SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
October 20, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

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

For the month of October, 2014

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation

(Translation of registrant s name into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People s Republic of China

(Address of principal executive office)

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

x Form 20-F o Form 40-F

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

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

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

o Yes x No

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

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This announcement is for information purposes only and does not constitute an invitation or a solicitation of an offer to acquire, purchase or subscribe for securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities. This announcement is not an offer of securities for sale in the PRC, Hong Kong and the United States or elsewhere. The Bonds are not available for general subscription in Hong Kong or elsewhere.

This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Bonds mentioned herein have not been, and will not be, registered under the Securities Act, and may not be offered or sold in the United States except pursuant to registration or an exemption from the registration requirements of the Securities Act. No public offering of the Bonds will be made in the United States.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 0981)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is made by Semiconductor Manufacturing International Corporation (the Company) pursuant to Rule 13.10B of the Listing Rules.

Reference is made to the announcement of the Company dated 25 September 2014 in relation to the issue of the Bonds (the Announcement). Unless the context otherwise requires, capitalised terms in this announcement shall have the same meanings as those defined in the Announcement.

The Bonds were listed on the SGX-ST on 8 October 2014. Please refer to the attached offering circular dated 25 September 2014 in relation to the Bonds (the Offering Circular), which was published on the website of the SGX-ST on 8 October 2014. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained therein.

The posting of the Offering Circular on the website of the Hong Kong Stock Exchange is only for the purpose of complying with Rule 13.10B of the Listing Rules, and not for any other purposes.

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* For identification purposes only

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The Offering Circular does not constitute A prospectus, notice, circular, brochure, advertisement or document offering to sell any securities to the public in any jurisdiction.

The Offering Circular must not be regarded as an inducement to acquire, subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Circular.

By order of the Board
Semiconductor Manufacturing International Corporation
Dr. Tzu-Yin Chiu
Chief Executive Officer and Executive Director

Shanghai, 8 October 2014

As at the date of this announcement, the Directors are:

Executive Directors

Zhang Wenyi (Chairman)

Tzu-Yin Chiu (Chief Executive Officer)

Gao Yonggang (Chief Financial Officer)

Non-executive Directors

Chen Shanzhi (Li Yonghua as his Alternate)

Lawrence Juen-Yee Lau (Datong Chen as his Alternate)

Zhou Jie

Independent Non-executive Directors

William Tudor Brown

Sean Maloney

Frank Meng

Lip-Bu Tan

Carmen I-Hua Chang

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STRICTLY CONFIDENTIAL DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1)

QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A (AS DEFINED BELOW) OR (2) PERSONS OR ADDRESSEES OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering circular attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: By accepting the email and accessing the attached document you shall be deemed to have represented to Deutsche Bank AG, Singapore Branch and J.P. Morgan Securities plc (the Managers) that (1) either (i) you are not in the United States and, to the extent you purchase the securities described in the attached offering circular, you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the Securities Act) OR (ii) you are a qualified institutional buyer (QIB) as defined in Rule 144A under the Securities Act (Rule 144A), AND (2) that you consent to the delivery of the attached offering circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of Semiconductor Manufacturing International Corporation (the Issuer) or the Managers or any of their respective directors, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached document is an offering circular and is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer of the securities or the Managers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers and their respective affiliates on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions that You May Not Take: You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the Reply function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

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CONFIDENTIAL

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 0981)

US$500,000,000 4.125% BONDS DUE 2019

Issue Price: 98.963%

plus accrued interest, if any, from 7 October 2014

The US$500,000,000 4.125% Bonds due 2019 (the Bonds) will be issued by Semiconductor Manufacturing International Corporation (the Issuer) in the initial aggregate principal amount of US$500,000,000. The Bonds will bear interest from 7 October 2014 at 4.125% per annum, payable semi- annually in arrears on 7 April and 7 October of each year, commencing 7 April 2015. The Bonds will mature on 7 October 2019.

The Bonds will be the unsecured and unsubordinated obligations of the Issuer. The Bonds will rank equally with all of the Issuer s other unsecured unsubordinated obligations. The Issuer may redeem the Bonds at any time upon the occurrence of certain tax events. At any time, the Issuer may at its option redeem the Bonds, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds redeemed plus the applicable premium as at, and accrued and unpaid interest, if any, to the redemption date. For a more detailed description of the Bonds, see Terms and Conditions of the Bonds herein.

The Bonds have been assigned a rating of BBB by Standard & Poor s Ratings Services (S&P). A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to suspension, reduction or withdrawal at any time by S&P. A suspension, reduction or withdrawal of the rating assigned to the Bonds may adversely affect the market price of the Bonds.

Investing in the Bonds involves risks. See Risk Factors beginning on page 17.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the Securities Act), or any state securities laws. Accordingly the Bonds are being offered or sold in the United States only to qualified institutional buyers (QIBs and each, a QIB), as defined in, and in reliance on, Rule 144A under the Securities Act (Rule 144A), or outside the United States in accordance with Regulation S under the Securities Act (Regulation S). Prospective investors that are QIBs are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Bonds are not transferrable except in accordance with the restrictions described under Transfer Restrictions .

Approval in-principle has been obtained from the Singapore Exchange Securities Trading Limited (the SGX-ST) for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the SGX-ST and the quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or the Bonds. The Bonds will be traded on the SGX- ST on a minimum board lot size of US$200,000 as long as any of the Bonds are listed on the SGX-ST. Currently, there is no market for the Bonds.

The Bonds will be initially represented by by one or more global certificates in fully registered form, respectively, which will be registered in the name of a nominee of The Depository Trust Company (DTC). The Managers (as described herein) expect to deliver the Bonds to investors through the book-entry facilities of DTC, Euroclear Bank S.A./N.V. (Euroclear) and Clearstream Banking, societe anonyme (Clearstream, Luxembourg) on or about 7 October 2014 (the Closing Date).

Joint Lead Managers

The date of this Offering Circular is 25 September 2014

* For identification purpose only

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IMPORTANT NOTICE

This document is provided to you on a confidential basis and solely for your information and is not to be copied, published, circulated or distributed, directly or indirectly, to any other person and shall not have any legal effect. This document and any information contained herein does not constitute any offer for sale or invitation or solicitation of an offer to subscribe for or purchase any securities of the Issuer in the United States and/or any other jurisdiction where such offer, solicitation or sale is not permitted. The securities of the Issuer described herein have not been and will not be registered under the Securities Act or any state securities laws of the Unites States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws of the United States. Neither this document nor any copy of it may be taken or transmitted into the United States, Canada, Japan, the PRC (except the Hong Kong Special Administrative Region) or any other jurisdiction where the offer or sale of the securities is not permitted, and this document and any copy thereof may not be distributed, directly or indirectly, in the United States, the United Kingdom, Canada, Singapore, the PRC (except the Hong Kong Special Administrative Region), Japan or any other jurisdiction where the offer or sale of the securities is not allowed, or distributed or redistributed in Japan or to any resident thereof.

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the offering of the Bonds (the Offering) described herein. If investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

The Issuer, having made all reasonable enquiries, confirms that to its best knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (collectively, the Group) and to the issue of the Bonds, which is material in the context of the issue and offering of the Bonds (including all information which, according to the particular nature of the Issuer, the Group and of the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Group and of the rights attaching to the Bonds), (ii) all statements of fact relating to the Issuer, the Group and to the Bonds contained in this Offering Circular are in all material respects true and accurate and not misleading in any material respect, and that there are no other facts in relation to the Issuer, the Group and to the Bonds the omission of which would in the context of the issue of the Bonds make any statement in this Offering Circular misleading in any material respect, (iii) the opinions and intentions expressed with regard to the Issuer and the Group contained in this Offering Circular are honestly made or held and have been reached after considering all relevant circumstances and have been based on reasonable assumptions and (iv) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer accepts full responsibility for the information contained in this Offering Circular.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for

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such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see Subscription and Sale .

The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission (SEC), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States. Prospective purchasers are hereby notified that sellers of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group or the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Managers, The Bank of New York Mellon, as the trustee (the Trustee) or the Agents (as defined in Terms and Conditions of the Bonds). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer. The Group information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

No representation or warranty, express or implied, is made or given by the Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents. None of the Managers, the Trustee or the Agents has independently verified any of the information contained in this Offering Circular and none of them can give any assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds.

Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the Offering, including the merits and risks involved. See Risk Factors for a discussion of certain factors to be considered in connection with an investment in the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Managers, the Trustee or the Agents or any person affiliated with any of the Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents accepts any responsibility for the contents of this Offering Circular. Each of the Managers, the Trustee

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and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or the Agents undertake to review the financial condition or affairs of the Issuer or the Group after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of any of the Managers, the Trustee or the Agents. Except as otherwise indicated in this Offering Circular, all non-company specific statistics and data relating to the industry have been extracted or derived from publicly available information and industry publications.

The information has not been independently verified by the Issuer, the Trustee, the Agents or any of the Managers or by their respective directors and advisers, and none of the Issuer, the Trustee, the Agents, the Managers or their respective directors and advisers make any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

References to we , us our , SMIC , the Issuer or the Company are to Semiconductor Manufacturing International Corporation. References to the Group are to the Issuer and its subsidiaries taken as a whole.

Unless otherwise specified or the context requires, references herein to Hong Kong dollars , HK dollars and HK$ are to the lawful currency of Hong Kong, references herein to RMB and Renminbi are to Renminbi, the lawful currency of the People s Republic of China (the PRC or China) and references herein to U.S. dollars and US$ are to the lawful currency of the United States of America (the United States or the U.S.).

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PRESENTATION OF FINANCIAL INFORMATION

The Issuer s audited consolidated statement of comprehensive income, statement of financial position and statement of cash flows for the years ended 31 December 2011, 2012 and 2013 have been extracted from the Issuer s published audited consolidated financial statements as at and for the years ended 31 December 2011, 2012 and 2013, which have been audited by Deloitte Touche Tohmatsu and included in this Offering Circular.

The Issuer s unaudited results as at and for the six months ended 30 June 2013 have been extracted from the Issuer s unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013 and included in this Offering Circular.

The Issuer s unaudited results as at and for the six months ended 30 June 2014 have been extracted from the Issuer s unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2014 and included in this Offering Circular.

Such unaudited condensed consolidated financial results should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. The Managers do not make any representation or warranty, expressed or implied, regarding the sufficiency of such unaudited condensed consolidated interim results for an assessment of, and potential investors must exercise caution when using such data to evaluate, our financial condition, results of operations and results. Such unaudited condensed consolidated interim results should not be taken as an indication of the expected financial condition, results of operations and results for the full financial year ending 31 December 2014.

Certain amounts and percentages included in this Offering Circular have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column due to rounding.

The audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2013 and 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS).

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AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with the resales of the Bonds, we are required to furnish upon request of a holder of the Bonds and a prospective purchase designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the Exchange Act), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. So long as any of the Bonds remain outstanding, we will provide to the Trustee for forwarding to the holders of the Bonds our semi-annual and annual financial statements.

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ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is an exempted company incorporated in the Cayman Islands with limited liability. The Issuer is incorporated in the Cayman Islands because of the following benefits associated with being a Cayman Islands corporation:

- political and economic stability;
- an effective judicial system;
- a favourable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, the Cayman Islands has a less developed body of securities laws as compared to the United States and provide significantly less protection for investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. Substantially all of the Issuer s assets are located outside the United States. In addition, a majority of the Issuer s directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of the Issuer or such persons assets are located outside the United States. As a result, it may be difficult for a shareholder or an investor to effect service of process within the United States upon such persons, the Issuer, or to enforce against them or against the Issuer, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Conyers Dill & Pearman (Cayman) Limited, the Issuer s counsel as to Cayman Islands law, Slaughter and May, the Issuer s counsel as to United States federal law and English law, and Jun He Law Offices, the Issuer s counsel as to Chinese law, have advised the Issuer that there is uncertainty as to whether the courts of the Cayman Islands, Hong Kong and China, respectively, would:

- recognise or enforce judgments of United States courts obtained against the Issuer or the Issuer s directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or

- be competent to hear original actions brought in each respective jurisdiction, against the Issuer or the Issuer s directors or officers predicated upon the securities laws of the United States or any state thereof.

Conyers Dill & Pearman (Cayman) Limited has further advised the Issuer that the courts of the Cayman Islands would recognise as a valid judgment, a final and conclusive judgment in personam obtained in the courts of the United States against the Issuer under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the Cayman Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

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FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular are not historical facts and are forward- looking statements. This Offering Circular may contain words such as believe , could , may , will , target , estimate , project , predict , forecast , guideline , should , p anticipate and similar expressions that are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Particularly, statements under the sections Summary , Risk Factors , Business and sections relating to the following matters may include forward-looking statements regarding:

- the financial position, business strategy, prospects, capital expenditure and investment plans of the Group; and

- the plans and objectives of the Group s management for its future operations (including development plans and objectives relating to the Group s operations).

Such statements are subject to various risks and uncertainties, including, but not limited to:

- competition in the industry in which the Group operates;

- adverse economic conditions that could negatively impact the Group s business, financial condition and results of operations;

- broad market trends and other factors beyond the Group s control that could harm its business, financial condition and results of operations;

- the Group s ability to obtain adequate financing;

- failure to protect the Group s intellectual property rights;

- the risks of increased costs and the uncertainty of technological changes, insufficient systems capacity and systems failures;

- changes in laws, regulations and taxation in the highly regulated industry in which the Group operates and, any failure to comply with such legal and regulatory obligations;

- any delay or disapproval of new rules, amendments to existing rules or fees that could have an adverse effect on the Group; and

- other factors, including those discussed in Risk Factors.

Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialise, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in capacity, performance or profit levels might not be fully realised. Although we believe that the expectations of our management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, investors are cautioned not

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to place undue reliance on the forward looking statements and we undertake no obligations to update or revise any of them, whether as a result of new information, future developments or otherwise.

All of our forward-looking statements made herein and elsewhere are qualified in their entirety by the risk factors discussed in Risk Factors and other cautionary statements appearing in Management s Discussion and Analysis of Financial Condition and Results of Operations in this Offering Circular. These risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statements. Other sections of this Offering Circular include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The forward-looking statements made in this Offering Circular relate only to events or information as at the date on which the statements are made in this Offering Circular. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this Offering Circular with the understanding that our actual future results may be materially different from what we expect. You should not rely upon forward-looking statements as predictions of future events.

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SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed information and the financial statements contained elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary.

Business Overview

We are one of the leading semiconductor foundries in the world and the largest foundry in the PRC by revenue and capacity. We are also the most technologically advanced foundry in the PRC, providing integrated circuit (IC) foundry and technology services from 0.35-micron (m) down to 28-nanometer (nm).

We are a pure-play IC foundry that provides wafer fabrication of 8-inch and 12-inch wafers. In addition to our top-of-the-line manufacturing capabilities, we provide customers with complete foundry solutions with a seamless flow of services that include mask services, intellectual property development services, backend design services and turnkey services. With complete foundry solutions, our goal is to help customers to shorten time-to-market in a cost effective way. Our services are used by integrated device manufacturers (IDMs) and fabless and system companies, to produce integrated circuits for semiconductor chips used in a broad range of fast growing electronic applications markets.

We were established in 2000 and are headquartered in Shanghai, the PRC. In 2004, we were listed on the Hong Kong Stock Exchange and the New York Stock Exchange (NYSE). As at 31 August 2014, our major shareholders include PRC state-owned enterprises (SOEs) such as Datang Telecom Technology & Industry Holdings Co., Ltd. (Datang Telecom) and China Investment Corporation (CIC). We have received equity investment and strategic support from our SOE shareholders, being major players in their respective fields. Our market capitalisation as at 30 June 2014 was approximately US$3.01 billion.

We have market leading manufacturing capacity in the PRC and operate a 12-inch wafer fabrication facility (fab) and an 8-inch mega-fab in Shanghai, a 12-inch mega-fab in Beijing, an 8-inch fab in Tianjin, and an 8-inch fab project under development in Shenzhen. In addition, we have established a joint venture company, namely Semiconductor Manufacturing North China (Beijing) Corporation, or (SMNC), with Beijing Industrial Developing Investment Management Co., Ltd (BIDIMC) and Zhongguancun Development Group (ZDG), which is constructing a new 12-inch fab in Beijing. We plan to continue to advance our technology and selectively expand capacity to capture market demand for high-growth, high-margin applications. We have a network of customer service and marketing offices in the United States, Europe, Japan and Taiwan, and a representative office in Hong Kong.

We have a global and diversified customer base that includes some of the world s leading IDMs and fabless semiconductor and system companies. We have established long-term relationships with our international and domestic customers, and we have been repeatedly recognised and awarded by our customers for the quality of our services, strategic support and technology contributions.

Given our strong competitive position, we are positioned to take advantage of the long-term growth of the global and domestic semiconductor markets.

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Our Key Strengths

We are the largest and most technologically advanced foundry in the PRC, and we are ranked in the top four pure-play foundries by revenue globally.

As the only foundry in the PRC with process capability down to 28-nm process capability, we are at the forefront of the PRC s foundry business and a contributor to the growth of PRC s semiconductor industry.

We have expanded steadily since our incorporation and established ourselves as one of the leading foundries in the global arena. Our technology, scale, location in China, and capable team enable us to serve our customers to meet their diverse specifications.

We are located in the world s largest and fastest growing semiconductor market.

We are headquartered and manufacture our products in the PRC. Not only is the PRC the world s largest market for semiconductors, it is also one of the fastest growing IC markets. According to IHS iSuppli Q2 2014, the PRC semiconductor market grew from 26% of the global semiconductor market in 2006 to 33% in 2010 and further to 40% in 2013. The compound annual growth rate (CAGR) of the China IC market for the past five years from 2008 to 2013 was approximately 12%, compared to the rest of the world s CAGR of 0.21% for the same period.

We have established long term relationships and have benefited from strong strategic and funding support from PRC SOE shareholders.

We have a history of strategic and funding support from our PRC SOE shareholders. Shanghai Industrial Investment (Holdings) Co., Ltd. (Shanghai Industrial) has been our strategic investor since 2001. Datang Telecom joined our shareholder base in 2008 when it agreed to subscribe for US$171.8 million in ordinary shares and further strengthened its commitment to us by subscribing for a further US$102 million of ordinary shares in 2010. In September 2011, Datang Telecom s subsidiary, Datang Holdings (Hongkong) Investment Company Limited (Datang), subscribed for US$58.9 million convertible preferred shares (the Datang Further Subscription). In May 2014, Datang subscribed for pre-emptive convertible bonds of US$54.6 million. In August 2014, Datang entered into an agreement to subscribe for further pre-emptive convertible bonds of US$22.2 million and pre-emptive shares of approximately HK$401.7 million, subject to shareholders approval at the relevant extraordinary general meeting (EGM). In June 2011, Country Hill became our second largest shareholder pursuant to their subscription of US$250 million of convertible preferred shares (the Country Hill Subscription). Also in May 2014, Country Hill subscribed for pre-emptive convertible bonds of US$32.2 million. In August 2014, Country Hill also entered into an agreement with us to subscribe for HK$161.2 million in ordinary shares, subject to shareholders approval at the relevant EGM. As at 31 August 2014, our three major SOE shareholders held a combined 32.3% of our total issued shares.

We are positioned to leverage our research and development (R&D) leadership in the PRC to benefit from government support of the semiconductor industry.

We are one of the semiconductor companies included in the PRC central government s 12th 5-Year Plan, which among others, proclaims increasing support of and favourable industrial policies for the domestic semiconductor industry. As such, the PRC government recognises our cornerstone role in the development of the domestic semiconductor eco-system and establishing the PRC standard in the domestic semiconductor industry.

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In order to encourage development of the semiconductor industry, the PRC central, provincial and local governments have extended various incentives to domestic companies in the industry, including reduced tax rates. In addition, as the market leader in the PRC, we have been able to enjoy continued government support in the form of funding of R&D contracts. We have received government funding of US$126.1 million, US$54.1 million and US$145.8 million and recognised US$42.6 million, US$31.0 million and US$26.9 million as reductions of certain R&D expenses in 2011, 2012 and 2013 for several specific R&D projects respectively.

Apart from receiving the aforementioned government support, we have established SMNC with BIDIMC, which is wholly-owned by the PRC with capital contributed in full by Beijing State-owned Assets Management Co., LTD, and ZDG, which was established by the local Beijing government to develop the science park. SMNC is expected to build up significant manufacturing capacity with a focus on 45-nanometer and finer technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. The total investment is estimated to be US$3.59 billion. We shall contribute 55% of the registered capital of SMNC, and ZDG and BIDIMC shall together contribute the remaining 45% of SMNC s registered capital.

We have strong relationships with high quality, fast growing domestic and top tier international customers.

We have a global and diversified customer base that includes some of the leading international and fast growing domestic IDMs, fabless semiconductor and system companies. We have formed partnerships with international global clients and fast growth companies in the PRC which have become our key customers and contribute an increasing share of our revenues.

Our clients have consistently recognised us as a partner of choice and repeatedly rewarded us for the quality of our services, strategic support and technology contributions. Through a formation of global alliances with these top tier international customers and the incubation of local clients, we aim to continue to be the preferred foundry source partner in the PRC for international and domestic IDMs and fabless customers.

As an example, in July 2014 we announced a partnership with Qualcomm Technologies., Inc (Qualcomm Technologies) to collaborate in 28nm process technology and wafer manufacturing services in China to manufacture Snapdragon processors. Previously, we have supported Qualcomm Technologies on power management, wireless and connectivity related IC products at various process nodes.

With our combination of scale, advanced technological capabilities, locality and proximity to domestic clients, we have been able to increase revenue from PRC customers (mainland China & Hong Kong) significantly from 33.9% for the year ended 31 December 2012 to 40.4% for the year ended 31 December 2013. Our fabs are strategically located in major cities in the PRC with strong high-tech industries and semiconductor bases, such as Beijing, Shanghai and Tianjin. As a result, we are able to directly access our customers in the same or nearby cities and provide a high level of localised services to address our customers demands.

We are a transparent and compliant foundry in the PRC possessing the required authorisations to manufacture advanced ICs.

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Our Internal Compliance Program (ICP) ensures that we abide by international laws and treaties governing export controls on high technology products. Many of our suppliers and customers typically need an export license before shipping controlled items (equipment, parts, materials, software, or technology) to China. Because of our proven track record in export control compliance, we are one of the first and one of only 12 members of the U.S. Government s Validated End-User (VEU) program. Our VEU status further enhances the level of service and technology we can provide our customers. The approved restrictions and conditions in the authorisations under which we receive controlled items allow us to manufacture for process development down to 14nm. With these approvals we can provide advanced IC manufacturing services for customers in both domestic and international markets.

We have a highly experienced management team.

We have employed a highly experienced management team. Our senior management team, consisting of seven individuals, is recognised as a group of highly respected industry veterans. Our Chief Executive Officer, Dr. Tzu-Yin Chiu, is a semiconductor industry veteran with 30 years of experience spanning technology research, business development, operations and corporate management. Prior to joining us, Dr. Chiu was President and CEO of Hua Hong NEC. He has served in executive positions across the semiconductor industry, including as President and COO of Silterra Malaysia, Senior Vice President and Chief Operating Officer of Hua Hong International Management and President of Hua Hong Semiconductor International, our Senior Vice President of Shanghai Operations, and Senior Director of Fab Operations at Taiwan Semiconductor Manufacturing Corporation (TSMC). He began his career in the United States at AT&T Bell Laboratories, rising to become the department head of its High Speed Electronics Research Department and Silicon Research Operations Department. Dr. Chiu holds a bachelor s degree from Rensselaer Polytechnic Institute, a Ph.D. in electrical engineering and computer science from the University of California, Berkeley, and an executive MBA from Columbia University. A senior member of the Institute of Electrical and Electronics Engineers, Dr. Chiu holds forty semiconductor technology patents issued in various countries, and has published over thirty technical articles. He is also a board member of Global Semiconductor Alliance.

Our current management team introduced and implemented a solid strategic initiative when they joined in the second half of 2011, and we achieved a marked turnaround in operations and financial results and notable momentum in 2012 and 2013. Under the current management, efficiency, quality and service was enhanced and a focus on sustainable profitability through capacity optimisation, quality service and efficiency, and through technology differentiation by identifying specialised products especially those driven by opportunities in the Chinese market.

We expect to continue to capitalise on the rich experience and execution capabilities of the management team for our growth.

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THE OFFERING

The following summary contains basic information about the Bonds and is not intended to be complete. It does not contain all the information that is important to you. For a more complete description of the Bonds, please refer to the section of this Offering Circular entitled Terms and Conditions of the Bonds. Phrases used in this summary and not otherwise defined shall have the meaning given to them in the section entitled Terms and Conditions of the Bonds.

Issuer	Semiconductor Manufacturing International Corporation.
Issue	US$500 million 4.125% Bonds due 2019.
	The issue of the Bonds was authorised by a resolution passed at a meeting of the Board of Directors of the Issuer held on 6 August 2014.
Issue Price	The Bonds will be issued at 98.963% of their principal amount.
Issue Date	7 October 2014.
Maturity Date	7 October 2019.
Interest Payment Date	7 April and 7 October in each year, commencing 7 April 2015.
Interest	The Bonds will bear interest from 7 October 2014 at the rate of 4.125% per annum, payable semi-annually in arrear from 7 April 2015.
	Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.
Rating of the Bonds	The Bonds have been rated BBB by S&P. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Bonds or other securities of the Issuer.

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Negative Pledge	For so long as any Bond remains outstanding, the Issuer will not, and will ensure that none of its Principal Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (other than a security interest arising by operation of law or a Permitted Charge) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless at the same time or prior thereto according to the Bonds (a) the same security is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (b) such other security as shall be approved by an Extraordinary Resolution of the holders of the Bonds (Bondholders). See Terms and Conditions of the Bonds Negative Pledge .
Form and Denomination of Bonds	The Bonds will be issued in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The Bonds will upon issue be initially be represented by one or more global certificates in fully registered form, respectively which will be registered in the name of a nominee of DTC.
Events of Default	If any of the events set out in Terms and Conditions of the Bonds Events of Default occurs, the Trustee may, and if so requested by Bondholders holding not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed referred to in the Terms and Conditions of the Bonds) shall, (subject in either case to being indemnified and/or secured and/or pre-funded by the Bondholders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount. See Terms and Conditions of the Bonds Events of Default .
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. See Terms and Conditions of the Bonds Further Issues .
Global Certificates	Bonds which are offered and sold outside the United States in reliance on Regulation S will be represented by interests in a global registered bond certificate (the Regulation S Global Certificate), deposited with a custodian for and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream, Luxembourg on or about the Issue Date.

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	Bonds which are offered and sold in the United States in reliance on Rule 144A will be represented by interests in a global registered bond certificate (the Rule 144A Global Certificate and, together with the Regulation S Global Certificate, the Global Certificates), deposited with a custodian for and registered in the name of a nominee of DTC on or about the Issue Date. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including depositaries for Euroclear and Clearstream, Luxembourg. The sole Holder of the Bonds represented by a Global Certificate will at all times be DTC or its nominee (or a successor of DTC or its nominee), and voting and other consensual rights of Holders of the Bonds will be exercisable by beneficial owners of the Bonds only indirectly through the rules and procedures of the depositaries from time to time in effect. Beneficial interests in the Global Certificates may not be exchanged for Bonds in definitive form except in the limited circumstances described under The Global Certificates.
Selling Restrictions	There are restrictions on the offer, sale and/or transfer of the Bonds in, among others, the Cayman Islands, Hong Kong, Singapore, the United Kingdom and the United States. For a description of the restrictions on offers and sales of the Bonds, see Subscription and Sale .
Original Issue Discount	The Bonds may be treated as having been issued with original issue discount for U.S. federal income tax purposes. Accordingly, a U.S. Holder (as defined in Taxation U.S. Federal Income Taxation) may, in addition to the stated interest on the Bonds, be required to include such original issue discount in gross income as it accrues, in advance of the receipt of cash. See Taxation U.S. Federal Income Taxation.
Listing	Approval in-principle has been obtained for the listing and quotation of the Bonds on the SGX-ST. Approval in-principle granted by the SGX-ST for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or any other subsidiary or associated company of the Issuer or the Bonds. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as any of the Bonds remains listed on the SGX-ST.
Trustee	The Bank of New York Mellon.
Principal Agent	The Bank of New York Mellon.
Registrar	The Bank of New York Mellon.

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Governing Law	The Bonds and any non-contractual obligations arising out of or in connection with the Bonds will be governed by, and construed in accordance with, the laws of England.
Use of Proceeds	For a description of the use of proceeds of this offering, see Use of Proceeds .
ISIN (Rule 144A Bonds)	US81663NAA54
CUSIP (Rule 144A Bonds)	81663N AA5
ISIN (Regulation S Bonds)	USG8020EAB77
CUSIP (Regulation S Bonds)	G8020E AB7

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SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financials of the Issuer as at and for the periods indicated.

The selected financial information presented below as at and for the years ended 31 December 2011, 2012 and 2013 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer s published audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013, which have been audited by Deloitte Touche Tohmatsu and included in this Offering Circular.

The selected financial information presented below as at and for the six months ended 30 June 2013 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer s unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013, which have been included in this Offering Circular.

The selected financial information presented below as at and for the six months ended 30 June 2014 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer s unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2014, which have been included in this Offering Circular.

Results for interim periods are not indicative of results for the full year. The information set out below should be read in conjunction with the relevant consolidated financial statements of the Issuer, including the notes thereto, which are set out in this Offering Circular.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	(in US$ thousands, except for earnings per share)				
				(unaudited)	
Revenue	1,319,466	1,701,598	2,068,964	1,042,911	962,427
Cost of sales	(1,217,525)	(1,352,835)	(1,630,528)	(809,396)	(723,256)
Gross profit	101,941	348,763	438,436	233,515	239,171
Research and development expenses	(191,473)	(193,569)	(145,314)	(61,494)	(81,733)
Sales and marketing expenses	(32,559)	(31,485)	(35,738)	(18,029)	(18,726)
General and administration expenses	(57,435)	(107,313)	(138,167)	(76,839)	(58,721)
Other operating income (expense)	(11,190)	19,117	67,870	53,300	7,786
Profit (loss) from operations	(190,716)	35,513	187,087	130,453	87,777
Interest income	4,724	5,390	5,888	2,288	4,859
Finance costs	(21,903)	(39,460)	(34,392)	(19,930)	(12,861)
Foreign exchange gains or losses	17,589	3,895	13,726	5,094	(14,454)
Other gains or losses, net	6,709	6,398	4,010	(240)	10,711
Share of profits of associates	4,479	1,703	2,278	1,223	1,451
Profit (loss) before tax	(179,118)	13,439	178,597	118,888	77,483
Income tax (expense) benefit	(82,503)	9,102	(4,130)	(3,046)	(1,361)
Profit (loss) for the year/period from continuing operations	(261,621)	22,541	174,467	115,842	76,122
Discontinued operations					
Profit for the year/period from discontinued operations	14,741				
Profit (loss) for the year/period	(246,880)	22,541	174,467	115,842	76,122
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of financial statement of foreign operations	4,938	70	731	321	(1,953)
Total comprehensive income (expense) for the year/period	(241,942)	22,611	175,198	116,163	74,169
Profit (loss) for the year/period attributable to:					
Owners of the Company	(246,817)	22,771	173,177	116,005	77,062
Non-controlling interests	(63)	(230)	1,290	(163)	(940)
	(246,880)	22,541	174,467	115,842	76,122
Total comprehensive income (expense) for the year/period attributable to:					
Owners of the Company	(241,879)	22,841	173,908	116,326	75,109
Non-controlling interests	(63)	(230)	1,290	(163)	(940)
	(241,942)	22,611	175,198	116,163	74,169
Earnings (loss) per share					
From continuing and discontinued operations					
Basic	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
From continuing operations					
Basic	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Assets					
Non-current assets					
Property, plant and equipment	2,516,578	2,385,435	2,528,834	2,523,893	2,515,105
Prepaid land use right	77,231	73,962	136,725	124,818	136,623
Intangible assets	179,279	235,378	215,265	228,898	198,952
Investments in associates	15,856	21,636	29,200	23,189	30,820
Deferred tax assets	31,787	43,380	43,890	43,802	44,161
Other assets	45,685	43,382	6,237	37,926	7,228
Total non-current assets	2,866,416	2,803,173	2,960,151	2,982,526	2,932,889
Current assets					
Inventories	207,308	295,728	286,251	308,328	319,089
Prepaid operating expenses	52,805	46,986	43,945	57,231	42,261
Trade and other receivables	200,905	328,211	379,361	472,426	458,765
Other financial assets	1,973	18,730	240,311	2,881	358,417
Restricted cash	136,907	217,603	147,625	214,430	181,573
Cash and bank balances	261,615	358,490	462,483	262,955	573,332
	861,513	1,265,748	1,559,976	1,318,251	1,933,437
Assets classified as held-for-sale		4,239	3,265	922	1,543
Total current assets	861,513	1,269,987	1,563,241	1,319,173	1,934,980
Total assets	3,727,929	4,073,160	4,523,392	4,301,699	4,867,869
Equity and liabilities					
Capital and reserves					
Ordinary shares US$0.0004 par value, 50,000,000,000 shares authorised, 27,487,676,065, 32,000,139,623 and 32,112,307,101 shares issued and outstanding at 31 December 31 2011, 2012 and 2013, respectively. 32,075,631,400 and 34,831,860,338 shares issued and outstanding at 30 June 2013 and 2014, respectively	10,995	12,800	12,845	12,830	13,933
Convertible preferred shares, US$0.0004 par value, 5,000,000,000 shares authorised, 445,545,911, nil and nil shares issued and outstanding at 31 December 2011, 2012 and 2013, respectively. Nil and nil shares issued and outstanding at 30 June 2013 and 2014 respectively	178				
Share premium	4,082,135	4,083,588	4,089,846	4,088,071	4,296,190
Reserves	41,315	46,148	74,940	53,079	87,004
Accumulated deficit	(1,889,807)	(1,867,036)	(1,693,859)	(1,751,031)	(1,616,797)
Equity attributable to owners of the Company	2,244,816	2,275,500	2,483,772	2,402,949	2,780,330
Non-controlling interests	1,182	952	109,410	789	108,715
Total equity	2,245,998	2,276,452	2,593,182	2,403,738	2,889,045

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	As at 31 December			As at 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Liabilities					
Non-current liabilities					
Borrowings	72,361	528,612	600,975	474,692	430,520
Convertible bonds			180,563		352,317
Deferred tax liabilities	1,333	440	167	257	122
Deferred government funding	125,335	150,347	209,968	174,876	192,325
Promissory notes	28,560				
Long-term financial liabilities	3,018	4,223		4,989	
Other liabilities		5,000			
Total non-current liabilities	230,607	688,622	991,673	654,814	975,284
Current liabilities					
Trade and other payables	375,748	423,952	393,890	537,003	474,268
Borrowings	798,782	567,803	390,547	586,425	365,269
Deferred government funding					31,484
Accrued liabilities	45,674	84,611	153,942	104,678	132,273
Promissory notes	29,374	29,374		14,791	
Other financial liabilities	1,683	25		107	
Current tax liabilities	63	2,321	158	143	246
Total current liabilities	1,251,324	1,108,086	938,537	1,243,147	1,003,540
Total liabilities	1,481,931	1,796,708	1,930,210	1,897,961	1,978,824
Total equity and liabilities	3,727,929	4,073,160	4,523,392	4,301,699	4,867,869

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Profit (loss) for the year/period	(246,880)	22,541	174,467	115,842	76,122
Non-cash adjustment to reconcile profit (loss) to net operating cash: flow:					
Depreciation and amortization	551,857	566,899	546,910	271,464	275,334
Net cash from operating activities	379,368	435,166	738,016	262,998	278,674
Payments for property, plant and equipment	(931,574)	(400,291)	(650,160)	(311,140)	(227,246)
Net cash used in investing activities	(903,641)	(522,277)	(807,467)	(325,187)	(355,334)
Net cash from (used in) financing activities	268,855	184,101	173,458	(33,336)	188,832
Net increase (decrease) in cash and bank balances	(255,418)	96,990	104,007	(95,525)	112,172

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TECHNICAL GLOSSARY

This glossary contains certain definitions of technical terms used in this Offering Circular as they relate to us. Some of these definitions may not correspond to standard industry definitions.

Clean room	Area within a fab in which the wafer fabrication takes place. The classification of a clean room relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 clean room contains less than 100 particles of contaminants per cubic foot.
CMOS	Complementary Metal Oxide Silicon. A fabrication process that incorporates n-channel and p-channel CMOS transistors within the same silicon substrate. Currently, this is the most commonly used integrated circuit fabrication process technology and is one of the latest fabrication techniques to use metal oxide semiconductor transistors.
CMOS Image Sensors	Sensors that are used in a wide range of camera-related systems, such as digital still cameras, digital video cameras, handset cameras, personal computer cameras and surveillance cameras, which integrate image-capturing capabilities onto a chip.
CVD	Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated wafer surface to form solid film.
Die	One individual chip cut from a wafer before being packaged.
DRAM	Dynamic Random Access Memory. A device that temporarily stores digital information but requires regular refreshing to ensure data is not lost.
DSP	Digital Signal Processor. A type of integrated circuit that processes and manipulates digital information after it has been converted from an analog source.
EEPROM	Electrically Erasable Programmable Read-Only Memory. An integrated circuit that can be electrically erased and electrically programmed with user-defined information.
Fab or Fabs	Semiconductor fabrication plant(s).
Fabless	A semiconductor design company that outsources fabrication and does not have its own fabs.
IDM or IDMs	Integrated Device Manufacturer(s).
Integrated circuit	An electronic circuit where all the elements of the circuit are integrated together on a single semiconductor substrate.
I/O	Inputs/Outputs.

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Mask	A glass plate with a pattern of transparent and opaque areas used to create patterns on wafers. Mask is commonly used to refer to a plate that has a pattern large enough to pattern a whole wafer at one time, as compared to a reticle, where a glass plate can contain the pattern for one or more dies but is not large enough to transfer a wafer-sized pattern all at once.
Memory	A device that can store information for later retrieval.
Micron	A term for micrometer, which is a unit of linear measure that equals one one-millionth (1/1,000,000) of a meter. There are 25.4 microns in one one-thousandth of an inch.
Mixed-signal	The combination of analog and digital circuitry in a single semiconductor.
nm	A term for nanometer, which is a unit of linear measure that equals one thousandth (1/1,000) of a micron.
Non-volatile memory	Memory products that maintain their content when the power supply is switched off.
PROM	Programmable Read-Only Memory. Memory that can be reprogrammed once after manufacturing.
Pure-play foundry	A company that focuses on producing IC for other companies.
Reticle	See Mask above.
RF	Radio Frequency. Radio frequency semiconductors are primarily used in communications devices such as cell phones.
ROM	Read-Only Memory.
Scanner	An aligner that scans light through a slit across a mask to produce an image on a wafer.
Semiconductor	An element with an electrical resistivity within the range of an insulator and a conductor. A semiconductor can conduct or block the flow of electric current depending on the direction and magnitude of applied electrical biases.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and programme instructions. Unlike the more common DRAM, it does not need to be refreshed.
System-on-chip	A chip that incorporates functions usually performed by several different devices and therefore generally offers better performance and lower cost.
Systems companies	Companies that design and manufacture complete end market products or systems for sale to the market.

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Transistor	An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products that lose their content when the power supply is switched off.
Wafer	A thin, round, flat piece of silicon that is the base of most integrated circuits.

* Any references to average selling price of wafers in this Offering Circular refers to the simplified average selling price which is calculated as total revenue divided by total shipments.

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RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be adversely affected by any of these risks. We believe that the following factors may affect its ability to fulfill its obligations under the Bonds. Additional considerations and uncertainties not presently known to us or which the Group currently deems immaterial may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies, which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

Factors which we believe may be material for the purpose of assessing the market risks associated with the Bonds are described below. We believe that the factors described below represent the principal risks inherent in investing in the Bonds, but our inability to repay principal, pay interest (if any) or other amounts or fulfill other obligations on or in connection with the Bonds may occur for other reasons and we do not represent that the statements below regarding the risks of holding the Bonds are exhaustive.

Risk Factors Related to Our Financial Condition and Business

We may not be able to achieve or maintain a level of profitability, primarily due to the possibility of increasing fixed costs and market competition reflected in price erosion in the average selling prices of our products.

Our profit totaled US$174.5 million in 2013 and US$22.5 million in 2012. However, with the offsetting impact of such profits, we still have net accumulated losses of US$1,693.9 million as at the end of 2013. We may not be able to achieve or maintain profitability on an annual or quarterly basis, primarily because our business is characterised by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. We will continue to incur capital expenditures and depreciation expenses as we equip and ramp-up additional fabs and expand our capacity at our existing fabs. This may result in an increase of our fixed costs and possibly reduce our chances of achieving or maintaining profitability. Currently, the planned capital expenditure in 2014 for foundry operations is approximately US$1.1 billion as disclosed in our unaudited interim results for the six months ended 30 June 2014, which is an increase from US$880 million disclosed in our 2013 Form 20-F (our annual report filed with the SEC on 14 April 2014 (2013 Form 20-F)). The capital expenditures are mainly for (i) SMNC, our majority owned subsidiary in Beijing, which is 55% funded by us and 45% funded by other shareholders of SMNC, (ii) the acquisition of used equipment for our Shenzhen 8-inch fab, (iii) the product mix change including conversion from 40/45nm to 28nm in our Shanghai 12-inch fab and (iv) the expansion of capacity in our Tianjin 8-inch fab from 39K to 42K. In addition, we also budgeted approximately US$110 million as the 2014 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program.

In addition, we are competing in the same technology environment as a number of other foundries and our competitors who operate these foundries often use price as a means of securing business, resulting in erosion of the average selling price of our product portfolio, which adversely affects our ability to achieve or maintain profitability.

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The cyclical nature of the semiconductor industry and periodic overcapacity make our business and operating results particularly vulnerable to economic downturns, such as a global economic crisis.

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant downturns characterised by fluctuations in end-user demand, reduced demand for integrated circuits, rapid erosion of average selling prices and production overcapacity. Companies in the semiconductor industry have expanded aggressively during periods of increased demand in order to have the capacity needed to meet such increased demand or expected demand in the future. If actual demand is not sustained, does not increase or decline, or if companies in the industry expand too aggressively in light of the actual increase in demand, the industry will generally experience a period in which industry-wide capacity exceeds demand.

During periods when industry-wide capacity exceeds demand, our operations are subject to more intense competition, and our results of operations are likely to suffer because of the resulting pricing pressure and capacity underutilisation. Severe pricing pressure could result in the overall foundry industry becoming less profitable, at least for the duration of the downturn, and could prevent us from achieving or maintaining profitability. We expect that industry cyclicality will continue.

In addition, an erosion of global consumer confidence amidst concerns over declining asset values, inflation, energy costs, geopolitical issues, the availability and cost of credit, rising unemployment, and the stability and solvency of financial institutions, financial markets, businesses and sovereign nations could have an adverse effect on our results of operations.

Adverse economic conditions could cause our expenses to vary materially from our expectations. The failure of financial institutions could negatively impact our treasury operations, as the financial condition of such parties may deteriorate rapidly and without notice in times of market volatility and disruption. Other income and expense could vary materially from expectations depending on changes in interest rates, borrowing costs and currency exchange rates. Economic downturns may also lead to restructuring actions and associated expenses.

If we cannot take appropriate or effective actions in a timely manner during any economic downturns, such as reducing our costs to sufficiently offset declines in demand for our services, our business and operating results may be adversely affected. A prolonged period of economic decline could have a material adverse effect on our results of operations. Economic uncertainty also makes it difficult for us to make accurate forecasts of revenue, gross margin and expenses.

Furthermore, a slowdown in the growth in demand for, or the continued reduction in selling prices of, devices that use semiconductors may decrease the demand for our products and reduce our profit margins.

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Our results of operations may fluctuate from year to year, making it difficult to predict our future performance which may be below our expectations or those of the public market analysts and investors in these periods.

Our sales, expenses, and results of operations may fluctuate significantly from year to year due to a number of factors, many of which are outside our control. Our business and operations are subject to a number of factors, including:

- our customers sales outlook, purchasing patterns and inventory adjustments based on general economic conditions or other factors;
- the loss of one or more key customers or the significant reduction or postponement of orders from such customers;
- timing of new technology development and the qualification of this technology by our customers;
- timing of our expansion and development of our facilities;
- our ability to obtain equipment and raw materials; and
- our ability to obtain financing in a timely manner.

Due to the factors noted above and other risks discussed in this section, year-to-year comparisons cannot be relied upon to predict our future performance. Unfavorable changes in any of the above factors may adversely affect our business and operating results. In addition, our operating results may be below the expectations of public market analysts and investors in some future periods.

Demand instability for foundry services may result in a lower rate of return on investments than previously anticipated and our business and operating results may be adversely affected.

The demand for foundry services by IDMs, fabless semiconductor companies and systems companies has been increasing. We have made significant investments in anticipation of the continuation of this trend and, as such, any reversal of this trend will likely result in a lower rate of return on our investments. During an industry slowdown, IDMs may allocate a smaller portion of their fabricating needs to foundry service providers and perform a greater amount of foundry services for system companies and fabless semiconductor companies in order to maintain their equipment s utilisation rates. As a result, our business and operating results

could be adversely affected.

If we are unable to maintain high capacity utilisation, optimise the technology and product mix of our services or improve our yields, our margins may substantially decline, thereby adversely affecting our operating results.

Our ability to achieve and maintain profitability depends, in part, on our ability to:

- maintain high capacity utilisation, which is the actual number of wafers we produce in relation to our capacity;

- optimise our technology and product mix, which is the relative number of wafers fabricated utilising higher margin technologies as compared to commodity and lower margin technologies; and

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- continuously maintain and improve our yield, which is the percentage of usable fabricated devices on a wafer.

Our capacity utilisation affects our operating results because a large percentage of our costs are fixed. Our technology and product mix has a direct impact upon our average selling prices and overall margins. Our yields directly affect our ability to attract and retain customers, as well as the price of our products. If we are unable to maintain high capacity utilisation, optimise the technology and product mix of our wafer production and continuously improve our yields, our margins may substantially decline, thereby adversely affecting our operating results.

If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could become disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key management team members, and in particular, Mr. Zhang Wenyi, Chairman of our board of directors and Executive Director as well as Dr. Tzu-Yin Chiu, Chief Executive Officer and Executive Director. We do not carry full key person insurance. If we lose the services of any of our key executive officers, it could be very difficult to find, relocate and integrate adequate replacement personnel into our operations. As a result, our operations and the growth of our business could be seriously harmed.

We will require an increased number of experienced executives, engineers and other skilled employees in the future to implement our growth plans. In addition, we expect demand for skilled and experienced personnel in China to increase in the future as new wafer fabrication facilities and other similar high technology businesses are established there. There is intense competition for the services of these personnel in the semiconductor industry. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel in the future, our operations could become disrupted and the growth of our business could be delayed or restricted.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future sales, adjust our production costs and efficiently allocate our capacity on a timely basis and could therefore have an adverse effect on our business and operating results.

Our customers generally do not place purchase orders far in advance of the required shipping dates. In addition, due to the cyclical nature of the semiconductor industry, our customers purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog, which makes it difficult for us to forecast our sales in future periods. Also, since our cost of sales and operating expenses have high fixed cost components, including depreciation and employee costs, we may be unable to adjust our cost structure in a timely manner to compensate for shortfalls in sales. Our current and anticipated customers may not place orders with us in accordance with our expectations or at all. As a result, it may be difficult to plan our capacity, which requires significant lead time to ramp-up and cannot be altered easily. If our capacity does not match our customer demand, we will either be burdened with expensive and unutilised overcapacity or unable to support our customers requirements, both of which could have an adverse effect on our business and results of operations.

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Our sales cycles can be long, which could adversely affect our short-term operating results and cause our long-term income stream to be unpredictable.

Our sales cycles, which is measured as the time between our first contact with a particular customer and the first shipment of product orders to such customer, vary substantially and can last as long as one year or more, particularly for new technologies. Sales cycles to IDM customers typically take relatively longer since they usually require our engineers to become familiar with the customer s proprietary technology before production can commence. In addition, even after we make the initial product shipments, it may take the customer several more months to reach full production of that product using our foundry services. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses in advance of the receipt of any product order and related revenue. Orders ultimately received may not be in accordance with our expectations and cause our long-term income stream to be unpredictable.

If we do not consistently anticipate trends in technology development, we will not be able to maintain or increase our business and operating margins.

The semiconductor industry is developing rapidly and the related technologies are constantly evolving. We must be able to anticipate the trends in technology development and rapidly develop and implement new and innovative technologies that our customers require to produce sufficiently advanced products at competitive prices and within the time window of market opportunities. To do this, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources based on forecasts. If there is large variation between our forecasts and the actual outcome, our long- term investments will not yield satisfactory results and our business and operations will be adversely affected.

Further, as the life cycle for a process technology matures, the average selling price falls. Accordingly, unless we continually upgrade our capability to manufacture new products that our customers design, our customers may use the services of our competitors instead of ours. This can result in the average selling prices of our wafers falling, which could adversely affect our business and operating margins.

Our sales are dependent upon a small number of customers and any decrease in sales to any of them could adversely affect our results of operations.

We have been dependent on a small number of customers for a substantial portion of our business. For the years ended 31 December 2012 and 2013, our five largest customers accounted for 56.1% and 52.3% of our total sales, respectively. For the six months ended 30 June 2014, our five largest customers accounted for 51.0% of our total sales. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our sales. Sales generated from these customers, individually or in the aggregate, may not reach our expectations or historical levels in any future period. Our sales could be significantly reduced if any of these customers cancels or reduces its orders, significantly changes its product delivery schedule, or demands lower prices, which could have an adverse effect on our results of operations.

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We maintain a certain level of indebtedness which may adversely affect our financial health and our operating results.

We have incurred and may continue to incur, indebtedness to finance our developments and working capital which may adversely affect our financial health and our operating results. As at 30 June 2014, we had a total indebtedness of approximately US$1.15 billion.

Our indebtedness may increase our exposure to a number of risks associated with debt financing, including but not limited to the following:

- we will be required to dedicate a portion of our cash flow towards repayment of our existing debt and interest, which will reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate requirements;

- our ability to obtain additional financing in the future on favourable terms may be impaired;

- our ability to take advantage of significant new business opportunities may be limited;

- it will be more difficult for us to satisfy our payment obligations if market or operational conditions deteriorate; and

- there could be an adverse effect on our business, financial condition and results of operations if we are unable to service our indebtedness.

Since our operating cash flows may not be sufficient to cover our planned capital expenditures, we will require additional external financing, which may not be available on acceptable terms, or at all. Any failure to raise adequate funds in a timely manner could adversely affect our business and operating results.

In 2013, our capital expenditures totaled approximately US$770 million and we currently expect our capital expenditures for foundry operations in 2014, which are subject to adjustment based on market conditions, to increase to approximately US$1.1 billion disclosed in our unaudited interim results for the six months ended 30 June 2014 from US$880 million disclosed in our 2013 Form 20-F. The capital expenditures are mainly for (i) SMNC, our majority-owned subsidiary in Beijing, which is 55% funded by us and 45% funded by other shareholders of SMNC, (ii) the acquisition of used equipment for our Shenzhen 8-inch fab, (iii) the product-mix change including conversion from 40/45nm to 28nm in our Shanghai 12-inch fab and (iv) the expansion of capacity in our Tianjin 8-inch fab from 39K to 42K. We also budgeted approximately US$110 million as the 2014 capital expenditures for

non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, customer requirements or interest rates. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet our growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

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Our operating cash flows may not be sufficient to meet our capital expenditure requirements. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing. Our ability to obtain external financing is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities of semiconductor companies;
- our future stock price; and
- our future credit rating.

External financing may not be available in a timely manner, on acceptable terms, or at all. Since our capacity expansion is a key component of our overall business strategy, any failure to raise adequate funds could adversely affect our business and operating results.

Expansion of our production sites is subject to certain risks that could result in delays or cost overruns, which could require us to expend additional capital and adversely affect our business and operating results.

We plan to increase our production capacity through expansion of existing production sites and construction or acquisition of new sites in connection with joint ventures we may establish such as SMNC, our new entity in Beijing, and Semiconductor Manufacturing International (Shenzhen) Corporation (SMIC Shenzhen), our wholly-owned entity in Shenzhen. There are a number of events that could delay these expansion projects or increase the costs of building and equipping these or future projects in accordance with our plans. Such potential events include, but are not limited to:

- shortages and late delivery of building materials and facility equipment;
- difficulty in securing suitable and necessary manufacturing equipment in a cost- effective manner;
- delays in the delivery, installation, commissioning and qualification of our manufacturing equipment;

- delays in securing financing for the expansion projects;
- disagreements with partners involved in the expansion projects;
- seasonal factors, such as extended periods of adverse weather that limit construction;
- labor disputes;
- design or construction changes with respect to building spaces or equipment layout;
- delays in securing necessary government approvals or land use rights; and
- changes in technology, capacity, or other changes in our plans for new fabs necessitated by changes in market conditions.

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As a result, our projections relating to capacity, process technology capabilities, or technology developments may significantly differ from actual capacity, process technology capabilities, or technology developments.

Delays in the construction and equipping or expansion of any of our fabs could result in the loss or delayed receipt of earnings, an increase in financing costs, or the failure to meet profit and earnings projections, any of which could adversely affect our business and operating results.

If we cannot compete successfully in our industry, particularly in China, our results of operations and financial condition will be adversely affected.

The worldwide semiconductor foundry industry is highly competitive. We compete with other foundries, such as TSMC, United Microelectronics Corporation (UMC), and Global Foundries, as well as the foundry services offered by some IDMs, such as Samsung Electronics. We also compete with smaller semiconductor foundries in China, Korea, Malaysia and other countries. Some of our competitors have greater access to capital and substantially higher capacity, longer or more established relationships with their customers, superior research and development capability, and greater marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

Some of our competitors have established operations in mainland China in order to compete for the growing domestic market in China. TSMC and UMC have their own fabs in China. In these cases, we understand that the ability of these fabs to manufacture wafers using certain more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

In addition, various other factors such as import and export controls, foreign exchange controls, exchange rate fluctuations, interest rate fluctuations and political developments affect our ability to compete successfully. If we cannot compete successfully in our industry or are unable to maintain our position as a leading foundry in China, our results of operations and financial condition will be adversely affected.

We may be unable to obtain in a timely manner and at a reasonable cost the equipment necessary for our business and therefore may be unable to achieve our expansion plans or meet our customers orders, which could negatively impact our competitiveness, financial condition and results of operations.

The semiconductor industry is capital-intensive and requires investment in advanced equipment that is available from a limited number of manufacturers. The market for equipment used in semiconductor foundries is characterised, from time to time, by significant demand, limited supply and long delivery cycles. Our business plan depends upon our ability to obtain our required equipment in a timely manner and at acceptable prices. Therefore, we invest in advanced equipment based on advance forecasts of demand. During times of significant demand for the types of equipment we use, lead times for delivery can be as long as one year. Shortages of equipment could result in an increase in equipment prices and longer delivery times. If we are unable to obtain equipment in a timely manner and at a reasonable cost, we may be unable to achieve our expansion plans or meet our customers

orders, which could negatively impact our competitiveness, financial condition, and results of operations.

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We expect to have an ongoing need to obtain licenses for the proprietary technology of others, which subjects us to the payment of license fees and potential delays in the development and marketing of our products.

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements to enable us to manufacture certain advanced wafers. As at 30 June 2014, we had been granted 4,233 patents worldwide, of which, 60 were in Taiwan, 380 were in the U.S., 3,780 were in China and 13 were in other jurisdictions. In comparison, we believe our competitors and other industry participants have been issued numerous more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors.

We may be subject to claims of intellectual property rights infringement owing to the nature of our industry partly due to our limited patent portfolio and limitations of the indemnification provisions in our technology license agreements. These claims could adversely affect our business and operating results.

There is frequent intellectual property litigation in our industry, involving patents, copyrights, trade secrets, mask works and other intellectual property subject matters. In some cases, a company attempts to avoid or settle litigation on favorable terms if it possesses patents that can be asserted against the plaintiff. The limited size of our current patent portfolio is unlikely to place us in such a favorable bargaining position. Moreover, some of our technology license agreements with our major technology partners do not provide for us to be indemnified in the event that the processes we license pursuant to such agreements infringe third party intellectual property rights. We could be sued for infringing one or more patents as to which we will be unable to obtain a license and unable to design around. As a result, we would be prohibited from manufacturing or selling the products which are dependent upon such technology, which could have a material adverse effect on our business. We may litigate the issues of whether these patents are valid or infringed, but in the event of a loss we could be required to pay substantial monetary damages and be enjoined from further production or sale of such products.

If we are unable to maintain relationships with certain technology partners or are unable to enter into new technology alliances on a timely basis, we may not be able to continue providing our customers with leading edge process technology, which could adversely affect our competitive position and operating results.

Enhancing our process technologies is critical to our ability to provide high quality services for our customers. One way we are using to enhance our process technologies is forming technology alliances with other companies and leveraging our appropriate technology partners to advance our portfolio of process technologies to lower development risk and development cycle. We currently have joint technology development arrangements and technology sharing arrangements with several companies

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and research institutes. If we are unable to continue our technology alliances with these entities or maintain mutually beneficial terms on our other joint development arrangements, research and development alliances and other similar agreements or enter into new technology alliances with other leading developers of semiconductor technology, we may not be able to continue providing our customers with leading edge process technology on time, which could adversely affect our competitive position and operating results.

The loan agreements entered into by members of the Group contain certain restrictions that limit our flexibility in operating our business.

The terms of certain of the existing loan agreements entered into by members of the Group contain, and certain future indebtedness of the Group would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on the Group, including restrictions on the ability of members of the Group to, among other things:

- pay dividends;
- repay outstanding shareholder loans and provide loans to subsidiaries; and
- consolidate, merge, sell or otherwise dispose of any of our assets under certain conditions.

In addition, certain loan agreements of the Group contain, and any future loan agreements may contain, cross-default clauses whereby a default under one of the loan agreements may constitute an event of default under the other loan agreements. We may also be required to satisfy and maintain specified financial ratios and other financial covenants. The Group s ability to meet such financial ratios and other covenants can be affected by various events, and we cannot assure you that we will meet these ratios and comply with such covenants in the future. A breach of any of these covenants would result in a default under the existing loan agreements of the Group, which may allow the lenders to declare all amounts outstanding thereunder to be due and payable after the lapse of the relevant grace period and terminate all commitments to extend further credit, any of which could result in an event of default under the terms and conditions of the loan agreement.

Global or regional economic, political and social conditions could adversely affect our business and operating results.

External factors such as potential terrorist attacks, acts of war, financial crises, the global economic crisis, or political, geopolitical and social turmoil in those parts of the world that serve as markets for our products could significantly adversely affect our business and operating results in ways that cannot presently be predicted. These uncertainties could make it difficult for our customers and us to accurately plan future business activities. For example, we purchase raw materials and other services from numerous suppliers, and, even if our facilities were not directly affected by such events, we could be affected by interruptions at such suppliers. Such suppliers may be less likely to be able to quickly recover from such events and may be subject to additional risks

such as financial problems that limit their ability to conduct their operations. We cannot assure you that we will have insurance to adequately compensate us for any of these events. More generally, these geopolitical, social and economic conditions could result in increased volatility in worldwide financial markets and economies that could adversely impact our

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sales. We are not insured for losses and interruptions caused by terrorist acts or acts of war. Therefore, any of these events or circumstances could adversely affect our business and operating results.

The recurrence of an outbreak of the H7N9 and H5N1 strain of flu (Avian Flu), the H1N1 strain of flu (Swine Flu), Severe Acute Respiratory Syndrome (SARS), or an outbreak of any other epidemic could, directly or indirectly, adversely affect our operating results.

Concerns about the spread of the H7N9 strain of flu (Avian Flu) in China and outbreaks of the H1N1 virus (Swine Flu) in North America, Europe and Asia in the past have caused governments to take measures to prevent spread of the virus. The spread of epidemics could negatively affect the economy. For example, past occurrences of epidemics such as SARS have caused different degrees of damage to the national and local economies in China. If any of our employees are identified as a possible source of spreading Swine Flu, Avian Flu or any other similar epidemic, we may be required to quarantine employees that are suspected of being infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected premises, which could cause a temporary suspension of our manufacturing capacity, thus adversely affecting our operations. A recurrence of an outbreak of Swine Flu, SARS, Avian Flu or other similar epidemic could restrict the level of economic activities generally and/or slow down or disrupt our business activities which could in turn adversely affect our results of operations.

Risks Relating to Manufacturing

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and other disruptions, which could significantly increase our costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and costly equipment, demand a high degree of precision and may have to be modified to improve yields and product performance. Dust and other impurities, difficulties in the fabrication process or defects with respect to the equipment or facilities used can lower yields, because quality control problems interrupt production or result in losses of products in process. As system complexity has increased and process technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. As a result, we may experience production difficulties, which could significantly increase our costs and delay product shipments to our customers. And for those products cannot meet the quality requirement, we may suffer additional compensation loss, besides the production cost.

We may have difficulty in ramping up production, which could cause delays in product deliveries and loss of customers and otherwise adversely affect our business and operating results.

We may experience difficulty in ramping up production at new or existing facilities, such as SMNC and SMIC Shenzhen in which we expect to add a significant amount of new and second-hand equipment. This could be due to a variety of factors, including hiring and training new personnel, implementing new fabrication processes, recalibrating and re- qualifying existing processes and the inability to achieve required yield levels.

In the future, we may face construction delays or interruptions, infrastructure failure, or delays in upgrading or expanding existing facilities or changing our process technologies, which may adversely affect our ability to ramp up production in accordance with our plans.

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Our failure to ramp up our production on a timely basis could cause delays in product deliveries, which may result in the loss of customers and sales. It could also prevent us from recouping our investments in a timely manner or at all, and otherwise adversely affect our business and operating results.

If we are unable to obtain raw materials, spare parts and outsourcing services in a timely manner, our production schedules could be delayed and our costs could increase.

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices and in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers, almost all of which are sourced from outside China. In 2013, we purchased approximately 73.41% of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced from outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or disrupted; if there are significant increases in their prices; or if the lead times for the supply of raw materials and necessary spare parts are extended, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.

We outsource certain wafer manufacturing, assembly and testing services to third parties. Any delay or interruption in the provision of supplies and/or services could result in our inability to meet customer demand or fulfill contract terms, damage our reputation and customer relationships and adversely affect our business.

Our production may be interrupted, limited or delayed if we cannot maintain sufficient sources of fresh water and electricity, which could adversely affect our business and operating results.

The semiconductor fabrication process requires extensive amounts of fresh water and a stable source of electricity. As our production capabilities increase and our business grows, our requirements for these resources will grow substantially. While we have not, to date, experienced any instances of the lack of sufficient supplies of water or material disruptions in the electricity supply to any of our fabs, we may not have access to sufficient supplies of water and electricity to accommodate our planned growth. Droughts, pipeline interruptions, power interruptions, electricity shortages or government intervention, particularly in the form of rationing, are factors that could restrict our access to these utilities in the areas in which our fabs are located. In particular, our fab in Tianjin and our Beijing mega-fab are located in areas that are susceptible to severe water shortages during the summer months. If there is an insufficient supply of fresh water or electricity to satisfy our requirements, we may need to limit or delay our production, which could adversely affect our business and operating results. In addition, a power outage, even of very limited duration, could result in a loss of wafers in production and deterioration in yield.

We are subject to the risk of damage due to fires or explosions because the materials we use in our manufacturing processes are highly flammable. Such damage could temporarily reduce our manufacturing capacity, thereby adversely affecting our business and operating results.

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We use highly flammable materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from explosions and fires. The risk of explosion and fire associated with these materials cannot be completely eliminated. Our comprehensive fire insurance and insurance for the loss of property and the loss of profit resulting from business interruption, may not be sufficient to cover all of our potential losses due to an explosion or fire. If any of our fabs were to be damaged or cease operations as a result of an explosion or fire, it could temporarily reduce our manufacturing capacity, which could adversely affect our business and operating results.

Our Beijing mega-fab is located in an area that is susceptible to seasonal dust storms, which could create impurities in the production process at these facilities and require us to spend additional capital to further insulate these fabs from dust, thereby affecting our business, financial condition and operating results.

The location of our fabs in Beijing makes them susceptible to seasonal dust storms, which could cause dust particles to enter the buildings and affect the production process. Although we are constructing precautionary filtration systems, these may not adequately insulate the fabs against dust contamination. If dust were to affect production in the Beijing fabs, we could experience quality control problems, losses of products in process and delays in shipping products to our customers. In addition, we may have to spend additional capital to further insulate the Beijing fabs from dust if our current precautionary measures are insufficient. The occurrence of any of these events could adversely affect our business, financial condition and operating results.

Any new regulations or customer requirements related to climate change or environmental protection could negatively impact our operating results.

There is global concern that an increase in global average temperatures due to emissions of greenhouse gases (GHG) and other human activities have or will cause significant changes in weather patterns, including natural disasters. Such climate change creates risks, such as the physical risks of increased sea levels or extreme weather events, and the financial risks of causing adverse effects on our operations, financial condition, supply chain, increased manufacturing costs, or reduced demand for products believed to contribute to climate change.

We may become subject to legislation, regulation, or treaty obligations designed to address global climate change, Chinese air quality, and other environmental concerns. Compliance with any new rules could be difficult and costly, causing us to incur additional energy and environmental costs, as well as costs for defending and resolving legal claims.

Furthermore, continued serious air pollution in Chinese cities where we operate could pose long-term health risks to our employees and make recruiting and retaining employees more difficult. For example, in December 2013 Shanghai air pollution index reached severe level which is the worst in a six-tier national rating system.

Risks related to New Investment Fund

Our performance may be affected by the performance of our new investment fund and we may incur losses as a result of ineffective investment strategy and poor risk management.

On 27 February 2014, our wholly-owned subsidiary, Semiconductor Manufacturing International (Shanghai) Corporation (SMIS), established a wholly-owned investment fund in Shanghai which is called China IC Capital Co., Ltd, or the Fund. The Fund has an

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initial capital of RMB500 million, all funded by SMIS. With an operating period of 15 years from the date of the issuance of its business license, the Fund will be operated and managed by an equity investment management company named China Fortune-Tech Capital Co., Ltd, and established by SMIS and an independent third party on 27 February 2014.

The Fund will invest primarily in the integrated circuits industry but will also invest in other strategic emerging industries such as energy saving and environmental protection, information technology and new energy as well as some other traditional industries. While we generally expect China s integrated circuits industry to develop rapidly in the next decade and we believe that the other industries we will invest in also have a promising prospect of development, uncertainties due to the slow recovery of the world economy, the global market demand and consumption behaviors may lead to weak market demand in the industries in which we may choose to invest.

As a result, there is no assurance that our investment will be successful. We may incur losses in our investments through the Fund and our overall performance may be adversely affected by such failure in the Fund s investment activities.

Risks Related to Conducting Operations in the PRC

Our business is subject to extensive government regulation and benefits from certain government incentives, and changes in these regulations or incentives could adversely affect our business and operating results.

The Chinese government has broad discretion and authority to regulate the technology industry in China. China s government has also implemented policies from time to time to regulate economic expansion in China. The economy of China has been transitioning from a planned economy to a market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilisation of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency- denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies. New regulations or the readjustment of previously implemented regulations could require us to change our business plan, increase our costs or limit our ability to sell products and conduct activities in China, which could adversely affect our business and operating results.

In addition, the Chinese government and provincial and local governments have provided, and continue to provide, various incentives to domestic companies in the semiconductor industry, including us, in order to encourage the development of the industry. Such incentives include tax rebates, reduced tax rates, favorable lending policies, and other measures. Any of these incentives could be reduced or eliminated by governmental authorities at any time, which would adversely affect our business and operating results.

Because our business is highly dependent on growth in the electronics manufacturing supply chain in China, any slowdown in this growth could adversely affect our business and operating results.

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Our business is highly dependent upon the economy and the business environment in China. In particular, our growth strategy is based upon the assumption that demand in China for devices that use semiconductors will continue to grow. Therefore, any slowdown in the growth of consumer demand in China for products that use semiconductors, such as computers, mobile phones or other consumer electronics, could have a serious adverse effect on our business. In addition, our business plan assumes that an increasing number of non- Chinese IDMs, fabless semiconductor companies and systems companies will establish operations in China. Any decline in the rate of migration to China of semiconductor design companies or companies that require semiconductors as components for their products could adversely affect our business and operating results.

Limits placed on exports into China could harm our business and operating results.

The growth of our business depends on the ability of our suppliers to export and our ability to import, into China, equipment, materials, spare parts, process know-how and other technologies and hardware. Any burdensome new restrictions placed on the import and export of these items could adversely impact our growth and substantially harm our business. In particular, the international export control regime led by the United States requires our suppliers and us to obtain licenses to export and import, as applicable, certain of the above items. If we or our suppliers are unable to obtain such licenses in a timely manner, our business and operating results could be adversely affected.

Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results.

The value of the Renminbi is subject to changes in China s governmental policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People s Bank of China (the PBOC), which are set daily based on the previous day s interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to U.S. dollar exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation. On 21 July 2005, the PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1 : 8.27 to 1 : 8.11 and modified the system by which the exchange rates are determined. The central parity rate of the U.S. dollar to Renminbi was set at 6.0969 on 31 December 2013 compared with 6.2855 on 31 December 2012 by the PBOC. The cumulative appreciation of the Renminbi against the U.S. dollar in 2013 was approximately 3.09%. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile and the Renminbi may be temporarily devalued again against the U.S. dollar or other currencies, or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation in the value of the Renminbi against the U.S. dollar, any of which could have an adverse effect on our business and operating results.

In the past, financial markets in many Asian countries have experienced severe volatility and, as a result, some Asian currencies have experienced significant devaluation from time to time. The devaluation of some Asian currencies may have the effect of rendering exports from China more expensive and less competitive and therefore place pressure on China s government to devalue the Renminbi. An appreciation in the value of the Renminbi could have a similar effect. Any devaluation of the Renminbi could result in

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an increase in volatility of Asian currency and capital markets. Future volatility of Asian financial markets could have an adverse impact on our ability to expand our product sales into Asian markets outside of China.

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. For the year ended 31 December 2013, approximately 19.3% of our sales were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China s existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we may not be able to meet our foreign currency payment obligations.

China s legal system embodies uncertainties that could adversely affect our business and operating results.

Since 1979, many new laws and regulations covering general economic matters have been promulgated in China. Despite this activity to develop a legal system, China s system of laws has not been fully implemented. Even where adequate laws exist, enforcement of existing laws or contracts based on such laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment of another jurisdiction. The relative inexperience of China s judiciary system in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be effected by government policies reflecting domestic political changes.

Our activities in China will be subject to administrative review and approval by various national and local Chinese government agencies. Because of the changes occurring in China s legal and regulatory structure, we may not be able to timely secure the requisite governmental approval for our activities, which would adversely affect our business and operating results.

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Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our Chinese operating subsidiaries, which could restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.

We are a Cayman Islands holding company and substantially all of our operations are conducted through our Chinese operating subsidiaries, Semiconductor Manufacturing International (Beijing) Corporation (SMIB), SMIS and Semiconductor Manufacturing International (Tianjin) Corporation (SMIT). The ability of these subsidiaries to distribute dividends and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under Chinese law, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of their respective registered capital. In addition, the profit available for distribution from our Chinese operating subsidiaries is determined in accordance with generally accepted accounting principles in China. This calculation may differ from the one performed in accordance with IFRS. As a result, we may not have sufficient distributions from our Chinese subsidiaries to enable necessary profit distributions to us or any distributions to our shareholders in the future.

Distributions by our Chinese subsidiaries to us may be subject to governmental approval and taxation. Any transfer of funds from us to our Chinese subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of Chinese governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. In addition, it is not permitted under Chinese law for our Chinese subsidiaries to directly lend money to one another. Therefore, it is difficult to change our capital expenditure plans once the relevant funds have been remitted from us to our Chinese subsidiaries. These limitations on the free flow of funds between us and our Chinese subsidiaries could restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.

Risks Relating to the PRC

Certain facts and statistics in this Offering Circular relating to the PRC economy and the semiconductor industry in the PRC derived from published information may contain inaccuracies.

Some of the facts and statistics in this Offering Circular relating to the PRC, the global and PRC economy and semiconductor industry and related industry sectors are derived from various publications and obtained in communications with various agencies that we believe to be reliable. However, we cannot guarantee the quality or reliability of certain source materials. Such facts and statistics have not been independently verified by us or the Managers, and, therefore, neither we nor the Managers make any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this Offering Circular relating to the PRC economy and the semiconductor industry and related industry sectors may contain inaccuracies. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

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Changes in the economic and political policies of the PRC government could have an adverse effect on overall economic growth in China, which may adversely affect our business.

We conduct most of our business operations in the PRC. Accordingly, our financial condition, results of operations and prospects depend to a significant extent on economic developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including:

- extent of government involvement;
- level of development;
- growth rate;
- economic and political structure;
- control of foreign exchange;
- allocation of resources; and
- regulation of capital reinvestment.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy but may also have a negative effect on our operations. For example, our financial condition and operating results may be adversely affected by the PRC government s control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market- orientated economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. There is no assurance that prospective changes in the PRC s political, economic and social conditions, laws, regulations and policies will not have a material adverse effect on our existing or future business, results of operations or financial condition.

Lower domestic demand in the PRC could adversely affect our financial condition.

We rely on domestic demand to achieve growth in our revenue. Such demand is materially affected by industrial development, the growth of private consumption and the overall economic growth in China as well as policy support for our target industries and for our financial services. Any deterioration of these industries in China resulting from a global economic downturn or the Chinese government s macroeconomic measures affecting these

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industries may have a material adverse impact on our financial performance and prospects. Furthermore, any deterioration in the financial condition of our customers in these industries or any industry-specific difficulties encountered by these customers could affect our business, thereby materially and adversely affecting its business, financial condition, results of operations and prospects.

Furthermore, the global crisis in financial services and credit markets in 2008 caused a slowdown in the growth of the global economy with a corresponding impact on the Chinese economy. While the rate of deterioration of the global economy slowed in the second half of 2009, with some signs of stabilisation and improvement in 2010 and the first half of 2011, macroeconomic events in 2011 such as the tightening of monetary policy by the PRC and other governments and the sovereign debt crisis in Europe may have an adverse effect on the global and the PRC economies resulting in continuing uncertainty for the overall prospects for the global economies in 2012 and beyond. Any slowdown or recession in the Chinese economy may affect our ability to secure new leases and contracts and our ability to obtain sufficient financing, which may in turn have a material adverse effect on our business, results of operations, financial condition and prospects.

Changes to the PRC tax regime could increase the tax liability of the Group.

Our PRC subsidiaries, jointly controlled entities and associates are entitled to certain exemption and reliefs from PRC income tax for a number of years. No assurance can be given that the tax benefits provided to these joint ventures, subsidiaries, jointly owned entities and associates will remain effective or will not change. If the tax advantages offered are abolished or materially reduced, our tax liability in the PRC would be increased accordingly.

On 6 December 2007, the State Council adopted the Implementing Rules of PRC EIT Law, effective as at 1 January 2008, which defines the term de facto management bodies as bodies that substantially carry out comprehensive management and control of the business operations, employees, accounts and assets of enterprises . Under the PRC EIT Law, an enterprise outside of the PRC whose de facto management bodies are located in the PRC is considered a resident enterprise and will be subject to a uniform 25% enterprise income tax rate on its global income. In April 2009, the State Administration of Taxation further specified criteria for the determination of the de facto management bodies for foreign enterprises, which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its de facto management bodies located in the PRC and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise s day-to-day operational management is primarily exercised in the PRC, (ii) decisions relating to the enterprise s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (iii) the enterprise s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in the PRC, and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

We are not currently treated as a PRC resident enterprise by the relevant tax authorities. There is no assurance that we will not be considered a resident enterprise under the PRC EIT Law and not be subject to the enterprise income tax rate of 25% on our global income in the future.

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Loans and direct investments in PRC Subsidiaries.

Under PRC law, any capital contributions and loans made by us (as a foreign shareholder) to our PRC-incorporated subsidiaries are subject to the relevant PRC regulatory regime. In terms of a foreign shareholder s loan, the loan made by us to our PRC subsidiaries must be registered with the PRC State Administration of Foreign Exchange (SAFE) or any government bureau or agency to which it has delegated this authority. Otherwise, the loans cannot be remitted into the PRC and (if required) converted into Renminbi. In respect of capital contributions made by us to our PRC subsidiaries, we must submit applications to and obtain approvals from the competent foreign investment authority (e.g. MOFCOM or its relevant local branch). Due to the discretionary nature of the approvals and sometimes unpredictable nature of the outcome, we cannot assure that we will be able to register the loans or obtain the approvals in a timely fashion, or at all. If we fail to complete such registration or obtain such approvals, our ability to finance the operations of our PRC subsidiaries and expansion projects may be adversely affected, which in turn could harm our business, results of operations and financial condition.

Our prospects, financial condition and results of operations may be affected by events which are outside our control.

Certain areas in the PRC, including the areas in which we operate, may be prone to infectious diseases such as SARS. Outbreaks of infectious diseases in the past have damaged the regional and national economies in the PRC. Over the past few decades, the PRC has suffered health epidemics related to the outbreak of avian influenza, H1N1 virus and SARS. Any prolonged recurrence of avian influenza, SARS or other adverse public health developments in the PRC could materially and adversely affect domestic consumption, labour supply and, possibly, the overall gross domestic product growth of the PRC. In addition, if any of our employees are affected by any severe communicable disease, it could adversely affect or disrupt production levels and operations at the relevant plants and materially and adversely affect our business, financial condition and results of operations, which may also involve a closure of our facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which could materially and adversely affect our business, financial condition, and results of operations.

Natural disasters such as earthquakes, floods, severe weather conditions or other catastrophic events may severely affect us or our customers. For example, in May 2008, Sichuan Province experienced a strong earthquake, measuring approximately 8.0 on the Richter scale, which caused widespread damage and casualties. In March 2011, an earthquake measuring approximately 9.0 on the Richter scale occurred in Japan causing widespread damage such as radiation leakage from the damaged Fukushima nuclear plant. The risk of radiation exposure has affected Japan and certain parts of the region including the PRC. These natural disasters and consequential damages caused by such events could cause a material economic downturn in the region and may have an adverse effect on our business prospects, financial condition and results of operations.

Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest and the corresponding heightened travel security measures instituted in response to such events, as well as geopolitical uncertainty and international conflict and tension may have an adverse effect. In addition, we may not be adequately prepared in terms of contingency planning or have recovery capabilities in place to deal with a major incident or crisis. As a result, our continuity of operation may be adversely affected and our reputation seriously harmed.

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Interpretation and enforcement of laws in the PRC may involve uncertainties.

Our core business is conducted in the PRC and therefore substantially all of our operations are located in the PRC. Our business operations are regulated primarily by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike the common law systems, past court judgments in the PRC have limited precedential value and may be cited only for reference. Furthermore, PRC written statutes often require detailed interpretations by courts and enforcement bodies for their application and enforcement. Since 1979, the PRC Government has been committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing business and commercial matters, such as in foreign investment, company organisation and management, commercial transactions, tax and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on our business and prospects. In addition, as these laws and regulations are still evolving and because of the limited number and non- binding nature of published cases. The interpretation of PRC laws may be subject to political and policy changes.

PRC Labour Contract Law may result in increased labour costs.

On 29 June 2007, the PRC Government enacted the New Labour Contract Law, which became effective on 1 January 2008. The New Labour Contract Law establishes additional restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labour union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the New Labour Contract Law, an employer is obligated to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after two consecutive fixed term labour contracts. The employer must also pay compensation to employees if the employer terminates an unlimited term labour contract. Unless an employee refuses to extend an expired labour contract with fixed term, compensation is also required when the labour contract expires and the employer does not extend the labour contract with the employee under the same terms or better terms than those in the original contract. Further, under the Regulations on Paid Annual Leave for Employees, which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day. As a result of these protective labour measures or any additional future measures, our labour costs may increase. We cannot give assurance that any disputes, work stoppages or strikes will not arise in the future.

PRC Anti-Monopoly Law may involve uncertainties and result in fines and penalties.

The PRC Anti-Monopoly Law, which attempts to prevent monopolistic activities and protect fair competition in the PRC, became effective on 1 August 2008. It prohibits business entities (including us and the Group) from engaging in monopolistic behaviour, entering into monopolistic agreements, abusing a dominant market position or pursuing consolidations, which exclude, restrict or potentially inhibits competition. The PRC Anti- Monopoly Law does not prohibit any business entity from increasing its market share to achieve or maintain a dominant market position through fair competition, nor does it set limits on the market share that any one entity can achieve or maintain in the PRC.

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Under the PRC Anti-Monopoly Law, an entity that enters into monopolistic agreements or abuses its dominant market position may be subject to penalties, including confiscation of illegal gains and fines ranging from 1% to 10% of its revenue for the preceding year. If an entity pursues an illegal consolidation, it may be forced to terminate the consolidation, divest its shares and assets or businesses within a limited period or otherwise unwind the consolidation. The operating flexibility of our PRC subsidiaries and our business expansion through a merger with or acquisition of other competitors may be subject to strict examination and approval by MOFCOM, which is the main authority in charge of reviewing anti-monopoly issues related to business combinations. As the PRC Anti-Monopoly Law has only come into effect recently and has not been fully interpreted and implemented, its effect on our business is not yet known and we cannot give assurances that the relevant authorities will not interpret the law in such a manner or announce specific rules such that the implementation of the PRC Anti- Monopoly Law will affect our business in general or will contradict the PRC Government s existing policies. In the event of non- compliance with the PRC Anti-Monopoly Law, we may be subject to substantial fines and other penalties. In the event of these circumstances, our business model and revenues may be adversely affected.

Risks Relating to the Bonds

The Bonds are unsecured obligations.

The Bonds constitute direct, unconditional, unsubordinated and (subject to Terms and Conditions of the Bonds Negative Pledge) unsecured obligations of the Issuer ranking pari passu and rateably, without any preference among themselves. The payment obligations of the Issuer under the Bonds rank equally with all its other existing and future unsecured and unsubordinated obligations, save for such obligations that may be preferred by provisions of law that are mandatory and of general application. The repayment of the Bonds may be compromised if:

- the Group enters into bankruptcy, liquidation, rehabilitation or other winding-up proceedings;
- there is a default in payment under the Group s future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Group s indebtedness.

If any of the above events occurs, the Group s assets may not be sufficient to pay amounts due on the Bonds.

The Bonds will have limited liquidity and the transfer of the Bonds will be restricted.

No public market exists for the Bonds. There is no current intention to list the Bonds other than on the SGX-ST. If any of the Bonds are traded after the initial issue, they may trade at a discount or premium from their initial offering price, depending on prevailing interest rates, the market for similar Bonds and other factors, including general economic conditions and the financial condition, performance and prospects of the Issuer. No assurance can be given as to the future price level of the Bonds after their initial issue.

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The Issuer has not registered the Bonds under the Securities Act or other securities laws. Unless and until the Bonds have been registered, they may not be offered or sold except in transactions that are exempt from the registration requirements of the Securities Act. The Bonds will not be freely tradable absent registration or an exemption from registration.

The Bonds contain provisions regarding modification, waivers and substitution, which could affect the rights of Bondholders.

The Trust Deed contains provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of Bonds, including holders of Bonds who did not attend and vote at the relevant meeting and holders of Bonds who voted in a manner contrary to the majority. In addition, an Extraordinary Resolution (as defined in the Terms and Conditions of the Bonds) in writing signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of holder of Bonds duly convened and held. The Conditions also provide that the Trustee may, without the consent of holders of Bonds, subject as provided in the Conditions and the Trust Deed, agree to effect any modification to, or any waiver of the Conditions or the Trust Deed, if to do so is not the opinion of the Trustee materially prejudicial to the interests of the Bondholders or is in the opinion of the Trustee of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, authorisation or waiver shall be binding on the holders of Bonds.

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds and the merits and risks of investing in the Bonds and the information contained in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

- understand thoroughly the terms of the Bonds; and

- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Bondholders may be subject to risks presented by fluctuations in exchange rates between U.S. dollar and other currencies.

The value of the U.S. dollar against other foreign currencies fluctuates and is affected by changes in the international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the Bonds in U.S. dollar. As a result, the value of these U.S. dollar payments may vary with the prevailing exchange rates in the marketplace. If the value of the U.S. dollar depreciates against other foreign currencies, the value of a bondholder s investment in U.S. dollar or other applicable foreign currency terms will decline.

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The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity and/or security and/or prefunding to it, in breach of the terms of the Trust Deed or in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the Trust Deed and the Conditions and applicable laws and regulations, it will be for the Bondholders to take such actions directly.

There is no existing public market for the Bonds.

The Bonds are a new issue of securities for which there is currently no established trading market when issued, and one may never develop. Approval in-principle has been obtained for the listing and quotation of the Bonds on the SGX-ST. However, there can be no assurance that the Issuer will be able to maintain such a listing or that, if listed, a trading market will develop for the Bonds on the SGX-ST. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of Bonds.

If an active trading market were to develop, the Bonds could trade at a price that may be lower than the initial offering price of the Bonds. Whether or not the Bonds will trade at lower prices depends on many factors, including:

- prevailing interest rates and the market for similar securities;
- general economic, market and political conditions;
- the Issuer s financial condition, financial performance and future prospects;
- the publication of earnings estimates or other research reports and speculation in the press or investment community in relation to the Issuer; and
- changes in the industry and competition affecting the Issuer.

The risks described above do not necessarily comprise all those faced by the Group and are not intended to be presented in any assumed order of priority.

The investment referred to in this Offering Circular may not be suitable for all of its recipients. Investors are accordingly advised to consult an investment advisor before making a decision to subscribe for the Bonds.

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The Bonds may be issued with original issue discount for U.S. federal income tax purposes.

The Bonds may be treated as having been issued with original issue discount for U.S. federal income tax purposes. Accordingly, a U.S. Holder (as defined in Taxation U.S. Federal Income Taxation) may, in addition to the stated interest on the Bonds, be required to include such original issue discount in gross income as it accrues, in advance of the receipt of cash. See Taxation U.S. Federal Income Taxation.

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USE OF PROCEEDS

We estimate that the net proceeds (net of fees, commissions and expenses) from the sale of the Bonds will be approximately US$491 million.

We intend to use the net proceeds for debt repayment and the remainder for capital expenditure in relation to capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general purposes.

The foregoing represents our current intentions to use and allocate the proceeds of the Bonds based upon our present plans and business conditions. Our management, however, will have significant flexibility and discretion to apply the proceeds from the issuance of the Bonds. If an unforeseen event occurs or business conditions change, we may use the proceeds from the issuance of the Bonds differently than as described in this Offering Circular.

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CAPITALISATION

The following table sets forth the Issuer s consolidated capitalisation and indebtedness as at 30 June 2014 and as adjusted basis to give effect to the issue of the bonds. This table should be read in conjunction with the Issuer s consolidated financial statements and the accompanying notes, which are included elsewhere in this Offering Circular.

	As at 30 June 2014	
	Actual (US$ 000)	**As adjusted (US$ 000)**
Borrowings current	365,269	365,269
Long term borrowings		
Borrowings non-current	430,520	430,520
Convertible bonds	352,317	352,317
Bonds to be issued		500,000
Total Long term borrowings	782,837	1,282,837
Equity		
Ordinary shares	13,933	13,933
Share premium	4,296,190	4,296,190
Reserves	87,004	87,004
Accumulated deficit	(1,616,797)	(1,616,797)
Non-controlling interests	108,715	108,715
Total equity	2,889,045	2,889,045
Total capitalisation(1)	3,671,882	4,171,882

Note:

(1) Total capitalisation is defined to be the sum of total equity and long term borrowings.

Except as otherwise disclosed herein there has been no material change in the consolidated capitalisation and indebtedness of the Issuer since 30 June 2014.

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EXCHANGE RATE INFORMATION

THE PRC

The PBOC, the central bank of the PRC, sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day s interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day and makes it the central parity for the trading against the Renminbi on the following working day. In May 2007, the PBOC increased the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. Effective 16 April 2012, this trading band has been widened to 1%, which allows the Renminbi to fluctuate against the U.S. dollar by up to 1% above or below the central parity rate published by the PBOC.

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The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods prior to 1 September 2014 :

	Noon Buying Rate (RMB per US$1.00)			
	Low	Average(1)	High	Period end
2007	7.2946	7.5806	7.8127	7.2946
2008	6.7800	6.9193	7.2946	6.8225
2009	6.8176	6.8295	6.8470	6.8259
2010	6.6000	6.7539	6.8330	6.6000
2011	6.2939	6.4619	6.6364	6.2939
2012	6.2221	6.3088	6.3879	6.2301
2013	6.0602	6.1476	6.2448	6.0617
2014				
January	6.0395	6.0512	6.0600	6.0600
February	6.0600	6.0807	6.1718	6.1448
March	6.0995	6.1729	6.2321	6.2164
April	6.1851	6.2246	6.2669	6.2591
May	6.2179	6.2382	6.2623	6.2471
June	6.2036	6.2306	6.2548	6.2036
July	6.1712	6.1987	6.2115	6.1737
August	6.1395	6.1538	6.1793	6.1430

Note:

(1) Determined by averaging the daily rates during that period.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 17 October 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of Hong Kong (the Basic Law), which came into effect on 1 July 1997, provides that no foreign exchange control policies shall be applied in Hong Kong. The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market within a boundary. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to US$1.00 since the peg was first established. In May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the HK dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong dollar will continue to be linked to the U.S. dollar or at all.

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The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods prior to 1 September 2014 :

	Exchange Rate (HK$ per US$1.00)			
	Low	**Average(1)**	**High**	**Period end**
2007	7.7497	7.8008	7.8289	7.7984
2008	7.7497	7.7814	7.8159	7.7499
2009	7.7495	7.7513	7.7618	7.7536
2010	7.7501	7.7692	7.8040	7.7810
2011	7.7631	7.7838	7.8068	7.7661
2012	7.7493	7.7566	7.7699	7.7507
2013	7.7509	7.7564	7.7664	7.7538
2014				
January	7.7530	7.7573	7.7676	7.7632
February	7.7538	7.7582	7.7673	7.7601
March	7.7555	7.7613	7.7672	7.7565
April	7.7514	7.7539	7.7577	7.7525
May	7.7509	7.7522	7.7542	7.7565
June	7.7503	7.7514	7.7526	7.7503
July	7.7497	7.7500	7.7515	7.7498
August	7.7495	7.7503	7.7515	7.7500

Note:

(1) Determined by averaging the daily rates during that period.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA AND OPERATING DATA

The summary financial data below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations .

The selected financial information presented below as at and for the years ended 31 December 2011, 2012 and 2013 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer s published audited consolidated financial statements as at and for the years ended 31 December 2011, 2012 and 2013, which have been audited by Deloitte Touche Tohmatsu and included in this Offering Circular.

The selected financial information presented below as at and for the six months ended 30 June 2013 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer s unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2013, which have been included in this Offering Circular.

The selected financial information presented below as at and for the six months ended 30 June 2014 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer s unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2014, which have been included in this Offering Circular.

Results for interim periods are not indicative of results for the full year. The information set out below should be read in conjunction with the relevant consolidated financial statements of the Issuer, including the notes thereto, which are set out in this Offering Circular.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	(in US$ thousands, except for earnings per share)			(unaudited)	
Revenue	1,319,466	1,701,598	2,068,964	1,042,911	962,427
Cost of sales	(1,217,525)	(1,352,835)	(1,630,528)	(809,396)	(723,256)
Gross profit	101,941	348,763	438,436	233,515	239,171
Research and development expenses	(191,473)	(193,569)	(145,314)	(61,494)	(81,733)
Sales and marketing expenses	(32,559)	(31,485)	(35,738)	(18,029)	(18,726)
General and administration expenses	(57,435)	(107,313)	(138,167)	(76,839)	(58,721)
Other operating income (expense)	(11,190)	19,117	67,870	53,300	7,786
Profit (loss) from operations	(190,716)	35,513	187,087	130,453	87,777
Interest income	4,724	5,390	5,888	2,288	4,859
Finance costs	(21,903)	(39,460)	(34,392)	(19,930)	(12,861)
Foreign exchange gains or losses	17,589	3,895	13,726	5,094	(14,454)
Other gains or losses, net	6,709	6,398	4,010	(240)	10,711
Share of profits of associates	4,479	1,703	2,278	1,223	1,451
Profit (loss) before tax	(179,118)	13,439	178,597	118,888	77,483
Income tax (expense) benefit	(82,503)	9,102	(4,130)	(3,046)	(1,361)
Profit (loss) for the year/period from continuing operations	(261,621)	22,541	174,467	115,842	76,122
Discontinued operations					
Profit for the year/period from discontinued operations	14,741				
Profit (loss) for the year/period	(246,880)	22,541	174,467	115,842	76,122
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of financial statement of foreign operations	4,938	70	731	321	(1,953)
Total comprehensive income (expense) for the year/period	(241,942)	22,611	175,198	116,163	74,169
Profit (loss) for the year/period attributable to:					
Owners of the Company	(246,817)	22,771	173,177	116,005	77,062
Non-controlling interests	(63)	(230)	1,290	(163)	(940)
	(246,880)	22,541	174,467	115,842	76,122
Total comprehensive income (expense) for the year/period attributable to:					
Owners of the Company	(241,879)	22,841	173,908	116,326	75,109
Non-controlling interests	(63)	(230)	1,290	(163)	(940)
	(241,942)	22,611	175,198	116,163	74,169
Earnings (loss) per share					
From continuing and discontinued operations					
Basic	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
From continuing operations					
Basic	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00

Diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			As at 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Assets					
Non-current assets					
Property, plant and equipment	2,516,578	2,385,435	2,528,834	2,523,893	2,515,105
Prepaid land use right	77,231	73,962	136,725	124,818	136,623
Intangible assets	179,279	235,378	215,265	228,898	198,952
Investments in associates	15,856	21,636	29,200	23,189	30,820
Deferred tax assets	31,787	43,380	43,890	43,802	44,161
Other assets	45,685	43,382	6,237	37,926	7,228
Total non-current assets	2,866,416	2,803,173	2,960,151	2,982,526	2,932,889
Current assets					
Inventories	207,308	295,728	286,251	308,328	319,089
Prepaid operating expenses	52,805	46,986	43,945	57,231	42,261
Trade and other receivables	200,905	328,211	379,361	472,426	458,765
Other financial assets	1,973	18,730	240,311	2,881	358,417
Restricted cash	136,907	217,603	147,625	214,430	181,573
Cash and bank balances	261,615	358,490	462,483	262,955	573,332
	861,513	1,265,748	1,559,976	1,318,251	1,933,437
Assets classified as held-for-sale		4,239	3,265	922	1,543
Total current assets	861,513	1,269,987	1,563,241	1,319,173	1,934,980
Total assets	3,727,929	4,073,160	4,523,392	4,301,699	4,867,869
Equity and liabilities					
Capital and reserves					
Ordinary shares US$0.0004 par value, 50,000,000,000 shares authorised, 27,487,676,065, 32,000,139,623 and 32,112,307,101 shares issued and outstanding at 31 December 31 2011, 2012 and 2013, respectively. 32,075,631,400 and 34,831,860,338 shares issued and outstanding at 30 June 2013 and 2014, respectively	10,995	12,800	12,845	12,830	13,933
Convertible preferred shares, US$0.0004 par value, 5,000,000,000 shares authorised, 445,545,911, nil and nil shares issued and outstanding at 31 December 2011, 2012 and 2013, respectively. Nil and nil shares issued and outstanding at 30 June 2013 and 2014 respectively	178				
Share premium	4,082,135	4,083,588	4,089,846	4,088,071	4,296,190
Reserves	41,315	46,148	74,940	53,079	87,004
Accumulated deficit	(1,889,807)	(1,867,036)	(1,693,859)	(1,751,031)	(1,616,797)
Equity attributable to owners of the Company	2,244,816	2,275,500	2,483,772	2,402,949	2,780,330
Non-controlling interests	1,182	952	109, 410	789	108,715
Total equity	2,245,998	2,276,452	2,593,182	2,403,738	2,889,045

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	As at 31 December			As at 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Liabilities					
Non-current liabilities					
Borrowings	72,361	528,612	600,975	474,692	430,520
Convertible bonds			180,563		352,317
Deferred tax liabilities	1,333	440	167	257	122
Deferred government funding	125,335	150,347	209,968	174,876	192,325
Promissory notes	28,560				
Long-term financial liabilities	3,018	4,223		4,989	
Other liabilities		5,000			
Total non-current liabilities	230,607	688,622	991,673	654,814	975,284
Current liabilities					
Trade and other payables	375,748	423,952	393,890	537,003	474,268
Borrowings	798,782	567,803	390,547	586,425	365,269
Deferred government funding					31,484
Accrued liabilities	45,674	84,611	153,942	104,678	132,273
Promissory notes	29,374	29,374		14,791	
Other financial liabilities	1,683	25		107	
Current tax liabilities	63	2,321	158	143	246
Total current liabilities	1,251,324	1,108,086	938,537	1,243,147	1,003,540
Total liabilities	1,481,931	1,796,708	1,930,210	1,897,961	1,978,824
Total equity and liabilities	3,727,929	4,073,160	4,523,392	4,301,699	4,867,869

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Profit (loss) for the year/period	(246,880)	22,541	174,467	115,842	76,122
Non-cash adjustment to reconcile profit (loss) to net operating cash:					
Depreciation and amortization	551,857	566,899	546,910	271,464	275,334
Net cash from operating activities	379,368	435,166	738,016	262,998	278,674
Payments for property, plant and equipment	(931,574)	(400,291)	(650,160)	(311,140)	(227,246)
Net cash used in investing activities	(903,641)	(522,277)	(807,467)	(325,187)	(355,334)
Net cash from (used in) financing activities	268,855	184,101	173,458	(33,336)	188,832
Net increase (decrease) in cash and bank balances	(255,418)	96,990	104,007	(95,525)	112,172

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements, selected consolidated financial data and interim condensed consolidated financial statements, in each case together with their accompanying notes, included elsewhere in this Offering Circular.

This section includes forward-looking statements that involve risks and uncertainties. Other than statements of historical facts, all statements included in this section that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses we made in light of experience, together with our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances.

Unless the context otherwise requires, references to 2011 , 2012 and 2013 in this Offering Circular are to our financial years ended 31 December 2011, 2012 and 2013, respectively.

Overview

We are one of the leading semiconductor foundries in the world and the largest foundry in the PRC by revenue and capacity. We are also the most technologically advanced foundry in the PRC, providing IC foundry and technology services from 0.35- micron down to 28-nanometer.

Our operations are primarily based in China. In 2013 we achieved total sales of US$2,069 million, compared to US$1,701.6 million in 2012. We recorded annual profit of US$174.5 million and generated US$738.0 million in cash from operating activities in 2013, compared to annual profit of US$22.5 million and US$435.2 million in cash from operating activities in 2012. Our sales were US$962.4 million for the six months ended 30 June 2014, compared to US$1,042.9 million for the six months ended 30 June 2013. We recorded profit of US$76.1 million and generated US$278.7 million in cash from operating activities for the six months ended 30 June 2014, compared to profit of US$115.8 million and US$263.0 million in cash from operating activities for the six months ended 30 June 2013.

The major factors affecting our results of operations and financial condition are discussed below.

Factors that Impact Our Results of Operations

Cyclicality of the Semiconductor Industry

The semiconductor industry is highly cyclical due mainly to the cyclicality of demand in the markets of the products that use semiconductors. As these markets fluctuate, the semiconductor market also fluctuates. This fluctuation in the semiconductor market is exacerbated by the tendency of semiconductor companies, including foundries, to make capital investments in plant and equipment during periods of high demand since it may require several years to plan, construct and commence operations at a fab. Absent sustained growth in demand, this increase in capacity often leads to overcapacity in the semiconductor market, which in the past has led to a significant underutilisation of capacity and a sharp drop in semiconductor prices. The semiconductor industry is generally

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slow to react to declines in demand due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of the planned expansion. See Risk Factors Risks Related to Our Financial Condition and Business.

Substantial Capital Expenditures

The semiconductor foundry industry is characterised by substantial capital expenditures. This is particularly true for our Company as we have recently constructed and equipped fabs and are continuing to construct and equip new fabs. In connection with the construction and ramp-up of our capacity, we incurred capital expenditures of US$765 million, US$499 million and US$770 million in 2011, 2012 and 2013, respectively. We depreciate our manufacturing machinery and equipment on a straight-line basis over an estimated useful life of five to seven years. We recorded depreciation of US$518.8 million, US$531.8 million and US$501.9 million in 2011, 2012 and 2013, respectively.

The semiconductor industry is also characterised by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, our research and development efforts are essential to our overall success. We spent US$191.5 million in 2011, US$193.6 million in 2012 and US$145.3 million in 2013 on research and development expenses, which represented 14.5%, 11.4% and 7.0%, respectively, of our sales for 2011, 2012 and 2013. Our research and development costs are partially offset by related government fundings and include the costs associated with the ramp-up of a new wafer facility.

We currently expect that our capital expenditures in 2014 for foundry operations will be approximately US$1.1 billion, subject to adjustment based on market conditions, which is an increase from US$880 million disclosed in our 2013 Form 20-F. We estimate that these capital expenditures will be used for (i) SMNC, our majority owned subsidiary in Beijing, which is 55% funded by us and 45% funded by the other shareholders of SMNC; (ii) the acquisition of used equipment for our Shenzhen 8-inch fab, (iii) the product-mix change including conversion from 40/45nm to 28nm in our Shanghai 12-inch fab and (iv) the expansion of capacity in our Tianjin 8-inch fab from 39K to 42K. In addition, we also budgeted approximately US$110 million in 2014 for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. Our actual expenditures may differ from our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices or customer requirements. We will monitor the global economy, the semiconductor industry, the demands of our customers and our cash flow from operations, and will adjust our capital expenditures plans as necessary.

Capacity Expansion

We have expanded, and plan to continue to expand, our capacity through internal growth, joint ventures and acquisitions. An increase in capacity may have a significant effect on our results of operations, both by allowing us to produce and sell more wafers and achieve higher sales, and as a cost component in the form of acquisition costs and depreciation expenses. We have increased our existing 8-inch capacities from 126,000 wafers per month in 2013 to 135,000 wafers per month in the first half of 2014 and increased the capacity of our Shanghai 12-inch facility from 12,000 12-inch wafers per month in 2013 to 14,000 12-inch wafers per month in the first half of 2014.

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Pricing

We price our foundry services on either a per wafer or a per die basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer, and our capacity utilisation. Since a majority of our costs and expenses are fixed or semi-fixed, fluctuations in the average selling prices of semiconductor wafers have historically had a substantial impact on our margins. The average selling price of the wafers we shipped increased from US$767 per wafer in 2012 to US$804 per wafer in 2013.

Change in Process Mix and Technology Migration

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our sales and profitability. The value of a wafer is determined principally by the complexity of the process technology used to fabricate the wafer. In addition, production of devices with higher levels of functionality and greater system-level integration requires more fabrication steps, and these devices generally sell for higher prices.

Prices for wafers of a given level of technology generally decline over the relevant process technology life cycle. As a result, we are continuously in the process of developing and acquiring more advanced process technologies and migrating our customers to use such technologies to maintain or improve our profit margins. This technology migration requires continuous investment in research and development and technology-related acquisitions, and we may spend a substantial amount of capital on upgrading our technologies.

Capacity Utilisation Rates

Operations at or near full capacity utilisation have a significant positive effect on our profitability because a substantial percentage of our cost of sales is of a fixed or semi-fixed nature. If we increase our utilisation rates, the number of wafers we fabricate will increase, and therefore our average fixed costs per wafer will decrease. Therefore, our capacity utilisation rates have a significant effect on our margins. Our capacity utilisation rates have varied from period to period mainly due to the mix of wafers produced and fluctuations in customer orders. Our capacity utilisation rate was 68.9% in 2011, 88.3% in 2012 and 90.7% in 2013. Factors affecting capacity utilisation rates are the overall industry conditions, the level of customer orders, the complexity of the wafers and of the mix of wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, and our ability to manage the production facilities and product flows efficiently.

Our capacity is determined by us based on the capacity ratings for each piece of equipment, as specified by the manufacturers of such equipment, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance, and expected product mix. Because these factors include subjective elements, our measurement of capacity utilisation rates may not be comparable to those of our competitors.

Yield Rates

Yield per wafer is the ratio of the number of functional dies on that wafer to the maximum number of dies that can be produced on that wafer. We continuously upgrade the process technologies that we use. At the beginning of each technology migration, the yield

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utilising the new technology is generally lower, sometimes substantially lower, than the yield under the then-current technology. This is because it requires time to stabilize, optimise and test a new process technology. We do not ship wafers to a customer until we have achieved that customer s minimum yield requirements. Yield is generally improved through the expertise and cooperation of our research and development personnel, process engineers, and equipment suppliers.

Critical Accounting Policies

We prepare our financial statements in conformity with IFRS, which requires us to make judgments, estimates and assumptions. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their applications and require us to make significant accounting estimates. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this Offering Circular.

Inventories

Inventories are stated at the lower of cost (weighted average) or net realisable value (NRV), with NRV being the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale . We estimate the recoverability for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions. If the NRV of an inventory item is determined to be below its carrying value, we record a write-down to cost of sales for the difference between the carrying cost and NRV.

Long-lived assets

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of asset or cash-generating unit (CGU) may not be recoverable. Factors that we consider in deciding when to perform an impairment review include, but are not limited to, significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets.

An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or CGU. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. Currently we are not able to

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estimate the amount of impairment loss or when the loss will occur for future years. Any potential changes of the business assumptions, such as forecasted sales, selling prices, utilisations, may have a material adverse effect on our net income.

We make subjective judgments in determining the independent cash flows that can be related to a specific CGU based on its asset usage model and manufacturing capabilities. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of CGU to our estimate of the related total future discounted cash flows. If a CGU s carrying value is not recoverable through the related discounted cash flows, the impairment loss is measured by comparing the difference between the CGU s carrying value and its recoverable amount, based on the best information available, including market prices or discounted cash flow analysis. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In order to remain technologically competitive in the semiconductor industry, we have entered into technology transfer and technology license arrangements with third parties in an attempt to advance our process technologies. The payments made for such technology licenses are recorded as an intangible asset or as a deferred cost and amortized on a straight-line basis over the estimated useful life of the asset. We routinely review the remaining estimated useful lives of these intangible assets and deferred costs. We also evaluate these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When the carrying amounts of such assets are determined to exceed their recoverable amounts, we will impair such assets and write down their carrying amounts to recoverable amount in the year when such determination was made.

Share-based Compensation Expense

The fair value of options and shares issued pursuant to our option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. We estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. We use projected volatility rates based upon our historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect our calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly.

Taxes

As an exempted company incorporated in the Cayman Islands, we are not subject to taxation in the Cayman Islands. Our subsidiaries are subject to their respective jurisdictions income tax laws, including the PRC, Japan, the United States, Taiwan and Europe. Our income tax obligations in the periods under review have been minimal.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of

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existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. We established provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of us.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

A deferred tax asset of US$0.4 million and nil has been recognised in our consolidated statement of financial position as at 31 December 2012 and 2013, respectively, in relation to unused tax losses. The realisability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

Fair value measurements and valuation processes

Some of our assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, we use market-observable data to the extent it is available. Where such market-observable data is not available, we engage third party qualified appraisers to perform the valuation. We use valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

Impairment of trade and other receivable

We assess at the end of each reporting period whether there is any objective evidence that trade and other receivable is impaired. To determine whether there is objective evidence of impairment, we consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

When there is objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

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Recent Accounting Pronouncements

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. The key requirements of IFRS 9 are set forth below.

All recognised financial assets that are within the scope of International Accounting Standards (IAS) 39 Financial instruments: Recognition and measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liabilities that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

We anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of our financial assets (e.g., our equity instruments that are currently classified as available-for-sale investments measured at cost will have to be measured at fair value at the end of subsequent reporting periods). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

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- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As at 30 June 2014, we did not anticipate that the investment entities amendments would have any effect on our consolidated financial statements as we were not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of currently has a legally enforceable right of set-off and simultaneous realisation and settlement .

We do not anticipate that the application of these amendments to IAS 32 will have a significant impact on our consolidated financial statements as we currently do not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal. We do not anticipate that the application of these amendments to IAS 36 will have a significant impact on our consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness. We do not anticipate that the application of these amendments to IAS 39 will have any effect on our consolidated financial statements as we currently do not have any derivatives that are subject to novation.

IFRIC Interpretation (Int 21) Levies

IFRIC Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

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We anticipate that the application of IFRIC Int 21 will have no effect on the Company s consolidated financial statements as we do not have any levy arrangements.

Incentives from the Chinese Government

The chart below sets forth a brief summary of the material incentives received by our Chinese subsidiaries as qualified integrated circuit production enterprises (ICPE) from the Chinese government. Our Shanghai, Beijing, and Tianjin subsidiaries are qualified as ICPEs under the Integrated Circuit Policies. Under these policies, ICPEs 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 the benefits listed below. For a more detailed discussion of these incentives, see PRC Regulation .

Incentive	**SMIS, SMIB and SMIT**
Preferential Enterprise Income Tax Policies	Five-year full exemption and five-year 50% reduction upon approval from the local tax bureau
Preferential Customs Duties and Import-related Value- added Tax (VAT) Policies	Exemption from customs duties and imported-related VAT with respect to its qualified spare parts, and raw materials pursuant to the tax-exemption categories

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Operating Results

The following table sets forth a summary of our consolidated results of operations for the periods indicated. We believe that period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	(in US$ thousands, except for earnings per share)			(unaudited)	
Revenue	1,319,466	1,701,598	2,068,964	1,042,911	962,427
Cost of sales	(1,217,525)	(1,352,835)	(1,630,528)	(809,396)	(723,256)
Gross profit	101,941	348,763	438,436	233,515	239,171
Research and development expenses	(191,473)	(193,569)	(145,314)	(61,494)	(81,733)
Sales and marketing expenses	(32,559)	(31,485)	(35,738)	(18,029)	(18,726)
General and administration expenses	(57,435)	(107,313)	(138,167)	(76,839)	(58,721)
Other operating income (expense)	(11,190)	19,117	67,870	53,300	7,786
Profit (loss) from operations	(190,716)	35,513	187,087	130,453	87,777
Interest income	4,724	5,390	5,888	2,288	4,859
Finance costs	(21,903)	(39,460)	(34,392)	(19,930)	(12,861)
Foreign exchange gains or losses	17,589	3,895	13,726	5,094	(14,454)
Other gains or losses	6,709	6,398	4,010	(240)	10,711
Share of profits of associates	4,479	1,703	2,278	1,223	1,451
Profit (loss) before tax	(179,118)	13,439	178,597	118,888	77,483
Income tax benefit (expense)	(82,503)	9,102	(4,130)	(3,046)	(1,361)
Profit (loss) for the year/period from continuing operations	(261,621)	22,541	174,467	115,842	76,122
Discontinued operations					
Profit for the year/period from discontinued operations	14,741				
Profit (loss) for the year/period	(246,880)	22,541	174,467	115,842	76,122
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of financial statement of foreign operations	4,938	70	731	321	(1,953)
Total comprehensive income (expense) for the year/period	(241,942)	22,611	175,198	116,163	74,169
Profit (loss) for the year/period attributable to:					
Owners of the Company	(246,817)	22,771	173,177	116,005	77,062
Non-controlling interests	(63)	(230)	1,290	(163)	(940)
	(246,880)	22,541	174,467	115,842	76,122
Total comprehensive income (expense) for the year/period attributable to:					
Owners of the Company	(241,879)	22,841	173,908	116,326	75,109
Non-controlling interests	(63)	(230)	1,290	(163)	(940)
	(241,942)	22,611	175,198	116,163	74,169
Earning (loss) per share					

From continuing and discontinued operations					
Basic	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
From continuing operations					
Basic	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00
Diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.00	$ 0.00

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Revenue

We generate our sales primarily from fabricating semiconductors. We also derive a relatively small portion of our sales from the mask-making, wafer probing, and other services that we perform for third parties separately from our foundry services.

For the six months ended 30 June 2014, fabless semiconductor companies accounted for 87.0%, IDMs accounted for 3.0% and systems and other companies accounted for 10.0%, respectively, of our sales. In 2013, fabless semiconductor companies accounted for 87.7%, IDMs accounted for 6.2%, and systems and other companies accounted for 6.1%, respectively, of our sales. A significant portion of our net sales is attributable to a relatively small number of our customers. In 2011, 2012 and 2013 and for the six months ended 30 June 2014, our five largest customers accounted for approximately 49.3%, 56.0%, 52.3% and 51.0% of our sales, respectively.

Cost of sales

Our cost of sales consists principally of:

- depreciation and amortization;
- overhead, including maintenance of production equipment, indirect materials, including chemicals, gases and various types of precious and other metals, utilities and royalties;
- direct materials, which consist of raw wafer costs;
- labor, including share-based compensation expenses for employees directly involved in manufacturing activities; and
- production support, including facilities, utilities, quality control, automated systems and management functions.

Income (expenses) and gains (loss) from operations

Research and development expenses

Research and development expenses consist primarily of salaries and benefits of research and development personnel, materials costs, depreciation and maintenance on the equipment used in our research and development efforts, contracted technology development costs, and the costs associated with the ramp-up of new fabs. Research and development expenses are partially offset by related government fundings.

General and administrative expenses

General and administrative expenses consist primarily of salaries and benefits for our administrative support, finance and human resource personnel, bonuses for employee, commercial insurance, fees for professional services, city maintenance and construction tax expenses, educational surtax expenses and bad debt expenses.

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Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries and benefits of personnel engaged in sales and marketing activities, costs of customer wafer samples, other marketing incentives and related marketing expenses.

Other operating income (loss)

Other operating income (loss) consist primarily of gains or loss arising from disposal of our living quarters, gains or loss arising from disposal of subsidiaries and impairment loss of long-lived assets.

Finance costs

Our finance costs consist of:

- interest expenses, net of capitalized portions and government fundings, which have been primarily attributable to our bank loans and the imputed interest rate on an outstanding interest-free convertible bonds; and

- accretion of interest to preferred shareholders of subsidiaries.

Other gains or losses

Our other gains or losses mainly consist of:

- gains and losses from our schools, kindergartens and living quarters; and

- the payment of land idling tax charged by the local government in 2013.

Comparison of the Six Months Ended 30 June 2013 and 2014 and the Years Ended 31 December 2011, 2012 and 2013

Six Months Ended 30 June 2013 Compared to Six Months Ended 30 June 2014

Revenue

Revenue decreased by 7.7% from US$1,042.9 million for the six months ended 30 June 2013 to US$962.4 million for the six months ended 30 June 2014, primarily because there had been no wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Corporation (Wuhan Xinxin) since the first quarter of 2014. The number of wafer shipments decreased by 6.7% from 1,319,427 8-inch wafer equivalents for the six months ended 30 June 2013 to 1,230,385 8-inch wafer equivalents for the six months ended 30 June 2014. The average selling price of the wafers we shipped decreased from US$790 per wafer for the six months ended 30 June 2013 to US$782 per wafer for the six months ended 30 June 2014.

Cost of sales and gross profit

Cost of sales decreased by 10.6% from US$809.4 million for the six months ended 30 June 2013 to US$723.3 million for the six months ended 30 June 2014, primarily because there had been no wafer shipments from Wuhan Xinxin since the first quarter of 2014.

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We had a gross profit of US$239.2 million for the six months ended 30 June 2014 compared to a gross profit of US$233.5 million for the six months ended 30 June 2013, representing an increase of 2.4%. Gross margin increased to 24.9% for the six months ended June 30, 2014 from 22.4% for the six months ended June 30, 2013. The increase in gross margin was primarily because (i) there were no wafer shipments from Wuhan Xinxin which had lower gross margin since the first quarter of 2014, and (ii) of improved fab efficiency in the first half of 2014.

Profit for the period from operations

Profit from operations decreased from US$130.5 million for the six months ended 30 June 2013 to US$87.8 million for the six months ended 30 June 2014, primarily due to (i) the gain arising from the partial disposal of the living quarters in Shanghai in the first half of 2013, and (ii) the gain arising from the disposal of our Company s total ownership interest in SMIC (Wuhan) Development Corporation (WHDM) which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan in the first half of 2013.

Research and development expenses increased by 32.9% from US$61.5 million for the six months ended 30 June 2013 to US$81.7 million for the six months ended 30 June 2014. The increase was mainly due to an increase in research and development activities.

General and administrative expenses decreased by 23.6% from US$76.8 million for the six months ended June 30, 2013 to US$58.7 million for the six months ended 30 June 2014. The decrease was primarily due to a decrease in accrued employee bonus in the first half of 2014.

Sales and marketing expenses were US$18.0 million for the six months ended 30 June 2013 as compared to US$18.7 million for the six months ended 30 June 2014.

Other operating income was US$7.8 million and US$53.3 million for the six months ended 30 June 2014 and 2013, respectively, and the decrease was due to (i) the gains arising from the partial disposal of our living quarters in Shanghai in the first half of 2013, and (ii) the gains arising from the disposal of our Company s total ownership interest in WHDM which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan in the first half of 2013.

As a result, our profit from operations decreased to US$87.8 million for the six months ended 30 June, 2014 from US$130.5 million for the six months ended 30 June 2013.

Profit for the period

Due to the factors described above, we had a profit attributable to holders of ordinary shares of US$76.1 million for the six months ended 30 June 2014 compared to US$115.8 million for the six months ended 30 June 2013.

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenue

Revenue increased by 21.6% from US$1,701.6 million for 2012 to US$2,069.0 million for 2013, primarily due to successful ramping up of Shanghai 12-inch fab in 2013 and a significant increase in China sales. For 2013, the overall wafer shipments were 2,574,119 units of 8-inch equivalent wafers, up 16.1% from the prior year.

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The average selling price of the wafers we shipped increased from US$767 per wafer in 2012 to US$804 in 2013. The percentage of wafer revenues from advanced 40/45 technologies increased from 1.1% in 2012 to 12.1% in 2013.

Cost of sales and gross profit

Cost of sales increased from US$1,352.8 million for 2012 to US$1,630.5 million for 2013, primarily due to the increase of advanced node shipment with higher production cost. Out of the total cost of sales, US$474.8 million and US$403.0 million were attributable to depreciation and amortization for the years ended 31 December 2013 and 2012, respectively.

Our gross profit was US$438.4 million for 2013 compared to US$348.8 million in 2012, representing an increase of 25.7%. Gross margin was 21.2% in 2013 compared to 20.5% in 2012. The increase in gross margin was primarily due to higher overall utilisation in 2013.

Profit for the year from operations

Profit from operations increased from US$35.5 million for the year ended 31 December 2012 to US$187.1 million for the year ended 31 December 2013 primarily due to (i) shipment increase and high utilisation in 2013, (ii) Shanghai 12-inch fab successfully ramping up and reducing per wafer cost, (iii) increase of fab efficiency and cost saving, (iv) the gain arising from the disposal of part of the living quarters in Shanghai, and (v) the gain arising from the disposal of our total ownership interest in WHDM which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan.

Research and development expenses decreased by 24.9% from US$193.6 million for the year ended 31 December 2012 to US$145.3 million for the year ended 31 December 2013. The decrease was mainly due to the Shanghai 12-inch fab commencing volume production in the fourth quarter of 2012 after which the related fab expense was recorded in cost of sales.

General and administrative expenses increased by 28.8% from US$107.3 million for the year ended 31 December 2012 to US$138.2 million for the year ended 31 December 2013. The increase was primarily due to an increase in employee bonus, city maintenance and construction tax expenses and extra charges for education in 2013.

Sales and marketing expenses increased by 13.5% from US$31.5 million for the year ended 31 December 2012 to US$35.7 million for the year ended 31 December 2013. The increase was primarily due to an increase in employee bonus.

Other operating income was US$67.9 million and US$19.1 million for the year ended 31 December 2013 and 2012, respectively, and the increase was due to (i) the gains arising from the disposal of part of our living quarters in Shanghai, (ii) the gains arising

from the disposal of our total ownership interest in WHDM which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan, and (iii) the gain arising from the deconsolidation of Brite Semiconductor Corporation and its subsidiaries, or Brite, due to loss of control.

As a result, our profit from operations was US$187.1 million for the year ended 31 December 2013 compared to US$35.5 million for the year ended 31 December 2012.

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Disposal of WHDM

In 2013, we entered into a sale agreement with a third-party buyer to dispose of our 100% equity interest in WHDM. The disposal was completed on 23 May 2013, on which date we lost control of WHDM. The amount of the consideration was US$60.4 million and we recorded a gain of US$28.3 million. The consideration was fully settled by the buyer on 26 July 2013. WHDM was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan, which was not our major line of business. Therefore, the disposal of WHDM was not classified as a discontinued operation.

Deconsolidation of Brite Semiconductor Corporation and its subsidiaries

On December 30, 2013, all the directors of Brite, a company in which we hold a 48.7% equity interest, adopted and approved by unanimous written consent the amended and restated articles of association, the amended and restated investor rights agreement and the amended and restated voting agreement of Brite. As a result, we lost control of Brite but still have significant influence over it. There was no cash consideration associated with this change. We recorded our ownership interest of Brite as investment in associate and recognised a deconsolidation gain due to loss of control of US$5.4 million. Brite is mainly engaged in design service, which is not our major line of business. Therefore, the deconsolidation of Brite due to loss of control was not classified as a discontinued operation.

Profit for the year

Due to the factors described above, we recorded a profit of US$174.5 million in 2013 compared to US$22.5 million in 2012.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue

Revenue increased by 29.0% from US$1,319.5 million for 2011 to US$1,701.6 million for 2012, primarily due to an increase in overall wafer shipments. For 2012, the overall wafer shipments were 2,217,287 units of 8-inch equivalent wafers, up 30.2% from the prior year.

The average selling price of the wafers we shipped decreased from US$775 per wafer in 2011 to US$767 in 2012. The percentage of wafer revenues from advanced technologies, 90nm and below, increased from 28.4% to 41.7% between these two years.

Cost of sales and gross profit

Cost of sales increased by 11.1% from US$1,217.5 million for 2011 to US$1,352.8 million for 2012, primarily due to an increase in overall wafer shipments. Out of the total cost of sales US$403.0 million and US$415.6 million was attributable to depreciation and amortization for the years ended 31 December 2012 and 2011, respectively.

Our gross profit was US$348.8 million for 2012 compared to US$101.9 million in 2011. Gross margins were 20.5% in 2012 compared to 7.7% in 2011. The increase in gross margins was primarily due to an increase in the production volume which resulted in higher in revenues and utilisation improvement.

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Profit (loss) for the year from operations

Profit (loss) from operations improved from loss of US$190.7 million for the year ended 31 December 2011 to profit of US$35.5 million for the year ended 31 December 2012 primarily due to (i) an increase in the production volume which resulted in higher revenues and utilisation improvements, (ii) the gains arising from the disposal of part of our living quarters in Shanghai during 2012, and (iii) the impairment loss of long-lived assets in 2011.

Research and development expenses increased only by 1.1% from US$191.5 million for 2011 to US$193.6 million for 2012.

General and administrative expenses increased by 86.8% from US$57.4 million for 2011 to US$107.3 million for 2012. The increase is primarily due to an increase in employee bonuses, city maintenance and construction tax expenses and extra charges for education in 2012. In addition, in 2011, the Company settled certain disputes with respective third party debtors by entering into contractually binding agreements which legally released the Company from certain obligations totaling US$19.0 million. The forgiveness of debt has been recorded as a reduction of general and administrative expense and other income respectively. In addition, the recovery of bad debt expense of US$6.4 million and US$2.0 million was recorded as a reduction of general and administrative expense for the year ended 31 December 2011 and 2012, respectively.

Sales and marketing expenses decreased by 3.4% from US$32.6 million for 2011 to US$31.5 million for 2012 due to more effective market promotion activities.

Other operating income was US$19.1 million for 2012 while we recorded other operating expenses of US$11.2 million for 2011, respectively, and the improvement was due to (i) the gains arising from the disposal of part of our living quarters in Shanghai during 2012 and (ii) the impairment loss of long-lived assets in 2011.

As a result, we recorded profit from operations of US$35.5 million for the year ended 31 December 2012 compared to loss from operations of US$190.7 million for the year ended 31 December 2011.

Discontinued operations

On 1 March 2011, we sold our majority ownership interest in Semiconductor Manufacturing International (AT) Corporation (AT) and deconsolidated the entity. As a result, all previously issued preferred securities by AT were cancelled. We retained a 10% interest in AT and account for such investment as available-for-sale investments as we no longer have a controlling financial interest nor significant influence over AT as at 31 December 2011 and 31 December 2012. We reported the results of the AT as a discontinued operation in the condensed consolidated statements of comprehensive income. No cash or other consideration was received by us in conjunction with the disposition.

We recorded a gain of US$17.1 million on the deconsolidation of AT equal to the difference between (i) the sum of (a) the fair value of the retained noncontrolling investments in AT, and (b) the carrying amount of the aforementioned noncontrolling interest in AT, and (ii) the carrying amount of AT s assets and liabilities. Income from discontinued operations of US$14.7 million represents both the results of operations of AT for the period from 1 January 2011 to the date it was deconsolidated and the gain on deconsolidation of AT. We sold our residual 10% interest in AT in 2013.

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Profit (Loss) for the year

Due to the factors described above, we recorded a profit of US$22.5 million in 2012 compared to a loss of US$246.9 million in 2011.

Liquidity and Capital Resources

We anticipate our working capital to be sufficient for our present requirements. We will require access to significant capital to fund our future capital expenditures and capacity expansion requirements, which are difficult to plan in the rapidly changing semiconductor manufacturing industry. In 2013, we entered into a subscription agreement in respect of the issue of US$200 million zero coupon convertible bonds. SMIS entered into a new seven-year loan facility in the aggregate principal amount of US$470 million with five banks. SMIB entered into a new USD loan, a 26-month working capital loan facility in the principal amount of US$60 million with The Export-Import Bank of China. In May 2014, we issued US$86.8 million in the pro-rata participation of Datang and Country Hill relating to the 2013 zero coupon convertible bonds, and in June 2014 we issued new shares of approximately US$200 million and US$95 million in the issuance of further convertible bonds. In August 2014, Datang entered into an agreement to subscribe for further pre- emptive bonds of US$22.2 million and pre-emptive shares of approximately HK$401.7 million, subject to shareholders approval at relevant EGM. Also in August 2014, Country Hill entered into an agreement to subscribe for pre-emptive shares of approximately HK$161.2 million, subject to shareholders approval at the relevant EGM. We anticipate that the cash flows from operations in 2014 and the proceeds from the new loans and the convertible bonds issued will be sufficient to meet our capital expenditures requirement in 2014. If necessary, we will also explore other forms of external financing.

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The following table sets forth a condensed summary of our statements of cash flows for the periods indicated:

	For the Years Ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
			(in US$ thousands)		
				(unaudited)	
Cash Flow Data:					
Profit (loss) for the year/period	(246,880)	22,541	174,467	115,842	76,122
Non-cash adjustment to reconcile profit to net operating cash flow:					
Depreciation and amortization	551,857	566,899	546,910	271,464	275,334
Net cash from operating activities	379,368	435,166	738,016	262,998	278,674
Payments for property, plant and equipment	(931,574)	(400,291)	(650,160)	(311,140)	(227,246)
Net cash used in investing activities	(903,641)	(522,277)	(807,467)	(325,187)	(355,334)
Net cash from financing activities	268,855	184,101	173,458	(33,336)	188,832
Net increase (decrease) in cash and cash equivalents	(255,418)	96,990	104,007	(95,525)	112,172

Operating Activities

As at 30 June 2014, we had US$573.3 million in cash and cash equivalents. These cash and cash equivalents are held in the form of U.S. dollars, Japanese Yen, Euro, and Renminbi. Our net cash provided by operating activities for the six months ended 2014 was US$278.7 million, which was primarily due to the net profit of US$76.1 million, an increase of US$77.5 million in trade and other receivables and the add-back of US$275.3 million in depreciation and amortisation.

As at 31 December 2013, we had US$462.5 million in cash and cash equivalents. These cash and cash equivalents were held in the form of U.S. dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2013 was US$738.0 million, which was primarily due to the net profit of US$174.5 million, an increase of US$33.4 million in trade and other receivables and the add-back of US$546.9 million in depreciation and amortization.

As at 31 December 2012, we had US$358.5 million in cash and cash equivalents. These cash and cash equivalents were held in the form of U.S. dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2012 was US$435.2 million, which was primarily due to the net profit of US$22.5 million, an increase of US$112.4 million in trade and other receivables, an increase of US$93.3 million in inventories and the add-back of US$566.9 million in depreciation and amortization.

As at 31 December 2011, we had US$261.6 million in cash and cash equivalents. These cash and cash equivalents were held in the form of U.S. dollars, Japanese Yen, Euros, and Renminbi. Our net cash provided by operating activities in 2011 was US$379.4 million, which was primarily due to the net loss of US$246.9 million, a decrease of US$73.1 million in trade and other receivables, an increase of US$60.2 million in restricted cash, an increase of US$41.2 million in prepaid operating expense, and the add-back of US$551.9 million in depreciation and amortization.

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Investing Activities

Our net cash used in investing activities was US$355.3 million for the six months ended 30 June 2014, primarily attributable to (i) purchases of plant and equipment for the fabs in Shanghai and Beijing, and (ii) the net result of proceeds from and payment for short-term investments carried at fair value through profit or loss. For the six months ended 30 June 2013, net cash used in investing activities was US$325.2 million primarily attributable to purchases of plant and equipment for the fabs in Shanghai and Beijing.

Our net cash used in investing activities was US$807.5 million in 2013, US$522.3 million in 2012 and US$903.6 million in 2011. These amounts were primarily attributable to purchases of plant and equipment for our fabs in Shanghai, Beijing and Tianjin.

Financing Activities

Our net cash generated from financing activities was US$188.8 million for the six months ended 30 June 2014 and we recorded net cash used in financing activities of US$33.3 million for the six months ended 30 June 2013. They primarily reflected (i) the net proceeds from new bank borrowings and repayments of bank borrowings, and (ii) the net proceeds from the issue of the convertible bonds and net proceeds from the issue of new ordinary shares in the first half of 2014.

Our net cash from financing activities in 2013 was US$173.5 million. This was primarily derived from US$905.1 million in the proceeds from borrowings, US$1,008.7 million in the repayment of borrowings, US$195.8 million in the proceeds from issuance of convertible bonds, US$108.0 million in the capital contribution from non-controlling interest and US$30.0 million in the repayment of promissory notes.

Our net cash from financing activities in 2012 was US$184.1 million. This was primarily derived from US$1,541.5 million in the proceeds from borrowings, US$1,328.0 million in the repayment of borrowings and US$30.0 million in the repayment of promissory notes.

Our net cash from financing activities in 2011 was US$268.9 million. This was primarily derived from US$308.3 million in the proceeds from issuance of convertible preferred shares, US$1,326.4 million in proceeds from borrowings, US$1,339.3 million in the repayment of borrowings and US$30.0 million in the repayment of promissory notes.

Capital Expenditures

For the six months ended 30 June 2014, we incurred capital expenditures of US$250.8 million compared to US$486.5 million for the six months ended 30 June 2013. We have financed such capital expenditures substantially with cash flows generated from operating and financing activities. We incurred capital expenditures of US$765 million, US$499 million and US$770 million in 2011, 2012 and 2013, respectively. We currently expect our capital expenditures in 2014 for foundry operations to be approximately US$1.1 billion, subject to adjustment based on market conditions. We estimate that these capital expenditures will be used for (i) SMNC, our majority owned subsidiary in Beijing, which is 55% funded by us and 45% funded by the other shareholders of SMNC; (ii) the acquisition of used equipment for our Shenzhen 8-inch fab, (iii) the product-mix change including conversion from 40/45nm to 28nm in our Shanghai 12-inch fab and (iv) the expansion of capacity in our Tianjin 8-inch fab from 39K to 42K. In addition, we also budgeted approximately US$110 million as the capital expenditures for non-foundry

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operations in 2014 mainly for the construction of living quarters for employees as part of our employee retention program. We plan to finance our substantial capital expenditure requirements through funds generated from a combination of cash from operations, bank borrowing, debt or equity issuances and other forms of financing.

The construction in progress balance of approximately US$497 million as of 30 June 2014, primarily consisted of US$130.8 million and US$116.5 million of the manufacturing equipment acquired to further expand the production capacity at the 12-inch fab in Beijing and Shanghai, respectively, US$17.4 million of the manufacturing equipment acquired to further expand the production capacity at the 8-inch fab in Shanghai, and US$111.9 million related to the ongoing 8-inch wafer construction project at SMIC Shenzhen. Our Shenzhen project which commenced in 2008 has progressed more slowly than expected due to changing market conditions and ongoing negotiations with relevant parties. We will closely monitor the progress of the project and evaluate any additional costs to complete the project. In addition, US$120.4 million was related to various ongoing capital expenditure projects of our other subsidiaries, which are expected to be completed by 31 December 2014.

Any transfer of funds from our company to our Chinese subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of Chinese governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. In addition, it is not permitted under Chinese law for our Chinese subsidiaries to directly lend money to each other. Therefore, it is difficult to change our capital expenditure plans once the relevant funds have been remitted from our company to our Chinese subsidiaries. These limitations on the free flow of funds between us and our Chinese subsidiaries could restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.

Commitments

As at 30 June 2014, we had commitments of US$137.8 million for facilities construction obligations in Beijing, Tianjin, Shanghai and Shenzhen, US$199.0 million to purchase machinery and equipment mainly for the Beijing, Tianjin, Shanghai and Shenzhen fabs and US$23.2 million to purchase intangible assets. As at 31 December 2013, we had commitments of US$114.9 million for facilities construction obligations in connection with the construction of our Shanghai, Beijing and Tianjin facilities. We had commitments of US$178.4 million to purchase machinery and equipment for Shanghai, Beijing, Tianjin and SilTech Semiconductor Shanghai Corporation (SilTech) fabs and US$10.1 million to purchase intellectual property.

Bank Borrowing

2012 USD Loan (SMIS)

In March 2012, SMIS entered into a loan facility in the aggregate principal amount of US$268 million with a consortium of international and Chinese banks. This three-year bank facility was used to finance the working capital for SMIS 8-inch fabs. The facility was secured by the manufacturing equipment located in the SMIS 8-inch fabs, buildings and land use right of SMIS. As at 30 June 2014, SMIS had drawn down US$268 million and repaid US$134 million on this loan facility. The outstanding balance of US$134 million is repayable by March 2015. The interest rate on this loan facility ranged from 3.64% to 3.87% for the six months

ended 30 June 2014.

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Any of the following in respect of SMIS would constitute an event of default during the term of the loan agreement:

1. (Short term loan + Long term Debt Current Portion + Long term Bank Loan)/ Total Equity is more than 60%; or

2. (Net profit + Depreciation + Amortization + Income Tax Provision + Financial Expenses)/Financial Expenses is less than 500% before 31 December 2012, and less than 1000% after 1 January 2013; or

3. (Total Equity Acquired Intangible Assets Net) is less than US$800 million before 31 December 2012, and less than US$1000 million after 1 January 2013; or

4. Debt Service Coverage Ratio is less than 2.0X during the term of the loan repayment. Debt Service Coverage Ratio means trailing four quarters EBITDA (Net Profit + Depreciation + Amortization + Income Tax Provision + Financial Expenses) divided by scheduled repayment of Long Term Loan and related financial expense for all bank borrowings (including hire purchase, leases and other borrowed monies, but not including medium/short term revolving bank loans) for the same period.

SMIS was in compliance with these covenants as at 30 June 2014.

2013 USD Loan (SMIS)

In August 2013, SMIS entered into a loan facility in the aggregate principal amount of US$470 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS 12-inch fabs. The facility was secured by the manufacturing equipment located in the 12-inch fabs and buildings of SMIS. As at 30 June 2014, SMIS had drawn down US$260 million. The outstanding balance of US$260 million is repayable from August 2015 to February 2018. The interest rate on this loan facility ranged from 4.33% to 4.89% for the six months ended 30 June 2014.

Any of the following in respect of SMIS would constitute an event of default during the term of the loan agreement:

1. (Short-term Loans + Long-term Debt Current Portion + Long-term Bank Loans)/Total Equity is more than 70%; or

2. (Net profit + Depreciation + Amortization + Income Tax Provision + Financial Expenses)/Financial Expenses is less than 550% in 2013, and less than 1000% after 2013; or

3. (Total Equity Acquired Intangible Assets Net) is less than US$800 million in 2013, and less than US$1,000 million after 2013.

SMIS was in compliance with these covenants as at 30 June 2014.

2012 USD Loan (SMIB)

In March 2012, SMIB entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of US$600 million, with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to expand the capacity of SMIB s 12-inch fabs. The facility was secured by the manufacturing equipment owned by

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the SMIB and Semiconductor Manufacturing International (Tianjin) Corporation (SMIT) fabs, and the 100% equity of SMIB and SMIT. On 26 September 2013, SMIB and the syndicate amended the loan facility amount to US$260 million. As at 30 June 2014, SMIB had drawn down US$260 million and repaid US$61.2 million in respect of this loan facility. The outstanding balance of US$198.8 million is repayable by September 2017. The interest rate on this loan facility ranged from 5.83% to 5.88% for the six months ended 30 June 2014.

Any of the following in respect of SMIB would constitute an event of default during the term of the loan agreement:

1. Total Liabilities/Total Assets is more than 65% (Total Liabilities exclude Shareholder s loans); or

2. (Net Profit + Depreciation + Amortization + Interest Expenses + Cash flow from Financing)/(Principal + Interest Expenses) is less than 100%

SMIB was in compliance with these covenants as at 30 June 2014.

2013 EXIM USD Loan (SMIB)

In June 2013, SMIB entered into a new USD Loan, a 26-month working capital loan facility in the principal amount of US$60 million with The Export-Import Bank of China, which was unsecured. This 26-month bank facility was used for working capital purposes. As at 30 June 2014, SMIB had drawn down US$40 million on this loan facility. The principal amount is repayable in August 2015. The interest rate on this loan facility ranged from 3.33% to 3.35% for the six months ended 30 June 2014.

2013 China Investment Development Corporation (CIDC) Entrusted Loan (SMIB)

In June 2013, SMIB entered into a new RMB loan, a two-year working capital entrusted loan facility in the principal amount of RMB70 million (approximately US$11.2 million) with CIDC through China CITIC Bank, which was unsecured. This two-year entrusted loan facility was used for working capital purposes. As at 30 June 2014, SMIB had drawn down RMB70 million (approximately US$11.2 million) and repaid RMB4.5 million (approximately US$0.7 million) on this loan facility. The outstanding balance of RMB65.5 million (approximately US$10.5 million) is repayable in June 2015. The interest rate on this loan facility was 12% for the six months ended 30 June 2014, which was set in accordance with the living quarter investment and co-development agreement entered into with CIDC and Zhongxin Xiecheng Investment (Beijing) Co., Ltd.

Short-term Credit Agreements

As at 30 June 2014, we had 21 short-term credit agreements that provided total credit facilities up to US$922.4 million on a revolving credit basis. As at 30 June 2014, we had drawn down US$152.4 million under these credit agreements. The outstanding borrowings under these credit agreements were unsecured, except for US$20.0 million, which was secured by time deposits of US$18.8 million. The interest rate on this loan facility ranged from 1.98% to 3.78% for the six months ended 30 June 2014.

In May 2012, SMIS entered into a four-year strategic framework credit facility in the aggregate amount of RMB5 billion with China Development Bank. The 2013 U.S. dollar loan (SMIS) constituted part of this strategic framework credit facility.

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See Quantitative and Qualitative Disclosures About Market Risk below regarding the risk of loss related to adverse changes in market prices, including foreign currency exchange rates and interest rates of financial instruments.

Research and Development, Patents and Licenses

Our research and development activities are principally directed toward the development and implementation of new process technology. We spent US$191.5 million, US$193.6 million and US$145.3 million, respectively, in 2011, 2012 and 2013, and US$61.5 million and US$81.7 million, respectively, for the six months ended 30 June 2013 and 2014, on research and development expenses, which represented 14.5%, 11.4%, 7.0%, 5.9% and 8.5%, respectively, of our sales in those respective periods. Our research and development costs were partially offset by related government fundings of US$42.6 million, US$31.0 million, US$26.9 million, US$13.6 million and US$19.3 million in 2011, 2012 and 2013 and for the six months ended 30 June 2013 and 2014, respectively, and included the costs associated with the ramp-up of a new wafer facility.

As at 30 June 2014, we had been granted 4,233 patents worldwide, of which, 60 were in Taiwan, 380 were in the U.S., 3,780 were in China, and 13 were in other jurisdictions.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet transactions.

Contractual Obligations

Set forth in the table below are the aggregate amounts, as at 30 June 2014, of our future cash payment obligations under our existing contractual arrangements on a consolidated basis:

	Payments due by period			
	Total	Less than 1 year	1 2 years	2 5 years
		(in US$ thousands)		
Contractual obligations				
Short-term borrowings	152,416	152,416		
Unsecured long-term loans	50,533	10,533	40,000	
Secured long-term loans	592,840	202,320	141,020	249,500
Convertible bonds	352,317			352,317
Purchase obligations(1)	360,034	360,034		
Total Contractual Obligations	1,508,140	725,303	181,020	601,817

Note:

(1) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss related to adverse changes in market prices, including foreign currency exchange rates and interest rates of financial instruments. We are exposed to these risks in the ordinary course of our business. Our exposure to these risks derives primarily from changes in interest rates and foreign currency exchange rates. To mitigate some of these risks, we utilise spot, forward, and derivative financial instruments.

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Foreign Exchange Rate Fluctuation Risk

Our revenue, expense, and capital purchasing activities are primarily transacted in U.S. dollars. However, since we have operations consisting of manufacturing, sales activities and capital purchasing outside of the U.S., we enter into transactions in other currencies. We are primarily exposed to changes in exchange rate for the Euro, Japanese Yen and Renminbi.

To minimize these risks, we purchase foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign- currency denominated activities. These forward exchange contracts are principally denominated in Renminbi, Japanese Yen or Euros, and do not qualify for hedge accounting. As at 30 June 2014, we had no outstanding foreign currency forward exchange contracts.

We do not enter into foreign currency exchange contracts for speculative purposes. See Risk Factors Risks Related to Conducting Operations in China-Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results and Risk Factors Risks Relating to the Bonds Bondholders may be subject to risks presented by fluctuations in exchange rates between U.S. dollar and other currencies.

Interest Rate Risk

Our exposure to interest rate risks relates primarily to our long-term debt obligations, which we generally assume to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the our debt obligations outstanding as at 31 December 2013. Our long-term debt obligations are all subject to variable interest rates. The interest rates on our U.S. dollar-denominated loans are linked to the LIBOR. The interest rates on our RMB denominated loan is linked to the PBOC RMB Interest Rate. As a result, the interest rates on our loans are subject to fluctuations in the underlying interest rates to which they are linked.

	2014	**2015**
	(Forecast)	
	(in US$ thousands, except percentages)	
US$ denominated		
Average balance	853,889	672,221
Average interest rate	4.59%	4.66%
RMB denominated		
Average balance	10,795	5,264
Average interest rate	12%	12%
Weighted average forward interest rate	4.68%	4.72%

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INDUSTRY OVERVIEW

Semiconductor Industry Overview

Since the invention of the first semiconductor transistor in 1947, integrated circuits have become critical components in an increasingly broad range of electronic applications, including personal computers, wired and wireless communication devices, televisions, consumer electronics, and automotive and industrial control applications. Advancements in semiconductor design techniques and process technologies have allowed for the mass production of increasingly smaller and more powerful semiconductor devices at lower costs. This has resulted in the greater availability and proliferation of more complex integrated circuits with higher functionality. These integrated circuits may now each contain up to millions of transistors.

According to IHS iSuppli Q2 2014, the total size of the worldwide semiconductor market in 2013 was US$318.2 billion and is expected to grow at 3.1% CAGR to reach US$370.5 billion by 2018. The historical and projected size of the worldwide semiconductor market is shown in the following chart:

Worldwide Semiconductor Market Revenues (2012 2018E)

Source: IHS iSuppli AMFT Shipment, Q2 2014

According to IHS iSuppli Q2 2014, data processing, wireless communications and consumer electronics were the biggest market segments in 2013, contributing 30.9%, 28.3%, and 16.0% of the worldwide revenues, respectively. The industrial electronics segment is expected to be the fastest growing semiconductor market with a CAGR of 7.3% from 2013 to 2018, followed by automotive and wireless communications market with a CAGR of 6.2% and 5.9% from 2013 to 2018 respectively. Convergence devices such as smart phones and media tablets continue to be the growth drivers of the semiconductor market in the near- to mid-term.

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Semiconductor End Market Overview

Increasing consumer and business demand for high-quality electronic devices, including smart phones and media tablets, convergence of computing and mobility, as well as cloud computing in the enterprise segment, are driving the demand for semiconductor ICs. In addition to the significant product volume growth, the complexity of product designs require increased semiconductor content per device. According to IHS iSuppli Q2 2014, manufacturing volumes of smart phones and media tablets are expected to grow at a CAGR of 10.8% and 11.0%, respectively. Smartphone units are expected to grow from 1,231 million units in 2013 to 2,056 million units in 2018. Similarly, media tablet units are expected to grow from 232 million units to 392 million units during the same period respectively. Upgrades of data centres, servers and enterprise routers, as well as mobile network upgrades, are expected to support the growth of the semiconductor end-market.

The PRC semiconductor market grew and increased its share in the global semiconductor market from US$68.0 billion or 26% in 2006 to US$100.8 billion or 33% in 2010 and to US$125.7 billion or 40% in 2013. According to IHS iSuppli Q2 2014, the PRC is expected to account for US$169.4 billion or 46% of global semiconductor shipment revenues in 2017, representing a CAGR of 6.2% from 2013 to 2018.

The growth of the semiconductor market in the PRC is driven by a combination of factors including increased domestic demand as well as high export levels for communication and consumer electronic products manufactured onshore. International semiconductor companies are increasingly looking to migrate their operations to the PRC in order to position themselves closer to the strong end-market demand and to lower their costs. The migration of the global semiconductor industry to Asia and the PRC increases the need to establish a full supply chain in the area, where the majority of wafer foundry capacity is located.

The increase in wafer demand, driven by growth in end-user applications and increased semiconductor content per device, is expected to lead to increased demand for foundry services in China and globally.

Technology

Foundry process technologies are the set of specifications and parameters implemented for manufacturing the circuitry on integrated circuits. The transistor circuitry on an integrated circuit typically follows lines that are less than one micron wide. The line-widths of the circuitry, or the minimum physical dimensions of the transistor gate of integrated circuits in production, is used as a general rule for classifying generations of process technology of integrated circuits. Progress in the advancement of the integrated circuit has been driven by the scaling, or downsizing, of its components, primarily the transistors. By systematically shrinking the size of the transistors, the number of allowable transistors per die increases, and thus the number of dies on a given wafer has also increased.

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The following chart presents pure-play foundry revenue by feature size from 2010 to 2017 :

Pure-play foundry revenue by feature size 2010 2017E

Source: IHS iSuppli Pureplay Foundry Market Tracker Database, Q2 2014

In 2013, the 28-nm process technology was the largest contributor to the pure-play foundry revenues, accounting for US$8.0 billion or 22.6% of worldwide revenues in 2013. The global revenue contributed by the 28-nm technology is expected to grow from US$8.0 billion in 2013 to US$10.0 billion in 2017, continuing to be the largest contributor of pure- play foundry revenues from 2013 through 2017.

Semiconductor Industry Value Chain

The value chain of semiconductor manufacturing can be divided into the following stages: IC design, mask-making, wafer fabrication, packaging and testing. IDMs and fabless semiconductor companies are mainly responsible for the first stage of the process, namely the design of IC. Some IDMs have internal capacity to manufacture wafers used for production of their IC products. Fabless companies do not have manufacturing facilities and rely entirely on third-party contract manufacturers, known as foundries, to manufacture wafers for the products that they design.

The semiconductor supply chain is shown in the following diagram:

As the cost of establishing new fabrication capacity has continued to rise, foundries have progressed from simply providing manufacturing capacity to becoming key strategic partners offering R&D capabilities and manufacturing process technologies to customers. There have historically been a limited number of semiconductor foundries in the industry due to the high entry barriers, which include significant capital commitments, scarcity of qualified engineers and advanced intellectual property and technology requirements.

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Many IDMs are outsourcing part or whole of their fabrication requirements for complex and high performance semiconductor devices to pure-play foundries in order to supplement their own internal capacities, increase cost competitiveness and focus resources on new product designs and marketing. In addition, fabless semiconductor companies have shifted from relying on the excess fabrication capacity of IDMs to utilising independent pure-play foundries in order to meet the majority of their wafer production needs. Due to the similar reasons, IDMs and fabless semiconductor companies also use third-party companies to package and test their products.

Foundry Manufacturing Process

The key raw materials for a semiconductor foundry is raw wafer , which is a circular silicon plate. Raw wafers are available in different diameters (e.g., 5-inch, 6-inch, 8-inch or 12-inch) to meet the capabilities of different equipment. A fab capable of manufacturing integrated circuits on an 8-inch raw wafer is commonly described as an 8-inch fab. A raw wafer with a larger diameter has a greater surface area and consequently yields a greater number of integrated circuit dies. One method that foundries attempt to use to maintain their competitiveness is to increase the diameter of the wafers they use in manufacturing, which is why manufacturing has migrated to 12-inch wafers, which has approximately 2.25 times the surface area achievable on an 8-inch wafer. In addition, 12-inch equipment permits smaller line-width process technologies to be utilised. However, this equipment is more expensive than equipment for the fabrication of 8-inch wafers as the technology involved is more complex.

According to IHS iSuppli Q2 2014, total pure-play foundry market revenue has grown from US$25.8 billion in 2010 to US$35.5 billion in 2013, and is expected to grow to $56.7 billion in 2017, implying a CAGR of 12% from 2012 to 2017, compared to 4% during the same period for the overall semiconductor industry. Contribution of pure-play foundries revenues to total foundry market revenue has increased steadily from 79% in 2010 to 87% in 2013, and is expected to reach 90% by 2017. This trend is in part a result of the increase in IDM outsourcing.

Foundries Landscape in the PRC and Globally

The global pure-play foundry market is dominated by four players with cumulative market share of 84.8% by revenue in 2013. TSMC and Global Foundries are the biggest companies in the foundry market while UMC is the third largest pure-play foundry. We maintained fourth position globally with a 5.5% market share by revenue in 2013.

The table below sets forth the ranking and market share of the top five pure-play foundries by revenue in 2013 globally:

Company	**% of market**
TSMC	56.0%
Global Foundries	12.3%
UMC	11.0%
The Issuer	5.5%
Powerchip Technologies	2.5%

Source: IHS iSuppli Pureplay Foundry Market Tracker Database, Q2 2014

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The PRC has emerged as a global manufacturing centre for electronic products that are sold both within the PRC and abroad. In recent years, numerous international companies have established facilities in the PRC for the manufacture of a variety of electronic products, including household appliances, computers, mobile phones, telecommunications equipment, digital consumer products and products with industrial applications. An increasing number of electronic systems manufacturers are relocating production facilities from the United States, Japan and Europe to the PRC. The PRC is establishing itself as a favourable manufacturing location due to its well educated labour force, significantly lower costs of operations and cultural similarities.

Continuing transition of worldwide electronic equipment production to the PRC coupled with increasing semiconductor content, resulted in the PRC becoming a dominating consumer of semiconductors, with its consumption growth continuously outpacing the rest of the world. Semiconductors used in the PRC as components of finished products exported for sale in other countries, and the rapid growth of global OEMs, ODMs and EMS in China, have been the major contributors to the growth of the PRC s semiconductor consumption market. China s growing population of middle-class consumers in recent years is reinforcing this trend. Semiconductors consumed in the PRC and used in components of finished products assembled and sold in the PRC have gained significance in the global semiconductor industry.

As a result of strong domestic demand supported by the PRC s economic stimulus policies, the PRC s IC design market is expected to exhibit significant growth. According to IHS iSuppli Q2 2014, the PRC IC design industry reached US$8 billion in 2012 and is expected to grow at a CAGR of 20.2% from 2012 to 2017, reaching US$20 billion in 2017.

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GROUP STRUCTURE

Our Subsidiaries

We operate primarily through three wholly-owned subsidiaries in the PRC (SMIS, SMIB and SMIT). The table below sets forth our group structure, as at 31 August 2014.

Name of company	Principal activity	Place of establishment and operation	Proportion of ownership interest and voting power held by the Company	
Better Way Enterprises Limited (Better Way)*	Provision of marketing related activities	Samoa	Directly	100%
Semiconductor Manufacturing International (Shanghai) Corporation (SMIS)*#	Manufacturing and trading of semiconductor products	PRC	Directly	100%
SMIC, Americas	Provision of marketing related activities	United States of America	Directly	100%
Semiconductor Manufacturing International (Beijing) Corporation (SMIB)*#	Manufacturing and trading of semiconductor products	PRC	Directly	100%
SMIC, Japan	Provision of marketing related activities	Japan	Directly	100%
SMIC Europe S.R.L	Provision of marketing related activities	Italy	Directly	100%
Semiconductor Manufacturing International (Solar Cell) Corporation	Investment holding	Cayman Islands	Directly	100%
SMIC Commercial (Shanghai) Limited Company (formerly SMIC Consulting Corporation) *#	Provision of marketing related activities	PRC	Directly	100%
Semiconductor Manufacturing International (Tianjin) Corporation (SMIT)*#	Manufacturing and trading of semiconductor products	PRC	Directly	100%
SMIC Development (Chengdu) Corporation*#	Construction, operation, and management of SMICD s living quarters, schools, and supermarket	PRC	Directly	100%
Semiconductor Manufacturing International (BVI) Corporation (SMIC (BVI))	Provision of marketing related activities	British Virgin Islands	Directly	100%
Admiral Investment Holdings Limited	Investment holding	British Virgin Islands	Directly	100%
SMIC Shanghai (Cayman) Corporation	Investment holding	Cayman Islands	Directly	100%
SMIC Beijing (Cayman) Corporation	Investment holding	Cayman Islands	Directly	100%
SMIC Tianjin (Cayman) Corporation	Investment holding	Cayman Islands	Directly	100%
	Investment holding	Cayman Islands	Directly	100%

SilTech Semiconductor Corporation				
SMIC Shenzhen (Cayman) Corporation	Investment holding	Cayman Islands	Directly	100%

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Name of company	Principal activity	Place of establishment and operation	Proportion of ownership interest and voting power held by the Company	
SMIC Energy Technology (Shanghai) Corporation (Energy Science)*#	Manufacturing and trading of solar cell related semiconductor products	PRC	Indirectly	100%
Magnificent Tower Limited	Investment holding	British Virgin Islands	Indirectly	100%
SMIC Shanghai (HK) Company Limited	Investment holding	Hong Kong	Indirectly	100%
SMIC Beijing (HK) Company Limited	Investment holding	Hong Kong	Indirectly	100%
SMIC Tianjin (HK) Company Limited	Investment holding	Hong Kong	Indirectly	100%
SMIC Solar Cell (HK) Company Limited	Investment holding	Hong Kong	Indirectly	100%
SMIC Shenzhen (HK) Company Limited	Investment holding	Hong Kong	Indirectly	100%
SilTech Semiconductor (Hong Kong) Corporation Limited	Investment holding	Hong Kong	Indirectly	100%
Semiconductor Manufacturing International (Shenzhen) Corporation (SMIC Shenzhen)*#	Manufacturing and trading of semiconductor products	PRC	Indirectly	100%
Siltech Semiconductor (Shanghai) Corporation Limited*#	Manufacturing and trading of semiconductor products	PRC	Indirectly	100%
Semiconductor Manufacturing North China (Beijing) Corporation (SMNC)*#	Manufacturing and trading of semiconductor products	PRC	Directly and indirectly	55%
China IC Capital Co., Ltd*#	Investment holding	PRC	Indirectly	100%
China Fortune-Tech Capital Co., Ltd*#	Management of investment and asset, and investment consulting	PRC	Indirectly	75%
SJ Semiconductor Corporation	Investment holding	Cayman Islands	Directly	100%
SJ Semiconductor (HK) Limited	Investment holding	Hong Kong	Indirectly	100%

* For identification purposes only.

Companies registered as wholly-owned foreign enterprises in the PRC, excluding for the purpose of this report, Hong Kong, Macau, and Taiwan.

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BUSINESS

Business Overview

We are one of the leading semiconductor foundries in the world and the largest foundry in the PRC by revenue and capacity. We are also the most technologically advanced foundry in the PRC, providing IC foundry and technology services from 0.35- micron (m) down to 28-nanometer (nm).

We are a pure-play IC foundry that provides wafer fabrication of 8-inch and 12-inch wafers. In addition to our top-of-the-line manufacturing capabilities, we provide customers with complete foundry solutions with a seamless flow of services that include mask services, intellectual property development services, backend design services and turnkey services. With complete foundry solutions, our goal is to help customers to shorten time-to-market in a cost effective way. Our services are used by IDMs and fabless and system companies, to produce integrated circuits for semiconductor chips used in a broad range of fast growing electronic applications markets.

We were established in 2000 and are headquartered in Shanghai, the PRC. In 2004, we were listed on the Hong Kong Stock Exchange and NYSE. Our current major shareholders include PRC SOEs such as Datang Telecom and CIC. We have received equity investment and strategic support from our SOE shareholders, being major players in their respective fields. Our market capitalisation as at 30 June 2014 was approximately US$3.01 billion.

We have market leading manufacturing capacity in the PRC and operate a 12-inch wafer fabrication facility (fab) and an 8-inch mega-fab in Shanghai, a 12-inch mega-fab in Beijing, an 8-inch fab in Tianjin, and an 8-inch fab project under development in Shenzhen. In addition, we have established SMNC with BIDIMC and ZDG, which is constructing a new 12-inch fab in Beijing. We plan to continue to advance our technology and selectively expand capacity to capture market demand for high-growth, high-margin applications. We have a network of customer service and marketing offices in the United States, Europe, Japan and Taiwan, and a representative office in Hong Kong.

The following chart sets forth our unaudited sales breakdown by application, geography and technology for the six months ended 30 June 2014 :

Notes:

(1) Includes the PRC and Hong Kong.

(2) Includes Europe and Asia, excluding the PRC and Hong Kong.

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We have a global and diversified customer base that includes some of the world s leading IDMs and fabless semiconductor and system companies. We have established long- term relationships with our international and domestic customers, and we have been repeatedly recognised and awarded by our customers for the quality of our services, strategic support and technology contributions.

Given our strong competitive position, we are positioned to take advantage of the long-term growth of the global and domestic semiconductor markets.

Our Key Strengths

We are the largest and most technologically advanced foundry in the PRC, and we are ranked in the top four pure-play foundries by revenue globally.

As the only foundry in the PRC with process capability down to 28-nm process capability, we are at the forefront of the PRC s foundry business and a contributor to the growth of PRC s semiconductor industry.

We have expanded steadily since our incorporation and established ourselves as one of the leading foundries in the global arena. Our technology, scale, location in China, and capable team enable us to serve our customers to meet their diverse specifications.

We are located in the world s largest and fastest growing semiconductor market.

We are headquartered and manufacture our products in the PRC. Not only is the PRC the world s largest market for semiconductors, it is also one of the fastest growing IC markets. According to IHS iSuppli Q2 2014, the PRC semiconductor market grew from 26% of the global semiconductor market in 2006 to 33% in 2010 and to 40% in 2013. The CAGR of the China IC market for the past five years from 2008 to 2013 was approximately 12%, compared to the rest of the world s CAGR of 0.21% for the same period.

We have established long term relationships and have benefited from strong strategic and funding support from PRC SOE shareholders.

We have a history of strategic and funding support from our PRC SOE shareholders. Shanghai Industrial has been our strategic investor since 2001. Datang Telecom joined our shareholder base in 2008 when it agreed to subscribe for US$171.8 million in ordinary shares and further strengthened its commitment to us by subscribing for a further US$102 million of ordinary shares in 2010. In September 2011, Datang Telecom s subsidiary, Datang, subscribed for US$58.9 million in convertible preferred shares

under the Datang Further Subscription. In May 2014, Datang subscribed for pre-emptive convertible bonds of US$54.6 million. In August 2014, Datang entered into an agreement to subscribe for further pre-emptive convertible bonds of US$22.2 million and pre-emptive shares of approximately HK$401.7 million, subject to shareholders approval at the relevant EGM. In June 2011, Country Hill became our second largest shareholder pursuant to the Country Hill Subscription of US$250 million of convertible preferred shares. Also in May 2014, Country Hill subscribed for pre-emptive convertible bonds of US$32.2 million and in August 2014, Country Hill entered into an agreement to subscribe for pre-emptive shares of approximately HK$161.2 million, subject to shareholders approval at the relevant EGM. As at 31 August 2014, our three major SOE shareholders held a combined 32.3% of our total issued shares.

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We are positioned to leverage our R&D leadership in the PRC to benefit from government support of the semiconductor industry.

We are one of the semiconductor companies included in the PRC central government s12th 5-Year Plan, which among others, proclaims increasing support of and favourable industrial policies for the domestic semiconductor industry. As such, the PRC government recognises our cornerstone role in the development of the domestic semiconductor eco- system and establishing the PRC standard in the domestic semiconductor industry.

In order to encourage development of the semiconductor industry, the PRC central, provincial and local governments have extended various incentives to domestic companies in the industry, including reduced tax rates. In addition, as the market leader in the PRC, we have been able to enjoy continued government support in the form of funding of R&D contracts. We have received government funding of US$126.1 million, US$54.1 million and US$145.8 million and recognised US$42.6 million, US$31.0 million and US$26.9 million as reductions of certain R&D expenses in 2011, 2012 and 2013 for several specific R&D projects respectively.

Apart from receiving the aforementioned government support, we have established SMNC with BIDIMC, which is wholly-owned by the State with capital contributed in full by Beijing State-owned Assets Management Co., LTD, and ZDG, which was established by the local Beijing government to develop the science park. SMNC is expected to establish and build up significant manufacturing capacity with a focus on 45-nanometer and finer technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. The total investment is estimated to be US$3.59 billion. We shall contribute 55% of the registered capital of SMNC, and ZDG and BIDIMC shall together contribute the remaining 45% of SMNC s registered capital.

We have strong relationships with high quality, fast growing domestic and top tier international customers.

We have a global and diversified customer base that includes some of the leading international and fast growing domestic IDMs, and fabless semiconductor and system companies. We have formed partnerships with international global clients and fast growth companies in the PRC which have become our key customers and contribute an increasing share of our revenues.

Our clients have consistently recognised us as a partner of choice and repeatedly rewarded us for the quality of our services, strategic support and technology contributions. Through a formation of global alliances with these top tier international customers and the incubation of local clients, we aim to continue to be the preferred foundry source partner in the PRC for international and domestic IDMs and fabless customers.

As an example, in July 2014 we announced a partnership with Qualcomm Technologies to collaborate in 28nm process technology and wafer manufacturing services in China to manufacture Snapdragon processors. Previously, we have supported Qualcomm Technologies on power management, wireless and connectivity related IC products at various process nodes.

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With our combination of scale, advanced technological capabilities, locality and proximity to domestic clients, we have been able to increase revenue from PRC customers (mainland China & Hong Kong) significantly from 33.9% for the year ended 31 December 2012 to 40.4% for the year ended 31 December 2013. Our fabs are strategically located in major cities in the PRC with strong high-tech industries and semiconductor bases, such as Beijing, Shanghai and Tianjin. As a result, we are able to directly access our customers in the same or nearby cities and provide a high level of localised services to address our customers demands.

We are a transparent and compliant foundry in the PRC possessing the required authorisations to manufacture advanced ICs.

Our ICP ensures that we abide by international laws and treaties governing export controls on high technology products. Many of our suppliers and customers typically need an export license before shipping controlled items (equipment, parts, materials, software, or technology) to China. Because of our proven track record in export control compliance, we are one of the first and one of only twelve members of the U.S. Government s VEU program. Our VEU status further enhances the level of service and technology we can provide our customers. The approved restrictions and conditions in the authorisations under which we receive controlled items allow us to manufacture for process development down to 14nm. With these approvals we can provide advanced IC manufacturing services for customers in both domestic and international markets.

We have a highly experienced management team.

We have employed a highly experienced management team. Our senior management team, consisting of seven individuals, is recognised as a group of highly respected industry veterans. Our Chief Executive Officer, Dr. Tzu-Yin Chiu, is a semiconductor industry veteran with 30 years of experience spanning technology research, business development, operations and corporate management. Prior to joining us, Dr. Chiu was President and CEO of Hua Hong NEC. He has served in executive positions across the semiconductor industry, including as President and COO of Silterra Malaysia, Senior Vice President and Chief Operating

Officer of Hua Hong International Management and President of Hua Hong Semiconductor International, our Senior Vice President of Shanghai Operations, and Senior Director of Fab Operations at TSMC. He began his career in the United States at AT&T Bell Laboratories, rising to become the department head of its High Speed Electronics Research Department and Silicon Research Operations Department. Dr. Chiu

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holds a bachelor s degree from Rensselaer Polytechnic Institute, a Ph.D. in electrical engineering and computer science from the University of California, Berkeley, and an executive MBA from Columbia University. A senior member of the IEEE, Dr. Chiu holds forty semiconductor technology patents issued in various countries, and has published over thirty technical articles. He is also a board member of Global Semiconductor Alliance.

Our current management team introduced and implemented a solid strategic initiative when they joined in the second half of 2011, and we achieved a marked turnaround in operations and financial results and notable momentum in 2012 and 2013. Under the current management, efficiency, quality and service was enhanced and a focus on sustainable profitability through capacity optimisation, quality service and efficiency, and through technology differentiation by identifying specialised products especially those driven by opportunities in the Chinese market.

We expect to continue to capitalise on the rich experience and execution capabilities of the management team for our growth.

The following charts set forth are our unaudited annual revenue and profit from 2011 to the first half of 2014 :

SMIC revenue and profit growth (in US$ millions)

Note: Net profit refers to profit attributable to SMIC.

Our Development Strategies

Our long-term business model and strategy continues to focus on generating value for the benefit of all stakeholders. Our strategy to generate sustainable profitability and growth is three-fold. Firstly, we aim for optimal efficiency by fully utilising existing assets through methods including enhanced customer relationships, quality, and service. Secondly, taking advantage of our position in China, we aim to differentiate our technology offering by providing customers with added value and innovation that not only allows us to seize market opportunities in China, but also give global customers footing in the fast-growing market. Thirdly, with profitability being our priority, we invest in advancing our technology and carefully adding capacity to address suitable market growth opportunities into the future.

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We constantly evaluate the potential value addition of all opportunities in our decision making processes. Our management team is committed to the goal of building value in the long-term for the benefit of our shareholders, employees and customers.

Our Corporate History

We were established as an exempted company under the laws of the Cayman Islands on 3 April 2000. Our legal name is Semiconductor Manufacturing International Corporation. Our principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai 201203, China; telephone number: (86) 21-3861-0000. Our registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Since 18 March 2004, we have been listed on the NYSE under the symbol SMI and the Hong Kong Stock Exchange under the stock code 0981.HK .

We are now the largest and most advanced semiconductor foundry in mainland China. We operate wafer fabrication facilities in China, including facilities at Beijing, Shanghai and Tianjin, with an aggregate capacity of up to 247,500 8-inch wafer equivalents per month as at 30 June 2014. Prior to 2013, we managed and operated a 300mm wafer fab in Wuhan owned by Wuhan Xinxin (Wuhan Xinxin arrangement). The Wuhan Xinxin arrangement ended in the first quarter of 2013, and we no longer manage or operate the wafer fabrication facilities in Wuhan.

We spent approximately US$765 million, US$499 million and US$770 million to construct, equip and ramp up our fabrication facilities in 2011, 2012 and 2013 respectively. Currently, the planned capital expenditures in 2014 for foundry operations are raised to approximately US$1.1 billion as disclosed in our unaudited interim results for the six months ended 30 June 2014 from US$880 million as disclosed in our 2013 Form 20-F. The capital expenditures are mainly for (i) SMNC, our majority owned subsidiary in Beijing, which is 55% funded by us and 45% funded by other shareholders of SMNC, (ii) the acquisition of used equipment for our Shenzhen 8-inch fab, (iii) the product-mix change including conversion from 40/45nm to 28nm in our Shanghai 12-inch fab and (iv) the expansion of capacity in our Tianjin 8-inch fab from 39K to 42K. In addition, we also budgeted approximately US$110 million as the 2014 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. The primary sources of capital resources and liquidity include funds generated from a combination of cash from operations, bank borrowings and debt or equity issuances and other forms of financing.

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Our Products and Services

Manufacturing of Wafers and Our Manufacturing Capacity

We currently manufacture silicon wafers based on proprietary designs provided by our customers or third party designers.

The following table sets forth the historical capacity and utilisation rate of our wafer fabrication and facilities (all output and capacity data is provided as 8-inch wafer equivalents per month) for the years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014.

	For the year ended 31 December			For the six months ended 30 June
Wafer fabrication capacity as at period-end	**2011**	**2012**	**2013**	**2014**
Shanghai mega-fab	90,000	90,000	90,000	96,000
Shanghai 12-inch fab		13,500	27,000	31,500
Beijing mega-fab	65,540	78,750	81,000	81,000
Tianjin fab	37,750	37,000	36,000	39,000
Total monthly wafer fabrication capacity as at period-end(1)	193,290(2)	219,250(2)	234,000(2)	247,500(2)
Wafer Fabrication capacity utilisation	68.9%	88.3%	90.7%	89.5%

Notes:

(1) Conversion of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25.

(2) Mega fab structure includes copper inter connects in the total monthly capacity.

Our factories manufacture the following types of semiconductors:

- Logic (including basebands, microprocessors, DSPs and application processors);
- Mixed-Signal and RF (for wired and wireless connectivity applications for communications and consumer electronics);

- High Voltage (for display driver integrated circuits, power supplies, power management, telecommunications, automotive electronics and industrial controls);

- Memory (including standalone SRAM, EEPROM and Flash, and embedded NVM for IC cards to be used in transport, banking, social welfare and national ID);

- CIS (CMOS Image Sensors that are used in a wide range of camera-related systems);

- Others (Micro Electrical and Mechanical System, or MEMS and Integrated Passive Devices);

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The following table sets forth a percentage breakdown of wafer sales by process technology (nodes) for the years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014 :

	For the year ended 31 December			For the six months ended 30 June
Process Technologies	**2011**	**2012**	**2013**	**2014**
0.045 micron	0.06%	1.06%	12.06%	11.46%
0.065 micron	18.50%	31.98%	27.91%	23.96%
0.09 micron	9.85%	8.69%	4.90%	3.83%
0.13 micron	22.59%	14.39%	10.83%	12.45%
0.15 micron	1.81%	0.80%	0.57%	0.55%
0.18 micron	33.42%	37.49%	39.38%	42.72%
0.25 micron	0.39%	0.29%	0.33%	0.25%
0.35 micron	13.38%	5.30%	4.02%	4.60%
Total	100.00%	100.00%	100.00%	100.00%

Our Integrated Solutions

In addition to wafer fabrication, we provide our customers with a range of complementary services, from circuit design support and mask-making to wafer level probing and testing. This range of services is supported by our network of partners that assist in providing design, probing, final testing, packaging, assembly and distribution services.

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The diagram below sets forth our service model and our key points of interaction with our customers:

Notes:

(1) A portion of this work is outsourced to our service partners.

(2) A portion of these services are outsourced to our service partners.

Our Design Support Services

Our design support services provide our customers with access to the fundamental technology files and libraries that facilitate customers own integrated circuit design. We also offer design reference flows and access to our design center alliance, as well as layout services to our customers. In addition, we collaborate with industry leaders in electronic design automation, library and intellectual property services to create a worldwide network of expertise, resources and services that are available to our customers.

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Our Libraries and Intellectual Property

As part of the fundamental building blocks for our customers integrated circuit designs, we have a dedicated team of engineers who work with our research and development department to develop, license or acquire from third parties selected key libraries and intellectual property so that our customers can quickly design sophisticated integrated circuits that utilise our new process technologies. These include standard cell, I/ O, memory compilers, embedded memory, high- speed interface, peripheral controllers, and embedded processors, among others, using 0.35 micron down to 28 nanometer process technologies. They have been developed primarily through our third party alliances, as well as by our internal research and development team, to facilitate easy design and fast integration into the overall design system. Our library partners include ARM Ltd. (ARM), Cadence Design Systems (Ireland) Ltd (Cadence), VeriSilicon Holdings Co., Ltd (VeriSilicon), Synopsys, Inc. (Synopsys) and InnoPower.

Our Mask-making Services

Many of our foundry customers utilise our mask-making services. While most of our mask-making services are for customers who use our wafer fabrication services, we also produce masks for other domestic and overseas fabrication facilities as a separate revenue- generating service.

Our mask-making facility, which is located in Shanghai, includes a 4,000 square meters clean room with up to class I specifications. At present, our mask shop offers both five-inch by five-inch, six-inch by six-inch and seven-inch circular reticles. Our facility is capable of producing binary masks, optical proximity correction masks and phase shift masks. Our mask facility also offers mask repair services.

Our Wafer Probing, Assembly and Final Testing Services

We have our own probing facility in Shanghai that provides test program development, probe card fabrication, wafer probing, failure analysis, and failure testing. We also outsource these services to our partners.

Our probing facility in Shanghai occupies a clean room space of 3,000 square meters, which is rated at Class 1000 cleanliness and is equipped with advanced testers, probers and laser repair machines. We also have testing equipment for memory, logic and mixed signal applications.

We have established a network of partners that provide additional probing services, as well as assembly and testing services, to serve our customers. These partners, including Amkor Assembly & Test (Shanghai) Co., Ltd. and ST Assembly Test Services Ltd., have helped to enhance the range of services that we are able to offer our customers.

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Our Customers and Markets

Our customers include IDMs, fabless semiconductor companies and systems companies. The following table sets forth the breakdown of our sales by customer type for the years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014 :

	For the year ended 31 December						For the six months ended 30 June	
	2011		2012		2013		2014	
Customer Type	**Sales**	**Percentage**	**Sales**	**Percentage**	**Sales**	**Percentage**	**Sales**	**Percentage**
	(in US$ thousands, except percentages)							
Fabless semiconductor companies	1,081,345	81.95%	1,494,239	87.81%	1,814,221	87.69%	837,074	86.97%
Integrated device manufacturers	175,922	13.33%	142,101	8.35%	127,471	6.16%	29,347	3.05%
Systems companies and others	62,199	4.72%	65,258	3.84%	127,272	6.15%	96,006	9.98%
Total	1,319,466	100.00%	1,701,598	100.00%	2,068,964	100.00%	962,427	100.00%

We categorize our sales geographically based on the headquarters of customer operations and not the shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for the years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014 :

Fabless semiconductor companies								
United States	726,011	55.02%	940,370	55.26%	1,002,699	48.47%	424,553	44.11%
Mainland China and Hong Kong	430,811	32.65						