conversion options of perpetual subordinated convertible securities exercised	137,383,794	550	—	—
Balance at June 30	<b>5,690,665,932</b>	<b>22,763</b>	5,051,576,430	20,206

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 23. SHARE-BASED PAYMENT

#### STOCK INCENTIVE PLANS

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

The expense arising from equity-settled share-based payments for the six months ended June 30, 2020 was US\$5.9 million (June 30, 2019: US\$3.5 million).

#### MOVEMENTS DURING THE PERIOD

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

	Six months ended 06/30/20		Six months ended 06/30/19	
	Number	WAEP	Number	WAEP
Outstanding at January 1	39,355,224	\$1.04	51,608,194	\$1.00
Granted during the period	9,464,602	\$2.33	125,000	\$1.10
Forfeited and expired during the period	(1,649,743)	\$1.14	(2,264,757)	\$1.16
Exercised during the period	(8,353,066)	\$0.95	(3,677,441)	\$0.70
Outstanding at June 30	38,817,017	\$1.37	45,790,996	\$1.02

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was US\$2.03.

In the current interim period, share options were granted on May 25, 2020. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model was US\$0.90.

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, 2020 and 2019:

	Six months ended	
	06/30/20	06/30/19
Dividend yield (%)	—	—
Expected volatility	46.51%	39.61%
Risk-free interest rate	0.35%	2.83%
Expected life of share options	5years	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.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 23. SHARE-BASED PAYMENT *(continued)* MOVEMENTS DURING THE PERIOD *(continued)*

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 25. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

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

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

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

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

On August 29, 2018, the Company issued the PSCS at a par value of US\$250,000 each in the principal amount of US\$300.0 million.

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

As at June 30, 2020, the net book value of PSCS amounted to US\$339.3 million (as at June 30, 2019: US\$563.1 million).

As at June 30, 2020, assuming full conversion of the PSCS, the PSCS would be convertible into 207,602,199 ordinary shares.

Up to the date of the authorization of the Group’s consolidated financial statements for the six months ended June 30, 2020, 137,383,794 PSCS (for the six months ended June 30, 2019: Nil) have been converted into ordinary shares of the Company, and the Company paid the distribution amounting to US\$5.0 million (for the six months ended June 30, 2019: US\$5.7 million).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 26. BORROWINGS

	06/30/20 USD'000	12/31/19 USD'000
<b>At amortized cost</b>		
Short-term commercial bank loans <sup>(1)</sup>	53,654	100,000
<b>Short-term borrowings</b>	<b>53,654</b>	<b>100,000</b>
2015 CDB RMB loan I (SMIC Shanghai) <sup>(2)</sup>	141,227	143,256
2015 CDB RMB loan II (SMIC Shanghai) <sup>(3)</sup>	50,136	55,154
2015 EXIM RMB loan (SMIC Shanghai)	—	71,628
2015 CDB RMB loan (SMIC Beijing) <sup>(4)</sup>	22,243	23,637
2016 CDB RMB loan (SMIC Beijing) <sup>(5)</sup>	175,121	185,517
2017 CDB RMB loan (SMIC Shenzhen) <sup>(6)</sup>	296,640	308,821
2017 EXIM RMB loan (SMIC Beijing) <sup>(7)</sup>	56,491	61,600
2017 EXIM RMB loan (SMIC Tianjin)	—	71,628
2017 EXIM RMB loan (SMIC Shenzhen) <sup>(8)</sup>	60,021	63,033
2018 EXIM RMB loan I (SMIC Shanghai) <sup>(9)</sup>	134,166	136,093
2018 EXIM RMB Loan I (SMIC Beijing)	—	28,651
2018 EXIM RMB Loan II (SMIC Beijing) <sup>(10)</sup>	33,894	34,381
2018 EXIM RMB loan (SMIC Tianjin) <sup>(11)</sup>	82,618	83,805
2019 ICBC USD loan (SMIC) <sup>(12)</sup>	199,167	199,067
2019 EXIM RMB loan I (SMIC Shanghai) <sup>(13)</sup>	141,227	143,256
2019 EXIM RMB loan II (SMIC Shanghai) <sup>(14)</sup>	91,798	93,117
2019 EXIM USD loan III (SMIC Shanghai) <sup>(15)</sup>	194,000	200,000
2019 EXIM RMB loan I (SMIC Beijing) <sup>(16)</sup>	8,474	8,595
2019 EXIM RMB loan II (SMIC Beijing) <sup>(17)</sup>	48,017	48,707
2019 EXIM RMB Loan III (SMIC Beijing) <sup>(18)</sup>	32,482	35,098
2020 EXIM USD loan (SMIC) <sup>(19)</sup>	198,133	—
2020 EXIM RMB loan (COMM) <sup>(20)</sup>	70,613	—
2020 EXIM RMB loan (SMIC Shanghai) <sup>(21)</sup>	70,613	—
2020 EXIM RMB Loan (SMIC Beijing) <sup>(22)</sup>	28,245	—
2020 EXIM RMB loan (SMIC Tianjin) <sup>(23)</sup>	67,789	—
2020 EXIM USD loan (SJ Jiangyin) <sup>(24)</sup>	29,829	—
Others <sup>(25)</sup>	458,016	471,625
<b>Long-term borrowings</b>	<b>2,690,960</b>	<b>2,466,669</b>
	<b>2,744,614</b>	<b>2,566,669</b>
<b>Current</b>		
Short-term borrowings	53,654	100,000
Current maturities of long-term borrowings	1,000,032	462,833
	<b>1,053,686</b>	<b>562,833</b>
<b>Non-current</b>		
Non-current maturities of long-term borrowings	1,690,928	2,003,836
	<b>2,744,614</b>	<b>2,566,669</b>
<b>Borrowing by repayment schedule</b>		
Within 1 year	1,053,686	562,833
1–2 years	355,530	836,765
2–5 years	1,136,621	944,308
Over 5 years	198,777	222,763
	<b>2,744,614</b>	<b>2,566,669</b>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 26. BORROWINGS (continued)

#### SUMMARY OF BORROWING ARRANGEMENTS

- (1) As of June 30, 2020, the Group had 33 short-term credit agreements that provided total credit facilities up to US\$4,329.4 million on a revolving credit basis. As of June 30, 2020, the Group had drawn down US\$53.7 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 1.92% to 2.55% in 2020.
- (2) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS' 12-inch fab. As of June 30, 2020, SMIS had drawn down RMB1,000.0 million (approximately US\$141.2 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 2020.
- (3) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475.0 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS' 12-inch fab. As of June 30, 2020, SMIS had drawn down RMB475.0 million and repaid RMB120.0 million on this loan facility. The outstanding balance of RMB355.0 million (approximately US\$50.1 million) is repayable from December 2020 to December 2025. The interest rate on this loan facility was 1.20% in 2020.
- (4) In December 2015, SMIB entered into an RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB195.0 million with China Development Bank, which is unsecured. As of June 30, 2020, SMIB had drawn down RMB195.0 million and repaid RMB37.5 million on this loan facility. The outstanding balance of RMB157.5 million (approximately US\$22.2 million) is repayable from December 2020 to December 2030. The interest rate on this loan facility was 1.20% in 2020.
- (5) In May 2016, SMIB entered into the RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460.0 million with China Development Bank, which is guaranteed by SMIC. As of June 30, 2020, SMIB had drawn down RMB1,460.0 million and repaid RMB220.0 million on this loan facility. The outstanding balance of RMB1,240.0 million (approximately US\$174.1 million) is repayable from November 2020 to May 2031. The interest rate on this loan facility was 1.20% in 2020.
- (6) In December 2017, SMIZ entered into a loan facility in the aggregate principal amount of RMB5,400.0 million with China Development Bank, which is unsecured. This seven-year bank facility was used to finance the planned expansion for SMIZ's 12-inch fab. As of June 30, 2020, SMIZ had drawn down RMB2,100.5 million (approximately US\$296.6 million) on this loan facility. The outstanding balance is repayable from September 2020 to December 2024. The interest rate on this loan facility is 4.46% per annum in 2020.
- (7) 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 12-inch fab. As of June 30, 2020, SMIB had drawn down RMB500.0 million and repaid RMB100.0 million on this loan facility. The outstanding balance of RMB400.0 million (approximately US\$56.5 million) is repayable from September 2020 to September 2022. The interest rate on this loan facility is 2.92% per annum in 2020.
- (8) 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 12-inch fab. As of June 30, 2020, SMIZ had drawn down RMB500.0 million and repaid RMB75.0 million on this loan facility. The outstanding balance of RMB425.0 million (approximately US\$60.0 million) is repayable from September 2020 to September 2022. The interest rate on this loan facility is 3.40% per annum in 2020.
- (9) In October 2018, SMIS entered into a loan facility in the aggregate principal amount of RMB950.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2020, SMIS had drawn down RMB950.0 million (approximately US\$143.2 million) on this loan facility. The outstanding balance is repayable in October 2020. The interest rate on this loan facility is 2.92% per annum in 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 26. BORROWINGS (continued)

#### SUMMARY OF BORROWING ARRANGEMENTS (continued)

- (10) In December 2018, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB240.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2020, SMIB had drawn down RMB240.0 million (approximately US\$33.9 million) on this loan facility. The outstanding balance is repayable in December 2020. The interest rate on this loan facility was 2.92% in 2020.
- (11) In December 2018, SMIT entered into a loan facility in the aggregate principal amount of RMB596.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used to finance the planned expansion for SMIT's 12-inch fab. As of June 30, 2020, SMIT had drawn down RMB585.0 million (approximately US\$82.6million) on this loan facility. The outstanding balance of RMB585.0 million is repayable from June 2021 to December 2023. The interest rate on this loan facility is 2.92% per annum in 2020.
- (12) In August 2019, SMIC entered into a loan facility in the aggregate principal amount of US\$200.0 million with Industrial and Commercial Bank of China (Asia), which is unsecured. This five-year bank facility was used to finance the planned expansion for 12-inch fab. As of June 30, 2020, SMIC had drawn down US\$200.0 million on this loan facility and the amortized balance was approximately US\$199.2 million. The outstanding balance is repayable from August 2020 to August 2024. The interest rate on this loan facility is 2.50% per annum in 2020.
- (13) In March 2019, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2020, SMIS had drawn down RMB1,000.0 million (approximately US\$141.2 million) on this loan facility. The outstanding balance is repayable in March 2021. The interest rate on this loan facility is 2.92% per annum in 2020.
- (14) In April 2019, SMIS entered into a loan facility in the aggregate principal amount of RMB650.0 million with The Export-Import Bank of China, which is secured by SMIB. This two-year bank facility was used for working capital purposes. As of June 30, 2020, SMIS had drawn down RMB650.0 million (approximately US\$91.8 million) on this loan facility. The outstanding balance is repayable in April 2021. The interest rate on this loan facility is 2.92% per annum in 2020.
- (15) In August 2019, SMIS entered into a loan facility in the aggregate principal amount of US\$200.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIS's 12-inch fab. As of June 30, 2020, SMIS had drawn down US\$200.0 million and repaid US\$6.0 million on this loan facility. The outstanding balance of US\$194.0 million is repayable from February 2020 to August 2024. The interest rate on this loan facility is 3-month libor subtracted by 0.8% in 2020.
- (16) In January 2019, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB60.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2019, SMIB had drawn down RMB60.0 million (approximately US\$8.5 million) on this loan facility. The outstanding balance is repayable in December 2020. The interest rate on this loan facility was 2.92% in 2020.
- (17) In January 2019, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB340.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2020, SMIB had drawn down RMB340.0 million (approximately US\$48.0 million) on this loan facility. The outstanding balance is repayable in January 2021. The interest rate on this loan facility was 4.75% in 2020.
- (18) In July 2019, SMIB entered into a loan facility in the aggregate principal amount of RMB260.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIB's 12-inch fab. As of June 30, 2020, SMIB had drawn down RMB260.0 million and repaid RMB30.0 million on this loan facility. The outstanding balance of RMB230.0 million (approximately US\$32.5 million) is repayable from December 2020 to June 2024. The interest rate on this loan facility is 2.65% per annum in 2020.
- (19) In February 2020, SMIC entered into a loan facility in the aggregate principal amount of US\$200.0 million with Bank of China (Hong Kong) Limited, which is unsecured. This five-year bank facility was used to finance the planned expansion for 12-inch fab. As of June 30, 2020, SMIC had drawn down US\$200.0 million on this loan facility and the amortized balance was approximately US\$198.1 million. The outstanding balance is repayable in February 2025. The interest rate on this loan facility is 2.55% per annum in 2020.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 26. BORROWINGS (continued)

#### SUMMARY OF BORROWING ARRANGEMENTS (continued)

- (20) In March 2020, SMIC Investment (Shanghai) Corporation ("COMM") 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 two-year bank facility was used for working capital purposes. As of June 30, 2020, Comm had drawn down RMB500.0 million (approximately US\$70.6 million) on this loan facility. The outstanding balance is repayable in March 2022. The interest rate on this loan facility is 2.78% per annum in 2020.
- (21) In June 2020, 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 two-year bank facility was used for working capital purposes. As of June 30, 2020, SMIS had drawn down RMB500.0 million (approximately US\$70.6 million) on this loan facility. The outstanding balance is repayable in June 2022. The interest rate on this loan facility was 2.64% in 2020.
- (22) In June 2020, SMIB entered into a loan facility in the aggregate principal amount of RMB200.0 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, 2020, SMIB had drawn down RMB200.0 million (approximately US\$28.2 million) on this loan facility. The outstanding balance is repayable in June 2023. The interest rate on this loan facility was 2.65% in 2020.
- (23) In February 2020, SMIT entered into a loan facility in the aggregate principal amount of RMB480.0 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, 2020, SMIT had drawn down RMB480.0 million (approximately US\$67.8 million) on this loan facility. The outstanding balance is repayable in February 2022. The interest rate on this loan facility was 2.65% in 2020.
- (24) In March 2020, SJ Jiangyin entered into a loan facility in the aggregate principal amount of US\$60.0 million with China Construction bank Jiangyin Branch, which is secured. This seven-year bank facility was used for Investment in fixed assets. As of June 30, 2020, SJ Jiangyin had drawn down US\$29.8 million on this loan facility. The outstanding balance is repayable from September 2021 to September 2026. The interest rate on this loan facility was 3-month libor added by 2% in 2020.
- (25) Other borrowings represented several batches of production equipment of the Group sold and leased back under the below arrangements:

US\$458.0 million (December 31, 2019, US\$471.6 million) of borrowings under five arrangements entered into by the Group and third-party financing companies in the form of a sale and leaseback transaction with a repurchase option.

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

As of June 30, 2020, property, plant and equipment and land use right with carrying amount of approximately US\$121.8 million (December 31, 2019: US\$130.9 million) have been pledged to secure borrowings of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 27. CONVERTIBLE BONDS

#### ISSUE OF US\$450.0 MILLION ZERO COUPON CONVERTIBLE BONDS DUE 2022

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

The 2016 Convertible Bonds is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the 2016 Convertible Bonds. For the 2016 Issue, such embedded derivatives are deemed to be clearly and closely related to the host contract and therefore do not need to be separately accounted for. For the 2019 Issue, such embedded derivatives are deemed to be not clearly and closely related to the host contract and therefore need to be separately accounted for. As of December 31, 2019, the fair value of embedded derivatives in relation to the 2019 Issue is not significant.

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 28. BONDS PAYABLE

On February 27, 2020, the Company issued 5-year unsecured corporate bonds for a total amount of US\$600.0 million on the Singapore Exchange. The corporate bonds carry a coupon interest rate of 2.693% with bond interest payable semi-annually on February 27 and August 27. As at the issue date, the net book value of the liabilities amounted to US\$596.4 million after deducting commissions and other estimated expenses payable in connection with the offering of the Bonds.

	2020 Issue USD'000
Principal amount	600,000
Transaction cost	(3,600)
Bonds payable as at the date of issue	596,400

The movement of the corporate bonds for the period ended June 30, 2020 is set out below:

	USD'000
At the date of issue	596,400
Interest charged	5,701
Interest payable recognized	(5,476)
As at June 30, 2020	596,625

### 29. MEDIUM-TERM AND SHORT-TERM NOTES

On January 13, 2020, the Company issued short-term notes in a principal amount of RMB1,500.0 million (approximately US\$216.3 million) with a maturity date of May 28, 2020 and with a interest rate of 2.4%. On April 16, 2020, the Company issued short-term notes in a principal amount of RMB1,500.0 million (approximately US\$213.1 million) with a maturity date of August 5, 2020 and with a interest rate of 1.9%. Such short-term notes were issued through China Interbank Market Dealers Association.

The movement of the short-term and medium-term notes for the six months ended June 30, 2020 is set out below:

	Medium-term Notes USD'000	Short-term Notes USD'000
As at December 31, 2018	218,247	—
Issuance	223,040	222,853
Repayment	(217,954)	—
Interest charged	6,139	1,119
Interest payable recognized	(5,720)	(1,119)
Foreign exchange gain	(6,416)	(4,662)
As at June 30, 2019	217,336	218,191
As at December 31, 2019	214,193	286,512
Issuance	—	429,353
Repayment	—	(493,477)
Interest charged	3,958	5,772
Interest payable recognized	(3,804)	(5,772)
Foreign exchange gain	(3,034)	(10,548)
As at June 30, 2020	211,313	211,840

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 30. TRADE AND OTHER PAYABLES

	06/30/20 USD'000	12/31/19 USD'000
Trade payables	1,656,520	894,460
Deposit received	55,185	29,523
Other payable	70,682	110,096
	<b>1,782,387</b>	1,034,079

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

As of June 30, 2020, payables for property, plant and equipment were US\$1,274.9 million (December 31, 2019: US\$578.8 million).

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

Age of payables	06/30/20 USD'000	12/31/19 USD'000
Within 30 days	1,273,981	548,963
31-60 days	42,558	49,741
Over 60 days	339,981	295,756
	<b>1,656,520</b>	894,460

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 31. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the period ended June 30, 2020 and the relationships with the Group are disclosed below.

Related party name	Relationship with the Group
Subsidiaries ("Datang") of China Information and Communication Technology Group Co., Ltd. ("CICT")	CICT indirectly holding more than 5% shares of the Group
China Integrated Circuit Industry Investment Fund Co., Ltd ("China IC Fund")	China IC Fund indirectly holding more than 5% shares of the Group
Subsidiaries of Tsinghua Unigroup Co., Ltd. ("Tsinghua Unigroup")	Tsinghua Unigroup indirectly holding more than 5% shares of the Group (reduced to less than 5% since December 27, 2019)
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd ("China IC Fund II")	A non-controlling interests shareholder holding more than 10% shares of the Group's subsidiary
Shanghai Integrated Circuit Industry Investment Fund ("Shanghai IC Fund")	A non-controlling interests shareholder holding more than 10% shares of the Group's subsidiary
Shanghai Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd ("Shanghai IC Fund II")	A non-controlling interests shareholder holding more than 10% shares of the Group's subsidiary
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	An associate of the Group
Brite Semiconductor (Shanghai) Corporation ("Brite") and its subsidiaries	An associate of the Group
China Fortune-Tech China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	An associate of the Group
Jiangsu Changjiang Electronics Technology Co., Ltd ("JECT") and its subsidiaries	An associate of the Group
Sino IC Leasing Co., Ltd ("Sino IC Leasing") and its subsidiaries	An associate of the Group
Semiconductor Manufacturing Electronics (Shaoxing) Corp. ("SMEC")	An associate of the Group
Ningbo Semiconductor International Corporation ("NSI")	An associate of the Group
Semiconductor Global Solutions Corporation ("SGS")	An associate of the Group
Subsidiaries of National Silicon Industry Group ("Silicon")	A director of the Group served as the director of Silicon
Grinm Semiconductor Materials Co., Ltd ("Grinm")	A director of the Group served as the director of Grinm
Wuhan Xinxin Semiconductor Manufacturing Co., Ltd ("XMC")	A director of the Group served as the director of XMC
Shanghai SMIC Kindergarten	A subsidiary of the Group for the past 12 months
Beijing SMIC Kindergarten	A subsidiary of the Group for the past 12 months
Directors and senior management entered into purchase contracts of living quarter units with the Group	Directors and senior management of the Group

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 31. RELATED PARTY TRANSACTIONS (continued)

#### TRADING TRANSACTIONS

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

	Six months ended		Six months ended	
	06/30/20	06/30/19	06/30/20	06/30/19
	USD'000	USD'000	USD'000	USD'000
	<b>Sale of goods</b>		<b>Sale of services</b>	
Datang <sup>(1)</sup>	2,228	5,121	—	—
Brite and its subsidiaries	20,139	17,214	—	—
JCET and its subsidiaries	—	—	45,238	3,323
SMEC	31,449	12,387	1,763	5,810
NSI <sup>(1)</sup>	4,383	1,908	853	5
Subsidiaries of Tsinghua Unigroup	19,153	26,732	—	—
SGS	—	—	7	7
XMC	—	1	2	5
Beijing SMIC Kindergarten	—	—	44	—
Shanghai SMIC Kindergarten	—	—	143	—
	<b>Purchase of goods</b>		<b>Purchase of services</b>	
Toppan	5,719	2,540	11	47
China Fortune-Tech	—	—	—	151
JCET and its subsidiaries	—	—	3,826	3,950
SMEC	63	120	2,370	259
NSI <sup>(1)</sup>	121	—	—	—
SGS	57	—	3	—
Subsidiaries of Silicon	4,975	2,412	—	—
Grinm	1,876	996	—	—
	<b>Sale of equipment</b>		<b>Purchase of equipment</b>	
SMEC	8,695	2,114	—	—
SGS	130	—	15	—
JCET and its subsidiaries	—	—	—	25
	<b>Increase of right-of-use assets</b>		<b>Rent income</b>	
Sino IC Leasing and its subsidiaries	91,145	—	—	—
Toppan	—	—	1,998	1,957
SMEC	—	—	1,491	3,881
NSI <sup>(1)</sup>	—	—	32	—
Beijing SMIC Kindergarten	—	—	73	—
Shanghai SMIC Kindergarten	—	—	385	—
	<b>Payment of lease liabilities</b>		<b>Interest expense on lease liabilities</b>	
Sino IC Leasing and its subsidiaries <sup>(1)</sup>	52,765	45,975	5,682	5,595
JCET	234	—	47	—

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 31. RELATED PARTY TRANSACTIONS *(continued)*

#### TRADING TRANSACTIONS *(continued)*

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

	06/30/20 USD'000	12/31/19 USD'000	06/30/20 USD'000	12/31/19 USD'000
	<b>Amounts due from</b>		<b>Amounts due to</b>	
Datang	840	592	—	—
Toppan	705	708	1,344	492
Brite and its subsidiaries	10,433	15,534	—	—
JCET and its subsidiaries	24,703	13,497	356	2,582
SMEC	51,994	37,243	2,819	70
NSI	8,058	6,146	—	—
SGS	445	4	36	46
Subsidiaries of Tsinghua Unigroup	8,757	8,418	—	—
Subsidiaries of Silicon	—	—	720	1,397
Grinn	—	—	340	—
Beijing SMIC Kindergarten	125	156	—	—
Shanghai SMIC Kindergarten	996	508	—	—
	<b>Entrusted loans</b>		<b>Lease Liabilities</b>	
Beijing SMIC Kindergarten	1,413	1,433	—	—
JCET and its subsidiaries	—	—	1,867	1,964
Sino IC Leasing and its subsidiaries	—	—	289,654	245,767

#### CAPITAL CONTRIBUTION

On May 15, 2020, SMIC Holdings entered into a new JV agreement and a new capital contribution agreement with China IC Fund, China IC Fund II, Shanghai IC Fund and Shanghai IC Fund II, pursuant to: (i) the Registered Capital of SMSC will be increased from US\$3.5 billion to US\$6.5 billion, of which SMIC Holdings agreed to make further capital contribution of US\$750 million and China IC Fund II agreed to make capital contribution of US\$1.5 billion and Shanghai IC Fund II agreed to make capital contribution of US\$750 million; (ii) the Company's equity interest in SMSC, through SMIC Holdings, will decrease from 50.1% to 38.515%; (iii) SMSC will be owned as to 14.562%, 23.077%, 12.308% and 11.538% by China IC Fund, China IC Fund II, Shanghai IC Fund and Shanghai IC Fund II, respectively.

As of June 30, 2020, SMSC received capital contribution of US\$6,125 million.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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

June 30, 2020	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
<b>Financial assets</b>					
<i>Financial assets at fair value through profit or loss</i>					
Listed equity securities	Using quoted market prices	43,534	—	—	43,534
Unlisted equity securities	Using recent transaction price or market approach	—	—	85,865	85,865
<i>Derivative financial instruments</i>					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	8,248	—	8,248
		43,534	8,248	85,865	137,647
<b>Financial liabilities</b>					
<i>Derivative financial instruments</i>					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	98,842	—	98,842
<i>Other financial liabilities</i>					
Contingent consideration	Using discounted cash flow analysis	—	—	11,581	11,581
		—	98,842	11,581	110,423

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 33. CONTINGENCY EVENTS

#### (1) PATENT LITIGATION WITH INNOVATIVE FOUNDRY TECHNOLOGIES LLC

On December 20, 2019, Innovative Foundry Technologies LLC (“IFT”) filed a patent lawsuit against the Company with the United States District Court for the Western District of Texas. On April 2, 2020, the Company’s related subsidiaries, as plaintiffs, voluntarily initiated a lawsuit for confirmation of non-infringement against IFT with the United States District Court for the Northern District of California, requesting the court to confirm that the Company’s related subsidiaries did not infringe the subject patents. On April 14, 2020, IFT re-filed its First Amended Complaint, adding the Company’s related subsidiaries as defendants. In addition, the related subsidiaries of the Company also filed a Petition for *Inter Partes* Review with the United States Patent and Trademark Office for the subject patents in litigation.

The management of the Group is of the view that the aforementioned plaintiff’s claim has no factual support. At this stage, the management of the Group believes that it is unlikely that the lawsuit would cause the outflow of economic benefits. As of June 30, 2020, the Group did not make provision for the contingent liabilities under the claim.

#### (2) ARBITRATION OF CONTRACT DISPUTES WITH PDF SOLUTIONS, INC.

On May 7, 2020, SMIC New Technology Research & Development (Shanghai) Corporation (“SMIC New Technology”), a subsidiary of the Company, received an arbitration notice issued by Hong Kong International Arbitration Center, whereby PDF SOLUTIONS, INC. (“PDF”) filed an arbitration request with Hong Kong International Arbitration Center. PDF considered that there are disputes on the rights and obligations of both parties under a series of agreements it entered into with SMIC New Technology, such as Professional Service Agreement and 14nm Project Agreement (“14nm Project-related Agreements”). PDF demanded SMIC New Technology to pay a fixed fee, incentive rewards and overdue payment in a total of approximately US\$20.72 million (accumulated up to April 30, 2020) under 14nm Project-related Agreements. In addition, PDF also demanded payment of subsequent variable fees, in accordance with the most lenient calculation standard that generates the highest fee amount, provided in the 14nm Project-related Agreements, and all arbitration expenses, including arbitrator’s fee and interest expenses. According to the applicable rules of Hong Kong International Arbitration Center, SMIC New Technology shall make a preliminary response within 30 days upon receiving the arbitration notice. As of June 5, 2020, SMIC New Technology has formally responded to Hong Kong International Arbitration Center and opined that the fees it owed to PDF had already been fully paid in accordance with the contractual obligations and no additional fee is required.

The management of the Group is of the view that the aforementioned contract dispute is still at an early stage and the result of arbitration is uncertain and cannot be reasonably ascertainable. As of the approval date of this report, the management of the Group believes that it is unlikely that this contractual dispute would cause the outflow of economic benefits. As of June 30, 2020, the Group did not make provision for the contingent liabilities from the contract dispute.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

### 34. SUBSEQUENT EVENTS

#### (1) COMPLETION OF IPO ON SSE STAR MARKET

On July 16, 2020, the Company was listed on the SSE STAR Market. By way of the share issue, 1,938,463,000 ordinary shares of the Company were subscribed with gross proceeds of RMB53,230.2 million (equivalent to US\$7,615.9 million, after the exercise of Over-allotment Option). After deducting issuance costs including underwriting fees and other issuance costs, the net proceeds were RMB52,515.6 million (equivalent to US\$7,513.7 million), which resulted in an increase of RMB54.2 million (equivalent to US\$7.8 million) in the share capital of ordinary shares and an increase of RMB52,461.4 million (equivalent to US\$7,505.9 million) in share premium.

#### (2) ANNOUNCEMENT OF NEW POLICIES OF THE INTEGRATED CIRCUIT INDUSTRY

On August 4, 2020, the State Council issued the Several Policies to Promote the High-quality Development of the Integrated Circuit (IC) Industry, and the State Council issued the Several Policies to Promote the High-quality Development of the Integrated Circuit (IC) Industry (No. 46 (Guo Fa [2020] No. 18) on preferential policies for IC industry. The policies set out a number of fiscal and tax preferential policies. BT Tc 0.225 Tw 8 0 0 8 10n20.2 ( No.)10.2 ( 8)10( a)1.4 Tc\$elo and

