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SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

中芯國際集成電路製造有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 981)

ANNOUNCEMENT OF 2021 ANNUAL RESULTS

The board of directors (the “**Board**”) of Semiconductor Manufacturing International Corporation (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2021. This announcement, containing the full text of the 2021 annual report of the Company (the “**2021 Annual Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcement of annual results. Printed version of the 2021 Annual Report will be delivered to the registered holders of shares of the Company and available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.smics.com on 27 April 2022.

By order of the Board

Semiconductor Manufacturing International Corporation

Joint Company Secretary/Board Secretary

Guo Guangli

Shanghai, PRC

30 March 2022

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

Executive Directors

GAO Yonggang

ZHAO Haijun

Non-executive Directors

LU Guoqing

CHEN Shanzhi

HUANG Dengshan

REN Kai

Independent Non-executive Directors

William Tudor BROWN

LAU Lawrence Juen-Yee

FAN Ren Da Anthony

LIU Ming

* *For identification purposes only*





ADVANCED FOUNDRY IN CHINESE MAINLAND

EMPOWERED TECHNOLOGY

ENRICHED
SERVICES

ENHANCED
COMPETITIVENESS



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CONTENTS

7	Section 1 Definitions
9	Section 2 Letter to Shareholders
12	Section 3 Corporate Profile and Principal Financial Indicators
18	Section 4 Management Discussion and Analysis
38	Section 5 Report of the Directors
41	Section 6 Corporate Governance
87	Section 7 Environmental, Social Responsibility and other Corporate Governance
96	Section 8 Significant Events
115	Section 9 Changes in Shares and Information of Shareholders
120	Section 10 Relevant Information on Bonds
123	Section 11 Financial Report



IMPORTANT NOTICE

- I. **The Board of Directors and the Directors and senior management of the Company warrant that the content of this annual report is true, accurate and complete and does not contain any false representations, misleading statements or material omissions, and severally and jointly accept legal responsibility thereof.**
- II. **The Company was not profitable when it listed and has yet to become profitable**
No
- III. **Material risk alert**
The Company has described in details the various risks it may face during its production and operation and the countermeasures in this report. For further information, please refer to "IV. Risk Factors" in "Section 4 Management Discussion and Analysis" of this report.
- IV. **All Directors of the Company attended the Board meeting.**
- V. **Ernst & Young has issued a standard unqualified auditors' report for the Company.**
- VI. **Gao Yonggang, the person-in-charge of the Company and the person-in-charge of accounting affairs, and Liu Chenjian, the head of the accounting department (person-in-charge of accounting), warrant the truthfulness, accuracy and completeness of the financial report contained in this annual report.**
- VII. **Plan for profit distribution or plan to convert capital reserves into share capital as approved by the Board in the reporting period**
The Company did not make profit distribution for 2021. The proposal still needs to be submitted to the 2022 annual general meeting for approval.
- VIII. **Any significant events such as special arrangements for corporate governance**
Special arrangements for corporate governance: The Company is a red-chip enterprise
- IX. **Risks associated with forward-looking statements**
This report contains, in addition to historical information, "forward-looking statements". These forward-looking statements are based on SMIC's current assumptions, expectations, beliefs, plans, objectives and projections about future events or performance. SMIC uses words including but not limited to "believe", "anticipate", "intend", "estimate", "expect", "project", "target", "going forward", "continue", "ought to", "may", "seek", "should", "plan", "could", "vision", "goal", "aim", "aspire", "objective", "schedule", "outlook" and other similar expressions to identify forward looking statements. These forward-looking statements are necessary estimates reflecting judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicalities and market conditions in the semiconductor industry, intense competition in the semiconductor industry, SMIC's reliance on a small number of customers, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, parts, raw materials and software, availability of manufacturing capacity, financial stability in end markets, orders or judgments from pending litigation, intensive intellectual property litigation in the semiconductor industry, general economic conditions and fluctuations in currency exchange rates.
- X. **Any appropriation of fund by the controlling shareholder and its related parties for non-operating purpose**
None
- XI. **Any provision of external guarantee in violation of the stipulated decision-making procedure**
None
- XII. **More than half of the Directors cannot warrant the truthfulness, accuracy and completeness of the annual report disclosed by the Company**
No

BEING
TRUSTWORTHY
AND RELIABLE
FOR OUR CUSTOMERS



SECTION 1 DEFINITIONS

I. DEFINITIONS

In this report, unless the context requires otherwise, the following expressions shall have meanings as follows:

Definitions of common terms

Company or SMIC	for	Semiconductor Manufacturing International Corporation
Group or We	for	the Company and its subsidiaries
SMIC Holdings	for	SMIC Holdings Corporation
SMIS or SMIC Shanghai	for	Semiconductor Manufacturing International (Shanghai) Corporation
SMIB or SMIC Beijing	for	Semiconductor Manufacturing International (Beijing) Corporation
SMIT or SMIC Tianjin	for	Semiconductor Manufacturing International (Tianjin) Corporation
SMIZ or SMIC Shenzhen	for	Semiconductor Manufacturing International (Shenzhen) Corporation
SMNC	for	Semiconductor Manufacturing North China (Beijing) Corporation
SMSC	for	Semiconductor Manufacturing South China Corporation
CICT	for	China Information and Communication Technology Group Co., Ltd.
Datang Holdings	for	Datang Telecom Technology & Industry Holdings Co., Ltd.
Datang HK	for	Datang Holdings (Hongkong) Investment Company Limited
China IC Fund	for	China Integrated Circuit Industry Investment Fund Co., Ltd.
Xinxin HK	for	Xinxin (Hongkong) Capital Co., Ltd.
2021 AGM	for	the Company's annual general meeting held on June 25, 2021
Board	for	the board of directors of the Company
Director(s)	for	the director(s) of the Company
China or the PRC	for	the People's Republic of China
CSRC	for	China Securities Regulatory Commission
SEHK, HKSE or Hong Kong Stock Exchange	for	The Stock Exchange of Hong Kong Limited
SSE	for	The Shanghai Stock Exchange
SSE STAR Market	for	Shanghai Stock Exchange Science and Technology Innovation Board
Hong Kong Listing Rules	for	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended from time to time
IFRS	for	the International Financial Reporting Standards as issued by the International Accounting Standards Board
CAS	for	the China Accounting Standards for Business Enterprises as issued by the PRC Ministry of Finance
Ordinary Share(s)	for	the ordinary share(s) of US\$0.004 each in the share capital of the Company
A Share(s)	for	the Ordinary Shares issued by the Company on the SSE STAR Market
Hong Kong Share(s)	for	the Ordinary Shares issued by the Company on the Hong Kong Stock Exchange
RMB or yuan	for	Renminbi Yuan
Reporting period, this period or this year	for	Period from January 1, 2021 to December 31, 2021
Corresponding period, previous period or last year	for	Period from January 1, 2020 to December 31, 2020

All references in this annual report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. References to key process technology nodes, such as 0.35 micron, 0.18 micron, 0.13 micron, 90 nanometer, 65 nanometer, 45 nanometer, 28 nanometer and 14 nanometer include the stated resolution of the process technology, as well as resolutions down to, but not including, the next key process technology node of finer resolution. For example, when we state "45 nanometer process technology", that includes 38 nanometer, 40 nanometer and 45 nanometer technologies.

The financial information in this report has been prepared in accordance with the provisions under the International Financial Reporting Standard.

LETTER TO SHAREHOLDERS



SECTION 2 LETTER TO SHAREHOLDERS

Dear Shareholders,

The year 2021 was an exceptional year in SMIC's development history. The global shortage of chips and the strong demand for local and indigenous manufacturing brought the Company a rare opportunity, while the restrictions of the entity list set many obstacles to the Company's development. Focused on the primary task of ensuring operation continuity, meeting customer demand, and alleviating the supply chain shortage, under the leadership of the Board of Directors and through the concerted efforts of all employees, the Company continued to push forward, while marketing, sales, planning, procurement, and operations proceeded in tandem, and the Company's operation continuity has been basically stabilized.

The Company has made persistent efforts to meet customer demands and alleviate shortages in the supply chain. The Company has also maintained open communication and close cooperation with customers and suppliers, effectively understood the demands and development of end-user companies and the entire industry ecosystem, and continued to launch the construction of capacity. At the same time, the Company continues to improve customer satisfaction by meeting customers' needs, which has been broadly recognised and supported by customers. The Company maintained full utilization for the whole year of 2021 and achieved solid growth in its revenue of US\$5.4 billion from US\$3.9 billion in the previous year.

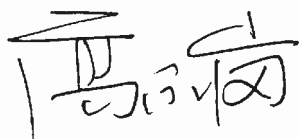
In terms of mature technology, the eight major product platforms laid out by the Company in the past four years have precisely penetrated the existing traditional markets such as mobile, consumer products, and incremental markets such as IoT, panels, electric vehicles, new energy and so forth. In terms of advanced technology, under the continuous efforts of the dual-preparation effect of cultivating a diversified customer base and multi-product platforms, marginal benefits of output continually improves.

The Company's development is inseparable from talent cultivation. Through multiple measures such as multi-channel recruitment, expansion of talent development avenues and establishing medium- and long-term incentive mechanisms, the Company further optimizes the structure of the talent pool, building a dedicated and innovative team.

The Company continues to uphold the concept of "caring for people, the environment and society" and actively practises corporate social responsibility. The Company also won the "Outstanding CSR Award" from Mirror Post Hong Kong again, and the first "Corporate Social Responsibility Award" from China IC Top Award. The Company will continue to strengthen its governance and create long-term value for investors.

Facing the evolution of the epidemic, the complex external environment, and the rapidly changing industry dynamics, 2022 will remain a year of challenges and opportunities. While the overall capacity in the industry is still in short supply, demand has been slowing down in some application areas, and there is a gradual shift from capacity shortage across the board to structural shortage. Following the development trend of the industry, dynamically balancing the existing traditional and incremental demand, and filling the structural gap of the supply chain are important tasks for the Company in 2022. The Company will consistently adhere to compliant operations, continuing internationalization and deep integration into the global supply chain, in order to serve customers across the globe; the Company will continue to strengthen close cooperation with customers and suppliers, orderly advance capacity expansion projects, secure existing volume, and expand incremental volume.

At last, we sincerely thank all employees for their efforts and dedication, and thanks to all our customers, suppliers, shareholders and the community for their trust and support!



Chairman

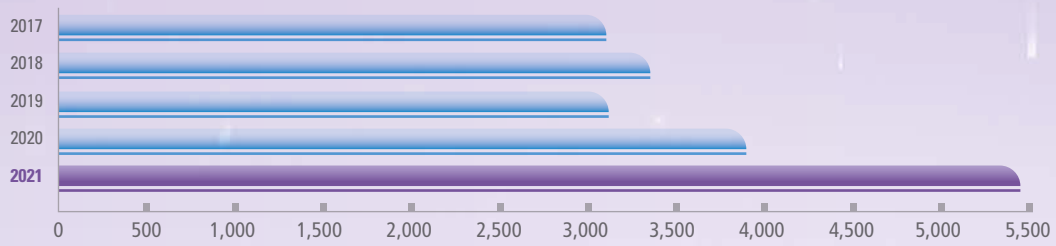
Shanghai, PRC
March 30, 2022



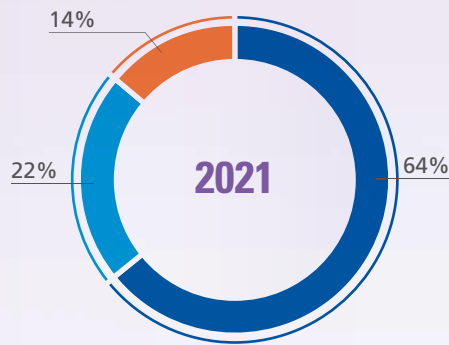
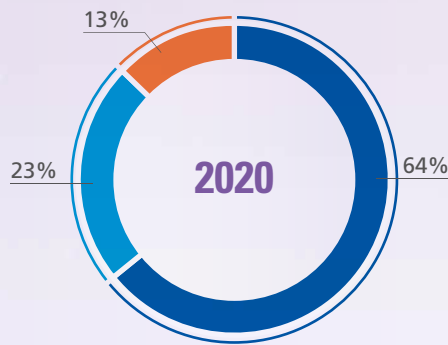
STRIVING FOR RETURNS ON BEHALF OF SHAREHOLDERS

Total Revenue

Revenue (US\$ million)

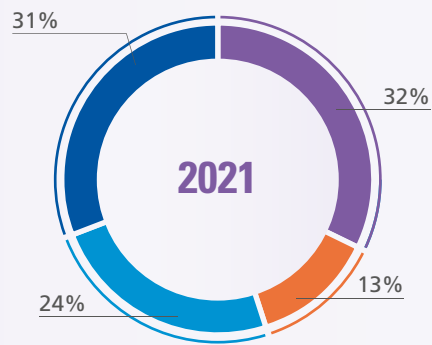
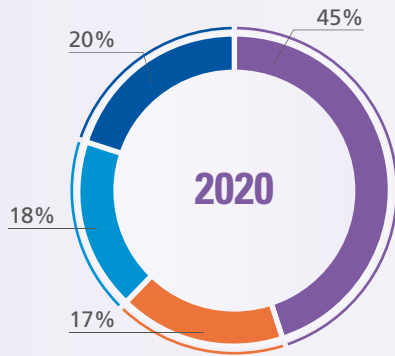


Sales by Region



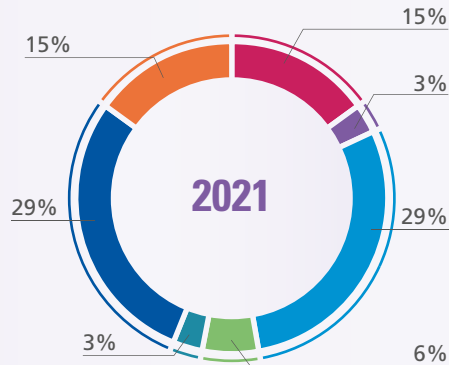
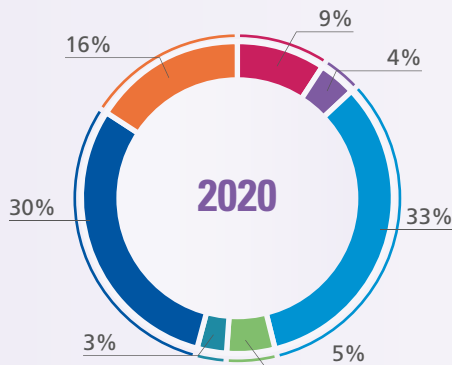
- Chinese Mainland and Hong Kong, China
- North America
- Europe and Asia

Wafer Sales by Application



- Smart Phone
- Smart Home
- Consumer Electronics
- Others

Wafer Sales by Technology



- 0.35μm
- 0.18μm
- 0.13μm
- 90nm
- 55/65nm
- 40/45nm
- FinFET/28nm

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

I. BASIC CORPORATE INFORMATION

Name of the Company in Chinese	中芯國際集成電路製造有限公司
Chinese abbreviation	中芯國際
Name of the Company in English	Semiconductor Manufacturing International Corporation
English abbreviation	SMIC
Legal representative of the Company ^(Note)	Gao Yonggang
Registered address of the Company	Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1 1111 Cayman Islands
Office address of the Company	18 Zhangjiang Road, Pudong New Area, Shanghai, PRC
Postal code of the office address of the Company	201203
Website address	http://www.smics.com/
E-mail	ir@smics.com
Place of business in Hong Kong	Suite 3003, 30th Floor, No. 9 Queen's Road Central, Hong Kong
Authorized Representatives under Hong Kong Listing Rules	Gao Yonggang, Zhao Haijun
Joint Company Secretaries	Guo Guangli, Hoo Mei Fung
Custodian of A Shares	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
Hong Kong Share registrar	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Financial calendar

2021 annual results announcement	March 30, 2022
2022 annual general meeting	June 24, 2022
Book closure period for 2022 annual general meeting (Hong Kong Shares)	June 21, 2022 to June 24, 2022, both days inclusive
Record date for the 2022 annual general meeting (A Shares)	June 20, 2022
Financial year end date	December 31

Note: The Company is registered in the Cayman Islands, which does not have the concept of a legal representative, though its person-in-charge is Gao Yonggang.

II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to the Board (Domestic representative of the information disclosure)	Securities Affairs Representative
Name	Guo Guangli	Wen Jiehan
Contact address	18 Zhangjiang Road, Pudong New Area, Shanghai, PRC	18 Zhangjiang Road, Pudong New Area, Shanghai, PRC
Telephone	021-20812800	021-20812800
E-mail	ir@smics.com	ir@smics.com

III. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

Media and website selected by the Company for information disclosure	Shanghai Securities News (www.cnstock.com), China Securities Journal (www.cs.com.cn), Securities Times (www.stcn.com) and Securities Daily (www.zqrb.cn)
Website designated by Shanghai Stock Exchange for publishing the annual report of the Company	http://www.sse.com.cn
Website designated by Hong Kong Stock Exchange for publishing the annual report of the Company	http://www.hkexnews.hk
Place of inspection of the annual report of the Company	Board Affairs Office, 18 Zhangjiang Road, Pudong New Area, Shanghai, PRC

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

IV. INFORMATION ON THE COMPANY'S SHARES/DEPOSITORY RECEIPTS

(I) INFORMATION ON THE COMPANY'S SHARES

Class of shares	Stock exchange and board on which shares are listed	Stock abbreviation	Stock code
A Shares	SSE STAR Market	中芯國際	688981
Hong Kong Shares	Main Board of the Hong Kong Stock Exchange	SMIC	00981

Note: ADR programme has been terminated on March 4, 2021 (US Eastern Standard Time ("EST")).

V. OTHER RELEVANT INFORMATION

Auditor engaged by the Company (domestic)	Name	Ernst & Young Hua Ming LLP (Special General Partnership)
	Office address	16th Floor, Ernst & Young Tower, Oriental Plaza, 1 East Chang An Avenue, Dongcheng District, Beijing, China
	Name of signing accountants	Meng Dong, Gu Shenwei
Auditor engaged by the Company (overseas)	Name	Ernst & Young
	Office address	Certificated Public Accountant and Registered Public Interest Entity Auditor 27/F, One Taikoo Place 979 King's Road Quarry Bay, Hong Kong
	Name of signing accountant	Ng Cheung
Joint sponsor (lead underwriter) continuously performing its supervisory function during the reporting period	Name	Haitong Securities Co., Ltd.
	Office address	No. 689, Guangdong Road, Huangpu District, Shanghai
	Name of signing sponsor representative	Zheng Yu, Chen Cheng
Joint sponsor (lead underwriter) continuously performing its supervisory function during the reporting period	Continuous supervision period	From July 16, 2020 to December 31, 2023
	Name	China International Capital Corporation Limited
	Office address	27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing
	Name of signing sponsor representative	Wei Xianrong, Li Yang
	Continuous supervision period	From July 16, 2020 to December 31, 2023

VI. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS

(I) PRINCIPAL ACCOUNTING DATA

in USD'000

	Year ended			
	12/31/21	12/31/20	12/31/21 as compared with 12/31/20 (%)	12/31/19
Revenue	5,443,112	3,906,975	39.3	3,115,672
Profit for the year attributable to owners of the Company	1,701,803	715,550	137.8	234,681
Profit/(loss) for the year attributable to owners of the Company, net of non-recurring profit or loss	825,285	246,280	235.1	(102,732)
Net cash flow generated from operating activities	3,011,895	1,660,410	81.4	1,019,057
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	3,819,769	2,123,336	79.9	1,373,492

	As of			
	12/31/21	12/31/20	12/31/21 as compared with 12/31/20 (%)	12/31/19
Equity attributable to owners of the Company	17,149,664	14,875,206	15.3	5,669,397
Total assets	36,110,941	31,320,575	15.3	16,437,820

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(II) PRINCIPAL FINANCIAL INDICATORS

	Year ended			
	12/31/21	12/31/20	12/31/21 as compared with 12/31/20 (%)	12/31/19
Gross margin	30.8%	23.6%	Increased by 7.2 percentage points	20.6%
Net margin	32.6%	17.1%	Increased by 15.5 percentage points	5.1%
EBITDA margin	70.2%	54.3%	Increased by 15.9 percentage points	44.1%
Basic earnings per share	\$0.22	\$0.11	100.0	\$0.04
Diluted earnings per share	\$0.21	\$0.11	90.9	\$0.04
Basic earnings per share, net of non-recurring profit or loss	\$0.10	\$0.04	150.0	-\$0.02
Weighted average return on equity	10.5%	7.4%	Increased by 3.1 percentage points	4.2%
Weighted average return on equity, net of non-recurring profit or loss	5.1%	2.6%	Increased by 2.5 percentage points	-1.9%
Percentage of research and development ("R&D") expenses to revenue	11.7%	17.3%	Decreased by 5.6 percentage points	22.1%

Profit attributable to owners of the Company, net of non-recurring profit or loss was US\$825.3 million for this year, compared to US\$246.3 million for last year. The increase was primarily due to the increase in wafer shipments, higher average selling price and product-mix change during the period.

Percentage of research and development ("R&D") expenses to revenue decreased by 5.6%, mainly because the increase in revenue for this year, and part of R&D capacity was put into production to ensure customers' demand in response to tight capacity, resulting to lower percentage of R&D expenses.

VII. DISCREPANCIES IN ACCOUNTING DATA BETWEEN DIFFERENT ACCOUNTING STANDARDS

(I) DISCREPANCIES IN NET PROFIT AND NET ASSETS ATTRIBUTABLE TO OWNERS OF THE COMPANY IN THE FINANCIAL REPORT DISCLOSED UNDER IFRS AND UNDER CAS

in USD'000

	Profit attributable to owners of the Company		Equity attributable to owners of the Company	
	Year ended 12/31/21	Year ended 12/31/20	12/31/21	12/31/20
Prepared in accordance with CAS	1,667,673	626,650	17,149,664	15,174,594
Adjustments to items and amounts prepared in accordance with IFRS:				
The equity method on one-quarter-lag basis to pick up the investment income or loss ⁽¹⁾	—	6,300	—	—
The equity interest in an associate being passively diluted ⁽²⁾	34,130	82,600	—	—
Perpetual subordinated convertible bonds ⁽³⁾	—	—	—	(299,388)
Prepared in accordance with IFRS	1,701,803	715,550	17,149,664	14,875,206

Notes:

- (1) In 2020, given that the financial information of the investees could be obtained in a timely manner, in the preparation of IFRS financial statements, the Group recognised the investment income or loss and OCI based on accounting data of investees in the same accounting period to maintain the consistency in the financial information under IFRS and CAS.
- (2) Under CAS, gains or losses arising from dilution of investments in associates and joint ventures should be recorded in equity while adjusting the carrying amount of the long-term investment. Under IFRS, gains or losses of which should be recorded in profit or loss, while adjusting the carrying amount of the long-term investment.
- (3) Under CAS, perpetual subordinated convertible bonds are listed in the item of other equity instruments and incorporated into the equity attributable to owners of the Company. Under IFRS, perpetual subordinated convertible bonds are not included in the equity attributable to owners of the Company.

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

VIII. PRINCIPAL FINANCIAL DATA FOR THE YEAR OF 2021 BY QUARTER

in USD'000

	First Quarter (From January to March)	Second Quarter (From April to June)	Third Quarter (From July to September)	Fourth Quarter (From October to December)
Revenue	1,103,649	1,344,102	1,415,302	1,580,059
Profit attributable to owners of the Company	158,876	687,803	321,351	533,773
Profit attributable to owners of the Company, net of non-recurring profit or loss	104,569	258,090	215,348	247,278
Net cash flow generated from operating activities	463,637	1,039,344	559,356	949,558

IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

in USD'000

	Year ended		
	12/31/21	12/31/20	12/31/19
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	35,996	1,496	4,004
Government funding	378,318	362,483	293,305
Gain on disposal of a subsidiary and some shares of an associate	266,405	83,504	81,377
Net gain arising on financial instruments at FVPL	80,155	53,962	34,853
Share of gains arising on financial instruments at FVPL of investment using equity method	194,572	120,842	54,751
One-off adjustment to the tax expense under the new tax policy	48,862	—	—
Others	47	(1,045)	(752)
	1,004,355	621,242	467,538
Effects of income tax	(71,517)	(84,831)	(76,243)
Impact on non-controlling interests (after tax)	(56,320)	(67,141)	(53,882)
Total	876,518	469,270	337,413

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

X. ITEMS MEASURED AT FAIR VALUE

in USD'000

	As of			
	12/31/21	12/31/20	Change in the reporting period	Impact on profit for the reporting period
Investments in equity securities	223,024	156,367	66,657	67,925
Structured deposits and monetary funds	78,184	111,477	(33,293)	766
Cross currency swap contracts	67,005	(112,544)	179,549	(4,595)
Interest rate swap contracts	3,388	(7,700)	11,088	(9,673)
Foreign-currency forward exchange contracts	—	(333)	333	(1,481)
Total	371,601	147,267	224,334	52,942

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

XI. EBITDA

in USD'000

	Year ended		
	12/31/21	12/31/20	12/31/19
Profit for the year	1,775,158	669,098	158,860
Finance costs	110,143	73,234	63,460
Depreciation and amortisation	1,869,302	1,312,694	1,127,756
Income tax expense	65,166	68,310	23,416
EBITDA	3,819,769	2,123,336	1,373,492

XII. BUSINESS PERFORMANCE HIGHLIGHTS FOR THE PREVIOUS FIVE YEARS

(I) PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DATA

	For the year ended December 31,				
	2021	2020	2019	2018	2017
	(in US\$ thousands, except per share, shares, percentages and piece)				
Revenue	5,443,112	3,906,975	3,115,672	3,359,984	3,101,175
Cost of sales	(3,767,342)	(2,986,062)	(2,473,213)	(2,613,307)	(2,360,431)
Gross profit	1,675,770	920,913	642,459	746,677	740,744
Research and development expenses	(638,842)	(677,413)	(687,369)	(663,368)	(509,356)
Sales and marketing expenses	(27,642)	(29,466)	(26,836)	(30,455)	(35,796)
General and administration expenses	(275,703)	(266,376)	(254,924)	(199,818)	(198,036)
Impairment losses on financial assets, net	997	(199)	(1,076)	(937)	137
Other operating income	657,982	364,487	376,656	162,541	127,202
Profit from operations	1,392,562	311,946	48,910	14,640	124,895
Interest income	223,035	170,794	138,988	64,339	27,090
Finance costs	(110,143)	(73,234)	(63,460)	(24,278)	(18,021)
Foreign exchange gain/(loss)	1,407	89,818	9,495	(8,499)	(12,694)
Other gains, net	80,785	50,741	42,981	24,282	16,499
Share of gains/(losses) of investments accounted for using equity method	252,678	187,343	5,362	21,203	(9,500)
Profit before tax	1,840,324	737,408	182,276	91,687	128,269
Income tax expense	(65,166)	(68,310)	(23,416)	(14,476)	(1,846)
Profit for the year	1,775,158	669,098	158,860	77,211	126,423
Other comprehensive income					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Exchange differences on translating foreign operations	36,789	66,389	(16,769)	(35,919)	23,213
Change in value of available-for-sale financial assets	—	—	(2,381)	—	(2,381)
Cash flow hedging	11,226	(21,286)	(26,524)	35,931	35,143
Share of other comprehensive income of joint ventures accounted for using equity method	—	—	—	—	17,646
Others	—	—	—	—	(131)
<i>Items that will not be reclassified subsequently to profit or loss</i>					
Actuarial gains or losses on defined benefit plans	—	—	(1,532)	129	(436)
Total comprehensive income for the year	1,823,173	714,201	114,035	77,352	199,477
Profit/(loss) for the year attributable to:					
Owners of the Company	1,701,803	715,550	234,681	134,055	179,679
Non-controlling interests	73,355	(46,452)	(75,821)	(56,844)	(53,256)
	1,775,158	669,098	158,860	77,211	126,423
Total comprehensive income for the year attributable to:					
Owners of the Company	1,749,818	760,639	188,831	133,977	251,135
Non-controlling interests	73,355	(46,438)	(74,796)	(56,625)	(51,658)
	1,823,173	714,201	114,035	77,352	199,477
Earnings per share					
Basic	\$0.22	\$0.11	\$0.04	\$0.03	\$0.04
Diluted	\$0.21	\$0.11	\$0.04	\$0.03	\$0.04
Shares issued and outstanding	7,903,856,555	7,703,507,527	5,056,868,912	5,039,819,199	4,916,106,889
Financial ratio					
Gross margin	30.8%	23.6%	20.6%	22.2%	23.9%
Net margin	32.6%	17.1%	5.1%	2.3%	4.1%
Operating data					
Wafers shipped (in piece)	6,747,190	5,698,624	5,028,796	4,874,663	4,310,779

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(II) MAJOR FINANCIAL POSITION DATA

	As of December 31,				
	2021	2020	2019	2018	2017
	(In USD'000)				
Total assets	36,110,941	31,320,575	16,437,820	14,424,320	11,918,451
Total non-current assets	20,893,076	16,149,220	9,563,979	8,274,729	7,749,467
Property, plant and equipment	14,260,783	12,138,021	7,757,247	6,777,970	6,523,403
Investments in associates	1,859,151	1,440,976	1,139,317	1,135,442	758,241
Financial assets at amortised cost-non-current	3,725,962	1,638,721	–	–	–
Total current assets	15,217,865	15,171,355	6,873,841	6,149,591	4,168,984
Inventories	1,193,811	798,776	628,885	593,009	622,679
Trade and other receivables	1,215,473	975,927	836,143	837,828	616,308
Financial assets at amortised cost – current	3,838,129	2,806,517	2,276,370	1,996,808	683,812
Restricted cash – current	214,191	575,258	804,547	592,290	336,043
Cash and cash equivalent	8,581,746	9,826,537	2,238,840	1,786,420	1,838,300
Total liabilities	10,672,798	9,638,837	6,239,958	5,500,740	5,197,116
Total non-current liabilities	6,219,178	5,746,127	3,034,759	2,641,512	3,290,337
Total current liabilities	4,453,620	3,892,710	3,205,199	2,859,228	1,906,779
Total equity	25,438,143	21,681,738	10,197,862	8,923,580	6,721,335
Non-controlling interests	8,288,479	6,507,144	3,964,617	2,905,766	1,488,302

(III) MAJOR CASH FLOW DATA

	For the year ended December 31,				
	2021	2020	2019	2018	2017
	(In USD'000)				
Net cash generated from operating activities	3,011,895	1,660,410	1,019,057	799,426	1,080,686
Profit for the year	1,775,158	669,098	158,860	77,211	126,423
Depreciation and amortisation	1,869,302	1,312,694	1,127,756	1,048,410	971,382
Net cash used in investing activities	(6,655,435)	(7,071,383)	(1,948,507)	(3,197,261)	(2,662,139)
Payments for property, plant and equipment	(4,120,275)	(5,274,686)	(1,869,563)	(1,808,253)	(2,287,205)
Net cash generated from financing activities	2,357,325	12,704,215	1,376,278	2,376,922	1,271,591
Net (decrease)/increase in cash and cash equivalent	(1,286,215)	7,293,242	446,828	(20,913)	(309,862)

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

I. MANAGEMENT DISCUSSION AND ANALYSIS

In 2021, the global semiconductor market exhibited significant growth under the momentum supported by three major market demand factors: (1) Steady demand from existing traditional markets; (2) Incremental demand from the emerging product market; (3) Incremental demand in anticipation of localized manufacturing facilitated by worldwide industry landscape shift. The incremental build-up of these demand and the shutdown in many places in the world caused by the pandemic and natural disasters, have resulted in capacity short-supply in semiconductor manufacturing, bottleneck issues of peripheral chip services and other problems, and lengthen the procurement cycle-times of the overall IC supply chain. From the view of end application market, the new business formations on stay-at-home, intelligent community, smart healthcare, cloud tour and other fields keep accelerating, accompanied with the rapid growth in the emerging industries of new energy, and intelligent robots, further enlarged the application fields of Internet of Things ("IoT"), cloud computing, intelligent manufacturing, and continuously increased the chip content in the end products. The strong IC demand has been observed in the fields of power management, touch controller and display driver, wireless communication, RF, MCU, CMOS image sensor, etc., creating development impetus for the industry. Meanwhile, the global IC industry has been confronted with the geographical trade tension. The Company has to face great challenges brought by the U.S Entity List. In 2021, the Company faced a complex situation, through the great efforts of all employees, operational continuity had been basically secured, and the mature technology capacity expanded in an orderly manner, advanced technology business steadily improved, and the Company achieved revenue exceeding its original 2021 target.

During the reporting period, the Group recorded the total revenue of US\$5,443.1 million, representing a year-on-year growth of 39.3%. In particular, the wafer revenue amounted to US\$4,982.2 million, representing a year-on-year growth of 43.4%.

The revenue from each region recorded growth for the reporting period, in which the revenue from business in the Chinese Mainland and Hong Kong, China accounted for 64.0% of the total revenue; the revenue from business in North America accounted for 22.3% of the total revenue; and the revenue from business in Eurasia accounted for 13.7% of the total revenue.

In respect of application segments, the revenue from smart phone accounted for 32.2% of the wafer revenue; the revenue from consumer electronics accounted for 23.5% of the wafer revenue; the revenue from smart home accounted for 12.8% of the wafer revenue; and the revenue from other applications accounted for 31.5% of the wafer revenue.

By technology, the revenue from 90nm and below accounted for 62.5% of the wafer revenue. In particular, the revenue from 55/65nm technology accounted for 29.2%; the revenue from 40/45nm technology accounted for 15.0%; and the revenue from FinFET/28nm technology accounted for 15.1%.

II. PRINCIPAL BUSINESS, BUSINESS MODEL, INDUSTRY OVERVIEW AND R&D DURING THE REPORTING PERIOD

(I) PRINCIPAL BUSINESS, MAJOR PRODUCTS OR SERVICES

The Company is one of the leading foundries in the world and is the front runner in manufacturing capability, manufacturing scale, and comprehensive service in the Chinese Mainland. SMIC Group provides semiconductor foundry and technology services to global customers on 0.35 micron to 14 nanometer process node technologies.

In addition to the IC foundry business, the Company is also committed to creating a platform-based ecological service model, providing customers with one-stop supporting services in design services, IP support, photomask manufacturing, etc., while promoting the collaborations of upstream and downstream semiconductor industry chain so as to provide a full range of integrated circuit solutions to our customers with the partners in all links of the industry chain.

In 2021, the Company enlarged its production capacity at a steady pace and maintained its capacity utilization rate at a high level. In response to capacity bottleneck, the Company further enhanced the end market surveys, seamlessly communicated with our customers, timely specified the strategies on the capacity allocations in line with actual demand of industries and customers, and provided concrete values to our customers through utmost efforts to alleviate the chip supply shortage. In the meantime, based on diversified technology nodes and comprehensive technical services supports, the Company met differentiated customer needs and continued to create higher added values, making every effort to serve both domestic and overseas customers.

(II) MAJOR BUSINESS MODEL

1. Profit model

The Company is mainly engaged in IC foundry business based on multiple technology nodes and different technology platforms, as well as supporting services such as design services and IP support, photomask manufacturing, etc.

2. R&D model

The Company has formed a complete and efficient innovation mechanism, established a complete R&D process management system, and is equipped with professional R&D teams. The Company continued developing technology platforms branched on specialty technologies with the R&D experience built-up from mature technologies, and in pursuing advanced technology and related application platforms' development, the Company has further solidified its technical foundation and established its technical thresholds. The R&D procedures principally include seven stages, namely selection of project, feasibility assessment, project establishment, technology development, technology examination, product examination and production, each with strict review procedure, to ensure the success of projects from R&D to production.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

3. Procurement mode

The Company mainly purchases materials, parts, equipment and technical services for IC foundry services and supporting services from its suppliers. In order to improve productivity and enhance cost control, the Company has established a procurement management system. The Company has a mature supplier management system and a relatively comprehensive security system for supply chain management. It has built mechanisms for supplier access, supplier assessment and evaluation, and supplier capability development and improvement. While maintaining long term collaboration with our major suppliers, the Company continues to take into account the introduction and cultivation of new suppliers to strengthen the sustainability and safety of the supply chain.

4. Production mode

The Company plans production capacity based on the market demand and determines production schedule, the details of which are as follows:

- (1) Small batch trial production: The customer designs the products according to the design rules provided by the Company. After the design is completed, the Company conducts a small batch trial production based on the customers' requirements for such product.
- (2) Risk production: The samples from the small batch trial production are packaged, tested, and functionally verified. If they meet the market requirements, the product can enter into the risk production stage. The stage of risk production mainly includes product yield improvement, product process improvement and production capacity expansion.
- (3) Mass production: After the risk production is completed and the above mentioned delivery indicators are within customer specifications, the product can enter into the mass production stage. In the mass production stage, the sales department confirms with customer on the purchase order quantity. The production planning department arranges production based on customer order requirements, tracks production progress, and provides customers with production progress reports.

5. Marketing and sales model

The Company adopts various marketing methods and actively expands customer base through multiple channels. After forming a cooperative relationship with customers, the Company will maintain direct communication channels with customers and enable solutions to meet their needs.

Through market research, the Company actively contacts and visits target customers, recommends process and services linked to customer needs and launches a series of customer development activities. The Company also establishes cooperative relations with customers through collaborations with design service companies, IP suppliers, EDA companies, packaging and testing manufacturers, industry associations and various IC industry promotion centres. The Company conducts promotion activities and acquires customers by hosting technical seminars and participating in various professional exhibitions, summits, and forums in the semiconductor industry. Some customers contact the Company for direct cooperation through public channels such as the Company's website and word-of-mouth communication. The Company's sales team executes orders with customers, and provides IC wafer foundry services and relevant supporting services to the customers according to the requirements of the order. Upon completion of manufacturing, the products will be delivered to customers or the downstream packaging and testing manufacturers designated by customers.

The Company has established the current foundry model based on the factors such as market supply and demand situation, upstream and downstream development, the Company's principal business, major products, core technologies, and its own development stage. During the reporting period, the aforementioned key factors of business model had no significant changes.

(III) INDUSTRY OVERVIEW

1. Development stage, basic features and major technical thresholds of the industry

In 2021, the IC industry became increasingly more important in worldwide supply chains, and the global foundry industry was in short-supply situation. More applications from end markets require higher computing power, higher data throughput, and more advanced artificial intelligence ability, driving the existing traditional markets of smartphone, personal computer, servers into an upgrade phase with solid market demand. Meanwhile, benefiting from new developed long distance and short range communication technologies in a consistent growth of market penetration, the industry trend of Internet-of-Everything and Intellectualization is further accelerated towards more diversified IC application fields. A wide range of emerging applications including IoT, smart wearable, smart home, smart city and intelligent community are further penetrating into every aspect of our lives, to support the incremental IC demand in significant growth. Additionally, as affected by the tensions of global geographical and trading relations and the continual spread of the epidemic, the assurance of procurement cycle and the securities of supply chains stability have become main challenges in current IC industry.

Domestically, as the world's largest manufacturing center, our semiconductor industry currently still relies on imports for IC products and technologies. Our domestic IC industry scale cannot match with actual IC demand from domestic market, yet to provide relatively larger space for future growth. Under the new round industrialization trend of the emerging innovations in IoT, intelligent manufacturing, intelligent robot and other fields, our domestic IC industry is anticipated to embrace a golden age, in an urgency to expedite the improvement on industry chain structure, enlarge the capacity scale, strengthen the technological capabilities, enrich the product platforms and promote the in-depth all links' collaborations. Our domestic IC manufacturing industry is now still facing technologies gap and manufacturing capacity insufficiency. It is in an urgent need to realise capacity constructions and increase the proportion of technology innovations according to actual demand from end market, in order to lock up the existing traditional markets, and pursue the opportunities of the incremental market.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

The Company is dedicated to the IC wafer foundry industry. IC wafer foundry is a business model adopted by IC manufacturers, which is highly technology-intensive, talent-intensive and capital-intensive. The R&D process of wafer foundry involves science of material, chemistry, semiconductor physics, optics, microelectronics, quantum mechanics and other science and engineering subjects, and requires professional technical teams with strong R&D ability for integration technologies. Its operation procedure requires stringent control and execution standards for the manufacturing environment, energy, raw materials, equipment and quality management system, etc.

2. Analysis on the industry position of the Company

SMIC is one of the leading foundries in the world and is the front runner in manufacturing capability, manufacturing scale, and comprehensive service in the Chinese Mainland. According to the ranking of pure-play foundries in terms of global sales in 2021 as published by IC Insights, SMIC ranks the 4th globally and the 1st among the enterprises in Chinese Mainland.

3. Development of new technologies, new industries, new sectors and new models as well as their future development trends

The foundry manufacturing is conducted under high-precision equipment, in order to meet required performance and yield for IC devices. The transistors' feature dimensions in IC chip have been developed from the micron-level planar architecture to the nanometer-level FinFET architecture. The FinFET technologies largely advance the development of product applications requiring low power consumptions and high speed computing capabilities. Because of its high capital investment and high technology barriers, only a small number of enterprises worldwide have the production capabilities on FinFET technologies, with strong demand in capacity. In the meanwhile, with continual extensions of IC application fields, the market demand for some specialty technologies sustains sound growth, especially in the segments of power management, high voltage driver, MCU, radio frequency, CMOS image sensor, etc. Specialty technologies mainly focus on how to enable IC to realise the special functionalities for end products, varied in wide application fields. They are able to form cluster advantages in specialty industry along with their own target market positioning and developing trends, which is considered an important area of development outside of Moore's Law. Most of the world's leading companies have specialty technology layout, and continue to plan investment for R&D.

In recent years, IC industry has been developing more technology innovations in the fields of advanced IC packaging, design services and photomask in order to provide more systematic solutions of exceeding the physical limitations of transistor dimensions to extend Moore's Law. In the field of packaging, more technology innovations have been enabled with diversified emerging technologies and forms including bumping, flip chip, through silicon via (TSV), 2.5D, 3D, SiP (System in Package), Chiplet, etc. More and more companies are engaged in advanced packaging developing, in order to consolidate leading positions in the industry; In the design service sector, with more complexities in IC designs and semiconductor processes, DTCO is utilized to evaluate and adjust the coordination between IC design and manufacturing process for advanced and specialty technologies, to effectively reduce the cost of semiconductor process development and minimize the risk of process going for production. At present, DTCO has been widely adopted in the leading industry; Photomask is also a core tool in IC industry chain. Its manufacturing technology evolves with the development of lithography, to assure the accurate printing performance for the increasing complicated design patterns. The types of photomask have developed from the early binary intensity masks to phase shift masks, and its graphics transfer media has evolved from chromium metal to SiMo materials, further extending the capabilities of lithography.

The IC wafer foundry companies have been winning customers through core advantages on the diversity of platforms and advanced technologies. In mature process nodes, to meet more diversified and differentiated requirements from products, the foundries continuously enrich technical platforms to match with product specifications, actively participate in industrial ecosystem establishment, closely drive foundry R&D to keep up with the market trend, constantly invest with resources, and effectively assist the products entering into market at a rapid pace; In advanced process nodes, in pursuing of lower power consumption, smaller chip size, higher computing performance and reliability level for high-end market, the foundry process technologies are expected to continue the upgrading and improvement activities through constant development, verification and iterations in the fields of device architecture, semiconductor materials, manufacturing equipment, process inspection methodologies, quality control system, yield test and failure analysis methodologies, etc., supported by huge investment of human and capital resources. In recent years, with the changes in macro industrial layout, the foundries' capacity scale and collaboration capabilities in localized industry chain have become important factors for customers' assessment of supply chain stability and completeness. On the whole, the foundry industry requires investment for sustainable resources from talents to capital, with advanced competitiveness by continuously strengthening the technical barrier through internal impetus on R&D and external expansion on capacity scale, improve competitive advantage within the industry, to maintain, consolidate and raise the market position.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(IV) CORE TECHNOLOGIES AND R&D PROGRESS AND THEIR CHANGES DURING THE REPORTING PERIOD

1. CORE TECHNOLOGIES AND THE ADVANCEMENT

In 2021, for advanced technology progress, the development of multiple derivative platforms are carrying out as planned, steadily engaging with customers, and achieving the goal of diversified product portfolio.

Meanwhile, specialty technology platforms have been making great achievements since 2021, along with the 55nm BCD in NTO phase, the consumer level 55nm, 40nm High-voltage DDIC platform in risk production and 0.15um High-voltage DDIC platform in mass production. The specialty technology and development of other platforms, continue developing progressively and sustainably, which will be delivered shortly.

2. R&D ACHIEVEMENTS DURING THE REPORTING PERIOD

List of intellectual property rights obtained in this year:

	Addition during the year		Accumulative number	
	Number of applications	Number of rights obtained	Number of applications	Number of rights obtained
Invention patents	662	672	16,207	10,698
Utility model patents	2	1	1,773	1,769
Layout design rights	—	—	94	94
Total	664	673	18,074	12,561

3. ANALYSIS OF R&D COSTS

in USD'000

	Year ended		12/31/21 as compared with 12/31/20 (%)
	12/31/21	12/31/20	
Expensed R&D costs	638,842	677,413	(5.7)
Capitalised R&D costs	—	—	—
Total R&D costs	638,842	677,413	(5.7)
Total R&D costs as a percentage of revenue	11.7%	17.3%	Decreased by 5.6 percentage points
Capitalised percentage of R&D costs	—	—	—

Note: The decrease in total R&D costs and total R&D costs as a percentage of revenue was mainly because (1) part of R&D capacity was put into production to ensure customers' demand in response to tight capacity, and (2) the substantial increase in revenue during the year.

4. R&D PROJECTS

No.	Name of project	Progress or milestone achievements	Proposed objects	Technology positioning	Specific application prospects
1	FinFET derivative technology platform development	The development of multiple derivative platforms are carrying out as planned, steadily engaging with customers, and achieving the goal of diversified product portfolio.	Based on the FinFET general process platform, a series of derivative application platforms to be developed, device performance to be further optimized and integration to be improved, to meet the needs of various applications.	Chinese Mainland leadership	Mainly applied to smart home, consumer electronics, etc.
2	22nm Ultra-low power technology platform	The devices performances are matched with the targets. The device design was completed. The processes validation commenced. The original process was frozen	To complete platform development, engage with customers, and realise mass production.	Chinese Mainland leadership	Mainly applied to various IoT products to meet the demand from applications such as Smartphone, Digital TV, TV top-set, Image Sensor processor, Wearable devices and other consumer electronics.
3	28nm Radio Frequency (RF) technology platform	Based on the 28HKC+ platform, various RF devices were provided with optimized performances. The process flow was frozen and the customer verifications commenced.	To complete platform development, engage with customers, and realise mass production.	Chinese Mainland leadership	Mainly applied to household networks, routers, Wi-Fi, mobile end equipment communication and other applications.
4	28nm high voltage display driver integrated circuit (HVDDIC) technology platform	Based on 28HKC+ platform, the whole set of devices were completed. Compared with 40nm HVDDIC technology platform, the SRAM areas are smaller in sizes and larger in volumes, capable of providing solutions for high-end display.	To complete platforms including a full set of low-, middle- and high-voltage devices, provide larger volume SRAM, and lower power consumption to adapt to various high-end display technical needs.	Chinese Mainland leadership	Mainly applied to AMOLED display drivers for high-end smart phones.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

No.	Name of project	Progress or milestone achievements	Proposed objects	Technology positioning	Specific application prospects
5	55nm BCD technology platform	The performance development and reliability verifications of middle- and low-voltage devices in the first stage of 55nm BCD platform were completed; The devices performances have reached the world leading level; The first new tape-out has been launched. The small batch trial production will start in 2022.	To complete platforms including middle- and high-voltage applications, align with the development trends of intelligent chips of power management, and gradually expand into other various analogue applications.	Chinese Mainland leadership	Mainly applied to high-end smartphone's acoustic IC.
6	90nm BCD technology platform	The performance development and reliability verifications of middle- and low-voltage devices in the first stage of 90nm BCD platform were completed; The process design tool kit V1.0 has been released; The first new tape-out has been launched. The small batch trial production will start in 2022.	To complete platforms including middle- and high-voltage applications, align with the development trends of intelligent chips of power management, and gradually expand into other various analogue applications.	Chinese Mainland leadership	Applied to high-end smart power management, audio frequency amplifiers, smart motor drivers ,etc.
7	0.11um high voltage display driver integrated circuit (HVDDIC) technology platform	The process design tool kit V1.0 has been released; The first new tape-out has been launched. The small batch trial production will start in 2022.	To complete platforms including a full set of low- and middle-voltage devices, to adapt to various camera viewfinders and virtual reality (VR) display IC, to realise mass production.	Chinese Mainland leadership	Mainly applied to camera viewfinders and virtual reality (VR) display IC.

Note: During the reporting period, the research and development of several projects such as 40nm high voltage display driver integrated circuit (HVDDIC) technology platform, eFlash, NOR Flash memory process and NAND Flash memory process, have been accomplished.

5. R&D STAFF

Basic information

	Year ended	
	12/31/21	12/31/20
Number of R&D Staff of the Group	1,758	2,335
Number of R&D staff as a percentage of the total workforce of the Group	9.9%	13.5%
Total compensation of R&D staff (in USD'000)	114,270	130,071
Average compensation of R&D staff (in USD'000)	65	56

Education level

Education level	Number of persons
Doctorate	261
Master	958
Bachelor	325
Junior college and below	214

Age structure

Age group	Number of persons
Aged below 30 (excluding 30)	743
Aged 30-40 (excluding 40)	700
Aged 40-50 (excluding 50)	291
Aged 50-60 (excluding 60)	22
Aged 60 and above	2

Note: R&D staff includes R&D department staff and technical staff engaged in research-related technical support. The number of R&D personnel in this reporting period decreased compared with the previous period, mainly due to some R&D staff transferred to production and operation positions, and the impact of the disposal of a subsidiary, SJ Semiconductor Corporation in the first half of 2021.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

III. ANALYSIS ON THE CORE COMPETITIVENESS DURING THE REPORTING PERIOD

(I) ANALYSIS ON CORE COMPETITIVENESS

In 2021, the Company continued to strengthen its core competitiveness as described below:

1. Advantages in R&D platforms

The R&D centre of the Company continue to extend capability in developing specialty process, strengthen the competitiveness of mature and advanced process, enrich the technology platforms and application segments, and correspondingly enhance product performance based on the overall strategies and oriented by customer needs. Meanwhile, the technical requirements of a project are fully benchmarked in the early R&D stage, in order to effectively utilize R&D resources, assure the production quality and reliability, shorten the cycle from research to production to meet market needs for product innovations and rapid evolutions, and strive for the new business growth engine for the Company.

2. Advantages in R&D team

Through years of IC R&D practices, the Company has established a high-quality core management team and a professional competent R&D team. The main members of the R&D team comprises of domestic and overseas senior experts with many years of R&D and management experience in the industry.

3. Advantages in rich product platforms and well-known brands

The Company has long been focusing on the development of IC process technologies for decades. It has successfully developed diverse technology nodes ranging from 0.35 micron to 14 nanometer, which are applied in various technology platforms. The Company owns mass production capability on many technology platforms, such as logic IC, power/analog, high-voltage driver, embedded non-volatile memory, non-volatile memory, mix signal/RF, and CMOS image sensor, etc. The Company is able to provide both IC foundry services and supporting services to customers in the application fields of smart phone, smart home, consumer electronics and other areas. Through long-term cooperation with domestic and overseas renowned customers, the Company has formed prominent brand effects, and obtained sound industry recognition.

4. Well-established intellectual property systems

The Company has accumulated many core technologies in the IC field with well-established intellectual property system. As of December 31, 2021, the Company had 12,467 patents in total, including 10,698 invention patents. In addition, the Company also had 94 layout design rights of IC.

5. Internationalized and supply chain layout

Consistently focusing on having a globalized layout in accordance with the concept of having globalized operations at all times, the Company has been deeply integrated with global industry supply chains aiming to provide services for global customers. The Company has established an internationalized management team and talent team, and set up service bases and a business network that spans the globe. Meanwhile, we have set up marketing offices in the United States, Europe, Japan and Taiwan, China, as well as a representative office in Hong Kong, China, further expanding the markets and quickly responding to customer needs. The Company pays great attention to the strategic partnerships with upstream and downstream enterprises of the IC industry supply chain, actively enhances supply chain integration and layout capability, and constructs a compact IC ecosystem, in order to provide customers with comprehensive one-stop IC solutions.

6. Sound quality management systems

The Company has established a comprehensive and sound quality management system through continuously enlarging quality management scope vertically and horizontally. Currently, the Company has obtained many accreditations, such as the Information Security Management System Accreditation (ISO27001), Quality Management System Accreditation (ISO9001), Environmental Management System Accreditation (ISO14001), Occupational Health and Safety Management System Accreditation (ISO45001), Quality Management System Accreditation for Automotive Industry (IATF16949), Quality Management System Accreditation for Telecommunication Industry (TL9000), Hazardous Substance Process Management System Accreditation (QC080000), Greenhouse Gas Emission Inventory Accreditation (ISO14064), Energy Management System Accreditation (ISO50001), and the Road Vehicles – Functional Safety Accreditation (ISO26262), etc.

(II) OCCURRENCE OF EVENTS SERIOUSLY IMPACTING THE CORE COMPETITIVENESS OF THE COMPANY, IMPACT ANALYSIS AND COUNTERMEASURES DURING THE REPORTING PERIOD

On October 4, 2020, the Company made an announcement on a letter issued by the relevant U.S. government departments and agencies to certain suppliers in accordance with section 744.21(b) of the U.S. Export Administration Regulations ("EAR"), pursuant to which, SMIC was designated a "Military End User". Certain exports of U.S. equipment, parts and raw materials would be further restricted by the EAR, and an export license should be applied for in advance before the items could be supplied to SMIC. In response to the export restriction, the Company immediately conducted a preliminary exchange with the relevant U.S. government departments and agencies and assessed the impact of the export restriction on the Company's production and business activities.

On December 18, 2020 EST, the Company noted that the relevant U.S. government departments and agencies included the Company and some of its subsidiaries and an associate company in the "Entity List" on the grounds of protecting U.S. national security and foreign policy interests. This designation requires suppliers of items those are subject to the EAR to obtain licenses before supplying such items to the Company. For items uniquely required for production at 10 nanometers and below (including extreme ultraviolet technology), the license review policy of a "presumption of denial" will be applied by the relevant U.S. government departments and agencies. This matter has brought uncertain risks to the Company's future performance. The Company will continue to communicate with relevant departments and agencies of the U.S. Governments, actively take feasible measures as appropriate, seek solutions and try best to minimize the adverse effects.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

IV. RISK FACTORS

(I) RISK OF CORE COMPETITIVENESS

1. *The risk of R&D and iteration of technology upgrade*

The foundry industry in which the Company operates is a technology-intensive industry. IC wafer foundry involves the comprehensive application of dozens of disciplines in science, technology and engineering, and has the characteristics of fast process technology iteration, large capital investment, long R&D cycle, among others. Over the years, the Company has insisted on independent R&D and further consolidated its independent core intellectual property rights. If the Company's investment in technology R&D in future is insufficient to support the need for technology upgrades, the Company's technology may be overtaken or replaced, which will adversely affect the Company's sustained competitiveness.

The foundry requires relatively high technical content, early technical demonstration, the continuous R&D practice in the later period, and long cycle. If the Company fail to keep up with the frontier needs of the industry in the future and correctly identify the direction of R&D, deviations may occur in process technology positioning. Besides, as the R&D process of the new technology is more complicated, time-consuming and costly, there is uncertainty. The rich terminal application scenarios of integrated circuits determine the differences in the mainstream technology nodes and processes of chip products in various subdivisions, and the corresponding market demand changes rapidly. If the Company fails to launch a cost-effective technology platform that meets market demand in a timely manner, or the technology iteration lags significantly behind the process requirements of product application, the Company's competitiveness and market share may decline, thereby affecting the Company's development.

2. *The risk of shortage or loss of technical talents*

The foundry industry is also a talent-intensive industry. IC wafer foundry involves the integration of thousands of processes and dozens of professional disciplines, and requires relevant talents to have solid professional knowledge and long-term accumulation of technology. Besides, the extremely high requirements for process coordination and error control in each link require relevant talents to have strong comprehensive capabilities and experience accumulation. Excellent R&D personnel and engineering and technical personnel are an important foundation for the Company to improve competitiveness and maintain development.

For many years, the Company has attached great importance to the scientific management of human resources, formulated a more reasonable talent policy and salary management system, and implemented multiple incentive measures, including share incentive, for outstanding talents, which played a positive role in retaining and attracting technical talents. In recent years, the number of IC companies has been growing rapidly, resulting in a relatively huge gap between the supply and demand of outstanding technical talents in the industry, and the competition for talents is becoming increasingly fierce. If the Company has a large number of outstanding technical R&D personnel leave and the Company is unable to identify experienced technical personnel in a short period of time, the Company's R&D progress may be affected, which has an adverse impact on the Company's sustained competitiveness.

3. *The risk of technical leakage*

The Company attaches great importance to the protection of core technologies. It has formulated a series of strict and complete confidentiality systems including the information security protection system, and signed confidentiality agreements with relevant technical personnel to make strict competition restrictions upon their resignation to ensure the confidentiality of core technologies. However, due to the limitations of technical secret protection measures, the mobility of technical personnel and other factors beyond our control, the Company is exposed to the risk of core technology leakage. The occurrence of any of the above may weaken the Company's technical advantages to a certain extent and has adverse effects.

(II) OPERATING RISKS

1. *The risk of continuous huge investment in the Company's R&D and production*

The foundry industry is a capital-intensive industry. In order to continuously upgrade the existing technology platform to maintain market competitiveness, and ensure sufficient production capacity to meet order production requirements and improve core competitiveness, the Company has to make continuous huge investment. In the future, if the Company fails to generate sufficient operation profit or financing is restricted, leading to reduced investment, which in turn may have an adverse impact on the Company's competitiveness.

2. *The risk of relatively high customer concentration*

The Company has a relatively high customer concentration due to the relatively high market concentration in the downstream of foundry industry. The Company has established a relatively stable cooperative relationship with major customers by virtue of its advantages in R&D strength, product quality, capacity support and service response, however, if there are material issues in the production and operation of major customers in the future, the Company's performance stability and sustained profitability will be adversely affected.

3. *The risk of supply chain*

The foundry industry has high requirements for raw materials, parts, equipment and etc. There is a limited number of qualified suppliers in the world for certain important raw materials, parts, core equipment and etc, and the majority of which are located outside China. In the future, if there is a shortage of supply, delay in delivery or a significant pricing increase of the important raw materials, parts, core equipment or etc, required by the Company, or there are trade frictions, diplomatic conflicts, wars, or etc., between the country and/or region where the suppliers are located and other countries, which, in turn, affect the supply or the approval for the export license required for the corresponding raw materials, parts, equipment and etc., the Company's production, operation and sustainable development may be adversely affected.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(III) FINANCIAL RISKS

1. The risk of increase in depreciation

The further expanded production capacity in future would increase the amount of construction in progress within a certain period of time. As the projects under construction reaches their intended usable status and are transferred to fixed assets, the Company may expose to the risk of further increase in depreciation in a certain period of time.

2. The risk of lower gross profit margin

If there are adverse changes in the overall condition of the IC industry, demand from domestic and foreign customers falling under expectations which may affect the sales and prices of the Company's products, sharp rise of the price of major raw materials, and the acceleration of the Company's production capacity expansion, which may lead to utilization falling under expectation, lower revenue, sharp rise in unit cost, and other unfavorable effects in certain period of time, the Company may expose to the risk of gross profit margin fluctuations in a certain time.

3. The risk of financial performance fluctuations

If the Company continues to incur high capital expenditures and R&D investment, it will lead to a corresponding increase in depreciation and R&D expenses. Once the Company's investment fails to bring expected returns in the short term, or there are changes in the macroeconomic environment, industry cycles, and industry competition, the Company may expose to the risk of financial performance fluctuations.

4. The risk of changes in tax preferential policies

During the reporting period, the preferential tax policies enjoyed by SMIC's domestic subsidiaries in China mainly include income tax reduction and exemption for integrated circuit manufacturing enterprises, preferential income tax rate for high-tech enterprises, super-deduction of research and development expenses, etc. In the future, if the above preferential tax policies change, or the above subsidiaries no longer have the relevant qualifications or meet the conditions of enjoying the above preferential tax policies, it will have an adverse impact on the future business performance of the Company.

5. The risk of impairment on assets

As a capital-intensive enterprise, the Group has a relatively large scale of fixed assets. In the future, if there is a sharp decline in the market price of assets in the period and the decline is remarkably greater than the expected decline due to the passage of time or normal use, or the economic, technological or legal environment where the Company is in, and the market where the asset is located experienced or is expected to experience significant changes in the period or in the near future, or the market interest rates or other market investment returns have increased in the period, which affects the Company's calculation of the discount rate applicable for the calculation of the net present value of future cash flows of the assets, this may cause insufficient asset utilization, termination of use or early disposal of assets, or cause recoverable amount of assets to be lower than the carrying amount, resulting in impairment, which may adversely affect the Group's income statement in the period.

The Company's major customers are large well-known integrated circuit design companies and IDM companies at home and abroad with large scale, high credit ratings, and good payment records. Although the possibility of bad debts from major customers is currently low, the Company may still be exposed to the risk of bad debt losses caused by uncollectible accounts receivable if there are adverse changes in the business conditions of some customers in the future.

With the growth of the Company's revenue, the inventory balance at the end of each period has also been trending up. In the future, if market demand changes such that the selling price of part of the inventory fails to cover the cost, the Company will be exposed to the risk of an increase in inventory provision.

(IV) INDUSTRY RISKS

1. The risk of changes in industry policies

As the foundation and core of the information industry, the IC industry is a strategic industry for national economic and social development. The state has successively issued a series of policies including the "Notice of the State Council on Launching Several Policies to Further Encourage the Development of the Software Industry and Integrated Circuit Industry" (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》) (Guo Fa [2011] No. 4) and "Notice of the State Council Regarding Certain Policies for Promoting the High-quality Development of the Integrated Circuit (IC) Industry and Software Industry in the New Era" (《國務院關於印發新時期促進集成電路產業和軟件產業高質量發展若干政策的通知》) (Guo Fa [2020] No. 8) which provide more support for IC companies in taxation, investment and financing, research and development, import and export, talents, intellectual property rights, markets application, international cooperation, etc. In the future, any material unfavorable changes in relevant industrial policies will adversely affect the Company's development.

2. The risk of industry competition

The competition in the foundry industry is fierce. Compared with industry leaders, the Company has a relatively large technological gap and a relatively low market share.

With the continuous emergence of new application fields such as IoT, artificial intelligence and cloud computing, the hot areas for the development of the chip industry are constantly enriched, and the broad market prospects and relatively favorable industrial policies have attracted many domestic and foreign IC-related companies entering the foundry industry, which may further intensify market competition.

In the future, if the Company fails to develop and introduce the latest manufacturing process technology in time, or launch process platforms that can better meet customer needs, the Company's competitive advantage will be weakened and the Company's operating results will be adversely affected.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(V) MACRO-ENVIRONMENTAL RISKS

1. *The risk of macroeconomic fluctuations and industry cyclicality*

The Company mainly provides customers with foundry and supporting services based on multiple technology nodes and different process platforms. It has a wide range of downstream applications. The Company's products and services cover many important economic fields including smart phone, smart home and consumer electronics, etc.

Affected by global macroeconomic fluctuations, industry prospect, and etc., the IC industry has a certain cyclical nature. Therefore, the development of the IC industry is closely related to the overall development of the macro economy. If the macro-economy fluctuates greatly or remains at a low point for a long time, the market demand of the IC industry may also be affected; in addition, the fluctuation and downturn of downstream market demand may also lead to decline in the demand for IC products, or due to the overheated investment and duplicate construction in the semiconductor industry, the production capacity supply may exceed market demand when the prosperity is weaker, which will further affect the profitability of foundries, and may have a certain adverse impact on the Company's operating results.

2. *The risk of the COVID-19 affecting the normal production and operation*

The recurrence of COVID-19 has affected most countries and regions around the world to varying degrees. In response to the epidemic, the Company has formulated an effective emergency prevention and control plan for the epidemic and implemented various protective measures to ensure safe production while fighting the epidemic. The epidemic has not yet caused significant adverse effects on the Company's production and operation.

However, if the COVID-19 situation recurs or worsens, the Company's production and operation may be affected. At the same time, the reduction of international flights and the shortage of transportation capacity have made the delivery cycle of equipment, parts and material longer. The increase in transportation prices will increase the Company's subsequent procurement costs. The requirement of personnel quarantine also restricts the supplier's engineers from providing multinational technical support services. Therefore, in the future, if the epidemic cannot be controlled in a timely and effective manner, recurs or deteriorate on a global scale or some countries/regions, the Company remains exposure to the risk of supply disruption or delay. In addition, factors such as the number of flights, shipping time, and freight may also have a certain adverse effect on the Company's export sales.

3. *The risk of trade friction*

During the reporting period and corresponding period of previous year, most of the Company's major material and equipment suppliers are overseas companies.

At present, the ongoing trade friction between China and the United States continues to bring greater challenges to the economic globalization, and the U.S. has strengthened restrictions and/or supervision on Chinese enterprises in many fields. These factors collectively affect the Company's production and operation to a certain extent.

On December 3, 2020 EST, the relevant U.S. government departments and agencies placed the Company on the Communist Chinese Military Companies List. Any transaction on the publicly traded securities, or any securities that are derivative of such securities of the Company by any U.S. person is restricted.

On December 18, 2020 EST, the relevant U.S. government departments and agencies added the Company and its certain subsidiaries and an associated company to the Entity List on the grounds of U.S. national security and foreign policy interests. This designation requires suppliers of items that are subject to the U.S. Export Administration Regulations ("EAR") to apply for licenses before supplying such items to the Company. In particular, for items uniquely required for production at 10 nanometers and below (including extreme ultraviolet technology), the license review policy of a presumption of denial will be imposed by the relevant U.S. government departments and agencies.

On June 3, 2021, EST, an executive order was issued by Biden, restricting US persons from investing in "Chinese Military Industrial Complex Companies". Any transaction on the publicly traded securities, and any securities that are derivative of such securities of the Company by any U.S. person is restricted.

Affected by the above events, the Company may not be able to obtain investment from U.S. persons in the future, as financing channels are limited, and there is uncertainty for the Company to obtain production related items subject to the EAR.

In the future, if the trade friction between the United States and the other countries or regions and China continues to escalate, such as in the form of heightened import and export restrictions, increased tariffs or establishment of other trade barriers, the Company may face risks such as shortages or rising prices for production materials including equipment, raw material, and parts etc, as well as customer loss, which will set limits to the Company's production, result in reduced orders or prices and increased costs, and consequently adversely affect the Company's business and operations.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

4. *The risk of adjustment of U.S. export control policies*

At present, economic globalization has encountered ups and downs, multilateralism has been hit. In particular, the Sino-US economic and trade frictions have adversely affected the production and operation of some enterprises and market expectations.

In May 2019, the relevant U.S. government departments and agencies added certain Chinese companies to the "Entity List"; in May and August 2020, the relevant U.S. government departments and agencies revised the Foreign-Produced Direct Product Rule. According to the revised rules, certain semiconductor related equipment and technology subject to the EAR may not be used to manufacture products for certain customers before obtaining export licenses from the relevant U.S. government departments and agencies.

The Company adheres to international operations, consciously abides by applicable laws and regulations of relevant countries and regions in which its production and operational activities are involved, and has operated business in compliance with the aforementioned laws and regulations since its establishment. However, the U.S. enhanced export controls targeting Chinese top high-tech companies may restrict the wafer foundry and related supporting services provided by the Company to certain customers, and the Company may face limited production capacity and reduced orders, which may adversely affect the Company's business development and operating performance.

5. *The risk of exchange rate fluctuations*

The functional currency of the Company and its subsidiaries is mainly U.S. dollars, and some transactions are denominated in RMB or foreign currencies such as Euro and Japanese Yen. Monetary items in foreign currencies are converted into the functional currency for bookkeeping at the spot exchange rate on the balance sheet date to form exchange differences. The Company has adopted foreign-currency forward exchange contracts, cross currency swap contracts, and etc. to hedge against exchange rate fluctuations. However, if the exchange rate of local and foreign currency fluctuates significantly as a result of the changes in domestic and foreign economic environment, political situation, monetary policy and other factors in the future, there remains the risk of exchange loss of the Company.

(VI) OTHER MATERIAL RISKS

1. *Internal control management risk*

(1) *The risk of no controlling shareholder or de facto controller*

During the reporting period, every single shareholder of the Company held less than 30% of the Company's shares. The number of Directors nominated by each shareholder is lower than one-half of the total number of Directors, no single shareholder may decide the selection of more than half of members of the Company's Board or has significant impact on the resolutions of the general meeting through actually controlling the voting rights of the Company's shares, and there is no associated relationship or concerted action among the major shareholders of the Company. Therefore, the Company has no controlling shareholder or de facto controller.

The relative dispersion of the Company's shareholdings makes it possible for the Company to become the target of takeover in the future, which will lead to changes in the Company's control, and may in turn impact on the Company's business development and management.

(2) *Management and control risks brought by the Company's many subsidiaries*

The Company has a large number of domestic and foreign subsidiaries, and which distribute in multiple countries and regions. In the future, if a subsidiary exposes to operating, compliance, tax and other risks, it may have an adverse impact on the Company's operating performance.

Some of the Company's holding subsidiaries are joint ventures, and their dividend distributions and other major matters shall be approved by more than two-thirds of all directors. Therefore, the Company cannot unilaterally decide on some major matters such as the dividend distribution.

2. *Legal risk*

(1) *The risk of differences between the Company's current corporate governance structure and that of the listed companies subject to the applicable laws, regulations and regulatory documents in the PRC*

The Company was established under the Companies Act of the Cayman Islands. In accordance with the Circular of the General Office of the State Council on Forwarding the Several Opinions of the CSRC on Launching the Pilot Program of Domestically Issuing Stocks or Depository Receipts by Innovation-oriented Enterprises (《國務院辦公廳轉發證監會關於開展創新企業境內發行股票或存托憑證試點若干意見的通知》) (Guo Ban Fa [2018] No. 21), the pilot red-chip companies' equity structure, corporate governance, and operation specifications may be governed by laws and regulations such as the Company Law of the place of incorporation overseas. As a red-chip company registered in the Cayman Islands, the Company is required to comply with the Companies Act of the Cayman Islands and the Articles of Association, and has enhanced the corporate governance system and operation specifications in accordance with the requirements of listing rules in the PRC. Our protection of investors' rights and interests are generally no less exacting than legal requirements in the PRC. However, in certain corporate governance arrangements, such as the system of the supervisory committee, the procedures and systems for mergers, divisions, acquisitions, the procedures and systems for liquidation and dissolution, there will be certain differences when compared with the general A Share listed companies registered in the PRC.

(2) *The risk of changes in laws and regulations*

The Company is established in the Cayman Islands, and its subsidiaries are established in and outside the PRC. The Company and its subsidiaries should abide by different laws and regulations of different countries and areas. Changes in laws and regulations of the places of registration and business of the Company and its subsidiaries may have an impact on the operation and management of the Company and its subsidiaries.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(3) The risk of litigation and arbitration

The IC foundry industry where the Company operates is a key link in driving the integration of the IC industry, and the Company has a large number of customers and suppliers. In its future business development, the Company cannot rule out litigations and arbitrations with third parties such as customers, suppliers, etc., which will consume the Company's manpower, material resources and distract management efforts. The Company may be exposed to the risk of losing the lawsuit, which may in turn adversely affect the Company's production and operation.

As of the publication date of this report, the Company's pending litigations and arbitrations which are relatively large include: (1) PDF SOLUTIONS, INC. initiated an arbitration on certain technical service agreement signed with SMIC New Technology Research & Development (Shanghai) Corporation ("SMIC New Technology"); (2) the announcement dated December 15, 2020 states that the Company and certain of its Directors are listed as defendants in a lawsuit alleging that the Company issued certain statements or documents in violations of sections 10(b) and 20(a) of the United States ("U.S.") Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by the U.S. Securities and Exchange Commission which prohibit certain misrepresentations and omissions in connection with the purchase or sale of securities and seeks unquantified financial compensation.

3. Risks of fire, explosions, natural disasters and utility supply disruption

SMIC uses flammable chemicals and toxic substances in its production process, which may cause risks of fire, explosion and environmental impact; in addition, global climate change or systemic regional geological changes may cause natural disasters such as extreme weather and destructive earthquakes, which may bring risks such as cold waves, floods, tsunamis, typhoons, droughts and earthquakes, which then may cause the risk of shortages or interruptions of public utilities such as water supply, power supply and gas supply.

SMIC is committed to maintaining a comprehensive risk management system to protect natural resources and safeguard people and assets. For all possible emergencies and natural disasters, the Company has developed comprehensive response plans and processes for risk prevention, emergency response, crisis management and business continuity. All of our operating fabs have been verified by our environmental management system (ISO14001) and occupational safety and health management system (ISO45001), and have established business continuity plans to minimize injuries, operational disruptions and financial impacts.

Although none of these risks have impacted our operations at our manufacturing facilities in 2021, these risks remain.

If these risks occur, they could result in some degree of property damage, injury to personnel, business interruption and damage to the Company's reputation.

4. IT Risks

The Company has organized an information security team to align with the overall strategic planning of the Company, formulate information security policies and objectives, build security technology solutions, relying on ISO27001, the authoritative standards in the field of information security management, carrying out information security governance, and performing the three major tasks of anti-virus, anti-hack, and anti-leakage. Meanwhile, with reference to the Industrial Internet White Paper and Industrial Internet Security Framework, the Company has implemented a unified management plan for IT assets, controlled devices, important data and security devices in the semiconductor manufacturing process and has build an intelligent and deep protection platform applicable to the foundry industry.

The Company pays special attention to the protection of core technology and customer information, and has formed a comprehensive technological prevention, control and monitoring system for confidential information through a continuously strengthening security team and continuously optimized physical environment control, network access control, enhancing identity authentication, data communication confidentiality, data storage confidentiality, data usage controls and other information security technologies.

However, due to uncontrollable factors such as unknown cyber security threats, the Company cannot guarantee against malicious software and hacker attacks, and there is still risk of data loss or production halt to the Company.

If the above happens, the business and reputation of the Company may be impacted to some extent.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

V. MAIN OPERATION RESULTS DURING THE REPORTING PERIOD

During the reporting period, the Group recorded total revenue of US\$5,443.1 million, representing a year-on-year growth of 39.3%. The Group recorded a net profit of US\$1,775.2 million, representing a year-on-year growth of 165.3%. During the reporting period, the Group generated US\$3,011.9 million in net cash from operating activities, representing a year-on-year increase of 81.4%; payments for fixed assets, intangible assets and other long-lived assets totalled US\$4,340.4 million, representing a year-on-year decrease of 18.2%.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

1. Analysis of changes in relevant items in the income statement and cash flow statement

in USD'000

	Year ended		12/31/21 as compared with 12/31/20 (%)
	12/31/21	12/31/20	
Revenue	5,443,112	3,906,975	39.3
Cost of sales	(3,767,342)	(2,986,062)	26.2
Gross profit	1,675,770	920,913	82.0
Research and development expenses	(638,842)	(677,413)	(5.7)
Sales and marketing expenses	(27,642)	(29,466)	(6.2)
General and administrative expenses	(275,703)	(266,376)	3.5
Other operating income	657,982	364,487	80.5
Finance costs, net	114,299	187,378	N/A
Share of gains of investments accounted for using equity method	252,678	187,343	34.9
Net cash generated from operating activities	3,011,895	1,660,410	81.4
Net cash used in investing activities	(6,655,435)	(7,071,383)	(5.9)
Net cash generated from financing activities	2,357,325	12,704,215	(81.4)

(1) Revenue

The Group's revenue increased by 39.3% from US\$3,907.0 million for last year to US\$5,443.1 million for this year, primarily due to the increase in wafer shipments, higher average selling price and product-mix change for this year. The number of wafer shipments increased by 18.4% from 5,699 thousand 8-inch wafer equivalents for last year to 6,747 thousand 8-inch wafer equivalents for this year. The average selling price, calculated as the wafer revenue divided by total shipments of the wafers, increased from US\$610 per wafer for last year to US\$738 per wafer for this year.

(2) Cost of sales

Cost of sales increased by 26.2% from US\$2,986.1 million for last year to US\$3,767.3 million for this year, primarily due to the increase in the volume of wafer shipments and product-mix change.

(3) Gross profit

Gross profit increased by 82.0% from US\$920.9 million for last year to US\$1,675.8 million for this year, and gross margin increased from 23.6% for last year to 30.8% for this year, primarily due to the increase in wafer shipments, higher average selling price and product-mix change.

(4) Profit from operations for the year

Profit from operations for this year increased from US\$311.9 million for last year to US\$1,392.6 million for this year, primarily due to the combined effect of the changes of revenue, cost of sales and gross profit mentioned above, and the following changes:

Research and development expenses were US\$638.8 million for this year, compared to US\$677.4 million for last year. The change was mainly caused by part of R&D capacity put into production to ensure customers' demand in response to the tight capacity.

Sales and marketing expenses were US\$27.6 million for this year, compared to US\$29.5 million for last year.

General and administrative expenses increased from US\$266.4 million for last year to US\$275.7 million for this year.

Other operating income increased from US\$364.5 million for last year to US\$658.0 million for this year. The increase was mainly due to the net proceeds of \$231.4 million from the disposal of a subsidiary in this year, and gain on disposal of property, plant and equipment and assets classified as held-for-sale increased from \$2.2 million for last year to \$48.3 million for this year.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(5) Profit for the year

Finance costs, net includes interest income, finance costs and foreign exchange gain. The change of finance costs, net was mainly due to the change of foreign exchange gain from the net impact of the appreciation of RMB against USD in this year.

The change in share of gains of investments accounted for using equity method was due to the investment income and passively diluted equity income of associates for this year. Certain associates of the Group are investment funds with a number of investment portfolios. The gain on the equity investment of associates was a result of the fair value change of the portfolios and the increase in the operating income of certain associates during the year.

The Group had a net profit of US\$1,775.2 million for this year, compared to a net profit of US\$669.1 million for last year, representing an increase of 165.3%, which was mainly due to the impact of the factors described above.

(6) Cash flow

The change in net cash generated from operating activities was mainly due to the increase in cash received from sales of goods.

The change in net cash used in investing activities was mainly due to the decrease in purchases of property, plant and equipment, increase in proceeds from disposal of a subsidiary and disposal of property, plant and equipment, and partially deducted by the increase in net cash outflow from selling and payments for financial assets.

The change in net cash generated from financing activities was mainly because no RMB ordinary shares and corporate bonds were issued this year compared to the previous year. In addition, capital injection from non-controlling interests decreased during the year, as well as a decrease in net cash inflow of new and repaid borrowings.

2. Analysis of revenue and cost

(1) Principal business by industry, by product, by region or by sales model.

in USD'000

Principal business by industry

By industry	Revenue	Cost of sales	Gross profit margin(%)	Change in revenue as compared with last year (%)	Change in cost of sales as compared with last year (%)	Change in gross profit margin as compared with last year (%)
IC Industry	5,443,112	3,767,342	30.8	39.3	26.2	Increased by 7.2 percentage points

Principal businesses by product

By product	Revenue	Cost of sales	Gross profit margin(%)	Change in revenue as compared with last year (%)	Change in cost of sales as compared with last year (%)	Change in gross profit margin as compared with last year (%)
IC wafer foundry	4,982,237	3,512,543	29.5	43.4	28.0	Increased by 8.5 percentage points
Others	460,875	254,799	44.7	6.6	5.4	Increased by 0.6 percentage points

Principal businesses by sales model

By sales model	Revenue	Cost of sales	Gross Profit margin (%)	Change in revenue as compared with last year (%)	Change in cost of sales as compared with last year (%)	Change in gross profit margin as compared with last year (%)
Direct sales	5,443,112	3,767,342	30.8	39.3	26.2	Increased by 7.2 percentage points

Principal businesses by region

Percentage of revenue of principal businesses

By region ⁽¹⁾	Year ended 12/31/21	Year ended 12/31/20
Chinese Mainland and Hong Kong, China	64.0%	63.5%
North America	22.3%	23.2%
Europe and Asia ⁽²⁾	13.7%	13.3%

Notes:

⁽¹⁾ Presenting the revenue to those companies whose headquarters are in this area, but ultimately selling and shipping the products to their global customers.

⁽²⁾ Excluding Chinese Mainland and Hong Kong, China.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

Analysis on wafer revenue

Percentage of revenue from wafers

By application	Year ended 12/31/21	Year ended 12/31/20
Smart phone	32.2%	44.4%
Smart home	12.8%	17.1%
Consumer electronics	23.5%	18.2%
Others	31.5%	20.3%

Percentage of revenue from wafers

By technology nodes	Year ended 12/31/21	Year ended 12/31/20
FinFET/28 nm	15.1%	9.2%
40/45 nm	15.0%	15.6%
55/65 nm	29.2%	30.5%
90 nm	3.2%	2.8%
0.11/0.13 micron	5.6%	5.3%
0.15/0.18 micron	28.7%	32.6%
0.25/0.35 micron	3.2%	4.0%

(2) Analysis of production and sales volumes

Principal product	Unit	Production volume	Sales volume	Inventory	Change in production volume as compared with last year (%)	Change in sales volume as compared with last year (%)	Change in inventory as compared with last year (%)
Wafer	piece	6,754,788	6,747,190	104,371	19.3	18.4	7.9

(3) Costs analysis

in USD'000

By industry

By industry	Cost structure	Year ended 12/31/21	The reporting period accounting for total costs (%)	Year ended 12/31/20	The corresponding period accounting for total costs (%)	Year ended 12/31/21 as compared with 12/31/20 (%)
IC industry	Cost of production	3,767,342	100	2,986,062	100.0	26.2

By Product

By product	Cost structure	Year ended 12/31/21	The reporting period accounting for total costs (%)	Year ended 12/31/20	The corresponding period accounting for total costs (%)	Year ended 12/31/21 as compared with 12/31/20 (%)
IC wafer foundry	Direct material	301,820	8.0%	283,056	9.5	6.6
IC wafer foundry	Direct labour	124,449	3.3%	89,637	3.0	38.8
IC wafer foundry	Manufacturing expenses	3,086,274	81.9%	2,371,518	79.4	30.1
Others	Cost of production	254,799	6.8%	241,851	8.1	5.4

(4) Major customers and suppliers

i. Information about the major customers of the Company

During the reporting period, sales to the largest customer and the five largest customers amounted to US\$615.4 million and US\$1,696.7 million, respectively, accounting for 11.3% and 31.2% of the total revenue for the year, respectively; no related-party sales were transacted to the five largest customers.

To the best of the Company's knowledge, China IC Fund, which indirectly owned more than 5% of the Company's issued share capital, owned 4.26% interests in one of the Company's five largest customers in 2021. Save as disclosed above and to the best of the Company's knowledge, none of the other Directors or shareholders (own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Group's five largest customers.

ii. Information about the major suppliers of the Company

During the reporting period, purchases from the largest supplier and the five largest suppliers amounted to US\$1,511.3 million and US\$2,711.7 million, respectively, accounting for 31.1% and 55.9% of the total purchases for the year, respectively; there were no related-party purchases among such purchases from the five largest suppliers.

To the best of the Company's knowledge, in 2021, none of the Company's Directors or other shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Group's five largest suppliers.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

3. Expenses

For details of changes in the Company's expenses for the reporting period, please refer to "V. (I) 1. Analysis of changes in relevant items in the income statement and cash flow statement" in this section.

4. Liquidity and capital sources

(1) Cash flows

in USD'000

	Year ended		12/31/21 as compared with 12/31/20 (%)
	12/31/21	12/31/20	
Net cash generated from operating activities	3,011,895	1,660,410	81.4
Net cash used in investing activities	(6,655,435)	(7,071,383)	(5.9)
Net cash generated from financing activities	2,357,325	12,704,215	(81.4)
Net change in cash and cash equivalents	(1,286,215)	7,293,242	N/A

For details of changes in items in the statement of cash flows for the reporting period, please refer to "V. (I) 1. Analysis of changes in relevant items in the income statement and cash flow statement" in this section.

(2) Net debt

in USD'000

	12/31/21	12/31/20
Borrowings	5,726,987	5,290,833
Lease liabilities	210,224	245,270
Bonds payable	597,663	596,966
Convertible bonds	1,978	11,131
Medium-term notes	235,515	229,217
Total interest-bearing debts	6,772,367	6,373,417
Cash and cash equivalents	(8,581,746)	(9,826,537)
Restricted cash – current	(214,191)	(575,258)
Financial assets at FVPL – current ⁽¹⁾	(78,184)	(111,477)
Financial assets at amortised cost ⁽²⁾	(7,564,091)	(4,445,238)
Net debt	(9,665,845)	(8,585,093)

Notes:

(1) Mainly include structured deposits and monetary funds.

(2) Mainly include bank time deposits over three months.

At the end of this reporting period, the Group's outstanding debts amounted to US\$6,772.4 million, and primarily consisted of secured bank loans of US\$1,572.5 million, unsecured bank loans of US\$4,154.5 million, lease liabilities and bonds payable. Debt due within one year amounted to US\$890.1 million.

Please refer to Note 31 to the consolidated financial statements for details of debt arrangements.

(3) Capital expenditures and funding sources

Most of the capital expenditure in 2021 are used for the expansion of mature technology, a small part is used for advanced technology, the construction of the new joint ventures in Beijing and others.

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

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

(4) Expenditure commitments

At the end of this reporting period, the Group had expenditure commitments of US\$594.1 million for facilities and buildings construction obligations in connection with the Group's facilities, US\$8,077.7 million to purchase machinery and equipment mainly for its fabs, US\$24.9 million to purchase intellectual property and US\$216.3 million for capital contributions payable to associates.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(5) Exchange rate and interest rate risks

The Group's revenue, expenses, and capital expenditures are primarily transacted in U.S. dollars. The Group also enters into transactions in other currencies that results in the Group being primarily exposed to changes in exchange rates for the Euro, Japanese Yen, and RMB. Additionally, the Group entered into or issued several RMB denominated loan facility agreements, short-term notes and medium-term notes and several RMB denominated financial assets at amortised cost that results in the Group being exposed to changes in the exchange rate for the RMB. The Group strives to minimize these risks by using foreign-currency forward exchange contracts and cross currency swap contracts.

The Group's exposure to interest rate risks relates primarily to the Group's long-term loans, which the Group generally assumes to fund capital expenditures and working capital requirements. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the full use of interest rate swap contracts and cross currency swap contracts.

Details of the Group's exchange rate risk and interest rate risk are set out in Note 39 to the consolidated financial statements.

(II) EXPLANATION ON SIGNIFICANT CHANGE IN PROFITS ARISING FROM NON-PRINCIPAL BUSINESS

in USD'000

Item	Amount	Percentage of net profits (%)	Explanation for the cause	If there is any sustainability
Other operating income-disposal of a subsidiary	231,382	13.0	Primarily due to the disposal of a subsidiary during the year	No
Other operating income-government funding	378,319	21.3	Primarily due to the recognised income of government funds received during the year	No
Share of gains of investments accounted for using equity method	252,678	14.2	Primarily due to the investment income and passively diluted equity income of the associates during the year	No

(III) ANALYSIS ON ASSETS AND LIABILITIES

1. Assets and liabilities

in USD'000

Items	12/31/21	The closing balance to the total assets (%)	12/31/20	The opening balance to the total assets (%)	12/31/21 as compared with 12/31/20 (%)	Explanations
Deferred tax assets	14,624	0.0	24,900	0.1	(41.3)	Decrease mainly due to the deductible temporary difference that can be used to offset at the end of the year.
Financial assets at fair value through profit or loss-non-current	223,024	0.6	156,367	0.5	42.6	Increase due to the increase in the fair value of the investments in equity securities in the year.
Financial assets at amortised cost-non-current	3,725,962	10.3	1,638,721	5.2	127.4	Increase due to the increase in new bank deposits with more than 1 year.
Derivative financial instruments -net assets/(net liabilities)	70,393	0.2	(120,577)	(0.4)	N/A	Increase mainly due to the settlement and the change in fair value of cross currency swap contracts.
Inventories	1,193,811	3.3	798,776	2.6	49.5	Increase mainly due to the increase in customers' demands and sales order.
Financial assets at fair value through profit or loss-current	78,184	0.2	111,477	0.4	(29.9)	Decrease due to the decrease in structural deposits in the year.
Financial assets at amortised cost-current	3,838,129	10.6	2,806,517	9.0	36.8	Increase mainly due to the increase in new bank deposits with more than 3 months.
Restricted cash-current	214,191	0.6	575,258	1.8	(62.8)	Decrease due to the use of special funding and decrease in pledge of deposits.
Reserves	321,576	0.9	73,939	0.2	334.9	Increase mainly due to the adjustment to previous reserve caused by passively diluted effect and grant of restricted shares.
Perpetual subordinated convertible securities	–	0.0	299,388	1.0	(100.0)	Decrease due to the conversion of perpetual subordinated convertible securities in the year.
Convertible bonds-non-current	–	0.0	11,131	0.0	(100.0)	Decrease due to the conversion of convertible bonds in the year.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

Items	12/31/21	The closing balance to the total assets (%)	12/31/20	The opening balance to the total assets (%)	12/31/21 as compared with 12/31/20 (%)	Explanations
Medium-term notes-non-current	–	0.0	229,217	0.7	(100.0)	Decrease due to the reclassification of the medium-term notes matured within 1 year to medium-term notes-current.
Contract liabilities	1,022,660	2.8	181,425	0.6	463.7	Increase due to the increase in prepayments relevant to sales of goods during the year.
Borrowings-current	789,316	2.2	1,260,057	4.0	(37.4)	Decrease due to the repayment of the loans matured.
Convertible bonds-current	1,978	0.0	–	0.0	100.0	Increase due to the conversion of convertible bonds during the year.
Medium-term notes-current	235,515	0.7	–	0.0	100.0	Increase due to the reclassification of medium-term notes matured within 1 year to medium-term notes-current.
Current tax liabilities	26,650	0.1	17,579	0.1	51.6	Increase mainly due to the increase in output value-added tax during the year.

2. Major assets subject to restriction by the end of the reporting period

(1) Assets pledged as security

At the end of this reporting period, buildings, machinery and equipment and land use rights with a carrying amount of approximately US\$250.1 million have been mortgaged to secure borrowings of the Group. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

(2) Restricted cash

At the end of this reporting period, restricted cash comprise government funding of US\$148.5 million and bank time deposits of US\$183.5 million pledged for letter of credit and borrowings.

3. Other information

(1) Capital management

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

The Group manages its capital through new share issues, share buy-backs, the issue of new debt or the redemption of existing debt, and reviews the capital structure on an interim basis. The gearing ratio at the end of the reporting period was as follows:

in USD'000		
Gearing ratio	12/31/21	12/31/20
Net debt	(9,665,845)	(8,585,093)
Equity	25,438,143	21,681,738
	-38.0%	-39.6%

(2) Capitalised interest

Interest is capitalised when incurred on the specialized borrowings that are used for the over-one-year construction of plant and equipment. Capitalised interest is added to the cost of the underlying assets and is depreciated over as accounting policy. Capitalised interests of nil and US\$50.9 million during the reporting period and the corresponding period of last year, respectively, were added to the cost of the underlying assets. For this reporting period and the corresponding period of last year, the Group recorded depreciation expenses relating to the capitalised interest of US\$42.5 million and US\$43.3 million, respectively.

(IV) ANALYSIS ON INDUSTRY OPERATING INFORMATION

Please refer to “II. (III) Industry overview” of this section for details.

(V) ANALYSIS ON INVESTMENTS

Overall analysis on equity investment

During the reporting period, the Company made several equity investments with subscription amount of approximately US\$4,537 million, including capital increase to its wholly-owned subsidiaries, a controlling subsidiary, an associate and the establishment of a new controlling subsidiary. The equity investments of the Company are mainly used for projects to expand and build new foundry production lines, or to strengthen collaboration and cooperation with upstream and downstream of the industry chain.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

1. Significant equity investments

- (1) On November 12, 2021, the Company, through SMIC Holdings (a wholly-owned subsidiary of the Company), China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. ("China IC Fund II") and Shanghai Hailinwei IC Inc. ("Hailinwei") entered into the Lin-Gang Joint Venture Agreement to jointly establish Semiconductor Manufacturing Oriental Corporation ("SMOC"). The registered capital of the SMOC is US\$5.5 billion, of which SMIC Holdings, China IC Fund II and Hailinwei agreed to contribute US\$3.655 billion, US\$922 million and US\$923 million, respectively, representing 66.45%, 16.77% and 16.78% of the registered capital of SMOC, respectively. SMOC, setting up a production line with a production capacity of 100,000 12-inch wafer per month, will focus on the provision of IC foundry and technology services on process nodes 28nm and above. The Company considers that, seizing the strategic opportunity period for the development of the integrated circuit industry in Lin-Gang Pilot Free Trade Zone, the formation of SMOC can meet the growing market and customer needs and enable the Company to expand its production scale, reduce its costs of production, advance its foundry service and thus promote the sustainable development of the Company. Please refer to the Company's announcement dated November 11, 2021 published on the website of Hong Kong Stock Exchange for details.
- (2) On August 27, 2021, SMIC Holdings, SMIC Investment (Shanghai) Corporation ("SMIC Investment") (a wholly-owned subsidiary of the Company) and Shenzhen Major Industry Investment Group Co., Ltd. ("Shenzhen Major") entered into the Shenzhen Joint Venture Agreement, pursuant to which, among others, (i) the parties agreed that the registered capital of SMIC Shenzhen shall be increased to US\$2,415 million, of which, SMIC Holdings, SMIC Investment and Shenzhen Major agreed to subscribe for capital contribution of US\$1,732.55 million, US\$127 million and US\$555.45 million, respectively, representing 71.74%, 5.26% and 23.00% of the enlarged registered capital of SMIC Shenzhen, respectively; and (ii) SMIC Holdings has the right to transfer the subscribed capital contribution of US\$531.3 million, representing 22.00% equity interests in SMIC Shenzhen. Upon the completion of the transaction, the equity interests in SMIC Shenzhen indirectly held by the Company, through its wholly-owned subsidiaries, SMIC Holdings and SMIC Investment, will be reduced from 100% to 77%. The capital contribution of the parties shall subject to the asset value of SMIC Shenzhen before the capital increase assessed by third party appraisal agency. The capital contribution shall be used for the production line with a production capacity of 40,000 12-inch wafer per month.

On November 23, 2021, SMIC Holdings, SMIC Investment, Shenzhen Major and China IC Fund II entered into the SMIZ New Joint Venture Agreement, pursuant to which, among others, SMIC Holdings agreed to transfer to China IC Fund II the capital contribution of US\$531.3 million (representing 22.00% equity interests in SMIC Shenzhen) which has been subscribed by SMIC Holdings under the Shenzhen Joint Venture Agreement but not paid up and China IC Fund II shall be responsible for the relevant capital contribution ("the Transfer"). As SMIC Holdings had not paid up the relevant equity interests and therefore no consideration was received from China IC Fund II under the Transfer. Upon completion of the Transfer, (i) the registered capital of SMIC Shenzhen will remain unchanged at US\$2,415 million; (ii) SMIC Shenzhen will be owned as to 49.74%, 5.26%, 23.00% and 22.00% by SMIC Holdings, SMIC Investment, Shenzhen Major and China IC Fund II, respectively; and (iii) the equity interests in SMIC Shenzhen indirectly held by the Company, through its wholly-owned subsidiaries, SMIC Holdings and SMIC Investment, will be reduced from 77.00% to 55.00%. The transaction is conducive to further optimizing SMIC Shenzhen's shareholding structure and consolidating the parties' advantageous resources, so as to lay a solid foundation for accelerating business development of SMIC Shenzhen, which in turn promote the Company's sustainable development. Please refer to the Company's announcement dated November 23, 2021 published on the website of Hong Kong Stock Exchange for details.

The above equity investments were determined according to the Company's strategic planning and its own financial and capital conditions. All the investment funds come from the Company's own funds, which is in the interests of the Company and its shareholders as a whole.

2. Financial assets at fair value

in USD'000

Items	12/31/21	12/31/20	Changes in the reporting period	Impact on profit for the reporting period
Investments in equity securities	223,024	156,367	66,657	67,925
Structured deposits and monetary funds	78,184	111,477	(33,293)	766

(VI) MAJOR ASSETS AND EQUITY DISPOSAL

1. Disposal of a subsidiary, SJ Semiconductor Corporation

On April 22, 2021, the Company (the "Vendor") entered into a share transfer agreement (the "Share Transfer Agreement") with Silver Starry Limited, Integrated Victory (BVI) Limited, CICC Gongying Qijiang (Shanghai) Science and Technology Equity Investment Fund Partnership (Limited Partnership), Qilu (Xiamen) Equity Investment Partnership (Limited Partnership), CICC SAIC Emerging Industry Equity Investment Fund Partnership (Limited Partnership), Suzhou Oriza Rivertown Changxin Ventures L.P. and Suzhou Puhua Chuangyu Equity Investment L.P. (collectively the "Purchasers"). Pursuant to the Share Transfer Agreement, the Purchasers agreed to purchase all the shares of SJ Semiconductor Corporation ("SJ Semi") held by the Company, i.e. representing 56% of the total issued share capital of SJ Semi at the total consideration of approximately US\$397 million. Upon completion of the transaction, the Company ceased to hold any equity interest in SJ Semi and SJ Semi ceased to be a subsidiary of the Company. The Company lost control of SJ Semi on May 6, 2021. Please refer to the Company's announcement dated April 22, 2021 published on the website of Hong Kong Stock Exchange for details.

The Company received positive returns from the Transaction, and the Transaction is in the interests of the Company and the Shareholders as a whole. The Transaction will not have a material impact on the Company's business continuity or management stability.

2. SMIC Holdings agreed to transfer to China IC Fund II part of the equity interests in SMIC Shenzhen

Please refer to "V. (V) Analysis on Investments" of this section for details.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(VII) ANALYSIS OF PRINCIPAL CONTROLLED AND INVESTEE COMPANIES

1. Major subsidiaries

in USD'000

Name of company	Business nature	Registered capital	Percentage of shareholding	Total assets	Equity	Operating revenue	Profits from operations	Net profit
SMIS	Manufacturing and trading of semiconductor products	2,440,000	100.00%	6,359,411	2,956,443	1,216,066	280,418	389,564
SMIB	Manufacturing and trading of semiconductor products	1,000,000	100.00%	37,602,790	3,228,015	2,170,684	548,056	721,883
SMIT	Manufacturing and trading of semiconductor products	1,290,000	100.00%	2,257,584	1,413,992	668,098	168,816	144,246
SMNC	Manufacturing and trading of semiconductor products	4,800,000	51.00%	5,940,790	4,880,335	1,513,276	300,271	314,074
SMIZ	Manufacturing and trading of semiconductor products	2,415,000	73.27%	2,218,548	1,094,936	271,763	(36,022)	(49,375)
SMSC	Manufacturing and trading of semiconductor products	6,500,000	38.52%	8,794,808	6,019,969	691,769	(175,554)	(127,491)

2. Major associates

Name of company	Place of registration/Principal place of business	Business	Percentage of voting rights	Accounting treatment
JCET Group Co., Ltd.	No. 78 Changshan Road, Chengjiang Town, Jiangyin	Microsystem integration packaging and testing services	12.86%	Equity method
Sino IC Leasing Co., Ltd.	Room 3205F, 32/F, No. 707 Zhangyang Road, China (Shanghai) Pilot Free Trade Zone	Focusing on finance leases in IC industry	8.17%	Equity method
Semiconductor Manufacturing Electronics (Shaoxing) Corporation	No.518 Linjiang Road, Yuecheng District, Shaoxing, Zhejiang	Providing foundry services of specialty process technology for wafer and module packaging	19.57%	Equity method
Ningbo Semiconductor International Corporation	Building 3, 4 and 5, No.335 Anju Road, Xiaogang street, Beilun District, Ningbo, Zhejiang	Focusing on the development of specialty process technologies, such as high voltage analog, optoelectronic integration, etc.	15.85%	Equity method

VI. DISCUSSION AND ANALYSIS OVER THE FUTURE DEVELOPMENT OF THE COMPANY

(I) INDUSTRY LANDSCAPE AND TRENDS

Through years of development, the global IC industry has formed tangible head effect with a small number of players in dominance in the IC market. In line with the continuous changes in market demands, industry pattern, technological roadmap, the IC industry has, after several structural reforms, gradually evolved from the IDM model only to new industry formats with IDM and vertical division of work coexisted. Under the model of vertical division of work, the works of IC design, manufacturing, packaging and testing are usually completed in different companies, each company provides professional services through deep ploughing in specific industrial field. IC manufacturing as a typical industry in the vertical division chain, heavily depends on technology readiness and assets scale, requires strong R&D capability and capital strength.

Pure play foundries as the major IC manufacturing enterprises in the chain of vertical division of work, provide foundry services for IC design companies. In line with more complexities of wafer process, compared with IDM companies, pure play foundry has distinguished its self with more advantages on productivity, product yield, cost control and other aspects for its dedication in process technologies. More and more design companies and some IDMs tend to establish long term and close partnership with pure play foundries.

As present, the demand in wafer foundry is mainly from North America, China, the rest of Asia Pacific region and European countries. The application fields mainly involve in the fields of communication, consumer and computer, etc. In recent years, IC application fields have been consistently extended through the advance of science and technologies. The emerging market segments including IoT, AI, smart driving, cloud computing and big data, robots, and other emerging fields have boomed and opened up broader room for the IC industry growth. With continuous growth of IC demand, the key players in the industry keep in step with the new round of rising cycle, actively plan future layout with continuously expanding investment.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(II) DEVELOPMENT STRATEGIES OF THE COMPANY

The integrated circuit industry is a capital-intensive, technology-intensive, and talent-intensive high-tech industry, and integrated circuit manufacturing is the core link of the integrated circuit industry. SMIC is one of the leading foundries in the world and is the front runner in manufacturing capability, manufacturing scale, and comprehensive service in the Chinese Mainland.

SMIC adheres to the direction of internationalization and marketization, is committed to the research and development and production capacity layout of high-quality specialty process technology platform and FinFET logic process, and is committed to continuous optimization and efficiency improvement of production, operation and related services, to provide better service to customers and achieve its own healthy growth and create long-term value for shareholders.

In addition to the integrated circuit foundry business, SMIC is also committed to creating a platform-based ecological service model, providing customers with one-stop supporting services such as design services and IP support, photomasks manufacturing, and promoting the upstream and downstream cooperation of the integrated circuit industry chain, so as to provide customers with a full range of integrated circuit solutions together with partners in all links of the industry chain.

(III) BUSINESS PLAN

There are opportunities and challenges in 2022 following the robust market of the previous year. The mobile phone and consumer product market lack development momentum and are becoming stable markets, with supply and demand gradually reaching equilibrium; there are structural capacity gaps in incremental markets such as IOT, electric vehicles, and mid- to high-end analog; demand for application platforms such as RF, MCU, and power management remains strong; the shift from a pure capacity supply market to a technology innovation and customer experience service-driven market is a greater test of the Company's strategic positioning, speed of technology innovation, quality and completeness of product platforms, and customer stickiness.

SMIC's product platforms and capacity built-up over the years are concentrated in specialized areas, which are currently the industry's structural gaps. Next, we will seek progress in a steady manner; while consolidating the existing platforms, we will make great efforts to increase the proportion of technological innovation and focus on improving product quality; boost the competitiveness of customers' products, improve their experience, secure existing volume and expand the incremental volume.

Our production expansion planning and capacity allocation will be closely focused on this goal. At the beginning of 2022, the new fab in Shanghai Lingang broke ground. The two projects in Beijing and Shenzhen are progressing steadily and are expected to be put into production by the end of this year. In 2022, we plan to add more capacity than in 2021. At present, the equipment delivery lead time is further lengthened, and we may experience some delay in the expansion schedule of new capacity, but we will maintain close cooperation with our suppliers and strive to deliver the capacity according to the set target.

Looking into 2022, under the assumption of a relatively stable external environment, the growth rate of annual revenue is expected to be better than the average of the foundry industry, and the gross margin is expected to be higher than our level in 2021. In order to continuously expand the existing fabs and roll out of the three new projects, it is still a high-investment-year in 2022, and the Capex is expected to be about \$5.0 billion.

SECTION 5 REPORT OF THE DIRECTORS

I. BUSINESS OVERVIEW

The business overview and the future developments of the Group during the year are described in detail in “I. Management Discussion and Analysis” and “VI. Discussion and Analysis over the Future Development of the Company” in “Section 4 Management Discussion and Analysis”.

The Group has implemented internal controls and other risk management measures designed to mitigate the principal risks which the Group faces in its financial condition and operations. For further details, please see “IV. Risk Factors” in “Section 4 Management Discussion and Analysis”.

We are committed to protecting the environment and have in place various environmental protection, safety and health policies, as well as international standards certifications. We have complied with all relevant laws and regulations. For further details, please see “Section 7 Environmental, Social Responsibility and Other Corporate Governance” of this annual report. The Company will publish a separate environmental, social and governance report on the websites of Hong Kong Stock Exchange, SSE and the Company in accordance with the relevant Hong Kong Listing Rules.

II. BOARD OF DIRECTORS

Members of the Board are elected or re-elected by the shareholders of the Company. The Board have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, to hold office until the next annual general meeting of the Company after such appointment and shall then be eligible for re-election at that meeting.

Please refer to “VI. Particulars of Directors and Senior Management” in “Section 6 Corporate Governance” for details of members of the Board.

III. SUBSIDIARIES

Please refer to Note 19 to the consolidated financial statements for details of the Company’s interests in major subsidiaries as of December 31, 2021.

IV. DIVIDENDS AND DIVIDEND POLICY

The Company has not declared or paid any cash dividends on the Ordinary Shares. For details, please refer to “XIV. Profit Distribution Plan or Plan to Convert Capital Reserve into Share Capital” in “Section 6 Corporate Governance”.

V. SHARE CAPITAL

Movements in the share capital of the Company during the reporting period are set out in “Section 9 Changes in Shares and Information of Shareholders”.

VI. DISTRIBUTABLE RESERVE

The Company’s reserves available for distribution to shareholders as of December 31, 2021 amounted to US\$2,631.7 million.

VII. ISSUANCE OF EQUITY SECURITIES

Please refer to “VI. Use of the Proceeds” in “Section 8 Significant Events” for details of issuance of equity securities.

SECTION 5 REPORT OF THE DIRECTORS

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

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the listed securities in 2021. Please refer to "Section 9 Changes in Shares and Information of Shareholders" for further details.

IX. EQUITY-LINKED AGREEMENTS

The Company has made various stock incentive plans which subsist as of December 31, 2021 as set out in note 38 to the consolidated financial statements.

X. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

Please refer to "V. (V) Analysis on Investments" and "V. (VI) Major Assets and Equity Disposal" in "Section 4 Management Discussion and Analysis" for details of the Company's material investment, acquisition and disposal during the reporting period.

XI. CONNECTED TRANSACTIONS

Please refer to "IV. Substantial Connected and Related Transactions" in "Section 8 Significant Events" for details of the Company's connected transactions.

XII. RELATED PARTY TRANSACTIONS

Save as "XI. Connected Transactions" in this section, the Group entered into several transactions with multiple parties that are considered "related parties" under the applicable accounting standards, and these transactions are not regarded as connected transactions under the Listing Rules of Hong Kong Stock Exchange and STAR Market Listing Rules.

Please refer to Note 43 to the consolidated financial statements for details of related party transactions.

XIII. SUBSTANTIAL SHAREHOLDERS

Please refer to "II. Particulars of Shareholders and De Facto Controllers" in "Section 9 Changes in Shares and Information of Shareholders" for details.

XIV. TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the shares of the Company.

XV. DIRECTOR'S INTERESTS IN SECURITIES

Please refer to "VI. (III) Remunerations Of Directors, Senior Management and Core Technicians" in "Section 6 Corporate Governance" for details.

XVI. DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in "IV. Substantial Connected and Related Transactions" in "Section 8 Significant Events", no Director or entity connected with the Directors had a material interest, directly or indirectly, in any transaction, arrangement or contract of the Company or any of its subsidiaries of significance to the business of the Group to which the Company or any of its subsidiaries was a party during 2021.

XVII. DIRECTOR'S SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has or proposes to have a service contract which is not determinable by the Group with the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

XVIII. PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, subject to the provisions under relevant laws and regulations, every Director shall be indemnified by the Company against all losses or liabilities which the Directors may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs resulted from defending proceedings which may be brought against the Directors of the Company.

XIX. EMOLUMENTS TO THE DIRECTORS

Please refer to "VI. (III) Remunerations of Directors, Senior Management and Core Technicians" in "Section 6 Corporate Governance" for details.

SECTION 5 REPORT OF THE DIRECTORS

XX. EMOLUMENTS TO THE KEY MANAGEMENT

Please refer to “VI. (III) Remunerations of Directors, Senior Management and Core Technicians” in “Section 6 Corporate Governance” for details.

XXI. EMPLOYEES

Please refer to “XIII. Particulars of Employees of the Company and Its Major Subsidiaries at the End of the Reporting Period” in “Section 6 Corporate Governance” for details.

XXII. REMUNERATION POLICY

Please refer to “XIII. Particulars of Employees of the Company and Its Major Subsidiaries at the End of the Reporting Period” in “Section 6 Corporate Governance” for details.

XXIII. STOCK INCENTIVE SCHEMES

Please refer to “XV. Information about the Company’s Stock Incentive Plans, Employee Equity Incentive Plan or Other Employee Incentive Measures and Their Impacts” in “Section 6 Corporate Governance” for details.

XXIV. PRE-EMPTIVE RIGHTS

The Company confirms there are no statutory pre-emptive rights under the law of the Cayman Islands.

XXV. PUBLIC FLOAT

Based on publicly available information and within the Directors’ knowledge, more than 25% of the Company’s issued share capital was held by the public as at the date of this annual report.

XXVI. MAJOR SUPPLIERS AND CUSTOMERS

Please refer to “V. (I) Analysis of Principal Businesses” in “Section 4 Management Discussion and Analysis” for details of the Company’s major suppliers and customers.

XXVII. AUDITORS

The financial statements of the Company have been audited by Ernst & Young.

By order of the Board
Semiconductor Manufacturing International Corporation
Board Secretary / Joint Company Secretary
Guo Guangli

Shanghai, China
 March 30, 2022

SECTION 6 CORPORATE GOVERNANCE

I. INTRODUCTION OF CORPORATE GOVERNANCE

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

CORPORATE GOVERNANCE PRACTICES

The HKSE's Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Hong Kong Listing Rules contains code provisions (the "Code Provisions") which an issuer, such as the Company, is expected to comply with or advise as to reasons for deviations from it, and recommends best practices which an issuer is encouraged to implement (the "Recommended Practices"). The Company has adopted a set of Corporate Governance Policy (the "CG Policy") since January 25, 2005 as its own code of corporate governance, which is amended from time to time to comply with the CG Code. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

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

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2021.

WHETHER THERE IS ANY SIGNIFICANT DIFFERENCE BETWEEN THE REQUIREMENTS OF CORPORATE GOVERNANCE AND THE LAW, ADMINISTRATIVE REGULATION AND THE RELEVANT REGULATIONS OF THE CSRC ON LISTED COMPANY GOVERNANCE; IF THERE IS A SIGNIFICANT DIFFERENCE, THE REASON SHOULD BE EXPLAINED

The Company is a red chip company established in the Cayman Islands. Its current corporate governance system is mainly formulated based on relevant laws, regulations and rules of the place of registration and listing of the Company, and compared with the current corporate governance model applicable to general A-share listed companies registered in China, there are certain differences. For specific differences, please refer to "II. Main differences between the legal system of companies of the place of registration, the Articles of Association and the domestic Company Law and other legal system" under "Section 7 Corporate Governance and Independence" of the Prospectus of Initial Public Offering of RMB Ordinary Shares (A Shares) and Listing on the SSE STAR Market of the Company dated July 13, 2020.

II. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LIST ISSUERS

The Company has developed Management System and Implementation Rules for Insiders which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code"). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Management System and Implementation Rules for Insiders of the Company and the Model Code throughout the twelve months ended December 31, 2021. The senior management of the Company as well as all directors, senior officers, and employees of the Company and its subsidiaries are also required to comply with the Management System and Implementation Rules for Insiders of the Company and relevant provisions stipulated by CSRC and SSE in relation to inside trading.

III. INTRODUCTION OF GENERAL MEETINGS

Session	Date of convention	Inquiry index on the website on which the resolution(s) are publicized	Date of disclosure for publication of resolution(s)
The 2021 annual general meeting	June 25, 2021	The website of the Hong Kong Stock Exchange (http://www.hkexnews.hk)/The website of the SSE (http://www.sse.com.cn)	June 25, 2021/ June 26 2021
The 2021 first extraordinary general meeting	June 25, 2021	The website of the Hong Kong Stock Exchange (http://www.hkexnews.hk)/The website of the SSE (http://www.sse.com.cn)	June 25, 2021/ June 26 2021

SECTION 6 CORPORATE GOVERNANCE

IV. RED-CHIP STRUCTURE CORPORATE GOVERNANCE

DIFFERENCES WITH DOMESTIC LAWS AND REGULATIONS ON RETURN ON ASSETS, PARTICIPATION IN MAJOR DECISION-MAKING, DISTRIBUTION OF REMAINING PROPERTY

Please refer to the “Main differences in protection of investors’ rights and interests in terms of asset income, participation in major decision-making, distribution of remaining property, etc.” of “II. Main differences between legal systems of companies in place of registration, the Articles of Association and the domestic Company Law and other legal systems” in “Section VII Corporate Governance and Independence” of the Company’s “Prospectus for the Initial Public Offering of RMB Ordinary Shares (A Shares) and Listing on the STAR Market” dated July 13, 2020.

DIFFERENT PROVISIONS OR ARRANGEMENTS FOR THE DUTIES OF THE BOARD AND INDEPENDENT DIRECTORS RESULTED IN THEIR INABILITY TO PERFORM THEIR DUTIES OR EXPRESS THEIR OPINIONS IN ACCORDANCE WITH THE PROVISIONS OF THE COMPANY

Please refer to the “Mechanism of independent non-executive directors” of “II. Main differences between legal systems of companies in place of registration, the Articles of Association and the domestic Company Law and other legal systems” in “Section VII Corporate Governance and Independence” of the Company’s “Prospectus for the Initial Public Offering of RMB Ordinary Shares (A Shares) and Listing on the STAR Market” dated July 13, 2020.

ADJUSTING THE INFORMATION DISCLOSURE REQUIREMENTS AND ONGOING REGULATORY REQUIREMENTS APPLICABLE TO THE COMPANY

According to the “Listing Rules on the STAR Market of Shanghai Stock Exchange”, when the Company conducts related transactions and other matters that need to be submitted to the general meeting of shareholders for deliberation according to the rules, the execution shall be in accordance with the disclosed laws and regulations such as the company law of the overseas place of registration and the authority and procedures stipulated in the Articles of Association, unless otherwise provided by laws and regulations.

For application matters applicable to the adjustment of company information disclosure, please refer to the “Applications Applicable to Adjustment of Information Disclosure on the STAR Market of Semiconductor Manufacturing International Corporation and the Legal Opinion of AllBright Law Offices” dated February 5, 2021 by the Company.

According to the “Implementation Measures for Continuous Supervision of Domestic Shares or Depository Receipts Issued by Innovative Enterprises upon Listing (Trial)” issued by CSRC, the Company has summarised and disclosed remunerations of senior executives in the annual report, without affecting the integrity of information disclosure.

V. SHAREHOLDER RIGHTS AND SHAREHOLDER COMMUNICATIONS

(I) SHAREHOLDER RIGHTS

To convene an extraordinary general meeting

According to Article 65 of the Company’s Articles of Association, members who individually or collectively hold 10% or more of the Company’s shares shall have the right to requisition the Board to convene an extraordinary general meeting.

To submit enquiries to the Board

Enquiries may be submitted to the Board by contacting either the Joint Company Secretaries or the Secretary to the Board, or directly by putting forward questions at an annual general meeting or an extraordinary general meeting. Questions on the procedures for putting forward proposals at an annual general meeting may also be raised to the Joint Company Secretaries or the Secretary to the Board by the same means. For detailed contact information of the Company, please refer to “I. Basic Corporate Information” and “II. Contact Persons and Contact Methods” in “Section 3 Corporate Profile and Principal Financial Indicators”.

To put forth proposals at an annual general meeting

The Company’s shareholders may put forth proposals at an annual general meeting of the Company by written notice of those proposals being submitted by the Joint Company Secretaries or the Secretary to the Board.

Such shareholders who may put a proposal at an annual general meeting of the Company must (1) be a member of record on both the date of giving of the notice by such shareholder and the record date for the determination of members entitled to vote at such meeting, holding individually or jointly of 3% (inclusive) of the outstanding shares with voting rights and (2) comply with the notice requirements, in each case, as specified in the Articles of Association.

The written notice requirements include the timing of delivery of the notice as well as the contents of such notice. The detailed procedures for the notice requirements vary depending on whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to a nomination for election of a Director. The procedures for shareholders to propose a person for election as a Director is available on the Company’s website. The procedures for shareholders to put forward proposals at an annual general meeting are also available upon request from the Joint Company Secretaries or the Secretary to the Board. For detailed contact information of the Company, please refer to “I. Basic Corporate Information” and “II. Contact Persons and Contact Methods” in “Section 3 Corporate Profile and Principal Financial Indicators”.

SECTION 6 CORPORATE GOVERNANCE

(II) SHAREHOLDER COMMUNICATIONS

The Company and the Board recognises the importance of maintaining open and frequent communications with its shareholders. At the annual general meeting of the Company, which was held on June 25, 2021 at the Company's headquarters in Shanghai, China ("2021 AGM"), Directors, members of the management, as well as the Company's external auditors, were present to answer questions from the shareholders. The 2021 AGM circular was distributed to all shareholders within the prescribed time period required by the Hong Kong Stock Exchange Listing Rules. The circular and the accompanying materials set forth information relevant to the proposed resolutions. Separate resolutions are proposed at these annual general meetings on each substantially separate issue, including the re-election of individual Directors. The chairman of the meeting reveals the on-site voting result and how many proxies against or abstained have been filed in respect to each resolution. The final poll results will then be published in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules and STAR Market Listing Rules.

During the 2021 AGM, the Company's shareholders:

- received and considered the 2020 annual report of the Company (including the audited consolidated financial statements and the reports of the Directors and the auditors of the Company for the year ended December 31, 2020;
- re-elected Mr. Lu Guoqing as Class I director to hold office until the 2023 annual general meeting, re-elected Dr. Zhao Haijun, Dr. Chen Shanzhi, Professor Lau Lawrence Juen-Yee, Mr. Fan Ren Da Anthony, Dr. Chiang Shang-Yi and Mr. Huang Dengshan as Class II directors to hold office until the 2024 annual general meeting, re-elected Dr. Liu Ming as Class III director to hold office until the 2022 annual general meeting and authorized the Board to fix their remuneration;
- appointed Ernst & Young and Ernst & Young Hua Ming LLP (Special General Partnership) as the auditors of the Company and authorized the Audit Committee of the Board to fix their remuneration;
- approved the proposal for not making distribution for the year 2020;
- approved the general mandate to the Board to allot, issue, grant, distribute and otherwise deal with additional Hong Kong Shares in the Company, not exceeding 20% of the issued Hong Kong Share capital of the Company as at the date of 2021 AGM;
- approved the general mandate to the Board to repurchase Hong Kong Shares of the Company, not exceeding 10% of the issued Hong Kong Share capital of the Company as at the date of the 2021 AGM; and
- authorized the Board to exercise the powers to allot, issue, grant, distribute or otherwise deal with the additional authorized but unissued Hong Kong Shares repurchased by the Company.

A key element of effective communication with shareholders and investors is the timely dissemination of information relating to the Company. In addition to announcing annual and interim reports, the Company announces its quarterly financial results approximately 45 days after the end of each quarter. In connection with such announcements, the Company holds public conference calls and webcasts, during which the senior management reports the latest developments of the Company and answers questions from participants. The senior management and Investor Relations also keep communication with equity research analysts, other shareholders and investors.

The market capitalisation of the Company as of December 31, 2021 was approximately HK\$237,126,178,784 (the market capitalisation of the issued capital of 5,965,393,555 Hong Kong Ordinary Shares at the closing market price of HK\$18.66 per Ordinary Share plus the market capitalisation of the issued capital of 1,938,463,000 RMB Ordinary Shares at the closing market price of RMB52.99 exchanged into Hong Kong dollar). The public float as of such date was approximately 80.49%.

The 2022 annual general meeting is scheduled to be held at Evergreen Laurel Hotel Shanghai, 1136 Zuchongzhi Road, Pu Dong New Area, Shanghai 201203 on or around June 24, 2022. All shareholders of the Company are invited to attend.

SECTION 6 CORPORATE GOVERNANCE

VI. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

(I) CHANGES IN SHAREHOLDING OF CURRENT AND RESIGNED DIRECTORS, SENIOR MANAGEMENT AND CORE TECHNICIANS AND THEIR REMUNERATIONS DURING THE REPORTING PERIOD

Unit: Share

Name	Position	Gender	Age*	Commencement date of the term	Cessation date of the term ⁽¹⁾	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in shares held for the year	Reason for changes	Receiving remunerations from connected parties of the Company or not ⁽²⁾
Gao Yonggang	Chairman, Executive Director and Chief Financial Officer	Male	56	June 17, 2013	the date of 2023 annual general meeting	-	-	-		Yes
Zhao Haijun	Executive Director and Co-Chief Executive Officer	Male	58	October 16, 2017	the date of 2024 annual general meeting	163	-	(163)	Sold shares	Yes
Lu Guoqing	Non-executive Director	Male	59	May 13, 2021	the date of 2023 annual general meeting	-	-	-		Yes
Chen Shanzhi	Non-executive Director	Male	52	June 23, 2009	the date of 2024 annual general meeting	-	-	-		Yes
Huang Dengshan	Non-executive Director	Male	54	May 13, 2021	the date of 2024 annual general meeting	-	-	-		Yes
Ren Kai	Non-executive Director	Male	49	August 11, 2015	the date of 2022 annual general meeting	-	-	-		Yes
William Tudor Brown	Independent Non-executive Director	Male	63	August 8, 2013	the date of 2023 annual general meeting	-	-	-		No
Lau Lawrence Juen-Yee	Independent Non-executive Director	Male	77	June 22, 2018	the date of 2024 annual general meeting	-	-	-		No
Fan Ren Da Anthony	Independent Non-executive Director	Male	61	June 22, 2018	the date of 2024 annual general meeting	-	187,500	187,500	Exercise of RSUs	No
Liu Ming	Independent Non-executive Director	Female	57	February 4, 2021	the date of 2022 annual general meeting	-	-	-		No
Liang Mong Song	Co-Chief Executive Officer	Male	69	October 16, 2017	-	-	-	-		No
Zhou Meisheng	Executive Vice President in Technology Research and Development	Female	63	October 12, 2017	-	-	-	-		No
Guo Guangli	Board Secretary, Joint Company Secretary and Vice President in Operation & Engineering	Female	52	November 11, 2020	-	6,059	6,059	-		No
Zhang Xin	Senior Vice President in Operation & Engineering	Male	56	August 1, 2017	-	435	16,682	16,247	Exercise of RSUs	No
Lu Jun (Resigned)	Non-executive Director	Male	53	February 18, 2016	April 29, 2021	-	-	-		Yes
Tong Guohua (Resigned)	Non-executive Director	Male	63	February 14, 2017	May 13, 2021	-	-	-		Yes
Chiang Shang-Yi (Resigned)	Vice Chairman and Executive Director	Male	75	December 15, 2020	November 11, 2021	-	-	-		No
Zhou Jie (resigned)	Non-executive Director	Male	54	January 23, 2009	November 11, 2021	-	-	-		Yes
Young Kwang Leei (Resigned)	Independent Non-executive Director	Male	62	August 7, 2019	November 11, 2021	-	-	-		No
Zhou Zixue (Resigned)	Executive Director	Male	65	March 6, 2015	March 17, 2022	-	-	-		Yes
Wu Jingang (Resigned)	Vice President in Technology Research and Development	Male	54	February 18, 2014	July 4, 2021	-	-	-		No
Total						6,657	210,241	203,584		

* as of December 31, 2021

Notes:

- (1) The relevant Director shall retire from office at the relevant annual general meeting and, if eligible, offer himself/herself from re-election as a Director of the Company.
- (2) The related parties of the Company refer to the related parties defined in the Listing Rules on the STAR Market of Shanghai Stock Exchange.

SECTION 6 CORPORATE GOVERNANCE

MAJOR WORKING EXPERIENCE

Biographical details of the Directors, senior management, core technicians and Joint Company Secretaries as of the date of this annual report are set out below.

The Board of Directors

Executive Directors



Gao Yonggang
Chairman and Chief Financial Officer



Zhao Haijun
Co-Chief Executive Officer

Non-Executive Directors



Lu Guoqing



Chen Shanzhi



Huang Dengshan



Ren Kai

Independent Non-Executive Directors



William Tudor Brown



Lau Lawrence Juen-Yee



Fan Ren Da Anthony



Liu Ming

Note: Above photos of Directors only include current Directors.

Gao Yonggang

Chairman, Executive Director and Chief Financial Officer

Dr. Gao Yonggang, serves as the Chairman of the Board, an executive director and the Chief Financial Officer of the Company. Dr. Gao also serves as a director or chairman of several subsidiaries and affiliated companies of the Company.

Dr. Gao has more than 30 years of experience in the area of corporate management and served as chief person in charge of finance or corporate in various enterprises or organizations. Dr. Gao was the Chief Accountant of China Academy of Telecommunications Technology, and the Chairman of Datang Telecom Group Finance Co., Ltd. Dr. Gao is currently a director of JCET Group Co., Ltd. (a company listed on Shanghai Stock Exchange: 600584), and an independent director of iRay Technology Company Limited (a company listed on Shanghai Stock Exchange Science and Technology Innovation Board: 688301).

Dr. Gao holds a Ph.D. in management from Nankai University. He is a standing committee member of the Accounting Society of China, a member of the Stock Listing Committee of Shanghai Stock Exchange Science and Technology Innovation Board, a founding director of the Hong Kong Independent Non-Executive Director Association and a vice president of the China Federation of Electronics and Information Industry.

SECTION 6 CORPORATE GOVERNANCE

Zhao Haijun

Executive Director and Co-Chief Executive Officer

Dr. Zhao Haijun serves as an executive director and Co-Chief Executive Officer of the Company. Dr. Zhao served as the Chief Operating Officer and Executive Vice President of the Company, General Manager of SMNC from 2010 to 2016. Dr. Zhao also serves as a director of certain subsidiaries and affiliated companies of the Company.

Dr. Zhao has 29 years of experience in semiconductor operations and technology development. Dr. Zhao has also served as an independent director on the board of directors of Zhejiang Juhua Co., Ltd. (a company listed on Shanghai Stock Exchange: 600160) since November 2016.

Dr. Zhao holds a Bachelor's degree of Science and Doctor of Philosophy in Electronic Engineering from Tsinghua University (Beijing) and a Master's degree in Business Administration from the University of Chicago.

Lu Guoqing

Non-Executive Director

Mr. Lu Guoqing serves as a non-executive director of the Company.

Mr. Lu served as the vice chairman of the Research Office of System Department, deputy director of the Science and Technology Division, director of the Device Institute, assistant to the president of Wuhan Research Institute of Posts and Telecommunications, and general manager of Accelink Technologies Co., Ltd. from July 1985 to July 2001. Since July 2001, he successively served as the vice president and the secretary of the Party Committee of Wuhan Research Institute of Posts and Telecommunications, and the secretary of the Party Committee, director, president of Wuhan FiberHome Technologies Group Co., Ltd.. Since August 2016, he has been the secretary of the Party Committee, chairman, president of FiberHome Technologies Group Co., Ltd.. Since December 2017, Mr. Lu has been the secretary of the Party Committee, chairman, general manager of Wuhan Research Institute of Posts and Telecommunications. From June 2018 to February 2021, he served as general manager, deputy secretary of the Party Committee, vice chairman of China Information and Communication Technology Group Co., Ltd. From February 2021 to July 2021, he served as the secretary of the Party Committee, chairman and general manager of China Information and Communication Technology Group Co., Ltd. He is currently the secretary of the Party Committee and chairman of China Information and Communication Technology Group Co., Ltd. In addition, Mr. Lu has been the chairman of Fiberhome Communication Technology Co., Ltd. (a company listed on Shanghai Stock Exchange: 600498) since August 2016, and the chairman of Wuhan Ligong Guangke Co., Ltd. (a company listed on Shenzhen Stock Exchange: 300557) from August 2016 to May 2020.

Mr. Lu is a professorate senior engineer. He holds a Bachelor's degree in industrial instrumentation and automation from Tsinghua University and a Master's degree in management from Huazhong University of Science and Technology.

Chen Shanzhi

Non-Executive Director

Dr. Chen Shanzhi serves as a non-executive Director of the Company.

Dr. Chen has nearly 30 years of experience in the field of information and communication technology, during which he has been involved in research and development, technology and strategy management. Dr. Chen is the vice president and the head of specialist committee of China Information and Communication Technology Group Co., Ltd.. In addition, Dr. Chen has served as a director of Fiberhome Telecommunication Technologies Co., Ltd. (a company listed on Shanghai Stock Exchange: 600498) since September 2019.

Dr. Chen holds a Bachelor's degree from Xidian University, a Master's degree from China Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications, and a Ph.D. from Beijing University of Posts and Telecommunications. Dr. Chen is also a director of The Chinese Institute of Electronics, an executive director of China Institute of Communications, a director of China Communications Standards Association (CCSA) and a fellow of IEEE.

Huang Dengshan

Non-Executive Director

Mr. Huang Dengshan serves as a non-executive director of the Company. He also serves as a director of certain subsidiaries of the Company.

Mr. Huang worked in the Budget Management Department, the Infrastructure Department and the Economic Development Department of the Ministry of Finance of the PRC from July 1989 to September 2014. Since May 2015, he has been serving as the vice president of China Integrated Circuit Industry Investment Fund Co., Ltd.. Since September 2019, he has been serving as vice president of China Integrated Circuit Industry Investment Fund Phase II Co., Ltd..

Mr. Huang holds a Bachelor's degree in economics from Dongbei University of Finance and Economics.

SECTION 6 CORPORATE GOVERNANCE

Ren Kai

Non-executive Director

Mr. Ren Kai serves as a non-executive Director of the Company.

Mr. Ren is familiar with industrial policies and has in-depth understanding in integrated circuit and related industries. From 1995 to 2014, Mr. Ren had worked in the Electromechanical Textile Credit Bureau, Chengdu representative office, the Review Bureau 4, the Review Bureau 3 and the Review Bureau 2 of China Development Bank. Since September 2014, Mr. Ren has been serving as the Vice President of Sino IC Capital Co., Ltd. Mr. Ren is also the director of JCET Group Co., Ltd. (a company listed on Shanghai Stock Exchange: 600584), and the director of San'an Optoelectronics Co., Ltd. (a company listed on Shanghai Stock Exchange: 600703).

Mr. Ren holds a Bachelor's degree in industry and international trade from Harbin Engineering University and a Master's degree in software engineering from Beijing Jiaotong University.

William Tudor Brown

Independent Non-executive Director

Mr. William Tudor Brown serves as an independent non-executive director of the Company.

Mr. Brown was one of the founders of ARM Holdings PLC (a British multinational semiconductor IP company listed on London Stock Exchange and NASDAQ: ARMH), and held many roles including Engineering Director, Chief Technology Officer, EVP Global Development, Chief Operating Officer, President and Director. He served as Principal Engineer at Acorn Computers Ltd., an independent non-executive director of ANT Software PLC (a company listed on AIM of London Stock Exchange: ANTP), an independent non-executive director of Xperi, Inc (a company listed on NASDAQ: XPER). He is currently an independent non-executive director of Lenovo Group Limited (a company listed on Main Board of Hong Kong Stock Exchange: 0992); an independent non-executive director of Marvell Technology Group (a company listed on NASDAQ: MRVL) and an independent non-executive director of Ceres Power Holdings plc (a company listed on London Stock Exchange: CWR.L).

Mr. Brown is a Chartered Engineer, a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He holds a MA (Cantab) Degree in Electrical Sciences from Cambridge University.

Lau Lawrence Juen-Yee

Independent Non-executive Director

Professor Lau Lawrence Juen-Yee serves as an independent non-executive director of the Company.

From 1966 to 2014, He served as Professor at Stanford University, a Co-Director of the Asia-Pacific Research Center at Stanford University, Director of the Stanford Institute for Economic Policy Research, Vice-Chancellor (President) of The Chinese University of Hong Kong, Chairman of CIC International (Hong Kong) Co., Limited. He currently serves as an Independent Non-executive Director of AIA Group Limited (a company listed on the Hong Kong Stock Exchange: 1299), CNOOC Limited (a company listed on the Hong Kong Stock Exchange: 0883), and an Independent Director of Far EasTone Telecommunications Company Limited (a company listed on the Taiwan Stock Exchange: 4904).

Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley. Professor Lau was a member of the 11th and 12th National Committees of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Subcommittee of Economics from 2008 to 2018. Since 2007, Professor Lau has also been serving as the Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. In addition, he currently serves as a Vice-President of the China Science Center of the International Eurasian Academy of Sciences, a member of the International Advisory Council of the China Development Bank and Chairman of the Board of Directors of The Chinese University of Hong Kong (Shenzhen) Finance Institute. In addition, he also serves as a member of the Currency Board Sub-Committee of the Exchange Fund Advisory Committee of the Hong Kong Special Administrative Region, a Vice-Chairman of Our Hong Kong Foundation, as well as a member of the Board of Directors of the Chiang Ching-kuo Foundation for International Scholarly Exchange, Taipei.

Fan Ren Da Anthony

Independent Non-executive Director

Mr. Fan Ren Da Anthony serves as an independent non-executive director of the Company.

Mr. Fan is the chairman and managing director of AsiaLink Capital Limited. Mr. Fan is also an independent non-executive director of CITIC Resources Holdings Limited (1205), Uni-President China Holdings Ltd. (0220), Shanghai Industrial Urban Development Group Limited (0563), China Development Bank International Investment Limited (1062), Technovator International Limited (1206), China Dili Group (1387), Neo-Neon Holdings Limited (1868), Hong Kong Resources Holdings Company Limited (2882) and an executive director of Tenfu (Cayman) Holdings Company Limited (6868), all listed on the Main Board of the Hong Kong Stock Exchange.

Mr. Fan holds a Master's Degree in Business Administration from the United States of America. Mr. Fan is the Founding President of The Hong Kong Independent Non-Executive Director Association.

SECTION 6 CORPORATE GOVERNANCE

Liu Ming

Independent Non-executive Director

Dr. Liu Ming serves as an independent non-executive director of the Company.

During Dr. Liu's 33-year career in the semiconductor industry, she has contributed to research in micro/nanofabrication, NVM device and circuit, modeling and simulation, and reliability. Dr. Liu has published five Books and Chapters, more than 300 Journal papers, and more than 100 Conference Papers (including more than 40 keynote or invited papers). Dr. Liu Ming was an assistant professor in University of Yantai from 1988 to 1995. She joined and served as an associate professor, a professor in Institute of Microelectronics of the Chinese Academy of Sciences from 1999 to 2020. Since 2021, she has been a professor in Fudan University.

Dr. Liu holds Bachelor and Master of Science degree in semiconductor from Hefei University of Technology, and Doctorate in material engineering from Beijing University of Aeronautics and Astronauts. Dr. Liu has served in many important academic positions, some of which are the Chapter Chair of the Beijing Section Chapter of the IEEE Electron Devices Society (the "EDS"), and the editor to both the EDS Newsletter and Journal of Semiconductors. In 2015, she was elected as an academican of Chinese Academy of Sciences. In 2019, she was awarded the Fellow of The World Academy of Sciences (TWAS) for the advancement of science in developing countries.

Senior Management

Gao Yonggang

Biographical details are set out on page 45 of this annual report.

Zhao Haijun

Biographical details are set out on page 46 of this annual report.

Liang Mong Song

Co-Chief Executive Officer

Dr. Liang Mong Song serves as Co-Chief Executive Officer of the Company and served as an executive director of the Company from October 16, 2017 to November 11, 2021.

Dr. Liang was involved in memories and FinFET logic process technology developments and has been engaged in the semiconductor industry for over 35 years. Dr. Liang owns over 450 patents and has published over 350 technical papers.

Dr. Liang is a Fellow of Institute of Electrical and Electronics Engineers. He graduated with a doctor of philosophy degree in electrical engineering from the Department of Electrical Engineering and Computer Sciences at University of California, Berkeley.

Zhou Meisheng

Executive Vice President in Technology Research and Development

Dr. Zhou Meisheng serves as an executive vice president in Technology Research and Development of the Company. Dr. Zhou is also the director of a controlling subsidiary of the Company.

Prior to joining the Company, Dr. Zhou served in Lam Research China as Regional CTO. Prior to that, Dr. Zhou has ever served as Vice President of Technology Research and Development Center of the Company, and she has successively worked in Chartered Semiconductor Manufacturing, Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC"), UMC and Global Foundries.

Dr. Zhou holds BSc and MSc degrees from Fudan University China, and Ph.D. degree in Chemistry from Princeton University.

Guo Guangli

Board Secretary, Joint Company Secretary and Vice President

Ms. Guo Guangli serves as a vice president, Board Secretary and Joint Company Secretary of the Company.

Ms. Guo has served as general manager of financial department of Datang Telecom Technology Co., Ltd., the member of the Party Committee, chief accountant of Datang Telecom Technology Industry Group, and also the chairman of Datang Telecom finance company.

Ms. Guo is a Chinese Certified Public Accountant. She received a bachelor of law degree from Beijing University of Aeronautics and Astronautics and a master of accounting from the Central University of Finance and Economics. Ms. Guo is guest advisor of Central University of Finance and Economics, the special expert of China Financial Management Association, affiliated person of the Hong Kong Chartered Governance Institute. Ms. Guo has rich experience in financial management and investment and financing projects of capital market.

SECTION 6 CORPORATE GOVERNANCE

Core Technicians

Zhao Haijun

Biographical details are set out on page 46 of this annual report.

Liang Mong Song

Biographical details are set out on page 48 of this annual report.

Zhou Meisheng

Biographical details are set out on page 48 of this annual report.

Zhang Xin

Senior Vice President in Operation & Engineering

Mr. Zhang Xin serves as a senior vice president in Operations and Engineering of the Company. Mr. Zhang joined the Company in April 2010 and successively served as the senior director of advanced manufacturing technology, senior vice president of Operation & Engineering. He also serves as a director of several subsidiaries and affiliated companies of the Company.

Mr. Zhang has long worked overseas in the semiconductor industry, serving successively as a high profile in Global Foundries and TSMC.

Mr. Zhang holds Bachelor's and Master's degrees in engineering from the Department of Radio Electronics, Tsinghua University. Mr. Zhang is currently chairman of the Zhong Guan Cun Integrated Circuit Industry Association (ZIA), chairman of the Zhong Guan Cun Integrated Circuit Materials Technology Industry Alliance (ICMTIA) and a member of the Expert Committee of China Semiconductor Industry Association.

Joint Company Secretary

Guo Guangli

Biographical details are set out on page 48 of this annual report.

Hoo Mei Fung

Ms. Hoo Mei Fung, joined the Company in June 2005 and is the director of board affairs office and compliance officer of the Company.

Prior to joining the Company, Ms. Hoo had worked in McKinsey & Co. and Pricewaterhouse focusing on accounting and tax advisory matters.

Ms. Hoo has more than ten years of experiences in handling company secretarial work and listing matters of the Company. She is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Accountants of Australia and New Zealand. Ms. Hoo obtained her bachelor degree in accounting, finance and economics from the University of Essex, the United Kingdom.

(II) POSITIONS OF CURRENT AND RESIGNED DIRECTORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. Positions in shareholder entities

Name	Name of shareholder entities	Position held in shareholder entities	Commencement date of term	Cessation date of term
Lu Guoqing	China Information and Communication Technology Group Co., Ltd.	Secretary of the Party Committee and Chairman of the Board	February 2021	–
Lu Guoqing	China Academy of Telecommunications Technology Co., Ltd.	Executive Director and General Manager	April 2021	–
Lu Guoqing	Datang Telecom Technology & Industry Holdings Co., Ltd.	Executive Director and General Manager	April 2021	–
Chen Shanzhi	China Information and Communication Technology Group Co., Ltd.	Vice General Manager	June 2018	–
Chen Shanzhi	Datang Telecom Technology & Industry Holdings Co., Ltd.	Senior Vice President	December 2009	–
Chen Shanzhi	China Academy of Telecommunications Technology Co., Ltd.	Vice General Manager	December 2017	–
Huang Dengshan	China Integrated Circuit Industry Investment Fund Co., Ltd.	Vice President	May 2015	–
Huang Dengshan	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	Vice President	September 2019	–
Tong Guohua (Resigned)	China Information and Communication Technology Group Co., Ltd.	Secretary of the Party Committee and Chairman of the Board	July 2018	February 2021
Tong Guohua (Resigned)	Datang Telecom Technology & Industry Holdings Co., Ltd.	Executive Director and President	July 2016	February 2021
Tong Guohua (Resigned)	China Academy of Telecommunications Technology Co., Ltd.	Chairman of the Board and General Manager	December 2017	February 2021
Lu Jun (Resigned)	China Integrated Circuit Industry Investment Fund Co., Ltd.	Director	September 2014	May 2021
Lu Jun (Resigned)	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	Director	October 2019	March 2021
Zhou Jie (Resigned)	Haitong Securities Co., Ltd.	Secretary of the Party Committee Chairman of the Board	July 2016 October 2016	– –

SECTION 6 CORPORATE GOVERNANCE

2. Positions in other entities

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Gao Yonggang	Semiconductor Global Solutions	Chairman of the Board	March 2018	–
Gao Yonggang	China Fortune-Tech Capital Co., Ltd.	Chairman of the Board	February 2014	–
Gao Yonggang	China Fortune-Tech Capital (Beijing) Co., Ltd.*	Executive Director	February 2018	–
Gao Yonggang	SMIC Juyuan Private Equity Fund Management (Shenzhen) Co., Ltd.	Executive Director	May 2021	–
Gao Yonggang	Sino IC Leasing Co., Ltd.	Director	August 2015	October 2021
Gao Yonggang	JCET Group Co., Ltd.	Director	July 2017	May 2022
Gao Yonggang	Ningbo Semiconductor International Corporation	Chairman of the Board	April 2018	–
Gao Yonggang	iRay Technology Company Limited	Independent Director	November 2020	November 2023
Gao Yonggang	Lizhu Intelligent Equipment (Tianjin) Co., Ltd.	Chairman of the Board	December 2020	December 2023
Gao Yonggang	SMIC Xicheng Private Equity Fund Management (Beijing) Co., Ltd.	Chairman of the Board	February 2021	February 2022
Zhao Haijun	Zhejiang Juhua Co., Ltd.	Director	November 2016	December 2022
Zhao Haijun	Brite Semiconductor (Shanghai) Co., Ltd.	Chairman of the Board	February 2021	February 2024
Zhao Haijun	Toppan SMIC Electronic (Shanghai) Co., Ltd.	Vice Chairman of the Board	January 2017	–
Lu Guoqing	FiberHome Technologies Group Co., Ltd.	Secretary of the Party Committee, Chairman, President	August 2016	–
Lu Guoqing	FiberHome Telecommunication Technologies Co., Ltd.	Chairman	August 2016	–
Lu Guoqing	Wuhan Research Institute of Posts and Telecommunications	Secretary of the Party Committee, Chairman, General Manager	December 2017	–
Chen Shanzhi	FiberHome Telecommunication Technologies Co., Ltd.	Director	September 2019	–
Ren Kai	Sino IC Capital Co., Ltd.	Director and Vice President	September 2014	–
Ren Kai	National Silicon Industry Group Co., Ltd.	Vice Chairman of the Board	March 2015	August 2021
Ren Kai	San'an Optoelectronics Co., Ltd.	Director	April 2016	July 2023
Ren Kai	An Xin Capital Co., Ltd.	Chairman of the Board	May 2016	September 2021
Ren Kai	JCET Group Co., Ltd.	Director	April 2016	May 2022
Ren Kai	Yangtze Memory Technologies Holding Co., Ltd.	Director	December 2016	–
Ren Kai	Yangtze Memory Technologies Co., Ltd.	Director	July 2016	–
Ren Kai	Wuhan Xinxin Semiconductor Manufacturing Co., Ltd.	Director	July 2016	–
Ren Kai	Hubei Zixin Technology Investment Co. Ltd.	Director	November 2016	–
Ren Kai	Hubei Ziguang Guoqi Technology Holding Co., Ltd.	Director	November 2016	–
Ren Kai	Shanghai Wanye Enterprise Co., Ltd.	Vice Chairman of the Board	January 2019	June 2021
William Tudor Brown	Lenovo Group Limited	Independent Non-executive Director	January 2013	–
William Tudor Brown	Marvell Technology Group	Independent Non-executive Director	December 2016	–
William Tudor Brown	Ceres Power Holdings plc	Independent Non-executive Director	April 2021	–
Lau Lawrence Juen-Yee	AIA Group Limited	Independent Non-executive Director	September 2014	–
Lau Lawrence Juen-Yee	CNOOC Limited	Independent Non-executive Director	August 2005	–
Lau Lawrence Juen-Yee	Far EasTone Telecommunications Company Limited, Taipei	Independent Non-executive Director	May 2005	–
Fan Ren Da Anthony	AsiaLink Capital Limited	Chairman and Managing Director	October 2003	–
Fan Ren Da Anthony	CITIC Resources Holdings Limited	Independent Non-executive Director	August 2000	–
Fan Ren Da Anthony	Uni-President China Holdings Ltd.	Independent Non-executive Director	September 2007	–
Fan Ren Da Anthony	Raymond Industrial Limited	Independent Non-executive Director	December 1994	May 2021
Fan Ren Da Anthony	Shanghai Industrial Urban Development Group Limited	Independent Non-executive Director	July 2010	–

SECTION 6 CORPORATE GOVERNANCE

Name	Name of other entities	Position held in other entities	Commencement date of term	Cessation date of term
Fan Ren Da Anthony	China Development Bank International Investment Limited	Independent Non-executive Director	March 2012	–
Fan Ren Da Anthony	Technovator International Limited	Independent Non-executive Director	September 2011	–
Fan Ren Da Anthony	China Dili Group	Independent Non-executive Director	August 2008	–
Fan Ren Da Anthony	Neo-Neon Holdings Limited	Independent Non-executive Director	August 2014	–
Fan Ren Da Anthony	Hong Kong Resources Holdings Company Limited	Independent Non-executive Director	September 2008	–
Fan Ren Da Anthony	Tenfu (Cayman) Holdings Company Limited	Independent Non-executive Director	September 2011	May 2021
Liu Ming	Fudan University	Executive Director	May 2021	–
Liu Ming	Unisound AI Technology Co. Ltd.	Professor	January 2021	–
		Independent Director	June 2019	May 2021
Zhou Meisheng	Shanghai IC Manufacturing Innovation Center Co., Ltd.	Director	January 2018	–
Guo Guangli	Beijing Tianma Intelligent Control Technology Co., Ltd.	Independent Director	October 2021	October 2024
Lu Jun (Resigned)	China Development Bank	Deputy General Manager of the Development Fund Management Department of China Development Bank	December 2020	September 2021
Lu Jun (Resigned)	Sino IC Capital Co., Ltd.	Director	September 2014	June 2021
Lu Jun (Resigned)	Yangtze Memory Technologies Holding Co., Ltd.	Director	September 2019	September 2021
Lu Jun (Resigned)	Yangtze Memory Technologies Co., Ltd. ("YMTC")	Director	September 2019	September 2021
Lu Jun (Resigned)	Wuhan Xinxin Semiconductor Manufacturing Co., Ltd.	Director	September 2019	September 2021
Lu Jun (Resigned)	Guokai Equipment Manufacturing Industry Investment Fund Co., Ltd.	Director	November 2010	July 2021
Lu Jun (Resigned)	Sino IC Leasing Co., Ltd.	Director	August 2015	August 2021
Lu Jun (Resigned)	Guokai Ronghua Industrial Investment Fund Management Co., Ltd.	Chairman of the Board	March 2014	–
Zhou Jie (Resigned)	Shanghai Securities Association	President	December 2016	November 2021
Zhou Jie (Resigned)	Shanghai Financial Association	Vice Chairman	March 2017	–
Zhou Jie (Resigned)	Securities Association of China	Vice President	December 2021	–
Young Kwang Leei (Resigned)	Taiwan MAYO Human Capital Inc.	Independent Director	August 2019	–
Young Kwang Leei (Resigned)	Yi-Yi Network Taiwan	Non-executive Director	February 2021	–
Zhou Zixue (Resigned)	JCET Group Co., Ltd.	Chairman of the Board	May 2019	May 2022
Zhou Zixue (Resigned)	Hisense Visual Technology Co., Ltd.	Independent Director	June 2015	June 2021
Zhou Zixue (Resigned)	Yunnan Nantian Electronics Information Co., Ltd.	Independent Director	February 2017	June 2023
Zhou Zixue (Resigned)	Zhejiang Shengyang Science and Technology Co., Ltd.	Independent Director	November 2021	July 2023
Zhou Zixue (Resigned)	Zhejiang Jingsheng Mechanical & Electrical Co., Ltd.	Non-Independent Director	December 2021	December 2022

SECTION 6 CORPORATE GOVERNANCE

(III) REMUNERATIONS OF DIRECTORS, SENIOR MANAGEMENT AND CORE TECHNICIANS

1. Remunerations of Directors, senior management and core technicians

The decision-making procedure for the remunerations of Directors and senior management	The remuneration of executive directors shall be approved by the compensation committee and reported to the board of directors in accordance with the Company's executive director remuneration policy and structure; the remuneration of non-executive Directors shall be proposed by the compensation committee to the Board and approved by the Board; the remuneration of senior management shall be determined according to the remuneration management policy formulated by the Company upon the approval of the compensation committee.
The basis for determining remunerations of Directors and senior management	If the above persons are connected persons, the stock granting shall be approved by the board of directors. Remuneration management policy for Directors and senior management approved by the Board.
Actual payment of remunerations of Directors and senior management	During the reporting period, remunerations of Directors, senior management and core technicians of the Company were in line with relevant remuneration policy and appraisal standards of the Company, and were granted in strict compliance with appraisal results. There were no events in violation of the remuneration management policy of the Company. The actual payment of remunerations was consistent with that as disclosed by the Company.
Total actual remunerations received by all Directors and senior management during the reporting period	US\$5.4 million
Total actual compensations received by core technical personnel during the reporting period	US\$3.0 million

Note: Total remunerations before tax received from the Company during the reporting period of Directors, senior management and core technicians include basic salaries, bonus, allowances, subsidies, employee benefits and various insurance fees, provident funds, annual bonus and remunerations otherwise received from the Company, exclude share incentive received.

SECTION 6 CORPORATE GOVERNANCE

2. The interests and rights of directors and key management required to be disclosed under the Hong Kong Listing Rules

(1) Directors' Interests in Securities of the Company

As at December 31, 2021, the interests or short positions of the Directors and the chief executive officer in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name	Long/Short Position	Nature of Interests	Number of Ordinary Shares held	Derivatives			Total Interests	Percentage of aggregate interests to total issued share capital of the Company ^(Note 1)
				Options	Restricted Share Units	Restricted Shares		
				(Hong Kong Share)	(Hong Kong Share)	(RMB Share)		
Executive Directors								
Gao Yonggang	Long Position	Beneficial Owner	–	2,532,350 (Note 2)	464,287 (Note 3)	360,000 (Note 4)	3,356,637	0.040%
Zhou Zixue*	Long Position	Beneficial Owner	–	3,457,429 (Note 5)	1,478,356 (Note 6)	400,000 (Note 7)	5,335,785	0.070%
Zhao Haijun	Long Position	Beneficial Owner	–	2,372,588 (Note 8)	224,653 (Note 9)	400,000 (Note 10)	2,997,241	0.040%
Non-executive Directors								
Lu Guoqing	Long Position	Beneficial Owner	–	187,500 (Note 11)	187,500 (Note 12)	–	375,000	0.000%
Chen Shanzhi	Long Position	Beneficial Owner	–	475,156 (Note 13)	475,156 (Note 14)	–	950,312	0.010%
Huang Dengshan	–	–	–	–	–	–	–	–
Ren Kai	–	–	–	–	–	–	–	–
Independent Non-executive Directors								
William Tudor Brown	Long Position	Beneficial Owner	–	275,000 (Note 15)	275,000 (Note 16)	–	550,000	0.010%
Lau Lawrence Juen-Yee	Long Position	Beneficial Owner	–	32,877 (Note 17)	32,877 (Note 18)	–	65,754	0.000%
Fan Ren Da Anthony	Long Position	Beneficial Owner	187,500	220,377 (Note 19)	32,877 (Note 20)	–	440,754	0.010%
Liu Ming	Long Position	Beneficial Owner	–	187,500 (Note 21)	187,500 (Note 22)	–	375,000	0.000%
Co-Chief Executive Officer								
Liang Mong Song	Long Position	Beneficial Owner	–	659,117 (Note 23)	259,808 (Note 24)	400,000 (Note 25)	1,318,925	0.020%

* Dr. Zhou Zixue has resigned as an executive director of the Company on March 17, 2022.

Notes:

- (1) Based on 7,903,856,555 shares in issue as at December 31, 2021.
- (2) These options comprise: (a) options which were granted to Dr. Gao on June 17, 2013 to purchase 1,360,824 Hong Kong Shares at a price of HK\$6.24 per share pursuant to the 2004 Stock Option Plan will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board. (b) Options which were granted to Dr. Gao on June 12, 2014 to purchase 288,648 Hong Kong Shares at a price of HK\$6.4 per share pursuant to the 2014 Stock Option Plan will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. (c) On May 25, 2020, Dr. Gao was granted options to purchase 586,793 Hong Kong Shares at a price of HK\$18.096 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. (d) On May 31, 2021, Dr. Gao was granted options to purchase 296,085 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (3) (a) On November 17, 2014, Dr. Gao was granted an award of 291,083 Restricted Share Units (each representing the right to receive one Hong Kong Share) ("RSUs") pursuant to the 2014 Equity Incentive Plan, consisting of (i) 240,145 RSUs, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017; and (ii) 50,938 RSUs, 25% of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. (b) On May 25, 2020, Dr. Gao was granted an award of 231,300 RSUs pursuant to the 2014 Equity Incentive Plan, consisting of (i) 74,016 RSUs, 25% of which vest on each anniversary of March 1, 2019 and which shall fully vest on March 1, 2023, and (ii) 157,284 RSUs, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. (c) On May 31, 2021, Dr. Gao was granted an award of 147,482 RSUs (each representing the right to receive one Hong Kong Share) pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs, 25% of which vest on each anniversary of March 1, 2021 and which shall fully vest on March 1, 2025. As of December 31, 2021, 205,578 of these RSUs were exercised.

SECTION 6 CORPORATE GOVERNANCE

- (4) On July 19, 2021, Dr. Gao was granted 360,000 Restricted Shares at a price of RMB20.0 per RMB Share pursuant to the 2021 Restricted Share Incentive Scheme. These Restricted Shares may be attributed in 4 tranches as per the agreed proportions upon Dr. Gao satisfying the corresponding attribution conditions. As of December 31, 2021, none of these Restricted Shares has been vested.
- (5) (a) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Hong Kong Shares at a price of HK\$8.30 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2020, Dr. Zhou was granted options to purchase 659,117 Hong Kong Shares at a price of HK\$18.096 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. (c) On May 31, 2021, Dr. Zhou was granted options to purchase 277,149 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (6) (a) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 RSUs pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of March 6, 2015, shall fully vest on March 6, 2019. (b) On May 25, 2020, Dr. Zhou was granted an award of 259,808 RSUs pursuant to the 2014 Equity Incentive Plan, consisting of (i) 86,603 RSUs, 25% of which vest on each anniversary of March 1, 2019 and which shall fully vest on March 1, 2023, and (ii) 173,205 RSUs, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. (c) On May 31, 2021, Dr. Zhou was granted an award of 138,050 RSUs pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs, 25% of which vest on each anniversary of March 1, 2021 and which shall fully vest on March 1, 2025. As of December 31, 2021, none of these RSUs has been exercised.
- (7) On July 19, 2021, Dr. Zhou was granted 400,000 Restricted Shares at a price of RMB20.0 per RMB Share pursuant to the 2021 Restricted Share Incentive Scheme. These Restricted Shares may be attributed in 4 tranches as per the agreed proportions upon Dr. Zhou satisfying the corresponding attribution conditions. As of December 31, 2021, none of these Restricted Shares has been vested.
- (8) These options comprise: (a) options which were granted to Dr. Zhao on June 11, 2013 to purchase 1,505,854 Hong Kong Shares at a price of HK\$6.40 per share pursuant to the 2004 Stock Option Plan will expire on the earlier of June 10, 2023 or 90 days after termination of his service. (b) Options which were granted to Dr. Zhao on September 7, 2017 to purchase 1,687,500 Hong Kong Shares at a price of HK\$7.9 per share pursuant to the 2014 Stock Option Plan will expire on the earlier of September 6, 2027 or 90 days after termination of his service as the Co-Chief Executive Officer. (c) On May 25, 2020, Dr. Zhao was granted options to purchase 219,706 Hong Kong Shares at a price of HK\$18.096 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. (d) On May 31, 2021, Dr. Zhao was granted options to purchase 277,149 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, 1,317,621 of these options have been exercised.
- (9) (a) On May 25, 2020, Dr. Zhao was granted an award of 86,603 RSUs pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. (b) On May 31, 2021, Dr. Zhao was granted an award of 138,050 RSUs pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs, 25% of which vest on each anniversary of March 1, 2021 and which shall fully vest on March 1, 2025. As of December 31, 2021, none of these RSUs has been exercised.
- (10) On July 19, 2021, Dr. Zhao was granted 400,000 Restricted Shares at a price of RMB20.0 per RMB Share pursuant to the 2021 Restricted Share Incentive Scheme. These Restricted Shares may be attributed in 4 tranches as per the agreed proportions upon Dr. Zhao satisfying the corresponding attribution conditions. As of December 31, 2021, none of these Restricted Shares has been vested.
- (11) On May 31, 2021, Mr. Lu was granted options to purchase 187,500 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (12) On May 31, 2021, Mr. Lu was granted an award of 187,500 RSUs pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs vest on each anniversary of May 13, 2021 at the rate of 33%, 33% and 34% over a period of three years, and shall fully vest on May 13, 2024. As of December 31, 2021, none of these RSUs has been exercised.

SECTION 6 CORPORATE GOVERNANCE

- (13) These options comprise: (a) on May 25, 2016, options to purchase 98,958 Hong Kong Shares at a price of HK\$6.42 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (b) On September 12, 2016, options to purchase 1,198 Hong Kong Shares at a price of HK\$8.72 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. (c) On April 5, 2017, options to purchase 62,500 Hong Kong Shares at a price of HK\$9.834 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. (d) On May 23, 2018, options to purchase 125,000 Hong Kong Shares at a price of HK\$10.512 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (e) On May 21, 2019, options to purchase 62,500 Hong Kong Shares at a price of HK\$8.580 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. (f) On May 25, 2020, options to purchase 62,500 Hong Kong Shares at a price of HK\$18.096 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. (g) On May 31, 2021, options to purchase 62,500 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of the options has been exercised.
- (14) These RSUs comprise: (a) on May 25, 2016, 98,958 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's RSUs were vested immediately. (b) On September 12, 2016, 1,198 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's RSUs were vested immediately. (c) On April 5, 2017, 62,500 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's RSUs were vested immediately. (d) On May 23, 2018, 125,000 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Among the 125,000 RSUs, 62,500 RSUs were vested immediately and 62,500 RSUs shall vest on January 1, 2019. (e) On May 21, 2019, 62,500 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. These RSUs shall vest on January 1, 2020. (f) On May 25, 2020, 62,500 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. These RSUs shall vest on January 1, 2021. (g) On May 31, 2021, 62,500 RSUs were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs shall vest on January 1, 2022. As of December 31, 2021, none of these RSUs has been exercised.
- (15) These options comprise: (a) on May 23, 2018, options to purchase 87,500 Hong Kong Shares at a price of HK\$10.512 per share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (b) On May 21, 2019, options to purchase 62,500 Hong Kong Shares at a price of HK\$8.580 per share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options shall vest on January 1, 2020 and will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. (c) On May 25, 2020, options to purchase 62,500 Hong Kong Shares at a price of HK\$18.096 per share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. (d) On May 31, 2021, options to purchase 62,500 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (16) (a) On May 23, 2018, 87,500 RSUs were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. Among the 87,500 RSUs, 25,000 RSUs were vested immediately and 62,500 RSUs shall vest on January 1, 2019. (b) On May 21, 2019, 62,500 RSUs were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. These RSUs shall vest on January 1, 2020. (c) On May 25, 2020, 62,500 RSUs were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. These RSUs shall vest on January 1, 2021. (d) On May 31, 2021, 62,500 RSUs were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs shall vest on January 1, 2022. As of December 31, 2021, none of these RSUs has been exercised.
- (17) On May 31, 2021, options to purchase 32,877 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan were granted to Professor Lau. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (18) On May 31, 2021, 32,877 RSUs were granted to Professor Lau pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs shall vest on January 1, 2022. As of December 31, 2021, none of these RSUs has been exercised.

SECTION 6 CORPORATE GOVERNANCE

- (19) (a) On September 13, 2018, Mr. Fan was granted options to purchase 187,500 Hong Kong Shares at a price of HK\$8.574 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. (b) On May 31, 2021, options to purchase 32,877 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan were granted to Mr. Fan. These options will expire on the earlier of May 30, 2031 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (20) On May 31, 2021, 32,877 RSUs were granted to Mr. Fan pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs shall vest on January 1, 2022. As of December 31, 2021, none of these RSUs has been exercised.
- (21) On May 31, 2021, Dr. Liu was granted options to purchase 187,500 Hong Kong Shares at a price of HK\$24.50 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 30, 2031 or 120 days after termination of her service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (22) On May 31, 2021, Dr. Liu was granted an award of 187,500 RSUs pursuant to the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at an extraordinary general meeting. These RSUs vest on each anniversary of February 4, 2021 at the rate of 33%, 33% and 34% over a period of three years, and shall fully vest on February 4, 2024. As of December 31, 2021, none of these RSUs has been exercised.
- (23) On May 25, 2020, Dr. Liang was granted options to purchase 659,117 Hong Kong Shares at a price of HK\$18.096 per share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 24, 2030 or 120 days after termination of his service as a Director to the Board. As of December 31, 2021, none of these options has been exercised.
- (24) On May 25, 2020, Dr. Liang was granted an award of 259,808 RSUs pursuant to the 2014 Equity Incentive Plan, consisting of (i) 86,603 RSUs, 25% of which vest on each anniversary of March 1, 2019 and which shall fully vest on March 1, 2023, and (ii) 173,205 RSUs, 25% of which vest on each anniversary of March 1, 2020 and which shall fully vest on March 1, 2024. As of December 31, 2021, none of these RSUs has been exercised.
- (25) On July 19, 2021, Dr. Liang was granted 400,000 Restricted Shares at a price of RMB20.0 per RMB Share pursuant to the 2021 Restricted Share Incentive Scheme. These Restricted Shares may be attributed in 4 tranches as per the agreed proportions upon Dr. Liang satisfying the corresponding attribution conditions. As of December 31, 2021, none of these Restricted Shares has been vested.

(2) *Emoluments to the Directors*

Details regarding the emoluments to each of the Directors, please refer to Note 12 to the consolidated financial statements.

SECTION 6 CORPORATE GOVERNANCE

(3) Emoluments to the Senior Management

The emoluments of senior management personnel, included Gao Yonggang (Chairman, Executive Director and Chief Financial Officer), Zhou Zixue (Executive Director) (resigned), Zhao Haijun (Co-Chief Executive Officer and Executive Director), Liang Mong Song (Co-Chief Executive Officer), Zhou Meisheng (Executive Vice President in Technology Research and Development), Guo Guangli (Board Secretary, Joint Company Secretary and Vice President) and Chiang Shang-Yi (Vice Chairman and Executive Director)(resigned), for the years ended December 31, 2021 and 2020 are as follows.

in USD'000

	2021	2020
Salaries, bonus and benefits	4,997	8,418
State-managed pension ^(note)	33	18
Equity-settled share-based payments	3,879	1,883
Total	8,908	10,319

Note: The Group contributes the pension insurance premiums to the local social basic pension agency on a monthly basis based on the local social basic pension payment base and proportion. After retirement, the local labour and social security department is responsible for paying social basic pensions to retired employees.

The number of senior management whose remuneration fell within the following bands for the years ended December 31, 2021 and 2020 are as follows:

Number of individuals		
Emoluments to Senior Management	2021	2020
Approximately US\$1 to US\$64,100	–	1
Approximately US\$256,401 to US\$320,500	–	1
Approximately US\$448,701 to US\$512,800	1	–
Approximately US\$833,301 to US\$897,400	–	1
Approximately US\$1,025,601 to US\$1,089,700	2	–
Approximately US\$1,089,701 to US\$1,153,800	–	1
Approximately US\$1,410,201 to US\$1,474,300	1	1
Approximately US\$1,538,401 to US\$1,602,500	2	1
Approximately US\$1,602,501 to US\$1,666,600	1	–
Approximately US\$4,871,601 to US\$4,935,700	–	1
Total	7	7

(IV) THE EQUITY INCENTIVES GRANTED TO THE DIRECTORS, SENIOR MANAGEMENT AND CORE TECHNICIANS DURING THE REPORTING PERIOD

1. Stock Option

Unit: Share

Name	Position	Number of share options held at the beginning of the year	Number of share options new granted during the reporting period	Number of share options exercisable during the reporting period	Number of share options exercised during the reporting period	Exercise price of share options (USD)	Number of share options cancelled during the reporting period	Number of share options held at the end of the period	Market price at the end of the reporting period (USD)
Gao Yonggang	Chairman, Executive Director and Chief Financial Officer	2,236,265	296,085	1,649,472	–	–	–	2,532,350	2.39
Zhao Haijun	Executive Director and Co-Chief Executive Officer	2,095,439	277,149	188,233	–	–	–	2,372,588	2.39
Lu Guoqing	Non-executive Director	–	187,500	–	–	–	–	187,500	2.39
Chen Shanzhi	Non-executive Director	412,656	62,500	–	–	–	–	475,156	2.39
William Tudor Brown	Independent Non-executive Director	212,500	62,500	212,500	–	–	–	275,000	2.39
Lau Lawrence Juen-Yee	Independent Non-executive Director	187,500	32,877	–	187,500	1.10	–	32,877	2.39
Fan Ren Da Anthony	Independent Non-executive Director	187,500	32,877	–	–	–	–	220,377	2.39
Liu Ming	Independent Non-executive Director	–	187,500	–	–	–	–	187,500	2.39
Liang Mong Song	Co-Chief Executive Officer	659,117	–	109,853	–	–	–	659,117	2.39
Zhou Meisheng	Executive Vice President in Technology Research and Development	281,092	122,741	–	–	–	–	403,833	2.39
Guo Guangli	Board Secretary, Joint Company Secretary and Vice President	104,042	13,119	57,666	–	–	–	117,161	2.39
Zhang Xin	Senior Vice President in Operation & Engineering	369,951	76,951	206,336	–	–	–	446,902	2.39

SECTION 6 CORPORATE GOVERNANCE

Name	Position	Number of share options held at the beginning of the year	Number of share options new granted during the reporting period	Number of share options exercisable during the reporting period	Number of share options exercised during the reporting period	Exercise price of share options (USD)	Number of share options cancelled during the reporting period	Number of share options held at the end of the period	Market price at the end of the reporting period (USD)
Tong Guohua (resigned)	Non-executive Director	242,466	–	–	242,466	1.50	–	–	
Young Kwang Leei (resigned)	Independent Non-executive Director	187,500	–	–	187,500	1.26	–	–	
Zhou Zixue (resigned)	Executive Director	3,180,280	277,149	–	–		–	3,457,429	2.39
Wu Jingang (resigned)	Vice President in Technology Research and Development	107,388	40,088	–	41,296	1.97	106,180	–	
Total		10,463,696	1,669,036	2,424,060	658,762		106,180	11,367,790	

2. Restricted Share Units

Unit: Share

Name	Position	Number of RSUs held at the beginning of the year	Number of RSUs newly granted during the reporting period	Shares exercisable during the reporting period	Exercise number of RSUs during the reporting period	Exercise price of RSUs (USD)	Cancelled number of RSUs during the reporting period	Number of RSUs held at the end of the period	Market price at the end of the reporting period (USD)
Gao Yonggang	Chairman, Executive Director and Chief Financial Officer	316,805	147,482	85,505	–		–	464,287	2.39
Zhao Haijun	Co-Chief Executive Officer and Executive Director	86,603	138,050	–	–		–	224,653	2.39
Lu Guoqing	Non-executive Director	–	187,500	–	–		–	187,500	2.39
Chen Shanzhi	Non-executive Director	412,656	62,500	–	–		–	475,156	2.39
William Tudor Brown	Independent Non-executive Director	212,500	62,500	–	–		–	275,000	2.39
Lau Lawrence Juen-Yee	Independent Non-executive Director	187,500	32,877	–	187,500	0.004	–	32,877	2.39
Fan Ren Da Anthony	Independent Non-executive Director	187,500	32,877	–	187,500	0.004	–	32,877	2.39
Liu Ming	Independent Non-executive Director	–	187,500	–	–		–	187,500	2.39
Liang Mong Song	Co-Chief Executive Officer	259,808	–	43,301	–		–	259,808	2.39
Zhou Meisheng	Executive Vice President in Technology Research and Development	110,799	61,138	–	–		–	171,937	2.39
Guo Guangli	Board Secretary, Joint Company Secretary and Vice President	30,787	6,535	12,611	–		–	37,322	2.39
Zhang Xin	Senior Vice President in Operation & Engineering	96,662	38,330	–	32,384	0.004	–	102,608	2.39
Tong Guohua (resigned)	Non-executive Director	242,466	–	–	242,466	0.004	–	–	
Young Kwang Leei (resigned)	Independent Non-executive Director	187,500	–	–	187,500	0.004	–	–	
Zhou Zixue (resigned)	Executive Director	1,340,306	138,050	–	–		–	1,478,356	2.39
Wu Jingang (resigned)	Vice President in Technology Research and Development	42,818	19,968	–	16,995	0.004	45,791	–	
Total		3,714,710	1,115,307	141,417	854,345		45,791	3,929,881	

SECTION 6 CORPORATE GOVERNANCE

3. Type II Restricted Shares

Unit: Share

Name	Position	Number of Restricted Shares held at the beginning of the year	Number of Restricted Shares newly granted during the reporting period	Grant price of Restricted Shares (USD)	Shares exercisable during the reporting period	Exercise number of Restricted Shares during the reporting period	Cancelled number of Restricted Shares during the reporting period	Number of Restricted Shares held at the end of the period	Market price at the end of the reporting period (USD)
Gao Yonggang	Chairman, Executive Director and Chief Financial Officer	-	360,000	3.14	-	-	-	360,000	8.32
Zhao Haijun	Co-Chief Executive Officer and Executive Director	-	400,000	3.14	-	-	-	400,000	8.32
Liang Mong Song	Co-Chief Executive Officer	-	400,000	3.14	-	-	-	400,000	8.32
Zhou Meisheng	Executive Vice President in Technology Research and Development	-	360,000	3.14	-	-	-	360,000	8.32
Guo Guangli	Board Secretary, Joint Company Secretary and Vice President	-	160,000	3.14	-	-	-	160,000	8.32
Zhang Xin	Senior Vice President in Operation & Engineering	-	320,000	3.14	-	-	-	320,000	8.32
Chiang Shang-Yi (resigned)	Vice Chairman and Executive Director	-	400,000	3.14	-	-	400,000	-	-
Zhou Zixue (resigned)	Executive Director	-	400,000	3.14	-	-	-	400,000	8.32
Total		-	2,800,000		-	-	400,000	2,400,000	

(V) EVALUATION MECHANISM FOR SENIOR MANAGEMENT AND THE ESTABLISHMENT AND IMPLEMENTATION OF INCENTIVE MECHANISM DURING THE REPORTING PERIOD

The compensation committee under the Board is responsible for formulating the remuneration policy of the Company's senior management personnel. In addition to the basic salary, the Company's senior management personnel are granted short-term and long-term incentives linked to the Company's performance. The appraisal spirit of the remuneration committee under the Board is strictly implemented adhering to performance orientation by performing appraisal on senior management personnel on an annual basis.

(VI) CHANGES IN DIRECTORS, SENIOR MANAGEMENT AND CORE TECHNICIANS OF THE COMPANY

Name	Position	Change	Reason for the change
Liu Ming	Independent Non-executive Director	Appointed	On February 4, 2021, the Board approved the appointment of Dr. Liu Ming as the independent non-executive Director of the Company with effect from February 4, 2021.
Lu Jun	Non-executive Director	Resigned	Mr. Lu Jun has resigned as a non-executive director of the Company and a member of the nomination committee of the Board due to allocation of work with effect from April 29, 2021.
Tong Guohua	Non-executive Director	Resigned	Dr. Tong Guohua has resigned as a non-executive director of the Company and a member of the Compensation Committee of the Board due to allocation of work with effect from May 13, 2021.
Lu Guoqing	Non-executive Director	Appointed	On May 13, 2021, the Board approved the appointment of Mr. Lu Guoqing as a non-executive director of the Company and a member of the Compensation Committee of the Board with effect from May 13, 2021.
Huang Dengshan	Non-executive Director	Appointed	On May 13, 2021, the Board approved the appointment of Mr. Huang Dengshan as a non-executive director of the Company and a member of the Nomination Committee of the Board with effect from May 13, 2021.
Wu Jingang	Vice President in Technology Research and Development	Resigned	Dr. Wu Jingang has resigned as Vice President in Technology Research and Development due to personnel reasons with effect from July 4, 2021.
Zhou Zixue	Chairman	Resigned	Dr. Zhou Zixue has resigned as the Chairman and the chairman of the nomination committee of the Board due to personal health reasons with effect from September 3, 2021. Dr. Zhou will continue to serve as an executive director of the Company after the aforementioned resignation.

SECTION 6 CORPORATE GOVERNANCE

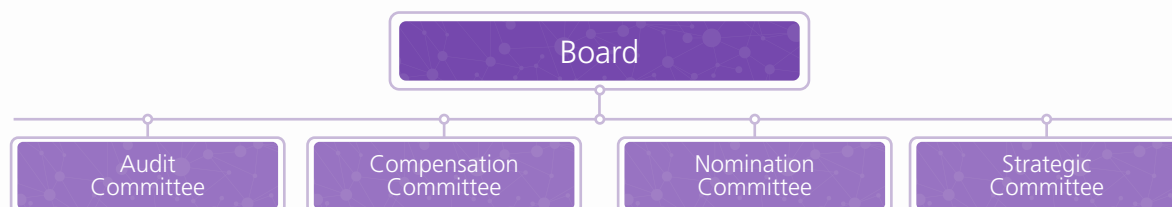
Name	Position	Change	Reason for the change
Gao Yonggang	Acting Chairman	Appointed	On September 3, 2021, the Board approved the appointment of Dr. Gao Yonggang as the Acting Chairman of the Company and the chairman of the nomination committee of the Board with effect from September 3, 2021.
Chiang Shang-yi	Vice Chairman and Executive Director	Resigned	Dr. Chiang Shang-Yi has resigned as the Vice Chairman of the Board, an executive director of the Company and a member of the strategic committee of the Board with effect from November 11, 2021 in order to spend more time with his family.
Liang Mong Song	Executive Director	Resigned	Dr. Liang Mong Song has resigned as an executive Director with effect from November 11, 2021 in order to focus on discharging his duties as the Co-Chief Executive Officer of the Company. Dr. Liang will continue to serve as the Co-Chief Executive Officer of the Company after the aforementioned resignation.
Zhou Jie	Non-executive Director	Resigned	Mr. Zhou Jie has resigned as a non-executive Director, a member of the compensation committee of the Board and a member of the audit committee of the Board with effect from November 11, 2021 due to his work commitments.
Young Kwang Leei	Independent Non-executive Director	Resigned	Dr. Young Kwang Leei has resigned as an independent non-executive Director and a member of the Compensation Committee of the Board with effect from November 11, 2021 in order to focus on his other business matters.
Gao Yonggang	Chairman	Appointed	On March 17, 2022, the Board approved the appointment of Dr. Gao Yonggang as the Chairman of the Board with effect from March 17, 2022.
Zhou Zixue	Executive Director	Resigned	Dr. Zhou Zixue has resigned as an executive director of the Company with effect from March 17, 2022 due to health reasons.

Save as disclosed above, there were no changes in the members of the Board, between the period from the date of the 2021 Interim Report and the date of this annual report. In addition to the disclosure in the section headed "VI. Particulars of Directors and Senior Management" in this section and as disclosed below, there was no other change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Hong Kong Listing Rules since the publication of the 2021 interim report of the Company.

- Mr. Huang Dengshan has served as a director of Semiconductor Manufacturing Oriental Corporation since November 2021 and a director of Semiconductor Manufacturing International (Shenzhen) Corporation since December 2021.
- Mr. Ren Kai resigned as the vice chairman of National Silicon Industry Group Co., Ltd. (a company listed on Shanghai Stock Exchange: 688126) in August 2021, and the vice Chairman of Shanghai Wanye Enterprise Co., Ltd. (a company listed on Shanghai Stock Exchange: 600641) in June 2021.

VII. OVERVIEW OF THE BOARD

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



The Board consists of 10 Directors as at the publication date of this annual report. Directors may hold office until the expiration of their respective term upon an election passed at a duly convened shareholders' meeting by holders of a majority of the Company's issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of the Company. Each class of Directors (including all non-executive Directors) serves a term of three years.

SECTION 6 CORPORATE GOVERNANCE

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

Name of Director	Category of Director	Class of Director	Year of Re-election
Gao Yonggang	Chairman, Executive Director and Chief Financial Officer	Class I	2023
William Tudor Brown	Independent Non-executive Director	Class I	2023
Lu Guoqing	Non-executive Director	Class I	2023
Zhao Haijun	Executive Director and Co-Chief Executive Officer	Class II	2024
Chen Shanzhi	Non-executive Director	Class II	2024
Huang Dengshan	Non-executive Director	Class II	2024
Lau Lawrence Juen-Yee	Independent Non-executive Director	Class II	2024
Fan Ren Da Anthony	Independent Non-executive Director	Class II	2024
Ren Kai	Non-executive Director	Class III	2022
Liu Ming	Independent Non-executive Director	Class III	2022

For the year ended December 31, 2021, the roles of Chairman and Co-Chief Executive Officers are segregated. The role of Acting Chairman is performed by Dr. Gao Yonggang and the roles of Co-Chief Executive Officers are performed by Dr. Zhao Haijun and Dr. Liang Mong Song.

On an annual basis, each independent non-executive Director confirms his independence to the Company, and the Company considers these Directors to be independent (as defined under Rule 3.13 of the Hong Kong Listing Rules). There are no relationships among members of the Board, including between the Chairman and the Co-Chief Executive Officers.

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

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

The Chairman of the Board holds meetings with the non-executive Directors (including independent non-executive Directors) without the other executive Directors present at least once a year.

SECTION 6 CORPORATE GOVERNANCE

VIII. INFORMATION ON THE BOARD MEETINGS CONVENED DURING THE REPORTING PERIOD

For the year ended December 31, 2021, the Company held 6 board meetings and made 5 written resolutions and reviewed the proposals including:

- 2021 CAPEX budget of the Company;
- 2020 annual report and 2021 interim report;
- quarterly financial statements and results announcements and quarterly guidance and other related proposals;
- grant of options and restricted share unit to connected persons in 2021;
- company targets and bonus plan in 2021;
- proposal of no distribution for 2020;
- report on the depository and use of raised funds in 2020 and semi-annual 2021;
- proposal on forecast of daily related transaction quota in 2021;
- proposal on the forecast of the amount of external guarantee in 2021;
- the social responsibility report in 2020;
- proposal to appoint the Company's auditor;
- proposal for general mandate to issue shares and repurchase shares;
- 2021 STAR Market Share Incentive Scheme (Draft);
- proposal in relation to the Assessment Management Measures for the Implementation of the 2021 STAR Market Restricted Share Incentive Scheme;
- proposal in relation to the authorisation granted by the general meeting to the board of directors to handle matters related to the STAR Market Share Incentive Scheme;
- issue and grant of restricted shares on STAR market to connected persons of the Company and authorization to the management to deal with related issues;
- adjustment related issues of 2021 STAR Market Share Incentive Scheme;
- first grant of restricted shares on STAR market to incentive personnel;
- appointment of independent non-executive directors and their remuneration;
- appointment of non-executive directors and their remuneration;
- appointment of acting chairman;
- appointment of the chairman of nomination committee;
- appointment of joint company secretary;
- appointment of members of compensation committee and audit committee;
- proposal of medium and long term funding reserces;
- major investment projects of the Company;
- proposal for equity transfer of controlling or participating subsidiaries;
- related (connected) transactions of the Company; and
- formulate and amend corporate governance policies.

SECTION 6 CORPORATE GOVERNANCE

IX. PERFORMANCE OF DUTIES BY DIRECTORS

(I) ATTENDANCE OF DIRECTORS AT BOARD MEETINGS AND GENERAL MEETINGS

Every Board member is entitled to have access to the documents provided at the Board meeting or filed into the Company's minute-book. Furthermore, the Board has established the procedures pursuant to which a Director, upon reasonable request, may seek independent professional advice at the Company's expense in order for such Director to exercise such Director's duties.

For the year ended December 31, 2021, the Directors' attendance at the Board meetings and general meetings are set out below:

Name of Director	Independent Director or not	Required attendance for the year (times)	Attendance in person (times)	Attendance at Board meetings			Any failure in attending in person for two consecutive meetings	Attendance at general meetings (times)/Number of general meetings to be attended (times)
				Attendance by way of communication (times)	Attendance by proxy (times)	Absence (times)		
Executive Director								
Gao Yonggang	No	6	6	0	0	0	No	2/2
Zhou Zixue	No	6	5	2	1	0	No	2/2
Zhao Haijun	No	6	6	1	0	0	No	2/2
Liang Mong Song	No	5	4	0	1	0	No	0/2
Chiang Shang-Yi	No	5	5	0	0	0	No	2/2
Non-executive Director								
Lu Guoqing	No	5	2	1	3	0	No	0/2
Chen Shanzhi	No	6	5	3	1	0	No	2/2
Huang Dengshan	No	5	5	4	0	0	No	2/2
Ren Kai	No	6	5	4	1	0	No	2/2
Lu Jun	No	1	0	0	1	0	No	0/0
Tong Guohua	No	1	1	1	0	0	No	0/0
Zhou Jie	No	5	4	3	1	0	No	0/2
Independent Non-executive Director								
William Tudor Brown	Yes	6	6	6	0	0	No	2/2
Lau Lawrence Juen-Yee	Yes	6	6	6	0	0	No	0/2
Fan Ren Da Anthony	Yes	6	6	6	0	0	No	2/2
Liu Ming	Yes	6	6	1	0	0	No	2/2
Young Kwang Leei	Yes	5	5	5	0	0	No	2/2

Number of Board meetings held in the year	6
Including: Number of physical meetings	0
Number of meetings held by way of communication	0
Number of meetings held in combination of physical meetings and meetings by way of communication	6

SECTION 6 CORPORATE GOVERNANCE

(II) MATTERS CONCERNING OBJECTIONS RAISED BY DIRECTORS

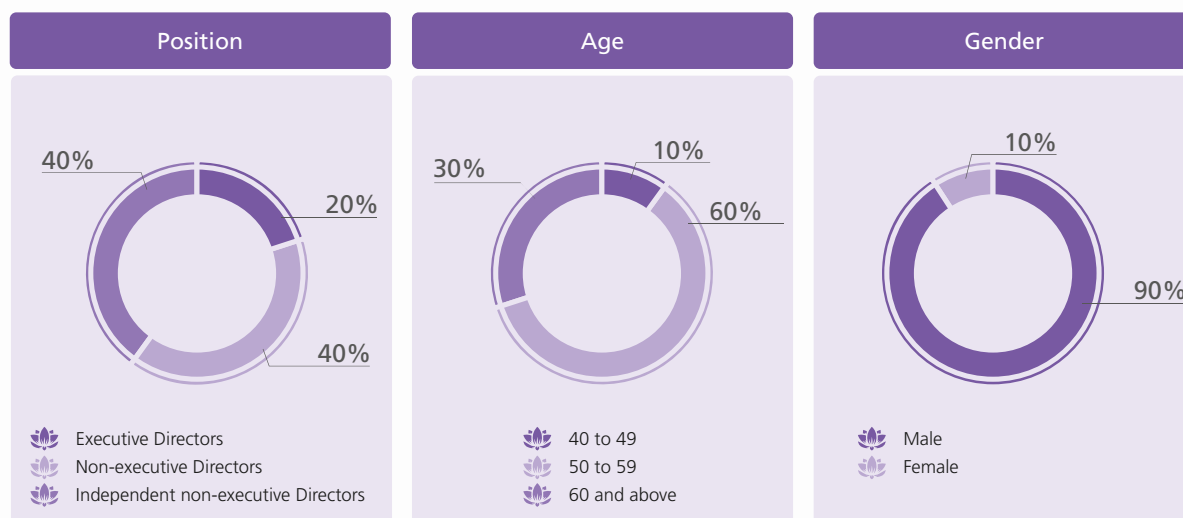
Director name	Contents of matters concerning objections raised by directors	Contents of objection	Whether being accepted	Note
HUANG Dengshan, REN Kai	2021 STAR Market Restricted Share Incentive Scheme of the Company (Draft) and related proposals	From the perspective of investors, they believe that equity incentives for the team are very necessary, while at the same time, they hope that upon paying equity fees, the Company can perform better, and the return on equity should have a higher target. The performance assessment requirements in the current vesting conditions cannot fully reflect the concerns of investors in this regard, so they have abstained from voting.	Yes	After the board meeting, the management of the Company has actively communicated with the two directors on the relevant assessment indicators that they are concerned about. Upon full discussion, the relevant assessment indicators will be included in the internal assessment of the Company's management.

(III) DIRECTORS' TRAINING AND DEVELOPMENT

All Directors should keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company. The Company is responsible for arranging its Directors to take adequate training and is responsible for the training expenses. Each new Director is provided with training with respect to such Director's responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices. The Company also provides each Director and senior management with relevant trainings on the behaviour code for responsibility performance and share transactions of directors and senior management of companies on the STAR Market. From time to time, the Company updates the Directors on the latest changes and development of the Hong Kong Stock Exchange Listing Rules, the corporate governance practices and other law and regulations applicable to the Company, and arranges trainings on corporate governance, director's responsibilities, and ethics & compliance. The Joint Company Secretaries maintains the training records of all Directors. In 2021, the Directors complied with Code Provision A.6.5 of the CG Code through participation in the above-mentioned continuous professional development and reading relevant materials and journals to develop and refresh their knowledge and skills.

(IV) BOARD DIVERSITY POLICY

The Board has adopted a Board Diversity Policy since August 8, 2013 to comply with a new Code Provision A.5.6 of the CG Code on board diversity which has become effective from September 1, 2013. The Board considers that a diversity of perspectives is beneficial to the Company and believes that a diversity of perspectives can be achieved through the consideration of factors such as a diversity of skills, professional and industry experience, cultural and educational background, ethnicity, length of service, gender and age. Notwithstanding the above, Board appointments will always be made on merit against objective criteria, taking into account factors based on the Company's business model and specific needs from time to time, as well as the benefits of diversity on the Board. The Nomination Committee of the Board will give consideration to that policy when identifying suitably qualified candidates to become members of the Board. The Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.



SECTION 6 CORPORATE GOVERNANCE

(V) PROCEDURE REGARDING THE APPOINTMENT OF DIRECTORS

In accordance with the Company's Article of Associations and related regulations, the Company has adopted the standard procedure regarding the appointment of Directors, setting forth the process by which individuals are appointed as members of the Board. Under the policy, the Board will consider, among other factors: (1) the skills, qualifications, experience, background and nationality of the nominee, including other directorships held in listed companies in the last three years and other major appointments; (2) any shares, class or number of shares in the Company held or beneficially owned by the nominee (if any); (3) board diversity; and (4) any other information relating to the nominee required to be disclosed in accordance with the rules of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Board will then decide whether to appoint such nominee to fill a casual vacancy on the Board or to add the nominee to the existing Directors, and to appoint such nominee into one of the three classes of Directors as stipulated in the Articles of Association of the Company.

X. SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

The Board has established the following principal committees to assist it in performing its functions. The committees are governed by their respective charters setting out clear terms of reference. The updated charters of the Board committees are available on the websites of the Company and the Hong Kong Stock Exchange.

(I) AUDIT COMMITTEE

As of the publication date of this annual report, the audit committee of the Board (the "Audit Committee") consisted of three members, namely Mr. Fan Ren Da Anthony (Chairman of Audit Committee), Mr. William Tudor Brown and Professor Lau Lawrence Juen-Yee. None of the members of the Audit Committee has been an executive officer or employee of the Company or any of its subsidiaries. The responsibilities of the Audit Committee include, among other things:

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;
- approving the remuneration and terms of engagement of the Company's independent auditor;
- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;
- pre-approving all non-audit services to be provided by the Company's independent auditor;
- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal quality-control review or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between the Company and the independent auditor;
- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor for senior positions regardless of whether that person was a member of the Company's audit team;
- reviewing the Company's annual, interim and quarterly financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below), the quality, adequacy and effectiveness of the Company's internal controls (including financial, operational and compliance controls) and any significant deficiencies or material weaknesses in the design or operation of internal controls;
- considering the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- reviewing the Company's internal controls, risk assessment and management policies;
- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of the Company's legal and regulatory compliance procedures;
- establishing procedures for the treatment of complaints received by the Company regarding financial reporting, internal control or possible improprieties in other matters; and
- obtaining and reviewing reports from management, the Company's internal auditor and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

SECTION 6 CORPORATE GOVERNANCE

For the year ended December 31, 2021, the Audit Committee reviewed the proposals including:

- 2020 annual report and 2021 interim reports;
- quarterly financial statements, results announcements, results guidance;
- special report on the deposit and actual use of raised funds in 2020 and semi-annual 2021;
- duty performance report of the audit committee in 2020;
- amendment to the Company's business ethics policy, anti-fraud policy and anti-corruption policy;
- quarterly reports submitted by the independent auditors of the Company outlining the material matters, key audit matters and conclusions reached in their review of the Company's financial reports;
- effectiveness of the internal control structure regarding the Company's operations, integrity of financial report and compliance with applicable laws and regulations;
- 2021 internal audit plan and quarterly internal audit work (including risk management assessment) report;
- evaluate the qualifications and independence of the independent auditors of the Company and make recommendations to the Board on the replacement of the independent auditors; and approve the audit service fees of the independent auditors of the Company; and
- results of reporting, investigating and handling of violations through the Company's ethics whistleblower line.

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

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

During the year ended December 31, 2021, the Audit Committee held a total of four (4) meetings and made 2 written resolutions. Details of individual members' attendance at the Audit Committee meetings are set forth below:

Audit Committee	Actual attendance/ Expected attendance (times)	Note
Independent Non-executive Director		
Fan Ren Da Anthony	4/4	
William Tudor Brown	4/4	
Lau Lawrence Juen-Yee	0/0	Appointed as the member of the Audit Committee on November 11, 2021.
Non-executive Director		
Zhou Jie	4/4	Resigned as the member of the Audit Committee on November 11, 2021.

At each quarterly Audit Committee meeting, the Audit Committee reviews with the Chief Financial Officer and the Company's independent auditor the financial statements for the accounting period and the financial and accounting principles, policies and controls of the Company and its subsidiaries. In particular, the Committee discusses: (1) the changes in accounting policies and practices, if any; (2) the going concern assumptions; (3) compliance with accounting standards and applicable rules and other legal requirements in relation to financial reporting; and (4) the internal controls of the Company and the accounting and financial reporting systems. Upon the recommendation of the Audit Committee, the Board approves the financial statements.

SECTION 6 CORPORATE GOVERNANCE

(II) COMPENSATION COMMITTEE

As of the publication date of this annual report, the members of the Company's compensation committee (the "Compensation Committee") are Mr. William Tudor Brown (Chairman of Compensation Committee), Mr. Lu Guoqing, Professor Lau Lawrence Juen-Yee, Mr. Fan Ren Da Anthony and Dr. Liu Ming. None of these members of the Compensation Committee have been an executive officer or employee of the Company or any of its subsidiaries.

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

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

For the year ended December 31, 2021, the Compensation Committee reviewed the proposals including:

- 2021 labour costs and comprehensive remuneration budget of the Group;
- annual bonuses and long-term incentives based on the achievement rate of the Company's annual goals and personal performance;
- bonuses, stock grants and rewards for executive directors;
- 2021 STAR Market Restricted Share Incentive Scheme (Draft);
- Assessment Measures for the Implementation of the 2021 STAR Market Restricted Share Incentive Scheme;
- issuance and grant of restricted shares on the STAR Market to connected persons of the Company
- annual bonuses and stock grant for non-executive directors;
- compensation package for the new non-executive director;
- corporate goals and incentive plan of the Company for 2021;
- remuneration proposal for re-election of directors at the 2021 annual general meeting;
- revise charter and related policies of the compensation committee; and
- share options and restricted share units granted in accordance with the terms of the equity plan.

The Compensation Committee reports its work, findings and recommendations to the Board periodically but no fewer than four times per year. The Compensation Committee meets at least four times per year and on such other occasions as may be required to discuss and vote upon significant issues affecting the compensation policy of the Company. The Joint Company Secretaries assist the chairman of the Compensation Committee in preparing the agenda for meetings and also assist the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meeting are dispatched to Compensation Committee members in accordance with the CG Code. Members of the Compensation Committee may include matters for discussion in the agenda if the need arises. Within reasonable time after a Compensation Committee meeting is held, minutes are circulated to the members of the Compensation Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

SECTION 6 CORPORATE GOVERNANCE

During the year ended December 31, 2021, the Compensation Committee held a total of five (5) meetings. Details of the Directors' attendance at the Compensation Committee meetings are set forth below:

Compensation Committee	Actual attendance/ Expected attendance (times)	Note
Independent Non-executive Director		
William Tudor Brown	5/5	
Lau Lawrence Juen-Yee	5/5	
Fan Ren Da Anthony	0/0	Appointed as the member of the Compensation Committee on November 11, 2021.
Liu Ming	0/0	Appointed as the member of the Compensation Committee on November 11, 2021.
Young Kwang Leei	5/5	Resigned as the member of the Compensation Committee on November 11, 2021.
Non-executive Director		
Lu Guoqing	3/3	Appointed as the member of the Compensation Committee on May 13, 2021. The meeting on August 4, 2021 and November 10, 2021 was attended by Mr. William Tudor Brown as a proxy on his behalf.
Zhou Jie	5/5	Resigned as the member of the Compensation Committee on November 11, 2021.
Tong Guohua	2/2	Resigned as the member of the Compensation Committee on May 13, 2021.

(III) NOMINATION COMMITTEE

As of the publication date of this annual report, the Company's nomination committee (the "Nomination Committee") is composed of Dr. Gao Yonggang (Chairman of Nomination Committee), Mr. Huang Dengshan, Mr. William Tudor Brown, Professor Lau Lawrence Juen-Yee and Mr. Fan Ren Da Anthony.

Nomination Policy

This policy sets out the principles which guide the Nomination Committee of the Company to identify and evaluate a candidate suitably qualified to become a director of the Board and make recommendations to the Board on the selection of candidates nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

Nomination Criteria

The Nomination Committee shall consider a number of factors in making nominations, including but not limited to the following:

Skills and Experience: The candidate should possess the skills, knowledge and experience which are relevant to the operations of the Company and its subsidiaries.

Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance of skills and experience in board composition.

Commitment: The candidate should be able to devote sufficient time to attend board meetings and participate in induction, trainings and other board associated activities. In particular, if the proposed candidate will be nominated as an independent non-executive director ("INED") and will be holding his/her seventh (or more) listed company directorship, the Nomination Committee should consider the reason given by the candidate for being able to devote sufficient time to the Board.

Standing: The candidate must satisfy the Board, Hong Kong Stock Exchange and SSE that he/she has the character, experience and integrity, and is able to demonstrate a standard of competence commensurate with the relevant position as a director of the Company.

Independence: The candidate to be nominated as an INED must satisfy the independence criteria set out in Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Nomination Procedures

1. If the Nomination Committee determines that an additional or replacement director is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate.
2. The Nomination Committee may propose to the Board a candidate as a nominee for election to the Board.
3. The Board may appoint the candidate as director to fill a casual vacancy or as an addition to the Board or recommend.
4. The Shareholders approve the election of candidate, who stands for election at the next following annual general meeting, as a director.

SECTION 6 CORPORATE GOVERNANCE

The responsibilities of the Nomination Committee include:

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

The Nomination Committee meets at least once a year and on such other occasions as may be required to discuss and vote upon significant issues relating to Board composition.

The Joint Company Secretaries assist the chairman of the Nomination Committee in preparing the agenda for meetings and also assist the Nomination Committee in complying with the relevant rules and regulations. The relevant papers for the Nomination Committee meetings are dispatched to Nomination Committee members in accordance with the CG Code. Members of the Nomination Committee may include matters for discussion in the agenda if the need arises. Within reasonable time after a Nomination Committee meeting is held, minutes are circulated to the Nomination Committee members for their comment and review prior to their approval of the minutes at the following or a subsequent Nomination Committee meeting.

For the year ended December 31, 2021, the Nomination Committee has:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- set criteria and reviewed potential nominees for directorships;
- evaluated the independence of the independent non-executive directors;
- reviewed the re-election of directors;
- nominated and appointed non-executive directors;
- nominated and appointed acting chairman; and
- nominated and appointed the chairman of the nomination committee.

During the year ended December 31, 2021, the Nomination Committee held three (3) meetings. Details of Directors' attendance at the Nomination Committee meetings are set forth below:

Nomination Committee	Actual attendance/ Expected attendance (times)	Note
Executive Director		
Gao Yonggang	0/0	Appointed as the chairman of the Nomination Committee on September 3, 2021.
Zhou Zixue	3/3	Resigned as the chairman of the Nomination Committee on September 3, 2021.
Non-executive Director		
Huang Dengshan	1/1	Appointed as the member of the Nomination Committee on May 13, 2021.
Lu Jun	1/1	The meeting on February 3, 2021 was attended by Dr. Zhou Zixue as a proxy on his behalf; Resigned as the member of the Nomination Committee on April 29, 2021.
Independent Non-executive Director		
William Tudor Brown	3/3	
Lau Lawrence Juen-Yee	3/3	
Fan Ren Da Anthony	3/3	

SECTION 6 CORPORATE GOVERNANCE

(IV) STRATEGIC COMMITTEE

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

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

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

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

During the year ended December 31, 2021, the Strategic Committee has:

- evaluated the Company's strategic planning; and
- made recommendations to the Board and the Company's management on strategic planning.

During the year ended December 31, 2021, the Strategic Committee held one (1) meetings. Details of Directors' attendance at the Strategic Committee meetings are set forth below:

Strategic Committee	Actual attendance/ Expected attendance (times)	Note
Non-executive Director		
Chen Shanzhi	1/1	
Ren Kai	1/1	
Executive Director		
Chiang Shang-Yi	1/1	Resigned as the member of the Strategy Committee on November 11, 2021.
Independent Non-executive Director		
William Tudor Brown	1/1	
Lau Lawrence Juen-Yee	1/1	
Liu Ming	1/1	

XI. CORPORATE GOVERNANCE FUNCTIONS

Pursuant to the Corporate Governance Policy of the Company which came into effect on January 25, 2005, the Board (or any of its committees) is responsible for performing the following corporate governance duties:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

During the year ended December 31, 2021, the aforesaid corporate governance functions had been carried out by the Board pursuant to the Corporate Governance Policy.

SECTION 6 CORPORATE GOVERNANCE

XII. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and the Group. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors of the Company regarding their reporting responsibilities is set out in the independent auditor's report.

XIII. PARTICULARS OF EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES AT THE END OF THE REPORTING PERIOD

(I) PARTICULARS OF EMPLOYEES

	As at December 31, 2021
Number of in-service employees of the Company	2
Number of in-service employees of the major subsidiaries	17,679
Total number of in-service employees	17,681
The number of retired employees whose expenses are borne by the Company and its major subsidiaries	9

Composition of professions

Type of profession	As at December 31, 2021
Production staff	13,313
Sales staff	213
R&D staff	1,758
Administrative staff	2,397
Total	17,681

Education level

Type of education level	As at December 31, 2021
Doctorate	367
Master	3,434
Bachelor	6,017
Junior college and below	7,863
Total	17,681

(II) REMUNERATION POLICY

The Group pays employees in the form of fixed salary and performance incentives, based on the positions, abilities and performance of employees. Among them, the fixed salary is the part that employees enjoy according to their position, and attendance, etc. The performance incentives shall be issued according to the company's business achievement and the individual performance, and it will be assessed according to the company policy.

For further details of Directors' remuneration policy and the emoluments to Directors, please refer to "VI. Particulars of Directors and Senior Management" in this section.

In addition to the above remuneration, the Group provides various benefits to employees, includes paid leave, social welfare benefits, commercial insurance, housing benefits and catering subsidies for qualified employees. The Group's local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan (basic pension and unemployment benefits). The PRC government is responsible for the management of the pension to these retired staff. The Company is required to make contributions to the state-managed pension plan at a rate equal to 14.0% to 16.0% (the standard in Shenzhen site ranges from 14.0% to 15.0% according to Shenzhen government regulation) of the monthly salary of current employees. Employees are required to make contributions at a rate equal to 8.0% of their monthly salary. The employee benefits expense is disclosed in Note 11 to the consolidated financial statements for further information.

The Group provides occupational health and hygiene management for the welfare of the Group's employees. This includes occupational physical examination, the monitoring of air quality, illumination, radiation, noise and drinking water.

SECTION 6 CORPORATE GOVERNANCE

(III) TRAINING PROGRAMS

Adhering to the talent management concept of “creating the future with SMIC,” the Company is committed to creating a talent training and development system with the characteristics of the integrated circuit industry and highlighting corporate values. It focused on management and professional technical talents, implemented hierarchical and classified training, and developed a talent team with excellent leadership and strong professional and technical capabilities, which laid a solid talent foundation for the realisation of the Company’s long-term goals and achieved the common development of the industry, the Company and employees.

The Company built an international, professional, and systematic talent training and development system with reference to domestic and foreign first-class enterprises, established a Company’s key and core talent pool by defining talent standards, building a talent evaluation mechanism and promoting talent inventory, while providing targeted training programs and courses for talents with different characteristics. In 2021, the Company conducted diversified training projects and courses in combination with offline teaching, online learning and team building. More than 240,000 employees received training, and the online and offline training coverage rate reached 100%.

XIV. PROFIT DISTRIBUTION PLAN OR PLAN TO CONVERT CAPITAL RESERVE INTO SHARE CAPITAL

(I) FORMULATION, IMPLEMENTATION AND ADJUSTMENT OF CASH DIVIDEND POLICIES

1. Formulation and adjustment of profit distribution policy:

To further improve the profits distribution mechanism, ensure the stability of the Company’s profit distribution policy, enhance the transparency and operability of profit distribution decisions and protect the rights and interests of shareholders, the Company considered and approved the “Profit Distribution Policy and Dividend Return Plan for the Three Years after the Initial Public Offering and Listing of RMB Ordinary Shares (A Shares) on the STAR Market of the Shanghai Stock Exchange of Semiconductor Manufacturing International Corporation” at a special general meeting held on June 1, 2020 in accordance with relevant provisions of relevant laws, regulations and regulatory documents, including the Securities Law of the People’s Republic of China, the Notice of CSRC- Shanghai Branch on Further Implementation of Cash Dividends of Listed Companies (關於進一步落實上市公司現金分紅有關事項的通知), Guidelines No. 3 on the Supervision and Administration of Listed Companies - Distribution of Cash Dividends of Listed Companies and the Rules Governing the Listing of Stocks on the STAR Market of Shanghai Stock Exchange, in combination with the Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation and the Company’s own conditions.

2. Implementation of the profit distribution:

During the reporting period, the Company strictly followed the Company’s profit distribution policy.

(II) SPECIAL EXPLANATION OF CASH DIVIDEND POLICY

Whether it is line with the provisions of the Company’s Articles of Association or requirement of resolutions of the extraordinary general meeting	Yes
Whether the standard and proportion of dividends are clear	Yes
Whether the relevant decision-making procedures and system are complete	Yes
Whether the Independent Directors have performed their duties and played their roles	Yes
Whether small and medium shareholders have the opportunity to fully express their opinions and demands, whether their legitimate rights have been adequately protected	Yes

(III) PROVIDED THAT THE COMPANY HAS MADE PROFITS AND ITS PROFITS DISTRIBUTABLE TO ORDINARY SHAREHOLDERS ARE POSITIVE DURING THE REPORTING PERIOD, BUT NO CASH PROFIT DISTRIBUTION PLAN FOR ORDINARY SHARES HAS BEEN PROPOSED, THE COMPANY SHALL DISCLOSE IN DETAIL THE REASONS THEREFOR AND THE PLAN FOR THE USE OF UNDISTRIBUTED PROFITS

The relevant provisions of the Company’s profit distribution policy are as follows: “The Company shall satisfy the following conditions when distributing cash dividends: (1) the undistributed profits of the Company are positive; the profits and distributable profits (i.e. after-tax profits after the Company has covered the deficits and withdrawn for the reserved funds) of the Company in the relevant year are positive; the Company’s cash flow will still be able to meet the needs of going concern and long-term development after distributing cash dividends; (2) the auditor issues a standard unqualified audit report in respect of the financial statements of the Company for the relevant year; (3) the Company does not have any major investment plan or major cash expenditure (except the projects to be invested with proceeds raised from the A Share Issue) in the coming twelve months. Major investment plan or major cash expenditure means that the cumulative expenditure of the proposed development projects, investments, acquisitions of assets or equipment in the coming twelve months reaches or exceeds 10% of the Company’s latest audited net asset value; (4) such other cash dividend conditions specified in laws, regulations and regulatory documents.”

The Company expected that the capital expenditure in 2022 will be US\$5.0 billion, which exceeded 10% of the Company’s latest audited net assets, due to the large capital needs, thus the Company proposed not make profit distribution for 2021 as considered by the Board.

Most of undistributed profits in 2022 are used to expand the existing fabs and roll out of the three new projects.

SECTION 6 CORPORATE GOVERNANCE

The independent non-executive Directors believe that, the Company's plan not to distribute profits in 2021 takes into account the Company's current operating situation, CAPEX needs, future development and other factors, which is in line with the Company's long-term development needs and the long-term interests of shareholders, and in accordance with relevant laws and regulations, regulatory documents and the Company's profit distribution policy. There are no circumstances that harms the interests of the Company and its shareholders, especially small and medium shareholders. Therefore, they unanimously agree to the proposal of Company's Non-profits Distribution for fiscal year 2021.

XV. INFORMATION ABOUT THE COMPANY'S STOCK INCENTIVE PLANS, EMPLOYEE EQUITY INCENTIVE PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES AND THEIR IMPACTS

(I) THE OVERALL INFORMATION OF STOCK INCENTIVE

1. Stock incentive plans during the reporting period

Name of plan	Incentive method	Number of target shares	Percentage of target shares	Number of participants	Percentage of participants	Price of target shares granted
20210531 RSU	RSU	2,727,599	0.03%	285	1.61%	US\$0.004
20210531 Share option ⁽¹⁾	Share option	4,986,759	0.06%	285	1.61%	HK\$24.5
20210915 RSU	RSU	165,000	0.00%	6	0.03%	US\$0.004
20210915 Share option ⁽²⁾	Share option	424,000	0.01%	6	0.03%	HK\$23.18
20211119 RSU	RSU	2,067,057	0.03%	503	2.84%	US\$0.004
20211119 Share option ⁽³⁾	Share option	4,394,342	0.06%	503	2.84%	HK\$22.41
2021 SSE Restricted Share Incentive Scheme	Type II Restricted Shares	67,535,200	0.85%	3,944	22.31%	RMB20

Notes:

- (1) The share options were granted on May 31, 2021 under the 2014 Stock Option Plan. The exercise price and the closing price of the shares immediately before the date of grant were HK\$24.50 and HK\$24.15, respectively. The options are valid for a period of 10 years commencing on May 31, 2021, subject to earlier termination as provided under the 2014 Stock Option Plan and applicable award documents.
- (2) The share options were granted on September 15, 2021 under the 2014 Stock Option Plan. The exercise price and the closing price of the shares immediately before the date of grant were HK\$23.18 and HK\$22.95, respectively. The options are valid for a period of 10 years commencing on September 15, 2021, subject to earlier termination as provided under the 2014 Stock Option Plan and applicable award documents.
- (3) The share options were granted on November 19, 2021 under the 2014 Stock Option Plan. The exercise price and the closing price of the shares immediately before the date of grant were HK\$22.41 and HK\$22.35, respectively. The options are valid for a period of 10 years commencing on November 19, 2021, subject to earlier termination as provided under the 2014 Stock Option Plan and applicable award documents.

2. Implementation progress of the stock incentive during the reporting period

All the shares under the stock incentive schemes implemented during the reporting period have all been granted, announced on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, and have been or will be vested in accordance with the vesting plan.

SECTION 6 CORPORATE GOVERNANCE

3. Share-based payment recognised during the reporting period in respect of stock incentive

in USD'000

Total share-based payment recognised in the current period	78,360
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(II) RELEVANT INCENTIVE EVENTS THAT HAVE BEEN DISCLOSED IN THE PROVISIONAL ANNOUNCEMENTS AND WITH NO PROGRESS OR CHANGE IN SUBSEQUENT IMPLEMENTATION

Summary of the event	Inquiry index
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on January 29, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: January 29, 2021
Issue of ordinary shares pursuant to exercise of share options granted under the 2014 Stock Option Plan (adopted on June 13, 2013) by directors of the Company on February 1, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: February 1, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on February 1, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: February 1, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by directors of the Company on February 1, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: February 1, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on February 25, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: February 25, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on March 30, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: March 30, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on April 9, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: April 9, 2021
On May 19, 2021, the proposal in relation to the 2021 STAR Market Restricted Share Incentive Scheme of the Company (Draft) and its summary, the proposal in relation to the Assessment Management Measures for the implementation of the 2021 STAR Market Restricted Share Incentive Scheme of the Company, the proposal in relation to the authorisation granted by the general meeting to the Board to handle matters related to the 2021 STAR Market Restricted Share Incentive Scheme of the Company and other proposals were considered and approved at the meeting of the Board of the Company.	For details, please see the announcement on the resolutions of the Board (No.:2021-019), the 2021 STAR Market Restricted Share Incentive Scheme (Draft) and the summary announcement of the 2021 STAR Market Restricted Share Incentive Scheme (Draft) (No.:2021-020), the Management Measures for Assessment for Implementation of the 2021 STAR Market Restricted Shares Incentive Scheme and the List of Incentive Participants subject to the First Grant under the 2021 STAR Market Restricted Share Incentive Scheme as disclosed on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on May 20, 2021.
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on May 27, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: May 27, 2021
Grant of share options	Announcement and notice on the Hong Kong Stock Exchange: May 31, 2021
Grant of share options and non-exempt connected transactions – proposed grant of restricted share units	Announcement and notice on the Hong Kong Stock Exchange: May 31, 2021
On June 25, 2021, the proposal in relation to the 2021 STAR Market Restricted Share Incentive Scheme of the Company (Draft), the proposal in relation to the Assessment Management Measures for the implementation of the 2021 STAR Market Restricted Share Incentive Scheme of the Company, the proposal in relation to the authorisation granted by the general meeting to the Board to handle matters related to the 2021 STAR Market Restricted Share Incentive Scheme of the Company and related proposals were considered and approved at the 2021 first extraordinary general meeting. The implementation of the Incentive Scheme was approved at the general meeting. The Board was authorized to determine the Grant Date of the Restricted Shares and to grant the Restricted Shares to a Participant upon his/her fulfillment of the conditions of grant, and to handle all necessary matters in connection with the grant of the Restricted Shares.	For details, please see the announcement on the resolutions of the 2021 first extraordinary general meeting (No.: 2021-026) as disclosed on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on June 26, 2021.
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by directors of the Company on June 29, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: June 29, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by non-directors of the Company on June 29, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: June 29, 2021
The announcement of SMIC on matters related to the adjustment of the 2021 STAR Market Restricted Share Incentive Scheme of the Company	For details, please see the announcement as disclosed on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on July 20, 2021.
The announcement of SMIC on granting restricted shares to incentive objects for the first time	For details, please see the announcement as disclosed on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on July 20, 2021.

SECTION 6 CORPORATE GOVERNANCE

Summary of the event	Inquiry index
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by directors of the Company on July 29, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: July 29, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by directors of the Company on August 30, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: August 30, 2021
Grant of options	Announcement and notice on the Hong Kong Stock Exchange: September 15, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by directors of the Company on September 16, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: September 16, 2021
Issue of ordinary shares pursuant to exercise of an option granted under the 2014 Stock Option Plan (adopted on June 13, 2013) by directors of the Company on September 16, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: September 16, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by directors of the Company on September 29, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: September 29, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by directors of the Company on October 28, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: October 28, 2021
Grant of options	Announcement and notice on the Hong Kong Stock Exchange: November 19, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by directors of the Company on November 29, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: November 29, 2021
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by directors of the Company on December 30, 2021	Next Day Disclosure Return on the Hong Kong Stock Exchange: December 30, 2021

SECTION 6 CORPORATE GOVERNANCE

1. 2004 Stock Option Plan

On February 16, 2004, the Company's shareholders adopted the 2004 Stock Option Plan which then became effective on March 18, 2004 and was amended on June 23, 2009.

Movement of the 2004 Stock Option Plan during the year ended December 31, 2021 is as follows:

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/20	Additional Options Granted During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/21	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Employee	5/31/2011	5/31/2011-5/30/2021	148,313,801	0.85	776,405	-	175,866	-	600,539	-	3.13	0.83
Employee	9/8/2011	9/8/2011-9/7/2021	42,809,083	0.58	78,466	-	13,103	-	65,363	-	3.24	0.56
Employee	11/17/2011	11/17/2011-11/16/2021	16,143,147	0.51	81,195	-	25,870	-	55,325	-	3.26	0.51
Employee	5/22/2012	5/22/2012-5/21/2022	252,572,706	0.45	2,334,978	-	66,000	-	554,760	1,714,218	3.18	0.45
Employee	9/12/2012	9/12/2012-9/11/2022	12,071,250	0.37	35,800	-	-	-	10,600	25,200	3.04	0.37
Employee	11/15/2012	11/15/2012-11/14/2022	18,461,000	0.47	111,416	-	-	-	23,200	88,216	3.39	0.47
Employee	5/7/2013	5/7/2013-5/6/2023	24,367,201	0.76	100,215	-	-	-	15,287	84,928	3.17	0.77
Employee	6/11/2013	6/11/2013-6/10/2023	102,810,000	0.82	1,328,622	-	16,000	-	222,845	1,089,777	3.20	0.79
Zhao Haijun	6/11/2013	6/11/2013-6/10/2023	74,755,756	0.82	188,233	-	-	-	-	188,233	-	0.79
Gao Yonggang	6/17/2013	6/17/2013-6/16/2023	13,608,249	0.80	1,360,824	-	-	-	-	1,360,824	-	0.78
Employee	9/6/2013	9/6/2013-9/5/2023	22,179,070	0.72	128,725	-	-	-	82,400	46,325	3.09	0.73
Employee	11/4/2013	11/4/2013-11/3/2023	19,500,000	0.74	105,000	-	13,900	-	33,200	57,900	3.32	0.72
Total					6,629,879	-	310,739	-	1,663,519	4,655,621		

Summary of the 2004 Stock Option Plan is as follows:

(1) Purpose

The purposes of the 2004 Stock Option Plan are to attract, retain and motivate employees and Directors of, and other service providers to, the Company, to provide a means on and after the public offering of compensating them for their contributions to the growth and profits of the Company, and to allow such employees, Directors and service providers to participate in such growth and profitability.

(2) Participants

The Company's 2004 Stock Option Plan is administered by the Company's compensation committee or by the Board acting in place of the Company's compensation committee. The Company's 2004 Stock Option Plan provides for the grant of options to the Company's employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company.

Options granted under the 2004 Stock Option Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the compensation committee.

(3) Maximum number of shares

The number of the Ordinary Shares that may be issued pursuant to our 2004 Stock Option Plan shall not, in aggregate, exceed 243,466,873 Ordinary Shares as adjusted according to the impact of the Share Consolidation, representing 3.08% of the issued Ordinary Shares as at December 31, 2021.

In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding purchase right granted under the all Company's stock incentive schemes, in aggregate, exceed 30% of the then outstanding Ordinary Shares in issuance.

(4) Maximum entitlement of each participant

The total number of Ordinary Shares issued and to be issued upon exercise of the options (including both exercised and outstanding) granted in any 12-month period to each participant may not at any time exceed 1% of the Ordinary Shares then issued and outstanding.

SECTION 6 CORPORATE GOVERNANCE

(5) Option period

Options granted under the 2004 Stock Option Plan vest over a four-year period. Options may vest based on time or achievement of performance conditions. The Company's compensation committee may provide for options to be exercised only as they vest, or to be immediately exercisable with any Ordinary Shares or American depositary shares issued subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of options granted under the 2004 Stock Option Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by the compensation committee of the Company.

Options to purchase Ordinary Shares issued to new employees and then-existing employees generally vest at a rate pursuant to which 25% of the shares shall vest on the first anniversary of the vesting commencement date, and additional 1/36 of the remaining shares shall vest monthly upon the second, third, and fourth anniversaries of the vesting commencement date.

(6) Acceptance and payments

2004 Stock Option Plan does not provide for any payment upon application or acceptance of an option.

(7) Exercise price

The exercise price of stock options must be at least equal to the fair market value of the Ordinary Shares on the date of grant.

(8) Remaining life of the scheme

The 2004 Stock Option Plan and its amendment were terminated on November 15, 2013. The stock options granted before such termination remain outstanding and continue to vest and become exercisable in accordance with, and subject to, the terms of the 2004 Stock Option Plan.

2. 2014 Stock Option Plan

The Company's shareholders adopted a 2014 Stock Option Plan that became effective on November 15, 2013 when the 2014 Stock Option Plan was registered with the PRC State Administration of Foreign Exchange.

Movement of the 2014 Stock Option Plan during the year ended December 31, 2021 is as follows:

Name/Eligible Employee	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/20	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/21	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Gao Yonggang	6/12/2014	6/12/2014-6/11/2024	2,886,486	0.82	288,648	-	-	-	-	-	288,648	-	0.82
Employee	6/12/2014	6/12/2014-6/11/2024	26,584,250	0.82	262,229	-	-	-	129,000	-	133,229	2.91	0.82
Employee	11/17/2014	11/17/2014-11/16/2024	119,640,012	1.09	1,433,018	-	10,303	-	233,970	-	1,188,745	3.16	1.10
Employee	2/24/2015	2/24/2015-2/23/2025	12,293,017	0.91	130,500	-	92,000	-	17,000	-	21,500	2.84	0.88
Employee	5/20/2015	5/20/2015-5/19/2025	12,235,000	1.06	35,916	-	-	-	-	-	35,916	-	1.05
Zhou Zixue*	5/20/2015	5/20/2015-5/19/2025	25,211,633	1.06	2,521,163	-	-	-	-	-	2,521,163	-	1.05
Employee	5/25/2016	5/25/2016-5/24/2026	5,146,000	0.82	40,450	-	-	-	10,000	-	30,450	3.55	0.83
Chen Shanzhi	5/25/2016	5/25/2016-5/24/2026	989,583	0.82	98,958	-	-	-	-	-	98,958	-	0.83
Chen Shanzhi	9/12/2016	9/12/2016-9/11/2026	11,986	1.12	1,198	-	-	-	-	-	1,198	-	1.13
Tong Guohua (resigned)	4/5/2017	4/5/2017-4/4/2027	187,500	1.26	187,500	-	-	-	187,500	-	-	3.11	1.24
Cong Jingsheng Jason (resigned)	4/5/2017	4/5/2017-4/4/2027	187,500	1.26	187,500	-	-	-	187,500	-	-	3.75	1.24
Chen Shanzhi	4/5/2017	4/5/2017-4/4/2027	62,500	1.26	62,500	-	-	-	-	-	62,500	-	1.24
Employee	5/22/2017	5/22/2017-5/21/2027	345,000	1.09	13,937	-	-	-	2,250	-	11,687	3.07	1.07
Zhao Haijun	9/7/2017	9/7/2017-9/6/2027	1,687,500	1.01	1,687,500	-	-	-	-	-	1,687,500	-	1.00
Employee	5/23/2018	5/23/2018-5/22/2028	18,493,834	1.34	9,068,222	-	670,975	-	1,512,675	-	6,884,572	3.11	1.33
Chen Shanzhi	5/23/2018	5/23/2018-5/22/2028	125,000	1.34	125,000	-	-	-	-	-	125,000	-	1.33
William Tudor Brown	5/23/2018	5/23/2018-5/22/2028	87,500	1.34	87,500	-	-	-	-	-	87,500	-	1.33
Fan Ren Da Anthony	9/13/2018	9/13/2018-9/12/2028	187,500	1.09	187,500	-	-	-	-	-	187,500	-	1.07
Lau Lawrence Juen-Yee	9/13/2018	9/13/2018-9/12/2028	187,500	1.09	187,500	-	-	-	187,500	-	-	2.98	1.07
Employee	11/19/2018	11/19/2018-11/18/2028	138,000	0.87	62,000	-	-	-	-	-	62,000	-	0.84
Chen Shanzhi	5/21/2019	5/21/2019-5/20/2029	62,500	1.09	62,500	-	-	-	-	-	62,500	-	1.11
William Tudor Brown	5/21/2019	5/21/2019-5/20/2029	62,500	1.09	62,500	-	-	-	-	-	62,500	-	1.11
Guo Guangli	9/12/2019	9/12/2019-9/11/2029	100,000	1.25	75,000	-	-	-	-	-	75,000	-	1.25
Employee	9/12/2019	9/12/2019-9/11/2029	648,000	1.25	529,000	-	62,000	-	180,500	-	286,500	3.40	1.25
Young Kwang Leei (resigned)	9/12/2019	9/12/2019-9/11/2029	187,500	1.25	187,500	-	-	-	187,500	-	-	3.39	1.25
Employee	11/26/2019	11/26/2019-11/25/2029	70,000	1.29	70,000	-	52,500	-	17,500	-	-	3.10	1.30
Employee	5/25/2020	5/25/2020-5/24/2030	6,794,803	2.33	6,131,903	-	667,219	-	523,342	-	4,941,342	3.21	2.18
Chen Shanzhi	5/25/2020	5/25/2020-5/24/2030	62,500	2.33	62,500	-	-	-	-	-	62,500	-	2.18
William Tudor Brown	5/25/2020	5/25/2020-5/24/2030	62,500	2.33	62,500	-	-	-	-	-	62,500	-	2.18
Zhao Haijun	5/25/2020	5/25/2020-5/24/2030	219,706	2.33	219,706	-	-	-	-	-	219,706	-	2.18
Tong Guohua (resigned)	5/25/2020	5/25/2020-5/24/2030	54,966	2.33	54,966	-	-	-	54,966	-	-	3.11	2.18
Cong Jingsheng Jason (resigned)	5/25/2020	5/25/2020-5/24/2030	54,966	2.33	54,966	-	54,966	-	-	-	-	-	2.18
Guo Guangli	5/25/2020	5/25/2020-5/24/2030	29,042	2.33	29,042	-	-	-	-	-	29,042	-	2.18
Zhou Meisheng	5/25/2020	5/25/2020-5/24/2030	281,092	2.33	281,092	-	-	-	-	-	281,092	-	2.18

SECTION 6 CORPORATE GOVERNANCE

Name/Eligible Employee	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/20	Additional Options Granted During Period	Options Lapsed During Period	Options Repurchased Due to Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/21	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Liang Mong Song	5/25/2020	5/25/2020-5/24/2030	659,117	2.33	659,117	-	-	-	-	-	659,117	-	2.18
Gao Yonggang	5/25/2020	5/25/2020-5/24/2030	586,793	2.33	586,793	-	-	-	-	-	586,793	-	2.18
Zhou Zixue*	5/25/2020	5/25/2020-5/24/2030	659,117	2.33	659,117	-	-	-	-	-	659,117	-	2.18
Employee	9/9/2020	9/9/2020-9/8/2030	108,851	2.84	108,851	-	-	-	-	-	108,851	-	2.43
Employee	11/23/2020	11/23/2020-11/22/2030	3,574,049	2.97	3,542,957	-	416,594	-	43,080	-	3,083,283	3.21	2.93
Employee	5/31/2021	5/31/2021-5/30/2031	3,434,762	3.16	-	3,434,762	309,698	-	-	-	3,125,064	-	3.11
William Tudor Brown	5/31/2021	5/31/2021-5/30/2031	62,500	3.16	-	62,500	-	-	-	-	62,500	-	3.11
Chen Shanzhi	5/31/2021	5/31/2021-5/30/2031	62,500	3.16	-	62,500	-	-	-	-	62,500	-	3.11
Fan Ren Da Anthony	5/31/2021	5/31/2021-5/30/2031	32,877	3.16	-	32,877	-	-	-	-	32,877	-	3.11
Gao Yonggang	5/31/2021	5/31/2021-5/30/2031	296,085	3.16	-	296,085	-	-	-	-	296,085	-	3.11
Guo Guangli	5/31/2021	5/31/2021-5/30/2031	13,119	3.16	-	13,119	-	-	-	-	13,119	-	3.11
Liu Ming	5/31/2021	5/31/2021-5/30/2031	187,500	3.16	-	187,500	-	-	-	-	187,500	-	3.11
Lau Lawrence Juen-Yee	5/31/2021	5/31/2021-5/30/2031	32,877	3.16	-	32,877	-	-	-	-	32,877	-	3.11
Lu Guoqing	5/31/2021	5/31/2021-5/30/2031	187,500	3.16	-	187,500	-	-	-	-	187,500	-	3.11
Zhao Haijun	5/31/2021	5/31/2021-5/30/2031	277,149	3.16	-	277,149	-	-	-	-	277,149	-	3.11
Zhou Meisheng	5/31/2021	5/31/2021-5/30/2031	122,741	3.16	-	122,741	-	-	-	-	122,741	-	3.11
Zhou Zixue*	5/31/2021	5/31/2021-5/30/2031	277,149	3.16	-	277,149	-	-	-	-	277,149	-	3.11
Employee	9/15/2021	9/15/2021-9/14/2031	424,000	2.97	-	424,000	62,000	-	-	-	362,000	-	2.94
Employee	11/19/2021	11/19/2021-11/18/2031	4,394,342	2.87	-	4,394,342	117,369	-	-	-	4,276,973	-	2.87
Total					30,108,749	9,805,101	2,515,624	-	3,474,283	-	33,923,943		

* Dr. Zhou Zixue has resigned as an executive director of the Company on March 17, 2022.

In accordance with the terms of the 2014 Share Option Plan, the Board and the Compensation Committee may respectively approve to accelerate the vesting period of the options granted to Directors of the Company and employees of the Group.

SECTION 6 CORPORATE GOVERNANCE

Summary of the 2014 Stock Option Plan is as follows:

(1) Purpose

The purposes of the 2014 Stock Option Plan are to attract, retain and motivate employees and Directors of, and other service providers to, the Company; to provide a means on and after the public offering of compensating them for their contributions to the growth and profits of the Company; and to allow such employees, Directors and service providers to participate in such growth and profitability.

(2) Participants

The Company's 2014 Stock Option Plan is administered by the Company's compensation committee or by the Board acting in place of the Company's compensation committee. The Company's 2014 Stock Option Plan provides for the grant of options to the Company's employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company.

Options granted under the 2014 Stock Option Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the compensation committee.

(3) Maximum number of shares

The number of Ordinary Shares that may be issued pursuant to the 2014 Stock Option Plan shall not, in the aggregate, exceed 320,737,712 Ordinary Shares adjusted as impact of the Share Consolidation, representing 4.06% of the issued Ordinary Shares as at December 31, 2021.

In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding purchase right granted under the 2014 Stock Option Plan, in the aggregate, exceed 30% of the then outstanding Ordinary Shares in issuance.

(4) Maximum entitlement of each participant

The total number of Ordinary Shares issued and to be issued upon exercise of options (including both exercised and outstanding) granted in any 12-month period to each participant may not exceed at any time 1% of the then issued and outstanding Ordinary Shares.

(5) Option period

Options granted under the 2014 Stock Option Plan vest over a four-year period. Options may vest based on time or achievement of performance conditions. The Company's compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable with any Ordinary Shares or American depositary shares issued on exercise being subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of options granted under the 2014 Stock Option Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by the compensation committee of the Company.

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

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

(6) Acceptance and payments

2014 Stock Option Plan does not provide for any payment upon application or acceptance of an option.

(7) Exercise price

The exercise price of stock options must be at least equal to the fair market value of the Ordinary Shares on the date of grant.

(8) Remaining life of the scheme

The 2014 Stock Option Plan will terminate ten years from the date of registration of the Plan with the PRC State Administration of Foreign Exchange, unless it is terminated earlier by the Board. The Board may amend or terminate the 2014 Stock Option Plan at any time without necessary of asking for shareholders' approval of the amendment unless required by applicable law.

SECTION 6 CORPORATE GOVERNANCE

3. 2014 Equity Incentive Plan

The Company's shareholders adopted a 2014 Equity Incentive Plan that became effective on November 15, 2013 when the 2014 Equity Incentive Plan was registered with the PRC State Administration of Foreign Exchange.

Movement of the 2014 Equity Incentive Plan during the year ended December 31, 2021 is as follows:

Name/Eligible Employee	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	RSUs Outstanding as of 12/31/20	Additional RSUs Granted During Period	RSUs Lapsed During Period	RSUs Lapsed Due to Repurchase of Ordinary Shares During Period	RSUs Exercised During Period	RSUs Cancelled During Period	RSUs Outstanding as of 12/31/21	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Granted (USD)
Gao Yonggang	11/17/2014	2014/11/17-2024/11/16	2,910,836	0.004	85,505	-	-	-	-	-	85,505	-	1.10
Zhou Zixue*	5/20/2015	5/20/2015-5/19/2025	10,804,985	0.004	1,080,498	-	-	-	-	-	1,080,498	-	1.05
Employee	5/25/2016	5/25/2016-5/24/2026	68,070,000	0.004	16,000	-	-	-	12,800	-	3,200	1.94	0.83
Chen Shanzhi	5/25/2016	5/25/2016-5/24/2026	989,583	0.004	98,958	-	-	-	-	-	98,958	-	0.83
Chen Shanzhi	9/12/2016	9/12/2016-9/11/2026	11,986	0.004	1,198	-	-	-	-	-	1,198	-	1.13
Tong Guohua (resigned)	4/5/2017	4/5/2017-4/4/2027	187,500	0.004	187,500	-	-	-	187,500	-	-	2.22	1.24
Chen Shanzhi	4/5/2017	4/5/2017-4/4/2027	62,500	0.004	62,500	-	-	-	-	-	62,500	-	1.24
Employee	5/22/2017	5/22/2017-5/21/2027	7,469,000	0.004	932,250	-	21,550	-	901,800	-	8,900	3.20	1.07
Employee	12/7/2017	12/7/2017-12/6/2027	364,000	0.004	57,000	-	-	-	57,000	-	-	2.87	1.32
Employee	5/23/2018	5/23/2018-5/22/2028	6,957,966	0.004	2,035,820	-	199,950	-	1,024,120	-	811,750	3.20	1.33
Chen Shanzhi	5/23/2018	5/23/2018-5/22/2028	125,000	0.004	125,000	-	-	-	-	-	125,000	-	1.33
William Tudor Brown	5/23/2018	5/23/2018-5/22/2028	87,500	0.004	87,500	-	-	-	-	-	87,500	-	1.33
Employee	9/13/2018	9/13/2018-9/12/2028	344,000	0.004	114,000	-	-	-	67,000	-	47,000	3.15	1.07
Fan Ren Da Anthony	9/13/2018	9/13/2018-9/12/2028	187,500	0.004	187,500	-	-	-	187,500	-	-	3.01	1.07
Lau Lawrence Juen-Yee	9/13/2018	9/13/2018-9/12/2028	187,500	0.004	187,500	-	-	-	187,500	-	-	3.01	1.07
Employee	11/19/2018	11/19/2018-11/18/2028	54,000	0.004	12,000	-	-	-	6,000	-	6,000	3.15	0.84
Chen Shanzhi	5/21/2019	5/21/2019-5/20/2029	62,500	0.004	62,500	-	-	-	-	-	62,500	-	1.11
William Tudor Brown	5/21/2019	5/21/2019-5/20/2029	62,500	0.004	62,500	-	-	-	-	-	62,500	-	1.11
Guo Guangli	9/12/2019	9/12/2019-9/11/2029	39,000	0.004	19,500	-	-	-	-	-	19,500	-	1.25
Employee	9/12/2019	9/12/2019-9/11/2029	291,000	0.004	130,500	-	-	-	83,250	-	47,250	3.15	1.25
Young Kwang Leei (resigned)	9/12/2019	9/12/2019-9/11/2029	187,500	0.004	187,500	-	-	-	187,500	-	-	3.39	1.25
Employee	11/26/2019	11/26/2019-11/25/2029	70,000	0.004	52,500	-	52,500	-	-	-	-	-	1.30
Employee	5/25/2020	5/25/2020-5/24/2030	2,677,933	0.004	2,265,782	-	246,481	-	680,342	-	1,338,959	3.22	2.18
Chen Shanzhi	5/25/2020	5/25/2020-5/24/2030	62,500	0.004	62,500	-	-	-	-	-	62,500	-	2.18
William Tudor Brown	5/25/2020	5/25/2020-5/24/2030	62,500	0.004	62,500	-	-	-	-	-	62,500	-	2.18
Zhao Haijun	5/25/2020	5/25/2020-5/24/2030	86,603	0.004	86,603	-	-	-	-	-	86,603	-	2.18
Tong Guohua (resigned)	5/25/2020	5/25/2020-5/24/2030	54,966	0.004	54,966	-	-	-	54,966	-	-	2.83	2.18
Cong Jingsheng Jason (resigned)	5/25/2020	5/25/2020-5/24/2030	54,966	0.004	54,966	-	54,966	-	-	-	-	-	2.18
Guo Guangli	5/25/2020	5/25/2020-5/24/2030	11,287	0.004	11,287	-	-	-	-	-	11,287	-	2.18
Zhou Meisheng	5/25/2020	5/25/2020-5/24/2030	110,799	0.004	110,799	-	-	-	-	-	110,799	-	2.18
Liang Mong Song	5/25/2020	5/25/2020-5/24/2030	259,808	0.004	259,808	-	-	-	-	-	259,808	-	2.18
Gao Yonggang	5/25/2020	5/25/2020-5/24/2030	231,300	0.004	231,300	-	-	-	-	-	231,300	-	2.18
Zhou Zixue*	5/25/2020	5/25/2020-5/24/2030	259,808	0.004	259,808	-	-	-	-	-	259,808	-	2.18
Employee	9/9/2020	9/9/2020-9/8/2030	42,489	0.004	42,489	-	-	-	11,494	-	30,995	3.23	2.43
Employee	11/23/2020	11/23/2020-11/22/2030	1,650,678	0.004	1,635,930	-	170,065	-	398,915	-	1,066,950	3.17	2.93
Employee	5/31/2021	5/31/2021-5/30/2031	1,670,590	0.004	-	1,670,590	147,382	-	7,500	-	1,515,708	2.37	3.11
William Tudor Brown	5/31/2021	5/31/2021-5/30/2031	62,500	0.004	-	62,500	-	-	-	-	62,500	-	3.11
Chen Shanzhi	5/31/2021	5/31/2021-5/30/2031	62,500	0.004	-	62,500	-	-	-	-	62,500	-	3.11
Fan Ren Da Anthony	5/31/2021	5/31/2021-5/30/2031	32,877	0.004	-	32,877	-	-	-	-	32,877	-	3.11
Gao Yonggang	5/31/2021	5/31/2021-5/30/2031	147,482	0.004	-	147,482	-	-	-	-	147,482	-	3.11
Guo Guangli	5/31/2021	5/31/2021-5/30/2031	6,535	0.004	-	6,535	-	-	-	-	6,535	-	3.11
Liu Ming	5/31/2021	5/31/2021-5/30/2031	187,500	0.004	-	187,500	-	-	-	-	187,500	-	3.11
Lau Lawrence Juen-Yee	5/31/2021	5/31/2021-5/30/2031	32,877	0.004	-	32,877	-	-	-	-	32,877	-	3.11
Lu Guoqing	5/31/2021	5/31/2021-5/30/2031	187,500	0.004	-	187,500	-	-	-	-	187,500	-	3.11
Zhao Haijun	5/31/2021	5/31/2021-5/30/2031	138,050	0.004	-	138,050	-	-	-	-	138,050	-	3.11
Zhou Meisheng	5/31/2021	5/31/2021-5/30/2031	61,138	0.004	-	61,138	-	-	-	-	61,138	-	3.11
Zhou Zixue*	5/31/2021	5/31/2021-5/30/2031	138,050	0.004	-	138,050	-	-	-	-	138,050	-	3.11
Employee	9/15/2021	9/15/2021-9/14/2031	165,000	0.004	-	165,000	24,000	-	-	-	141,000	-	2.94
Employee	11/19/2021	11/19/2021-11/18/2031	2,067,057	0.004	-	2,067,057	49,774	-	-	-	2,017,283	-	2.87
Total					10,924,467	4,959,656	966,668	-	4,055,187	-	10,862,268		

* Dr. Zhou Zixue has resigned as an executive director of the Company on March 17, 2022.

In accordance with the terms of the 2014 Equity Incentive Plan, the Compensation Committee may approve to accelerate the vesting period of the RSUs granted to Directors of the Company and the employees of the Group.

SECTION 6 CORPORATE GOVERNANCE

Summary of the 2014 Equity Incentive Plan is as follows:

(1) Purpose

The purposes of the 2014 Equity Incentive Plan are to attract, retain and motivate employees and Directors of, and other service providers to, the Company, to provide a means on and after the public offering of compensating them for their contributions to the growth and profits of the Company, and to allow such employees, Directors and service providers to participate in such growth and profitability.

(2) Participants

The Company's 2014 Equity Incentive Plan is administered by the Company's compensation committee or by the Board acting in place of the Company's compensation committee. The Company's 2014 Equity Incentive provides for the grant of options to the Company's employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company.

Awards granted under the 2014 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the compensation committee.

(3) Maximum number of shares

The aggregate number of the Ordinary Shares that may be issued pursuant to the 2014 Equity Incentive Plan may not exceed 80,184,428 Ordinary Shares as adjusted according to the impact of the Share Consolidation, representing 1.01% of the issued Ordinary Shares as at December 31, 2021.

In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding purchase right granted under all the Company's stock incentive schemes, in aggregate, exceed 30% of the then outstanding Ordinary Shares in issuance.

(4) Maximum entitlement of each participant

The total number of Ordinary Shares issued and to be issued upon exercise of RSUs (including both exercised and outstanding) granted in any 12-month period to each participant may not exceed at any time 1% of the then issued and outstanding Ordinary Shares.

(5) Awards period

Awards granted under the 2014 Equity Incentive Plan vest over a four-year period. Awards may vest based on time or achievement of performance conditions. The Company's compensation committee may provide for awards to be exercised only as they vest, or to be immediately exercisable with any Ordinary Shares or American depositary shares issued subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of grant under the 2014 Equity Incentive Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by the compensation committee of the Company.

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

(6) Acceptance and payments

2014 Equity Incentive Plan does not provide for any payment upon application or acceptance of RSUs.

(7) Exercise price

The price HK\$0.031 of each restricted share units was determined by the compensation committee.

(8) Remaining life of the scheme

The Board may amend or terminate the 2014 Equity Incentive Plan at any time without necessary of asking for shareholders' approval of the amendment unless required by applicable law.

4. Stock Option Plan for Subsidiary

SJ Semiconductor Corporation adopted on a Stock Option Plan. As the Company has sold SJ Semiconductor Corporation on May 6, 2021, as of December 31, 2021, the Company has no Stock Option Plan for Subsidiary under implementation.

SECTION 6 CORPORATE GOVERNANCE

5. 2021 STAR Market Restricted Share Incentive Scheme (Type II Restricted Shares)

On June 25, 2021, the Company's shareholders adopted the 2021 STAR Market Restricted Share Incentive Scheme.

Movement of the 2021 STAR Market Restricted Share Incentive Scheme during the year ended December 31, 2021 is as follows:

Name/Eligible Employee	Date Granted	Period during which Rights Exercisable	No. of Restricted Shares Granted	Grant Price of Restricted Shares (USD)	Restricted Shares Outstanding as of 12/31/20	Additional Restricted Shares Granted During Period	Restricted Shares Lapsed During Period	Restricted Shares Repurchased Due to Ordinary Shares Exercised During Period	Restricted Shares Exercised During Period	Restricted Shares Expired During Period	Restricted Shares Outstanding as of 12/31/21	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share were Granted (USD)
Gao Yonggang	7/19/2021	7/19/2021-7/18/2026	360,000	3.14	-	-	-	-	-	-	360,000	-	8.62
Zhou Zixue*	7/19/2021	7/19/2021-7/18/2026	400,000	3.14	-	-	-	-	-	-	400,000	-	8.62
Chiang Shang-Yi (resigned)	7/19/2021	7/19/2021-7/18/2026	400,000	3.14	-	-	-	-	-	400,000	-	-	-
Liang Mong Song	7/19/2021	7/19/2021-7/18/2026	400,000	3.14	-	-	-	-	-	-	400,000	-	8.62
Zhao Haijun	7/19/2021	7/19/2021-7/18/2026	400,000	3.14	-	-	-	-	-	-	400,000	-	8.62
Zhou Meisheng	7/19/2021	7/19/2021-7/18/2026	360,000	3.14	-	-	-	-	-	-	360,000	-	8.62
Guo Guangli	7/19/2021	7/19/2021-7/18/2026	160,000	3.14	-	-	-	-	-	-	160,000	-	8.62
Employee	7/19/2021	7/19/2021-7/18/2026	65,055,200	3.14	-	-	-	-	-	276,320	64,778,880	-	8.62
Total			67,535,200		-	-	-	-	-	676,320	66,858,880		

* Dr. Zhou Zixue has resigned as an executive director of the Company on March 17, 2022.

Summary of the 2021 STAR Market Restricted Share Incentive Scheme is as follows:

(1) Purposes

The purposes of the Scheme are to improve the Company's long-term incentive mechanism, attract and retain outstanding personnel, fully mobilise the enthusiasm of the Company's employees, effectively bond the interests of Shareholders, the Company and core teams together, enable all parties to jointly pay attention to the long-term development of the Company.

(2) Source of the Restricted Shares to be granted

The form of incentive adopted under the Scheme is Type II Restricted Shares. The source of all Restricted Shares under the Scheme will be A-share ordinary listed on the STAR market of the Shanghai Stock Exchange shares to be issued by the Company to the Awardees.

(3) Number of Restricted Shares to be granted

The total amount of Restricted Shares that may be issued pursuant to the Scheme will not exceed 75,650,400 A-share ordinary shares, representing approximately 0.96% of the total issued share capital of the Company on December 31, 2021. Among them, 67,535,200 Restricted Shares were granted as the First Grant, representing approximately 90.00% of the total number of Restricted Shares under the Scheme and approximately 0.85% of the total issued share capital of the Company on December 31, 2021. 8,115,200 Restricted Shares were reserved for the Reserved Grant, representing approximately 10.00% of the total number of Restricted Shares under the Scheme and approximately 0.10% of the total issued share capital of the Company on December 31, 2021.

(4) Scope of the Awardees

The total number of the Awardees for the First Grant proposed under the Scheme shall not exceed 4,000, accounting for approximately 23.05% of the Company's 17,354 employees as of December 31, 2020. The Awardees include Directors, senior management, core technicians, middle and senior business management and key technical and business staff of the Company.

(5) Restricted Share Grant Price

The Restricted Share Price of the First Grant shall be RMB20 per Share. An Awardee who has satisfied the conditions for grant and attribution may purchase A-share ordinary shares issued by the Company at such Restricted Share Price. The Restricted Share Price of the Reserved Grant shall be the same as the Restricted Share Price of the First Grant, i.e. RMB20 per Share.

(6) Validity period of the Scheme

The validity period of the Scheme will commence from the Grant Date of the First Grant, until the date on which all Restricted Shares granted to the Awardees have been attributed or lapsed, such period shall not exceed 72 months.

(7) Attribution arrangements under the Scheme

The Restricted Shares granted under the Scheme may be attributed in tranches as per the agreed proportions 30%, 25%, 25%, 20% upon the Awardees satisfying the corresponding attribution conditions. An attribution date must be a trading day within the validity period of the Scheme, and shall not fall within the Black-out periods.

SECTION 6 CORPORATE GOVERNANCE

(8) Performance assessment requirements at the Company level

The Company has selected the average operating income and the average EBITDA from 2018 to 2020 as the performance basis, and the growth rate of the definite proportion of the cumulative operating income and the cumulative EBITDA in 2021, 2022, 2023 and 2024 to the performance basis, the target value shall not be less than 22%, 152%, 291%, and 440% respectively, the trigger value is not less than 19%, 145%, 276%, 415%.

Assessment model of comprehensive weight and stepped attribution is set accordingly, and the company-level attribution ratios in each year are comprehensively calculated based on the coefficients corresponding to the completion of the above two indicators.

(9) Performance assessment requirements at the Awardee's individual level

The assessment result of an Awardee consists of two parts: personal punishment verification and personal performance assessment. Then, the number of shares for the year actually attributed to the Awardee will be determined as per the corresponding individual attribution ratio in the following assessment rating table:

Punishment verification results	No punishment record of demerit or above		Punishment record of demerit or above	
Individual attribution ratio	100%		0	

Performance assessment results	A	B	C	C-	D\E
Individual attribution ratio	100%	100%	100%	80%	0

For details of the STAR Market Incentive Scheme, please refer to the 2021 STAR Market Restricted Share Incentive Scheme (Draft) dated May 20, 2021 and the Announcement on adjustment of matters related to the 2021 STAR Market Restricted Share Incentive Scheme dated July 20, 2021 published on the website of SSE (<http://www.sse.com.cn/>).

XVI. AUDITORS' REMUNERATION

Please refer to "II. The Appointment and Dismissal of Accounting Firms" of "Section 8 Significant Events" for details of the auditors' remuneration.

XVII. JOINT COMPANY SECRETARIES

As of the publication date of this report, Ms. Guo Guangli and Ms. Hoo Mei Fung act as the Joint Company Secretaries of the Company. Dr Gao Yonggang has resigned as the Company Secretary on November 11, 2021. The biographical detail of Ms. Guo Guangli and Ms. Hoo Mei Fung is set out in "VI. (I) Changes in Shareholding of Current and Resigned Directors, Senior Management and Core Technicians and Their Remunerations During the Reporting Period" of this section.

The Joint Company Secretaries report to the chairman of the Board. All Directors have access to the Joint Company Secretaries, who are responsible for assisting the Board in complying with applicable procedures regarding compliance matters. The Company Secretary continuously updates all Directors on the latest development of the Hong Kong Stock Exchange Listing Rules and other applicable regulatory requirements to assist the Company's compliance with and maintenance of good corporate governance practices.

Pursuant to Rule 3.29 of the Hong Kong Stock Exchange Listing Rules, Dr. Gao Yonggang, Ms. Guo Guangli and Ms. Hoo Mei Fung had taken no less than 15 hours of relevant professional training for the year ended December 31, 2021.

SECTION 6 CORPORATE GOVERNANCE

XVIII. RELEVANT INFORMATION ON INTERNAL CONTROL

(I) RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for ensuring that the Group maintains sound and effective risk management and internal control systems and for overseeing management in the operating of such systems on an ongoing basis. The Internal Audit Department is responsible for evaluating the adequacy and effectiveness of the risk management and internal control structure of the Company. Under the Corporate Governance Code issued by the Hong Kong Stock Exchange, management should provide a confirmation to the Board on the effectiveness of such systems. The Group's risk management and internal control systems are designed to ensure the achievement of business objectives in operations, reliability and completeness of financial reporting and compliance with applicable laws and regulations. They are also designed to manage, rather than completely eliminate, risks impacting the Group's ability to achieve its business objectives. Accordingly, the risk management and internal control systems can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or loss.

Based on the Enterprise Risk Management – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), the Board supervises the management's designing, implementing and monitoring the risk management system to ensure the effectiveness of the risk management system. The implementation methods of the management are as follows:

- identifying risks, such as operational risk, strategy risk, market risk, legal risk and financial risk, etc.;
- assessing the identified risks by considering the impacts (including financial, reputation, business continuity & operational) and likelihoods of their occurrence; and
- designing, operating and monitoring internal control systems, and evaluating the effectiveness of implementation to mitigate and control such risks.

The Audit Committee under the Board has reviewed the effectiveness of risk management and internal control systems of the Group once a year and has required strengthening the comprehensive anti-fraud mechanism ensured that the risk management and internal control systems in place are effective.

(II) INTERNAL AUDIT

Internal Audit supports the Audit Committee to evaluate the effectiveness of and contribute to the improvement of risk management, internal control, and governance systems. The person in charge of the Internal Audit Department shall draw up the annual audit plan based on the risk assessment and submit the plan, the budget and the staffing plan to the Audit Committee and the Chairman for approval.

The Internal Audit shall check and investigate major problems identified by senior managers. Major internal control audit results, will be reported to the Audit Committee, the Chairman and the Co-Chief Executive Officers. The audit report is quarterly reported to the Audit Committee.

Responsibilities of the internal audit includes:

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

SECTION 6 CORPORATE GOVERNANCE

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

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

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

The person in charge of the Internal Audit Department may meet privately with the members of the Audit Committee, without the presence of members of the Group's management or the external auditor upon request.

(III) INSIDE INFORMATION

The Company formulated the Disclosure Management System for Information Disclosure, Management System and Implementation Rules for Insiders (the "Systems and Rules"). According to the Systems and Rules, the Company maintains and regularly reviews a sensitivity list identifying factors which are likely to give rise to the emergence of inside information. The Company ensures that confidentiality agreements are signed by all relevant parties to a transaction that is likely to give rise to the emergence of inside information. The Company also adopts appropriate measures to maintain the confidentiality of the information, such as using project codes and restricting access to such information to a limited group of recipients on a need-to-know basis. The Company organizes periodic training as it deems necessary for employees who, because of their office or employment, are likely to be in possession of inside information in relation to the Company, to help them understand the Company's policies and procedures as well as their relevant disclosure duties and obligations.

XIX. THE CONTROL MANAGEMENT ON THE COMPANY'S SUBSIDIARIES DURING THE REPORTING PERIOD

The Company implements group integrated management, and uniformly manages the Company's standardized operation, personnel management, financial management, operation management, major event reporting and other matters.

XX. THE RECTIFICATION OF SELF-EXAMINATION ISSUES IN THE SPECIAL ACTION OF LISTED COMPANY GOVERNANCE

According to the requirements of the China Securities Regulatory Commission, the Company conducted a self-examination on the corporate governance. According to the self-examination, the Company is inconsistent with the self-examination list of the special action on corporate governance of listed companies, which is a red chip enterprise established in Cayman Islands and listed on the stock exchange of Hong Kong. In accordance with the STAR Market Listing Rules, the corporate governance, operation specifications and other matters may be governed by laws and regulations such as the Company Law of the place of incorporation overseas. Therefore, the Company operates independently and effectively and performs its duties in accordance with the laws of the Cayman Islands, the Hong Kong Listing Rules, the Articles of Association and relevant regulations. Therefore, the governance model is different from that of A-share listed companies registered in China, but our protection of investors' rights and interests are generally no less exacting than legal requirements in the PRC.

XXI. ETHICS COMPLIANCE

Our Code of Business Conduct and Ethics ("Ethics Code") applies to all employees, directors, contractors, consultants, agents and business partners, to ensure the company to comply with all applicable laws, regulations and standards of business conduct. Our Ethics Code is committed to anti-fraud, anti-corruption, compliance with public interest, protection of intellectual property, safety and environmental protection, etc.

The Ethics Compliance Office ("ECO") is an independent department under the Audit Committee of the Board, which is responsible for ethics compliance management and independent investigation, providing channels for reporting any potential violation on anonymous basis. The ECO reports to the chairman and the Audit Committee regularly.

The responsibilities of the ECO are formulating ethics compliance related policies and procedures, monitoring and ensuring that the professional ethics and business practices of the Company and its employees comply with the Company's code of business conduct and ethics, managing and maintaining the hotline clues, timely investigating any evidence of fraud, if there is suspect of illegal or criminal activities, pursuing legal liabilities in time. The ECO is also responsible for organizing employees' ethics compliance training, improving their awareness of ethics compliance, and promoting the ways of reporting fraud.

XXII. COMPLIANCE WITH LAWS AND REGULATIONS

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

SMIS, SMIB, SMIT, SMIZ, SMNC, and SMSC are entitled to the preferential industrial policies described below.

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

SECTION 6 CORPORATE GOVERNANCE

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

(II) ENVIRONMENTAL REGULATIONS

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations issued by the central and local governments, concerning the governmental permit and acceptance of construction projects, discharge and disposal of waste water, waste gases and solid waste, and controlling industrial noise according to the laws and regulations. These laws and regulations stipulate the detailed procedures to be implemented in the construction and operation stages of the project, including the environmental impact assessment which must be completed and got the approval before the startup of the project construction, and apply for discharge permit from relevant environmental departments after the completion of construction and plan to discharge pollutants. The discharge permit will register the type and quantity of waste water, waste gases and solid waste plan to discharge, and the method of discharge or disposal, the level of industrial noise. SMIS, SMIB, SMIT, SMIZ, SMNC, and SMSC have all received the approval of environmental impact assessment report and got the discharge permit. Also, the environmental self-check acceptance shall be conducted according to the environmental impact assessment and relevant regulations with the production capacity and other factors. During the operation of Chinese subsidiaries, the relevant environmental protection departments will monitor and audit the environmental compliance level of these subsidiaries from time to time. If the discharge of waste water, waste gases and noise is higher than the limit of discharge permit, it may lead to fines or penalties, or require rectification or suspension of operation within a period of time.

(III) PREFERENTIAL TAXATION POLICIES

The Company is incorporated in the Cayman Islands and not currently subject to taxation in the Cayman Islands. The subsidiaries of the Company are subject to different preferential taxation policies. For details, please refer to Note 10 to the consolidated financial statements.

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

According to CaiShui [2012] No. 27 ("2012 Circular No. 27") issued by the STA on April 20, 2012, the ICPES whose total investment exceeds RMB8,000 million or whose integrated circuits have a line width of less than 0.25 micron with an operation period of more than 15 years, before December 31, 2017, are entitled to be exempt from CIT for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction of the CIT for the following five years.

On May 4, 2016, STA, the Ministry of Finance ("MOF") and other joint ministries issued Caishui [2016] No.49 ("2016 Circular No. 49"), which highlights the implementation of the record-filing system, improvement on certain conditions for enjoying preferential tax treatments and clarification on post-record filing examination mechanism and enhancement of post-administration.

On March 28, 2018, STA, MOF and other joint ministries issued Caishui [2018] No. 27 ("2018 Circular No. 27"), which further announced the preferential tax policy for the ICPES established before and after January 1, 2018 and also adjusted certain conditions for enjoying preferential tax treatments in 2016 Circular No. 49.

Pursuant to Guofa [2020] No. 8 ("2020 Circular No. 8") issued by the State Council of China on July 27, 2020, state encouraged ICPES producing products with integrated circuits line width equal to or less than 28 nanometers with an operating period of more than 15 years are entitled to be exempt from CIT for ten years starting from the first profitable year after utilizing all prior years' tax loss; state encouraged ICPES producing products with integrated circuits line width equal to or less than 65 nanometers with an operating period of more than 15 years are entitled to be exempt from CIT for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction of the CIT for the following five years.

Pursuant to Announcement No. 45 of 2020 ("2020 Announcement No. 45") issued by MOF, STA, the National Development and Reform Commission ("NDRC") and the Ministry of Industry and Information Technology ("MIIT") on December 11, 2020, if enterprises qualified for the tax preferential policies issued before 2020 Circular No. 8 and started their tax holidays in 2019 or before may still enjoy their tax holidays until the end; if enterprises that possibly entitled to multiple tax preferences as prescribed in 2020 Announcement No. 45 should only choose to adopt one of the tax preferences with no duplication. Among these, if an enterprise has already started to enjoy tax holidays, the enterprises should choose to adopt only one tax preference for the remaining period.

On March 29, 2021 and March 14, 2022, NDRC, MIIT, MOF, General Administration of Customs ("GAC") and STA jointly released Fagaigaoji [2021] No. 413 ("2021 Circular No. 413") and Fagaigaoji [2022] No. 390 ("2022 Circular No. 390") separately to announce the detailed procedures, conditions and standards for formulating the lists of IC enterprises, projects and software enterprises eligible for preferential tax policies prescribed in 2020 Circular No. 8.

On March 31, 2021, MOF and STA jointly released Announcement No. 13 of 2021 ("2021 Announcement No. 13") to specify the super deduction policy for manufacturing enterprises, From January 1, 2021, manufacturing enterprises are allowed to claim a 100% super deduction on eligible research and development ("R&D") expenses actually incurred in the course of R&D activities for CIT purposes. Alternatively, if R&D expenses incurred are capitalised as intangible assets, such enterprises are allowed to amortise the intangible assets based on 200% of the actual costs incurred from January 1, 2021.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

I. STATEMENT FROM THE BOARD ON THE ESG RESPONSIBILITY OF THE BOARD

As a responsible corporate citizen, SMIC deeply recognises the importance of Corporate Social Responsibility ("CSR") in the pursuit of common development, and looks forward to working with all stakeholders to build a better world. The Board is responsible for SMIC's CSR policies, goals setting, schedule review and performance. The CSR Committee takes the lead in guiding the formulation of the Company's CSR policies, sets and promotes to achieve Company's CSR goals, supervises the implementation of the CSR work of all functional departments, studies and discusses, plans and promotes the CSR-related issues for the Company, so as to ensure the compliance of all work, achieve the sustainable development goals of the Company, and show our care for people, the environment and society. The CSR Committee reviews the annual CSR Report and submits it to the Board for approval.

ANALYSIS OF ISSUES

The CSR Committee is responsible for risk identification, management, supervision and control, as well as facilitates the decision-making of the Board by providing risk analysis and relevant support. The Board is responsible for supervising major issues, and the CSR Committee is responsible for identifying and evaluating major issues by maintaining close communication with internal and external stakeholders, formulating the CSR goals and management policies based on relevant issues, and keeping abreast of international trends and peer performance as well as regularly reviewing the progress of related work.

DAILY IMPLEMENTATION

SMIC establishes the CSR Team to improve the CSR information collection system. Based on the nature of SMIC's business, the CSR Team makes analysis, formulates CSR goals and policies, and conducts regular review, integrating the CSR management into daily work to continuously improve our CSR performance.

II. ENVIRONMENTAL INFORMATION

(I) WHETHER IT IS THE KEY POLLUTANT DISCHARGING UNITS ANNOUNCED BY THE ENVIRONMENTAL PROTECTION AUTHORITY

Yes

1. Information on pollutant discharging

None of the following companies have excessive emissions.

Name of unit	Type	Number of outlets	Name of major pollutants	Methods of emission/discharge	Distribution of outlets	Emission concentration of waste water (mg/l) Exhaust gases (mg/m ³)	Total emissions (tons)	Pollutant emission standards implemented	Approved total emissions (tons)
SMIS	Acid exhaust	40	Nitrogen oxides	Continuous emission	Exhaust gas outlets	1.29	16.38	Integrated emission standards of air pollutants of Shanghai (DB31/933-2015)	58.81
			Fluoride	Continuous emission	Exhaust gas outlets	0.30	3.86	The discharge standards of pollutants for semiconductor industry in Shanghai (DB31/374-2006)	N/A
	Alkaline exhaust	12	Ammonia	Continuous emission	Exhaust gas outlets	2.41	1.99	Integrated emission standards of air pollutants of Shanghai (DB31/933-2015)	N/A
	Organic exhaust	8	Non-methane hydrocarbon	Continuous emission	Exhaust gas outlets	7.00	13.08	The discharge standards of pollutants for semiconductor industry in Shanghai (DB31/374-2006)	64.09
	Industrial wastewater	4	Fluoride	Continuous emission	Wastewater outlets	8.3	24.63	Integrated emission standards of water pollutants of Shanghai (DB31/199-2018)	N/A
			Chemical Oxygen Demand (COD)	Continuous emission	Wastewater outlets	49	200.79		2,370.92
			Ammonia nitrogen	Continuous emission	Wastewater outlets	9.4	33.38		213.38
			Arsenic	Continuous emission	Wastewater outlets in workshop	0.004	0.000315		0.017
SMIB	Acid exhaust	18	Nitrogen oxides	Continuous emission	Exhaust gas outlets	2.34	12.964	Emission standard of air pollutants for electronic industry of Beijing (DB11/1631-2019)	N/A
			Fluoride	Continuous emission	Exhaust gas outlets	0.027	0.119		N/A
	Alkaline exhaust	7	Ammonia	Continuous emission	Exhaust gas outlets	0.283	0.102		N/A
	Organic exhaust	3	Non-methane hydrocarbon	Continuous emission	Exhaust gas outlets	1.82	1.44		N/A
	Industrial wastewater	1	Fluoride	Continuous emission	Wastewater outlets	4.7	15.24	Integrated emission standard of water pollutants of Beijing (DB11/307-2013)	N/A
			Chemical Oxygen Demand (COD)	Continuous emission	Wastewater outlets	116.9	377.147		423.55
			Ammonia nitrogen	Continuous emission	Wastewater outlets	7.78	25.112		31.466
			Arsenic	Continuous emission	Arsenic sampling outlets	0.00098	0.000489		0.7194

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

Name of unit	Type	Number of outlets	Name of major pollutants	Methods of emission/discharge	Distribution of outlets	Emission concentration of waste water (mg/l) Exhaust gases (mg/m ³)	Total emissions (tons)	Pollutant emission standards implemented	Approved total emissions (tons)
SMNC	Acid exhaust	14	Nitrogen oxides	Continuous emission	Exhaust gas outlets	2.14	15.29	Emission standard of air pollutants for electronic industry of Beijing (DB11/1631-2019)	N/A
			Fluoride	Continuous emission	Exhaust gas outlets	0.20	1.12		N/A
	Alkaline exhaust	5	Ammonia	Continuous emission	Exhaust gas outlets	0.99	0.60		N/A
	Organic exhaust	3	Non-methane hydrocarbon	Continuous emission	Exhaust gas outlets	1.75	1.40		N/A
	Industrial wastewater	1	Fluoride	Continuous emission	Wastewater outlets	4.9	26.30	Integrated emission standard of water pollutants of Beijing (DB11/307-2013)	N/A
			Chemical Oxygen Demand (COD)	Continuous emission	Wastewater outlets	94	511.68		1,047.37
			Ammonia nitrogen	Continuous emission	Wastewater outlets	5.9	31.61		132.67
			Arsenic	Continuous emission	Arsenic detection outlets	0.0021	0.00007		1.32
SMIT	Acid exhaust	21	Fluoride	Continuous emission	Exhaust gas outlets	3.25	13.62	Integrated emission standard of air pollutants (GB16297-1996)	N/A
	Alkaline exhaust	8	Ammonia	Continuous emission	Exhaust gas outlets	1.28	1.63	Emission standards of odor pollutants of Tianjin (DB12-059-2018)	N/A
	Organic exhaust	3	Non-methane hydrocarbon	Continuous emission	Exhaust gas outlets	4.8	7.47	Emission standard of air pollutants for industrial furnaces of Tianjin (DB12/556-2015)	N/A
	Industrial wastewater	2	Fluoride	Continuous emission	Wastewater outlets	7.5	8.16	Integrated emission standard of wastewater of Tianjin (DB12-356-2018)	N/A
			Chemical Oxygen Demand (COD)	Continuous emission	Wastewater outlets	98	250.30		257.13
			Ammonia nitrogen	Continuous emission	Wastewater outlets	4.65	9.48		44.94
SMIZ	Acid exhaust	9	Nitrogen oxides	Continuous emission	Exhaust gas outlets	1.92	7.14	Emission limits of air pollutants of Guangdong (DB44/27-2001)	25.81
			Fluoride	Continuous emission	Exhaust gas outlets	0.695	0.75		N/A
	Alkaline exhaust	3	Ammonia	Continuous emission	Exhaust gas outlets	1.37	0.36	Emission standards of odor pollutants (GB14554-93)	N/A
	Organic exhaust	2	Non-methane hydrocarbon	Continuous emission	Exhaust gas outlets	1.09	0.44	Emission limits of air pollutants of Guangdong (DB44/27-2001)	14.58
	Industrial wastewater	2	Fluoride	Continuous emission	Wastewater outlets	4.48	3.46	Discharge limits of water pollutants of Guangdong (DB44/26-2001)	N/A
			Chemical Oxygen Demand (COD)	Continuous emission	Wastewater outlets	68.18	52.66		1,452.8825
			Ammonia nitrogen	Continuous emission	Wastewater outlets	13.89	10.73		130.76
SMSC	Acid exhaust	20	Nitrogen oxides	Continuous emission	Exhaust gas outlets	2.35	20.93	Integrated emission standards of air pollutants of Shanghai (DB31/933-2015)	56.56
			Fluoride	Continuous emission	Exhaust gas outlets	0.13	1.15		N/A
	Alkaline exhaust	5	Ammonia	Continuous emission	Exhaust gas outlets	0.28	0.18	The discharge standards of pollutants for semiconductor industry in Shanghai (DB31/374-2006)	N/A
	Organic exhaust	2	Non-methane hydrocarbon	Continuous emission	Exhaust gas outlets	6.21	5.92	Integrated emission standards of air pollutants of Shanghai (DB31/933-2015)	58.09
	Industrial wastewater	1	Fluoride	Continuous emission	Wastewater outlets	6.17	15.96	The discharge standards of pollutants for semiconductor industry in Shanghai (DB31/374-2006) Integrated emission standards of water pollutants of Shanghai (DB31/199-2018)	N/A
			Chemical Oxygen Demand (COD)	Continuous emission	Wastewater outlets	244.91	633.93		912.7
			Ammonia nitrogen	Continuous emission	Wastewater outlets	12.45	32.23		98.03
			Arsenic	Continuous emission	Wastewater workshop outlets	0.00472	0.000055		N/A

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

2. Construction and operation of pollution prevention and control facilities

Name of unit	Construction of pollution prevention facilities
SMIS	(1) 23,800 m ³ of wastewater and 83,422,800 m ³ of exhaust gas can be treated per day, and all facilities are in normal operation; (2) 3 sets of acid exhaust treatment equipment, 4 sets of alkaline exhaust treatment equipment and 1 set of organic exhaust treatment equipment are under construction, and will be completed and put into use in 2022; (3) 1 set of ammonia-containing wastewater treatment system, 1 set of arsenic-containing wastewater treatment system and 1 set of fluorine-containing wastewater secondary treatment system are under construction, and will be completed and put into use in 2022.
SMIB	12,000 m ³ of wastewater and 35,760,000 m ³ of exhaust gas can be treated per day, and all facilities are in normal operation.
SMNC	(1) 18,000 m ³ of wastewater and 61,560,000 m ³ of exhaust gas can be treated per day, and all facilities are in normal operation; (2) The new construction of 1 set of acid exhaust treatment equipment has been completed.
SMIT	(1) 18,490 m ³ of wastewater and 36,156,000 m ³ of exhaust gas can be treated per day, and all facilities are in normal operation. (2) The new constructions of 7 sets of acid exhaust treatment equipment and 2 sets of alkaline exhaust treatment equipment have been completed.
SMIZ	(1) 3,011 m ³ of wastewater and 19,080,000 m ³ of exhaust gas can be treated per day, and all facilities are in normal operation; (2) The new constructions of 2 sets of acid exhaust treatment equipment have been completed.
SMSC	(1) 12,000 m ³ of wastewater and 51,600,000 m ³ of exhaust gas can be treated per day, and all facilities are in normal operation; (2) The new construction of 1 set of organic exhaust treatment equipment has been completed.

3. Environmental impact assessment of construction project and other administrative permissions for environmental protection

The construction projects of all key pollutant discharging companies have completed the environmental impact assessment and obtained the required environmental protection administrative permits according to the construction progress, please refer to the official website of the environmental protection authority for relevant public information.

SMIS:

- has completed the environmental impact assessment of 2 projects;
- has filled in quarterly and annual implementation reports of the pollutant discharge permit as required during the validity period of the pollutant discharge permit.

SMIB:

- has completed the installation of online automatic wastewater sampling equipment;
- has filled in quarterly and annual implementation reports of the pollutant discharge permit as required during the validity period of the pollutant discharge permit.

SMIT:

- has completed the acceptance of the second stage of environmental protection for 1 project;
- has filled in quarterly and annual implementation reports of the pollutant discharge permit as required during the validity period of the pollutant discharge permit.

SMIZ:

- is conducting the environmental impact assessment of 1 project and the environmental protection acceptance of 1 project;
- has filled in quarterly and annual implementation reports of the pollutant discharge permit as required during the validity period of the pollutant discharge permit.

SMNC:

- has completed the environmental protection acceptance of 1 project;
- has filled in quarterly and annual implementation reports of the pollutant discharge permit as required during the validity period of the pollutant discharge permit.

SMSC:

- has completed the environmental protection acceptance of 1 project;
- has filled in quarterly and annual implementation reports of the pollutant discharge permit as required during the validity period of the pollutant discharge permit.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

4. Response plan for environmental emergencies

In accordance with the requirements of the environmental protection department, the above key pollutant discharging companies have all completed the preparation and filing of the Emergency Response Plan for Environmental Incidents. Units carried out emergency drills for environmental emergencies in accordance with the requirements of the Plan.

5. Environmental self-monitoring program

The above key pollutant discharging companies have completed the preparation of the self-monitoring program in accordance with the requirements and completed regular monitoring according to the program. As of the end of the reporting period, the emission indices of all units have reached the standard.

6. Other environmental information that should be disclosed

The above key pollutant discharging companies have achieved certification of ISO 14001 environmental management system, ISO 14064 greenhouse gas emission verification system and IECQ QC 080000 hazardous substance management system, and have effectively implemented them in accordance with the system requirements. All factories except SMSC have achieved certification of ISO 50001 energy management system.

(II) ADMINISTRATIVE PENALTY FOR ENVIRONMENTAL PROBLEMS DURING THE REPORTING PERIOD

None of the above key pollutant discharging companies were subject to administrative penalties for environmental problems during the reporting period.

(III) THE INFORMATION OF RESOURCE ENERGY CONSUMPTION AND EMISSIONS

1. Emission of greenhouse gas

Name	SMIS	SMIB	SMNC	SMIT	SMIZ	SMSC
Scope 1 (tons of CO ₂ e)	230,305	108,515	144,740	116,931	43,206	36,611
Scope 2 (tons of CO ₂ e)	226,071	249,076	373,554	336,965	150,260	222,859
Total	456,376	357,591	518,294	453,896	193,466	259,470

2. Consumption of energy resource

Name	SMIS	SMIB	SMNC	SMIT	SMIZ	SMSC
Electricity (kWh)	527,458,511	312,038,255	575,503,800	369,764,850	186,843,953	529,051,722
Natural gas (m ³)	2,011,793	2,252,768	1,071,500	9,366,176	806,275	1,182,735
Heat (million kJ)	60,137	259,558	230,306	—	—	15,079
Diesel (tons)	1	2	6	22	—	—
Hydrogen (m ³)	697,704	88,630	455,149	1,096,442	25,052	824,922
Water resources (tons)	3,762,143	3,766,841	5,411,295	3,201,665	1,163,200	3,313,499
Wafers (piece)	1,181,375	809,550*	1,044,189*	1,701,075	664,333	398,575*
Sulfuric acid (tons)	1,879	2,602	9,831	1,197	491	7,469
Ammonia (tons)	312	1,605	2,890	331	129	1,707
Hydrogen peroxide (tons)	1,313	3,204	10,664	783	301	10,734
Isopropanol (tons)	225	99	178	177	82	1,469

* Quantities of 12-inch wafers

3. Discharge of waste

Name	SMIS	SMIB	SMNC	SMIT	SMIZ	SMSC
Amount of General industrial Solid Waste Volume (tons)	5,115	8,749	11,169	5,405	2,723	8,123
Amount of Hazardous Waste (tons)	4,001	2,443	14,819	2,224	1,619	22,472
Amount of Domestic Waste (tons)	728	326	99	335	663	536

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

The environmental management system of the Company

SMIC not only pays attention to enterprise development and economic value creation, but also pays attention to environmental protection and making good use of resources and energy. We continue to implement improvement measures, fulfill our environmental protection responsibilities, and adhere to sustainable development.

Since the founding, we have set up the Environment/Safety/Hygiene Department, we have formulated the environmental protection, safety and health policy with reference to the ISO 14001 Environmental Management System, and established the environmental protection management system, and implemented ISO 14001 Environmental Management System as well.

In accordance with laws, regulations and standards, and guided by environmental management policies, SMIC has systematically and normatively integrated environmental management practice into overall production and operations in aspects such as organizational structure, document control, operation control, supervision management, and continual improvement by planning, implementing, and operating environmental management projects.

We comply with over 100 applicable environmental protection laws or standards such as the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste, as well as the Law of the People's Republic of China on Environmental Impact Assessment.

(IV) MEASURES TAKEN TO REDUCE CARBON EMISSIONS DURING THE REPORTING PERIOD AND EFFECTS

SMIC continues to carry out carbon verification, fulfil carbon trading obligations as required, and implement carbon emission control measures at the same time, and control carbon emissions via engineering and management measures including energy conservation and selection of local treatment systems for waste gas containing per fluorinated greenhouse gases. The main carbon emission control measures and achievements during the reporting period are as below:

SMIS: (1) Completed the the lighting system transformation in some areas, and replaced the fluorescent lamps with LED tubes, saving 47,132 kWh/year of electricity in total; (2) Completed the backwater optimization project of heat pump ice machine system, which can save 3,312 tons steam/year; (3) Replaced some multi-stage centrifugal fans with side-flow fans, saving 190,080 kWh/year of electricity; (4) Replaced 5 fresh air systems with wet film humidification instead of water washing humidification, saving 654,560 kWh/year of electricity.

SMIB: (1) Replaced the low efficiency refrigerator with frequency converter set, which can save 790,000 kWh/year of electricity, equivalent to approximately 477.2 tons CO₂e; (2) Replaced filler with cooling tower, which can improve the heat transfer efficiency of cooling tower, reduce the power consumption of cooling tower, saving 300,000 kWh/year of electricity, equivalent to approximately 181.2 tons CO₂e.

SMIT: (1) Replaced the third-level energy efficiency refrigerator with the first-level energy efficiency refrigerator, which will reduce the carbon emission by about 2,079.3 tons of CO₂e in the corresponding accounting year; (2) With the steam waste heat reuse project, it will reduce carbon emission by about 281.6 tons of CO₂e in the corresponding accounting year.

SMIZ: (1) With the energy conservation renovation of the refrigerating machine in the chilled water system, it can save 3,397,000 kWh/year of electricity; (2) Added frequency converter in PV system expansion equipment, which can save 165,707 kWh/year of electricity; (3) Increased the energy saving device in VOC system gas, and annual energy saving performance was 2,865 km³ of natural gas; (4) Replaced fluorescent lamps with LED lamps in part of the lighting system saving 163,672 kWh/year of electricity.

(V) RELEVANT INFORMATION THAT IS CONDUCTIVE TO PROTECTING ECOLOGY, PREVENTING POLLUTION, AND FULFILLING ENVIRONMENTAL RESPONSIBILITIES

The environmental protection policy of SMIC emphasizes the optimal use of resources and energy, and the reduction of exhaust gas, greenhouse gases and hazardous waste emissions. We continue to implement improvement measures and the concept of sustainable development to reduce the impact on the ecological environment. The ecological and environmental protection issues approved during the reporting period are as below:

In March 2021, SMIT completed the double control assessment of total energy consumption and intensity of key energy-using units in 2020, with an excellent score of 92, higher than most enterprises and highly praised. Due to the outstanding air pollution prevention and control work, SMIC Tianjin plant was included as "Independent Emission Reduction Enterprise (自主減排企業)" by Tianjin Ecology and Environment Bureau in November 2021.

SMIZ was selected into the list of "Double Hundred (雙百)" enterprises of environmental safety standardization and hazardous waste standardization in Shenzhen in 2021.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

III. PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) PRINCIPAL BUSINESS SOCIAL CONTRIBUTION AND INDUSTRY KEY INDICATORS

Principal business social contribution:

In terms of logic IC, SMIC is the first IC wafer foundry in Chinese Mainland to achieve mass production of FinFET, representing the advanced level of independent R&D of integrated circuit manufacturing technology in Chinese Mainland. In terms of specialty technologies, SMIC has successively launched the most advanced specialty technologies for niche market in Chinese Mainland, and cooperated closely with customers, effectively understood the demands and development of end-user companies and the entire system industry, and has done its best to meet customer demand, and alleviate the supply chain shortage.

In addition to the IC foundry business, SMIC is also committed to creating a platform-based ecological service model, providing customers with one-stop supporting services such as design services and IP support, photomasks manufacturing, and promoting the upstream and downstream cooperation of the integrated circuit industry chain, so as to provide customers with a full range of integrated circuit solutions together with partners in all links of the industry chain.

With excellent R&D technical strength, strong manufacturing capability, well-established supporting service system, and rich market practical experience, SMIC has formed prominent brand effects, obtained sound industry recognition, and accumulated a wide range of domestic and foreign customer resources. The Company has carried out in-depth cooperation with many well-known IC design companies and system manufacturers at home and abroad, and has won general recognition and good feedback from customers.

Industry key indicators:

(1) Technological level (key technology nodes)

SMIC reached the target of 15,000 wafers FinFET capacity as planned, and the risk production and mass production are steadily advancing.

(2) Research, development and patents of new products

SMIC worked on product platforms such as power management, ultra-low power, radio frequency, image sensors, fingerprint recognition, and specialty memory, especially on 0.15/0.18 micron, 55/65 nanometer, 40/45 nanometer, etc; these process nodes have all achieved industry leading standards.

By the end of 2021, SMIC filed 17,980 patent applications in total, of which 12,467 were granted. SMIC is leading the Chinese Mainland semiconductor industry in terms of the numbers of applied and granted patents.

(3) Shipments, wafer production capacity

In 2021, the Company's shipments were 6,747 thousand 8-inch wafer equivalents and the monthly capacity reached 621,000 8-inch wafer equivalents.

(II) TYPE AND CONTRIBUTIONS OF PUBLIC CHARITY ACTIVITIES ENGAGED

Type	Number
Charities	SMIC Liver Transplant Program for Children
Representing: Funding	RMB33 million
The person of salvage (person)	656

1. SPECIFIC CONDITIONS OF PUBLIC CHARITY ACTIVITIES ENGAGED

Public Charity

In 2013, SMIC launched the "SMIC Liver Transplant Program for Children" charity project, and has donated a total of RMB33 million over the past nine years. By the end of 2021, 656 children from Chinese mainland had received another chance at life.

SMIC's Responsibility In the Community

As the Group grows and prospers, so do the communities where we operate. We also serve them as neighbors through the scores of programs and activities held on our own campuses. We also encourage individual efforts by our employees, who support local charities, to lecture at local universities, finance rural schools, provide disaster relief, and volunteer for projects throughout the region, focusing on community development and environmental preservation.

Support for Education

The Company invests in the establishment of high-quality schools to give priority to the children of employees in order to erase the employees' worries about their children's future and open the schools to the society, sharing quality educational resources and serving children whose parents are not our employees with quality resources and competitive fees. The Company and employees also support education in other ways. For example, we participate in external charity projects and donate books, gift bags of winter clothing and learning supplies to school children from migrant communities.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

(III) PROTECTION OF THE INTEREST OF SHAREHOLDERS AND CREDITORS

In order to effectively protect the legitimate rights and interests of investors, in accordance with the requirements of applicable laws, regulations and regulatory documents, the Company has formulated the Articles of Association, the *Rules of Procedures for General Meetings* (《股東大會議事規則》), the *Management System for Information Disclosure* (《信息披露事務管理制度》) and the *Management System for Investor Relations* (《投資者關係管理制度》), in order to effectively ensure the good communication between the Company and investors, increase investors' understanding and recognition of the Company, further improve the level of corporate governance, maximize the Company's overall interests and protect the legitimate rights and interests of investors.

(IV) PROTECTION OF THE INTEREST OF EMPLOYEES

SMIC has always believed that only when the talents are offered macroscopic visions, broad stages and opportunities to achieve personal dreams and enjoy work and life, can it have a better future. Therefore, the Company adheres to the people-oriented principle to ensure that employees enjoy fair treatment, good health, and provides employees with a platform for self-realisation to obtain a sense of achievement and satisfaction in the work, so as to realise technological innovation, growth together with the Company and promote economic and social development.

Employee Health & Safety

SMIC attained OHSAS 18001 (Occupational Health and Safety Assessment Series) certification in 2003. The OHSAS 18001 (renamed ISO45001) standard is a key component of our comprehensive health and safety management system and is based on international safety and health standards. With this certification, we have demonstrated our commitment to safety, risk management, and a healthier environment for our employees. Our safety management philosophy embraces accident prevention, ownership management, frequent safety audits, safety education, engineering control, personal accountability, and enforcement.

Employee Care

SMIC provides employees with convenient living service and facilities. In addition to the housing and schooling described above, our employees and their families enjoy good health insurance as well as access to the professionally staffed health service in the manufacturing sites, residential campuses and schools. We also care for our employees through on-the-job training, subsidize university continuing education, athletic and recreational facilities, transportation and catering facilities, and strive to enrich the lives of employees.

(V) THE PROTECTION OF THE INTEREST OF SUPPLIERS, CUSTOMERS AND CONSUMERS

Based on the concept of achieving a win-win cooperation with suppliers, SMIC strives to help improve the social responsibility management capabilities of enterprises in the supply chain, safeguard stable production and operation, and ensure service quality for customers. SMIC has established a comprehensive supplier management system, focused on managing the key links in the supply chain, including supplier access regulations, supplier evaluation regulations and supplier promotion regulations.

Customer service is one of the core values of SMIC's corporate culture, we have been committed to providing excellent service for our customers based on the principle of customer orientation. SMIC is very confident in executing its customer service strategy given its excellent manufacturing capabilities, technologies, and services. We are committed to providing excellent services to customers and achieving shared progress through various strategies.

In order to understand and meet the needs of customers in a timely manner, SMIC has professional customer service team located in Shanghai, Beijing, Tianjin, Shenzhen, San Jose (USA), Tokyo (Japan) and other regions around the world, which can provide worldwide customer service. SMIC has established a sound system to track and handle customer complaints. All customer complaints are investigated and handled by relevant departments timely according to the procedures.

(VI) ASSURANCE OF THE PRODUCT SAFETY

SMIC has established a hazardous substance process management system (QC 080000). We conducted a whole-process control over the hazardous substance in our products according to the requirements of such management system. Our products have been tested and verified by the third parties, basically meet the relevant requirements of international and domestic laws and regulations such as the Administrative Measures on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Products adopted by China, Restriction of Hazardous Substances (RoHS Directive) and Registration, Evaluation, Authorization and Restriction of Chemicals (REACH Directive) adopted by the European Union and the requirements of customers.

(VII) OTHER SITUATION IN TERM OF SOCIAL RESPONSIBILITY

At SMIC, we comply with strict legal requirements for corporate governance, financial accounting, and transparent reporting. Our business practices are also ethical, safe, environmental friendly, and fair to our employees, in accordance with the laws, rules, and regulations applicable in the countries where we operate. In addition to obeying applicable legal duties and obligations, we continue to practice and strive for corporate social responsibility. Through our CSR Program (http://www.smics.com/en/site/responsibility_social), we hope to advance social, environmental, and ethical responsibility according to internationally recognised standards.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

To achieve these goals:

- Declare our support for the Responsible Business Alliance (Formerly the Electronic Industry Citizenship Coalition) ("RBA") Code of Conduct (https://www.smics.com/en/site/responsibility_criterion) and will actively pursue conformance to the Code and participation by our suppliers.
- Uphold the human rights of our staff and the highest standards of business integrity, as required by the RBA Code, the SMIC Code of Business Conduct & Ethics (http://www.smics.com/uploads/ethic_codebusiness.pdf), SMIC Human Resources policies, and all other SMIC policies.
- Strive to maintain a safe workplace for our employees and a healthy environment for the public while minimizing adverse effects on the community, environment, and natural resources, consistent with our Environmental Protection, Safety & Health Policy and our related ISO and other international certifications (https://www.smics.com/en/site/about_ESH).
- Develop and maintain management systems to implement this CSR Policy with continual improvement as part of a holistic CSR Program. See our latest ESG Report at: https://www.smics.com/en/site/responsibility_report_honor.

Our CSR practices comply with the laws applicable in the place where we operate and align with the leading international standards for our industry. Our CSR practices have led to our ongoing inclusion in the Hang Seng Corporate Sustainability Index Series for maintaining a "high standard of performance in environmental, social, and corporate governance" areas. See www.hsi.com.hk.

IV. OTHER CORPORATE GOVERNANCE

(I) INVESTOR RELATIONS AND PROTECTION

Type	Time	Relevant information
Convening the Presentation	4	Holding earnings calls /webcasts four times a year to facilitate calls for analysts to have a more comprehensive and timely in-depth understanding of the Company's operating performance, and answer analysts questions.
Conducting investor relations management activities by virtue of new media	5	Distribute annual report and quarterly earnings report summary (four times a year) through the Company's public WeChat platforms.
Setting up investor relations column on the official website	Yes	Set up the investor relations section on the Company's official website to comprehensively display information of interest to investors.

Specific details of investor relations management and protection

The Company has a professional team conducting investor relations management, aiming to strengthen the communication between the Company and investors and potential investors, effectively establish a channel for the Company's management to listen to investors' suggestions, and improve the Company's governance, maximizing the overall interests of the Company and protecting the lawful rights and interests of investors. In the work of investor relations management, the Company treats all investors equally as its standard, fully complies with information disclosure requirements, is honest and trustworthy with interactive communication as the criterion, communicating with the capital market through multiple channels about the Company's operation and management status, financial situation, product technology, other significant events, and takes the initiative to disclose information related to the Company that is of concern to investors, so as to fully protect the lawful rights and interests of investors of the Company.

Other ways to communicate with investors

Other communication methods between the Company and investors include but are not limited to: announcements, shareholders' meetings, SSE e-interaction platform, investor hotline and email, the Company's official website, roadshows, brokerage conference, promotional materials, media interviews, etc.

(II) TRANSPARENCY OF INFORMATION DISCLOSURE

In order to standardize the information disclosure, promote the standardized operation, and safeguard the legitimate rights and interests of the shareholders of the Company, especially the public shareholders, the Company has formulated the Investor Relationship Management System (《投資者關係管理制度》) and Information Disclosure Management System (《信息披露管理制度》) in accordance with the Administrative Measures for Information Disclosure of Listed Companies (《上市公司信息披露管理办法》) and other relevant laws, regulations and normative documents to ensure that investors can obtain timely, truthful, accurate and complete materials and information related to the Company.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

(III) PROTECTION OF INTELLECTUAL PROPERTY AND INFORMATION SECURITY

1. Intellectual Property Protection

The Company attached great importance to the protection of intellectual property rights, and established a professional team for intellectual property protection. In accordance with laws and regulations, based on the actual situation, combined with the progress of technological innovation and the needs of the market environment, the Company flexibly formulated intellectual property protection strategies suitable for the Company's development, so as to protect and utilize technological innovation achievements reasonably while continuously improving its own competitiveness, and protect the high-quality development of the Company.

2. Information Safety Protection

By continuously strengthening the security team, continuously optimizing physical environment control, network access control, identity authentication strengthening, data communications confidentiality, data storage confidentiality, data use controllability and other information security technologies, SMIC has developed a confidential information technology control and monitoring system.

- Strengthen confidential level classification of information assets, implement classified management and protect confidential information of SMIC intellectual property.
- Divide the physical area into different levels according to the degree of business confidentiality and optimize a multi-level protection scheme.
- Establish a log collection, analysis and management platform for key and core systems, etc., so as to better analyze big data for daily operations and maximize the value of data. Build an effective warning and tracking mechanism for violations based on this platform.
- Establish an information security inspection department to strengthen the inspection.
- Strengthen the effective visitor registration, access control and monitoring system to standardize the safe access of visitors.
- Consistently implement the effective company and customer confidential information access control mechanism to comply with authorized access and on-demand access for unified management.
- Conduct regular audits of specific confidential data access, transmission and storage activities to ensure continuous and effective control.
- Consistently implement information security incident monitoring, reporting, processing and process optimization to effectively reduce the risk of confidential information leakage and improve the effectiveness of prevention and control.

(IV) PARTICIPATION OF INSTITUTIONAL INVESTORS IN CORPORATE GOVERNANCE

During the reporting period, institutional investors expressed their views through voting at shareholder meetings held by the Company and increased their monitoring of the Company's management. In addition, the Company has also increased institutional investors' participation in corporate governance by maintaining continuous two-way communication, listening carefully, engaging in substantive dialogue on business performance and strategy, and collecting their suggestions on corporate governance and ESG.

SECTION 8 SIGNIFICANT EVENTS

I. PERFORMANCE OF UNDERTAKINGS

(I) UNDERTAKINGS OF THE DE FACTO CONTROLLER OF THE COMPANY, SHAREHOLDERS, RELATED PARTIES, ACQUIRER AND THE COMPANY DURING OR SUBSISTING TO THE REPORTING PERIOD

Background of the undertaking	Type of the undertaking	Undertaking party	Details of the undertaking	Time and term of the undertaking	Whether there is a term for performance	Whether performed timely and strictly	Specific reasons for the failure to timely honor the undertaking	Further plans in the event of failing to timely honor the undertaking
Commitments in relation to the initial public offering	Resolve peer competition	Substantial shareholders, domestic shareholders indirectly holding over 5% of shares	See note 1	Effective for a long time	No	Yes	N/A	N/A
	Resolve related (connected) transaction	The Company, substantial shareholders, domestic shareholders indirectly holding over 5% of shares, Directors and senior management personnel	See note 2	Effective for a long time	No	Yes	N/A	N/A
	Other (commitments on price stabilization)	The Company, salaried directors (except independent non-executive Directors) and senior management personnel	See note 3	July 16, 2020 to July 16, 2023	Yes	Yes	N/A	N/A
	Other (share repurchase and commitment on share repurchase)	The Company	See note 4	Effective for a long time	No	Yes	N/A	N/A
	Other (share repurchase commitment for fraudulent offering and listing)	The Company, substantial shareholders, domestic shareholders indirectly holding over 5% of shares	See note 5	Effective for a long time	No	Yes	N/A	N/A
	Other (commitment to remedy diluted current returns)	The Company, Directors and senior management personnel	See note 6	Effective for a long time	No	Yes	N/A	N/A
	Dividends	The Company	See note 7	Effective for a long time	No	Yes	N/A	N/A
	Other (commitment to bear compensation or liability according to law)	The Company, substantial shareholders, domestic shareholders indirectly holding over 5% of shares, Directors and senior management personnel	See note 8	Effective for a long time	No	Yes	N/A	N/A
	Other (binding measures should the commitments be violated)	The Company, substantial shareholders, domestic shareholders indirectly holding over 5% of shares, Directors and senior management personnel	See note 9	Effective for a long time	No	Yes	N/A	N/A
	Other (commitments on applicable laws and competent courts)	The Company, Directors and senior management personnel	See note 10	Effective for a long time	No	Yes	N/A	N/A

Note 1:

Commitments by substantial shareholders and domestic shareholders indirectly holding over 5% of shares

- As of the date of this undertaking, the Company and affiliates directly or indirectly controlled by the Company have not, directly or indirectly, engaged in any business in any way within or outside China that constitutes peer competition or potential peer competition with the principal business of the issuer or its subsidiaries, including but not limited to develop, operate or assist in operating, participating in, and engaging in relevant businesses, not independently or in conjunction with, on behalf of any person, firm or company (enterprise, unit).
- As of the date of this undertaking, the Company undertakes that it will not: (1) independently or with a third party, in the form of direct or indirect control, engage in a business or activity that constitutes peer competition or potential peer competition with issuer's or its affiliates' principal business that has a significant adverse impact ("competitive business"); (2) if the Company and its affiliates directly or indirectly controlled by the Company obtained new investment opportunities in any way to own the controlling shares, equity or interests of companies engaged in competitive business with the issuer and its affiliates, the Company will notify the issuer in writing. If within the reasonable period specified in the notice, the issuer makes a written reply that it is willing to accept the new investment opportunity, the Company or its affiliates directly or indirectly controlled by the Company (except the issuer and its affiliates) will procure as permitted by law that these new investment opportunities to be first provided to the issuer or its affiliates on reasonable and fair terms and conditions.

SECTION 8 SIGNIFICANT EVENTS

3. The undertaking takes effect from the date of making the undertaking until any of the following occurs: (1) the Company and parties acting in concert (if any) directly or indirectly hold less than 5% (exclusive) of the issuers' shares; (2) the issuer's shares are terminated from listing on the Shanghai Stock Exchange (except for the suspension of trading of the issuer's shares for any reason); (3) when there is no statutory requirement for the content of a certain undertaking, the relevant part shall be automatically terminated.
4. For any party of the letter of undertaking, "affiliates" shall mean any other enterprise or entity (1) holds or controls 50% or more issued share capital or 50% or more voting rights, if applicable; or (2) is entitled 50% or more profits after tax; or (3) has the right to control the composition of the board of directors or control in any other form, regardless of whether it has legal personality or not, and the affiliates of the enterprise or entity.

If the Company fails to perform such obligations under the commitments above, the Company shall bear corresponding liabilities in accordance with the binding measures applicable to the failure of performance.

Note 2:

Commitments by the Company

1. To implement the statutory approval procedures for related (connected) transaction in strict accordance with the relevant laws and regulations of the place of listing, and strictly implement the related (connected) transaction avoidance system;
2. To ensure that independent non-executive Directors exercise their powers according to law, ensure the fairness of prices of related (connected) transactions and the compliance of approval procedures, and protect the interests of other shareholders to the maximum;
3. Where there are related (connected) transactions between the Company's substantial shareholders and affiliates and the Company, it will perform related (connected) transaction decision-making procedures, and disclose information in a timely manner to ensure not to harm the legitimate rights and interests of the Company and other shareholders by virtue of such related (connected) transactions in strict accordance with the requirements of relevant laws, regulations and regulatory documents.

If the Company fails to perform such obligations under the commitments above, the Company shall bear corresponding liabilities in accordance with the binding measures applicable to the failure of performance.

Commitments by substantial shareholders and domestic shareholders indirectly holding over 5% of shares

1. Without adversely affecting the interests of the issuer and other shareholders, the Company will take measures to regulate and minimize related (connected) transactions with the issuer.
2. For related (connected) transactions required in normal course of business, the Company will sign a standardized transaction agreement with the issuer according to law, fulfill or cooperate with the issuer to perform review and approval procedures and avoidance of voting and information disclosure obligations in accordance with relevant laws, regulations, regulatory documents and the requirements of issuer's internal control systems including the Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation applicable after the A Share offering, and guarantee such related (connected) transactions will be implemented based on the basic principles of related (connected) transactions, such as fairness, impartiality and openness.
3. Undertakes not to harm the interests of the issuer and other shareholders by virtue of the related (connected) transactions.

If the Company fails to perform such obligations under the commitments above, the Company shall bear corresponding liabilities in accordance with the binding measures applicable to the failure of performance.

SECTION 8 SIGNIFICANT EVENTS

Commitments by Directors and senior management personnel

1. Without adversely affecting the interests of the issuer and other shareholders, I will take measures to regulate and minimize related (connected) transactions with the issuer.
2. For related (connected) transactions in normal course of business or unavoidable for other reasonable reasons, I will sign a regulated transaction agreement with the issuer according to law, fulfill review and approval procedures and avoidance of voting and information disclosure obligations in accordance with relevant laws, regulations, regulatory documents, the issuer's Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation applicable after the A Share offering and the requirements of relevant internal control systems, and guarantee such related (connected) transactions will be implemented based on the principles of related (connected) transactions.
3. Undertakes not to harm the interests of the issuer and other shareholders by virtue of the related (connected) transactions.

The commitments made by me shall comply with applicable laws, regulations and regulatory documents, as well as the regulatory requirements of the securities regulatory authority and other competent authorities. In violation of the above-mentioned commitment, I will undertake corresponding obligations in accordance with the Letter of Commitment of Directors and Senior Management Personnel of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments.

Note 3:

Commitments by the Company, salaried Directors (except for independent non-executive Directors) and senior management personnel

Triggering condition for stabilization of share price:

Where the closing price of the shares has been lower than the latest audited net asset value per share (as adjusted for changes in the Company's net assets or total number of shares due to profit distribution, conversion of capital reserves into share capital, share allotment or placing etc.) for 20 consecutive trading days in the three years after the listing of shares on the STAR Market of the Shanghai Stock Exchange, which is not due to force majeure events, the Company will, or will procure such other parties covered in this plan to, initiate price stabilization pursuant to the provisions in this plan.

Main measures and procedures of price stabilization of the Company:

When the triggering condition herein is satisfied, the Company shall take all or part of the following measures to stabilize the price of the shares according to laws, regulations, regulatory documents, the Memorandum and Articles of Association of the Semiconductor Manufacturing International Corporation, and provisions in the relevant policies of the Company:

1. Without prejudicing the normal operations of the Company, and after being considered and approved by competent internal organization(s) pursuant to applicable laws, regulations and regulatory documents, the Company will repurchase the shares from public shareholders;
2. After taking the measure specified in item 1 above, if the closing price of the Company's shares is still lower than the latest audited net asset value per share, the Company shall request its salaried Directors (except for independent non-executive Directors) and senior management personnel to increase their holding of shares (provided that they are qualified to purchase shares);
3. Other means of price stabilization as specified by laws, regulations and regulatory documents, and as permitted by the China Securities Regulatory Commission or the Shanghai Stock Exchange.

In the course of and after taking such share price stabilizing measures, the Company shall make sure that its shareholding structure shall always satisfy the listing conditions of the Main Board of The Stock Exchange of Hong Kong Limited and the STAR Market of the Shanghai Stock Exchange.

I/the Company will strictly enforce the Plan for Stabilization of the Price of RMB Ordinary Shares (A Shares) for the Three Years after the Initial Public Offering and Listing on the STAR Market of the Shanghai Stock Exchange of Semiconductor Manufacturing International Corporation and relevant requirements on stabilizing the price of the Company's shares in the Letter of Commitment. In violation of the above-mentioned commitment, I/the Company will undertake corresponding legal liabilities.

SECTION 8 SIGNIFICANT EVENTS

Note 4:

Commitments by the Company

1. If securities regulatory departments or other competent departments determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus for the A Share offering such that there is a material and substantial impact on determining whether the Company meets the conditions for issuance as specified in laws, and the Company has obtained registration of the issuance by fraud and has the shares listed, the Company hereby undertakes to repurchase all new shares issued under the A Share offering in accordance with laws.
2. When the triggering condition for stabilizing the share price as specified in the Company's plan for Stabilization of the Price of RMB Ordinary Shares (A Shares) for the Three Years after the Initial Public Offering and Listing on the STAR Market of the Shanghai Stock Exchange of Semiconductor Manufacturing International Corporation is satisfied, the Company will perform its obligations to repurchase the shares in accordance with the provisions in such plan.

In violation of the above-mentioned commitments, the Company will undertake corresponding liabilities in accordance with its Letter of Commitment of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments.

Note 5:

Commitments by the Company, substantial shareholders and domestic shareholders indirectly holding over 5% of shares

1. The Company undertakes that the A Share offering by issuer is not fraudulent.
2. If the issuer obtains registration of the issuance by fraud, and has issued and listed shares when it does not meet the conditions for issuance and listing, the Company will start share repurchase procedures to repurchase all new shares issued under the A Share offering within 5 working days after being confirmed by the China Securities Regulatory Commission and other competent departments.

If the Company fails to perform such obligations under the commitments above, the Company shall bear corresponding liabilities in accordance with the binding measures applicable to the failure of performance.

Note 6:

Commitments by the Company

The Company will take active measures to compensation for the diluted immediate return. If it violates the relevant commitments, it will undertake corresponding liabilities in accordance with its Letter of Commitment of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments. In the meantime, the Company shall make supplementary or substitutive commitments to the investors, so as to protect the investors' interests to the greatest extent possible. Such supplementary or substitutive commitments shall be fulfilled after being considered and approved at a general meeting.

Commitments by Directors and senior management personnel

1. I will not transfer any interests to other entities or individuals without consideration or with unfair conditions, nor otherwise damage the interests of the Company.
2. I will impose constraints on position-related consumption behavior.
3. I will not make any investment or consumption activity irrelevant to my performance of duties using the Company's assets.
4. I will propel to link the remuneration policy formulated by the Board or the Remuneration Committee with the implementation of the issuer's remedial measures for returns.
5. In the case that any equity incentive scheme (if any) is introduced hereafter, I will actively support to link the vesting conditions of equity incentive with the implementation of the issuer's remedial measures for diluted immediate returns.
6. During the date of this commitment to the completion of the A Share offering, if China Securities Regulatory Commission or the Shanghai Stock Exchange issue other new regulatory provisions on the remedial measures for diluted immediate returns and its commitments, and when the above commitments fail to meet the aforementioned requirements, I will make supplementary commitments in accordance with the aforementioned provisions.

SECTION 8 SIGNIFICANT EVENTS

7. I undertakes to conscientiously fulfill the measures formulated by the issuer's remedial measures for returns and any commitments made thereon regarding remedial measures for diluted immediate returns, in breach of such commitments and resulting in losses to the issuer or investors, I am willing to bear the compensation liability to the issuer or investor according to law.

The commitments I made shall comply with applicable laws, regulations and regulatory documents, as well as the regulatory requirements of the securities regulatory authorities and other competent authorities. In violation of the above-mentioned commitment, I will undertake corresponding obligations in accordance with the Letter of Commitment of Directors and Senior Management Personnel of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments.

Note 7:

Commitments by the Company

The Company will implement the profit distribution policy strictly in accordance with the Notice on Further Implementation of Cash Dividends of Listed Companies issued by the China Securities Regulatory Commission, the Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation, and the Profit Distribution Policy and Dividend Return Plan for the Three Years after the Initial Public Offering and Listing of RMB Ordinary Shares (A Shares) on the STAR Market of the Shanghai Stock Exchange of Semiconductor Manufacturing International Corporation applicable after the A Share offering.

In violation of the above-mentioned commitments, the Company will undertake corresponding liabilities in accordance with its Letter of Commitment of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments.

Note 8:

Commitments by the Company

1. Contents contained in the Prospectus for the A Share offering have no misrepresentation, misleading statement or material omission, and the Company will be liable for the truthfulness, accuracy and completeness of the contents contained in the Prospectus.
2. If the China Securities Regulatory Commission or other competent departments determine(s) that there is any misrepresentation, misleading statement or material omission in the contents contained in the prospectus such that there is a material and substantial impact on determining whether the Company meets the conditions for issuance as specified in laws, and the Company has obtained registration of the issuance by fraud and has the shares listed, the Company hereby undertakes to repurchase all new shares issued under the A Share offering in accordance with laws.
3. In case any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus leads to any losses of investors in securities transactions, the Company will compensate for their losses in accordance with laws. The specific procedures are as follows:
 - (1) When securities regulatory departments or other competent departments determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus such that the Company shall be liable, the Company will initiate relevant procedures to compensate for the losses of investors within five working days after receiving such written confirmation;
 - (2) The Company will communicate with the relevant intermediaries and investors actively to negotiate and confirm the scope, sequence, amount and form of compensation;
 - (3) After confirming the compensation amount through the above-mentioned method, or by securities regulatory departments or other competent departments, the Company will make compensation in the form confirmed through the above-mentioned method or such other forms required by laws.

In violation of the above-mentioned commitments, the Company will undertake corresponding liabilities in accordance with its Letter of Commitment of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments.

SECTION 8 SIGNIFICANT EVENTS

Commitments by substantial shareholders

1. Contents contained in the Prospectus for the A Share offering have no misrepresentation, misleading statement or material omission, and the Company will be liable for the truthfulness, accuracy and completeness of the contents contained in the Prospectus.
2. In case any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus leads to any losses of investors in securities transactions, the Company will compensate for their losses in accordance with laws. The specific procedures are as follows:
 - (1) When securities regulatory departments or judicial authority determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus such that the Company shall be liable, the Company will initiate relevant procedures to compensate for the losses of investors within ten working days after receiving such written confirmation.
 - (2) The Company will communicate with the investors actively to negotiate and confirm the scope, sequence, amount and form of compensation.
 - (3) After confirming the compensation amount through the above-mentioned method, or by securities regulatory departments or the judicial authority, the Company will make compensation accordingly.

If the Company fails to perform such obligations under the commitments above, the Company shall bear corresponding liabilities in accordance with the binding measures applicable to the failure of performance.

Commitments by domestic shareholders indirectly holding over 5% of shares

1. Contents contained in the Prospectus for the A Share offering have no misrepresentation, misleading statement or material omission, and the Company will be liable for the truthfulness, accuracy and completeness of the contents contained in the Prospectus.
2. In case any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus leads to any losses of investors in securities transactions, the Company will compensate for their losses in accordance with laws. The specific procedures are as follows:
 - (1) When securities regulatory departments or judicial authority determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus such that the Company shall be liable, the Company will initiate relevant procedures to compensate for the losses of investors within three working days after receiving such written confirmation.
 - (2) The Company will communicate with the investors actively to negotiate and confirm the scope, sequence, amount and form of compensation.
 - (3) After confirming the compensation amount through the above-mentioned method, or by securities regulatory departments or the judicial authority, the Company will make compensation accordingly.

If the Company fails to perform such obligations under the commitments above, the Company shall bear corresponding liabilities in accordance with the binding measures applicable to the failure of performance.

SECTION 8 SIGNIFICANT EVENTS

Commitments by Directors and senior management personnel

1. Contents contained in the Prospectus for the A Share offering and other application documents have no misrepresentation, misleading statement or material omission, and I will be liable for the truthfulness, accuracy and completeness of the contents contained in the Prospectus.
2. In case any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus and other application documents leads to any losses of investors in securities transactions, I will compensate for their losses in accordance with laws. The specific procedures are as follows:
 - (1) When securities regulatory departments or other competent authorities determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus and other application documents such that I shall be liable, I will initiate relevant procedures to compensate for the losses of investors within three working days after receiving such written confirmation;
 - (2) I will communicate with the issuer, other intermediaries and the investors actively to negotiate and confirm the scope, sequence, amount and form of compensation;
 - (3) After confirming the compensation amount through the above-mentioned method, or by securities regulatory departments or the judicial authority, I will make compensation in the form confirmed through the above-mentioned method or such other forms required by laws.

The commitments made by me shall comply with applicable laws, regulations and regulatory documents, as well as the regulatory requirements of the securities regulatory authority and other competent authorities. In violation of the above-mentioned commitments, I will undertake corresponding obligations in accordance with the Letter of Commitment of Directors and Senior Management Personnel of Semiconductor Manufacturing International Corporation on Binding Measures when Failing to Fulfill Relevant Commitments.

Note 9:

Commitments by the Company

1. All public commitments made by the Company in the course of the A Share offering (hereinafter referred to as "Company Commitments") are true and binding on the Company. The Company voluntarily accepts the supervision by regulatory authorities, self-regulatory organizations and the public. The Company will perform all obligations and take all responsibilities under the Company Commitments strictly.
2. If the Company fails to fulfill the Company Commitments fully and effectively for reasons except force majeure, the Company hereby undertakes to adopt the following binding measures:
 - (1) Take corresponding remedial measures or making new commitments (such commitments shall fulfill relevant approval and information disclosure procedure in accordance with laws, regulations, regulatory documents, the Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation, and the provisions in relevant internal control policy);
 - (2) Within 30 days after securities regulatory departments or other competent departments determine that the Company breaks or fails to fulfill the Company Commitments, or 30 days after determining that the investors suffer losses in securities transactions due to the Company's breaking of or failure to fulfill the Commitments, the Company will compensate for the losses of the investors in accordance with laws. The compensation amounts shall be negotiated and confirmed by and between the Company and the investors, or decided or determined by means as permitted by securities regulatory departments or other competent departments.

SECTION 8 SIGNIFICANT EVENTS

Commitments by substantial shareholders and domestic shareholders indirectly holding over 5% of shares

1. All public commitments made by the Company in the course of the A Share offering of issuers (hereinafter referred to as "Shareholders Commitments") are true and binding on the Company. The Company voluntarily accepts the supervision by regulatory authorities, self-regulatory organizations and the public. The Company will perform all obligations and take all responsibilities under the Commitments strictly.
2. If the Company fails to fulfill the Shareholders Commitments fully and effectively for reasons except force majeure, the Company hereby undertake to adopt the following binding measures:
 - (1) Take corresponding remedial measures or making new commitments (such commitments shall fulfill relevant approval and information disclosure procedure in accordance with laws, regulations, regulatory documents, the Articles of Association, and the provisions in relevant internal control policy);
 - (2) If securities regulatory departments or judicial authority determine that the Company break or fail to fulfill foregoing Shareholders Commitments and shall assume corresponding responsibility, the Company will assume corresponding responsibility in accordance with laws.

Commitments by Directors and senior management personnel

1. All public commitments made by me in the course of the A Share offering (hereinafter referred to as "Individual Commitments") are true and binding on me. I voluntarily accept the supervision by regulatory authorities, self-regulatory organizations and the public. I will perform all obligations and take all responsibilities under the Commitments strictly.
2. If I fail to fulfill the Individual Commitments fully and effectively for reasons except force majeure, I hereby undertake to adopt the following binding measures:
 - (1) Take corresponding remedial measures or making new commitments (such commitments shall fulfill relevant approval and information disclosure procedure in accordance with laws, regulations, regulatory documents, the Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation, and the provisions in relevant internal control policy);
 - (2) Within 30 days after securities regulatory departments or other competent departments determine that I break or fail to fulfill foregoing Undertakings, or 30 days after determining that the investors suffer losses in securities transactions due to my breaking of or failure to fulfill the Individual Commitments, I voluntarily compensate investors in advance from all salary and/or allowances I received from the issuer.

Note 10:

Commitments by the Company

1. Any dispute arising from the initial public offering and listing of RMB Ordinary shares (A Shares) on the STAR Market of the Shanghai Stock Exchange and during the listing period of the Company on STAR Market shall be governed by the laws of the People's Republic of China (excluding Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) (hereinafter referred to as "China"), and be adjudicated by competent courts in China. The Company will not raise any objection to the above-mentioned applicable law and competent court.
2. The "disputes" stipulated in foregoing paragraph 1 shall include:
 - (1) where Directors or senior management personnel violate laws and regulations or the Company's Articles of Association in performing their duties and cause losses to the Company, or others infringe on the legal rights and interests of the Company and cause losses to the Company, derivative litigation filed by shareholders who individually or collectively hold more than 1% of the Company's RMB ordinary shares (A Shares) for more than 180 consecutive days;
 - (2) where the Company fails to disclose information in accordance with regulations, or there is misrepresentation, misleading statement or material omission in securities issuance documents, regular reports, interim reports and other information disclosure materials, which causes holders of RMB ordinary shares (A Shares) to suffer losses in securities transactions, civil lawsuits filed by holders of RMB ordinary shares (A Shares) against the issuer and other responsible persons.

SECTION 8 SIGNIFICANT EVENTS

Commitments by directors and senior management personnel

- Any dispute arising from and during the A Share offering and listing and during the listing period of the Company on STAR Market shall be governed by the laws of the People's Republic of China (excluding Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) (hereinafter referred to as "China"), and be adjudicated by competent courts in China.
- I will not raise any objection to the above-mentioned applicable law and competent court.

II. THE APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

in USD'000

	Previous appointment	Current appointment
Name of the domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)	Ernst & Young Hua Ming LLP (Special General Partnership)
Remuneration of the domestic accounting firm	560	565
Duration of the domestic accounting firm	7 years	1 year
Name of the overseas accounting firm	PricewaterhouseCoopers	Ernst & Young
Remuneration of the overseas accounting firm	1,093	848
Duration of the overseas accounting firm	7 years	1 year

EXPLANATION OF APPOINTMENT AND CHANGE OF THE ACCOUNTING FIRMS

Appointment of accounting firms in 2021: Ernst & Young Hua Ming LLP (Special General Partnership) is the Company's auditor of financial report under the China Accounting Standards for Business Enterprises; Ernst & Young is the Company's auditor of financial report under the International Financial Reporting Standards.

Former accounting firms: PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) was the Company's auditor of financial report under the China Accounting Standards for Business Enterprises; PricewaterhouseCoopers was the Company's auditor of financial report under the International Financial Reporting Standards.

Reasons for change of accounting firms: the former accounting firms have provided audit services to the Company for seven consecutive years. The Board believes that the change of auditors will enhance the independence of auditors and the effectiveness of audit services, and is consistent with good corporate governance. The Company has communicated with the former accounting firms on matters related to the change of the accounting firms, and the former accounting firms were aware of this matter and have no objection to such change.

On June 25, 2021, the resolution on the appointment of accounting firms for the year 2021 was considered and approved at the general meeting.

III. MATERIAL LITIGATION AND ARBITRATION

The Company was involved in material litigation or arbitration in the year as described below

(I) LITIGATION AND ARBITRATION EVENTS THAT HAVE BEEN DISCLOSED IN THE PROVISIONAL ANNOUNCEMENTS AND WITHOUT SUBSEQUENT DEVELOPMENTS

Summary and type of the event	Inquiry index
The Company noted that on December 10, 2020 EST, a civil complaint was filed with the United States District Court, Central District of California relating to certain securities of the Company (the "Complaint"). The plaintiff filed the Complaint on behalf of herself and other persons alleged to have acquired certain Company securities publicly traded on the OTCQX market. The Complaint lists the Company and certain of its directors as defendants. It seeks unquantified financial compensation for alleged violations of sections 10(b) and 20(a) of the United States ("U.S.") Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by the U.S. Securities and Exchange Commission, which prohibit certain misrepresentations and omissions in connection with the purchase or sale of securities, in respect of certain statements or documents published by the Company.	For details, please refer to the Announcement In Relation To Litigation published on the Shanghai Securities News, China Securities Journal, Securities Times, Securities Daily and the website of SSE (http://www.sse.com.cn) dated December 16, 2020, and Announcement In Relation To Lawsuit Filed In The United States published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) dated December 15, 2020.

(II) OTHER LITIGATION

1. Patent Litigation with Innovative Foundry Technologies LLC

On April 15, 2021, the Company reached a settlement with Innovative Foundry Technologies LLC. The settlement fee did not have a significant impact on the Company.

2. Arbitration of Contract Dispute with PDF SOLUTIONS, INC

On May 7, 2020, SMIC New Technology, a subsidiary of the Company, received an arbitration notice issued by the Hong Kong International Arbitration Center, whereby PDF SOLUTIONS, INC. ("PDF") filed an arbitration request with the Hong Kong International Arbitration Center. PDF disputed the rights and obligations of both parties under a series of agreements it entered into with SMIC New Technology. PDF required SMIC New Technology to pay the relevant fees under the agreements. SMIC New Technology has formally responded to the Hong Kong International Arbitration Center and opined that the fees it owed to PDF had already been fully paid in accordance with the contractual obligations and no additional fee is required. The arbitration is still ongoing.

SECTION 8 SIGNIFICANT EVENTS

IV. SUBSTANTIAL CONNECTED AND RELATED TRANSACTIONS

(I) NON-EXEMPT CONNECTED TRANSACTIONS DISCLOSED IN ACCORDANCE WITH THE REQUIREMENTS OF HONG KONG LISTING RULES

1. *New JV Agreement in relation to Semiconductor Manufacturing Electronics (ShaoXing) Corporation ("SMEC")*

On or before December 14, 2020, certain shareholders of SMEC entered into equity transfer agreements to transfer their equity interest in SMEC through separate transactions, and certain shareholders of SMEC and new investors agreed to enter into transactions to make further capital contribution to the registered capital of SMEC.

On January 8, 2021, shareholders (including SMIC Holdings) of SMEC entered into the new joint venture agreement (the "New JV Agreement") to reflect the above changes. As SMIC Holdings did not make further capital contribution in SMEC, the Company's equity interest in SMEC, through SMIC Holdings, has decreased from approximately 22.26% to 19.57%.

Reasons for and Benefits of the New JV Agreement

Through the entering into of the New JV Agreement, the introduction of new strategic investors as new shareholders of SMEC will help guarantee the capital demand of the project expansions of SMEC and better promote the construction and business development of SMEC.

The Directors (including independent non-executive Directors) consider that (i) it is in the best interests of the Company and the Shareholders as a whole for the Company to enter into the New JV Agreement and the transactions contemplated thereunder; (ii) the terms of the New JV Agreement are fair and reasonable and in the interests of the Shareholders as a whole; and (iii) the entering into of the New JV Agreement and transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implications under the Hong Kong Listing Rules

As China IC Fund holds approximately 10.21% interest in the Company through its wholly-owned subsidiary, Xinxin HK as at the date of this announcement, it is a connected person of the Company under the Hong Kong Listing Rules. As China IC Fund holds approximately 49.5% interest in IPV Global, IPV Global is an associate of China IC Fund and thus a connected person of the Company. Accordingly, the Company's entering into of the New JV Agreement with, amongst others, IPV Global constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratios stipulated under rule 14.07 of the Hong Kong Listing Rules in respect of the New JV Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the New JV Agreement constitute connected transactions of the Company and are subject to the reporting and announcement requirements under the Hong Kong Listing Rules, but are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

2. *Proposed Issue of New RMB Shares to Connected Persons under the Restricted Share Incentive Scheme ("the Scheme") pursuant to Specific Mandate*

On May 19, 2021, the Board approved the proposed adoption of the Scheme and the proposed grant and issue of new RMB Shares under the Scheme pursuant to the Specific Mandate. Among the Restricted Shares to be granted under the proposed grant of not more than 68,085,200 Restricted Shares, representing approximately 90% of the total number of Restricted Shares under the Scheme, 2,900,000 Restricted Shares were granted to 9 connected awardees Dr. Zhou Zixue, Dr. Chiang ShangYi, Dr. Zhao Haijun, Dr. Liang Mong Song, Dr. Gao Yonggang, Dr. Zhou Meisheng, Mr. Zhang Xin, Mr. Lin Hsin Fa and Dr. Wang Yong, each of whom was granted 400,000, 400,000, 400,000, 400,000, 360,000, 360,000, 320,000, 160,000 and 100,000 Restricted Shares respectively, with the price of RMB20 each Restricted Share.

The Restricted Shares granted under the Scheme may be attributed in tranches as per the agreed proportions upon the awardees satisfying the corresponding attribution conditions:

Tranche	Attribution period	Attribution percentage
First tranche	From the first trading day after the expiry of 12 Months following the date of the First Grant until the last trading day within the 24 months following the date of First Grant	30%
Second tranche	From the first trading day after the expiry of 24 months following the date of the First Grant until the last trading day within the 36 months following the date of First Grant	25%
Third tranche	From the first trading day after the expiry of 36 months following the date of the First Grant until the last trading day within the 48 months following the date of First Grant	25%
Fourth tranche	From the first trading day after the expiry of 48 months following the date of the First Grant until the last trading day within the 60 months following the date of First Grant	20%

Each of the connected awardees is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant and issue of the Restricted Shares to the Connected Awardees under the Scheme constitute non-exempt connected transactions of the Company, and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The grant and issue of the Restricted Shares to the Connected Awardees under the Scheme have been approved by independent shareholders at the Company's extraordinary general meeting on June 25, 2021.

SECTION 8 SIGNIFICANT EVENTS

3. Grant of Restricted Share Units

The Board announces that on May 31, 2021, the Company proposes to grant 1,303,370 Restricted Share Units under the 2014 Equity Incentive Plan (the "Proposed RSU Grants"), subject to the independent Shareholders' approval at an extraordinary general meeting. Among the 1,303,370 Restricted Share Units proposed to be granted, an aggregate of 1,176,836 Restricted Share Units and 126,534 Restricted Share Units were proposed to be granted to 10 Directors and 4 subsidiaries directors. Each of the Restricted Share Units granted to 10 Directors and 4 subsidiaries directors represents the right to receive a Hong Kong Share on the date it vests. Details of the Proposed RSU Grants are as follows:

Name	Number of Restricted Share Units granted	Vesting schedule
Dr. Zhou Zixue	138,050	138,050 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021 (Since Dr. Zhou Zixue has resigned as an executive director of the Company on March 17, 2022, the Restricted Share Units that have not been vested will be handled in accordance with the corresponding policies of the Company)
Dr. Zhao Haijun	138,050	138,050 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021
Dr. Gao Yonggang	147,482	147,482 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021
Dr. Chen Shanzhi	62,500	62,500 Restricted Share Units granted will vest on January 1, 2022
Mr. Huang Dengshan	187,500	Mr. Huang Dengshan has relinquished this grant.
Mr. Lu Guoqing	187,500	187,500 Restricted Share Units granted will vest over a period of three years at the rate of 33%, 33% and 34% for each 12-month period commencing on 13 May 2021
Mr. William Tudor Brown	62,500	62,500 Restricted Share Units granted will vest on January 1, 2022
Professor Lau Lawrence Juen-Yee	32,877	32,877 Restricted Share Units granted will vest on January 1, 2022
Mr. Fan Ren Da Anthony	32,877	32,877 Restricted Share Units granted will vest on January 1, 2022
Dr. Liu Ming	187,500	187,500 Restricted Share Units granted will vest over a period of three years at the rate of 33%, 33% and 34% for each 12-month period commencing on February, 4 2021
Dr. Zhou Meisheng	61,138	61,138 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021
Mr. Zhang Xin	38,330	38,330 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021
Mr. Lin Hsin-Fa	21,504	21,504 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021
Dr. Wang Yong	5,562	5,562 Restricted Share Units granted will vest over a period of four years at the rate of 25%, 25%, 25% and 25% for each 12-month period commencing on March 1, 2021

In accordance with the terms of the 2014 Equity Incentive Plan, the Proposed RSU Grants will be made for no consideration, other than the minimum payment required by the applicable law in the Cayman Islands (which is the par value of the Ordinary Shares to be issued pursuant thereto).

The proposed grant of 1,303,370 Restricted Share Units to 10 Directors and 4 Subsidiaries Directors and any transactions contemplated thereunder (including the allotment and issue of any new Hong Kong Shares thereunder) constitutes non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are thus subject to reporting, announcement and the Independent Shareholders' approval requirements.

4. Formation of Joint Venture Company in Lin-Gang, Shanghai

On November 12, 2021, SMIC Holdings, China IC Fund II and Shanghai Hailinwei IC Inc. ("Hailinwei") entered into a joint venture agreement (the "Lin-Gang Joint Venture Agreement") to jointly establish SMOC. The registered capital of SMOC is US\$5.5 billion, of which SMIC Holdings, China IC Fund II and Hailinwei agreed to contribute US\$3.655 billion, US\$922 million and US\$923 million, respectively, representing 66.45%, 16.77% and 16.78% of the registered capital of SMOC, respectively.

Reasons for and Benefits of Establishing SMOC

The Company considers that, seizing the strategic opportunity period for the development of the integrated circuit industry in Lin-Gang Pilot Free Trade Zone, the formation of SMOC can meet the growing market and customer needs and enable the Company to expand its production scale, reduce its costs of production, advance its foundry service and thus promote the sustainable development of the Company.

The Board (including the independent non-executive Directors) considers that the terms of the Lin Gang Joint Venture Agreement are fair and reasonable, and the entering into of the Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and its shareholders as a whole.

SECTION 8 SIGNIFICANT EVENTS

Implications under the Hong Kong Listing Rules

As (i) China IC Fund II holds 23.077% equity interest in SMSC, which is regarded as a subsidiary of the Company since SMIC Holdings is entitled to appoint the majority of the directors in SMSC's board of directors and those directors can veto certain material matters discussed in the board meeting of SMSC at its sole discretion; (ii) Hailinwei is held as to 36.67% and 30.00% by Shanghai Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. (上海集成電路產業投資基金(二期)有限公司) ("Shanghai IC Fund II") and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd. (上海集成電路產業投資基金股份有限公司) ("Shanghai IC Fund"), which respectively holds 11.538% and 12.308% of the equity interests in SMSC and therefore Hailinwei is an associate of each of Shanghai IC Fund II and Shanghai IC Fund; and (iii) China IC Fund II holds 24.49% in Semiconductor Manufacturing Beijing Corporation (中芯京城集成電路製造(北京)有限公司) ("SMBC"), a subsidiary of the Company, China IC Fund II is a connected person of the Company at the subsidiary level by way of being a substantial shareholder (as defined in the Hong Kong Listing Rules) of SMSC and SMBC, respectively and Hailinwei is a connected person of the Company at the subsidiary level by way of being an associate (as defined in the Hong Kong Listing Rules) of each of Shanghai IC Fund II and Shanghai IC Fund, which are substantial shareholders of SMSC. Accordingly, the Lin-Gang Joint Venture Agreement constitutes a connected transaction for the Company under Chapter 14A of the Hong Kong Listing Rules.

As the formation of SMOC and the formation of SMBC are all entered into with China IC Fund II and within a 12-month period, the transactions contemplated under the Lin Gang Joint Venture Agreement and the Beijing Joint Venture Agreement are aggregated as one transaction under Rules 14.22 and 14A.81 of the Hong Kong Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Hong Kong Listing Rules in respect of the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement exceed 5% but are less than 25%, the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

As (i) the Board has approved the Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder; and (ii) the Board (including the independent non-executive Directors) has confirmed that the terms of the Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Lin-Gang Joint Venture Agreement is only subject to reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Hong Kong Listing Rules.

5. Entry of the New Shenzhen Joint Venture Agreement

On August 27, 2021, SMIC Holdings (a wholly-owned subsidiary of the Company), SMIC Investment (a wholly-owned subsidiary of the Company) and Shenzhen Major Industry Investment Group Co., Ltd. ("Shenzhen Major") entered into a joint venture agreement (the "Shenzhen Joint Venture Agreement"), pursuant to which, among others, (i) the parties had agreed that the registered capital of SMIC Shenzhen shall be increased to US\$2,415 million, of which, SMIC Holdings, SMIC Investment and Shenzhen Major agreed to subscribe for capital contribution of US\$1,732.55 million, US\$127 million and US\$555.45 million, respectively, representing 71.74%, 5.26% and 23.00% of the enlarged registered capital of SMIC Shenzhen, respectively, and the Company indirectly held an aggregate of 77.00% equity interests in SMIC Shenzhen through its wholly-owned subsidiaries, SMIC Holdings and SMIC Investment; and (ii) SMIC Holdings has the right to transfer the subscribed capital contribution of US\$531.3 million, representing 22.00% equity interests in SMIC Shenzhen.

On November 23, 2021, the parties to the Shenzhen Joint Venture Agreement and China IC Fund II had entered into a new joint venture agreement (the "New Shenzhen Joint Venture Agreement"), pursuant to which, among others, SMIC Holdings agreed to transfer to China IC Fund II the capital contribution of US\$531.3 million (representing 22.00% equity interests in SMIC Shenzhen) which has been subscribed by SMIC Holdings under the Shenzhen Joint Venture Agreement but not paid up and China IC Fund II shall be responsible for the relevant capital contribution (the "Transfer"). As SMIC Holdings had not paid up the relevant equity interests and therefore no consideration is received from China IC Fund II under the Transfer. Upon completion of the Transfer, (i) the registered capital of SMIC Shenzhen will remain unchanged at US\$2,415 million; (ii) the equity interests in SMIC Shenzhen indirectly held by the Company, through its wholly-owned subsidiaries, SMIC Holdings and SMIC Investment, will be reduced from 77.00% to 55.00%; and (iii) SMIC Shenzhen will be owned as to 49.74%, 5.26%, 23.00% and 22.00% by SMIC Holdings, SMIC Investment, Shenzhen Major and China IC Fund II, respectively.

Reasons for and Benefits for the entering into of the New Shenzhen Joint Venture Agreement

Through the entering into of the New Shenzhen Joint Venture Agreement, it is conducive to further optimizing SMIC Shenzhen's shareholding structure and consolidating the parties' advantageous resources, so as to lay a solid foundation for accelerating business development of SMIC Shenzhen, which in turn promote the Company's sustainable development.

The Board (including the independent non-executive Directors) considers that the terms of the New Shenzhen Joint Venture Agreement are fair and reasonable, and the entering into of the New Shenzhen Joint Venture Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and its shareholders as a whole.

Implications under the Hong Kong Listing Rules

As (i) China IC Fund II holds 23.077% equity interests in SMSC, which is regarded as a subsidiary of the Company since SMIC Holdings is entitled to appoint the majority of the directors in SMSC's board of directors and those directors can veto certain material matters discussed in the board meeting of SMSC at its sole discretion; and (ii) China IC Fund II respectively holds 24.49% and 16.77% in SMBC and SMOC, each a subsidiary of the Company, thus China IC Fund II is a connected person of the Company at the subsidiary level by way of being a substantial shareholder (as defined in the Hong Kong Listing Rules) of SMSC, SMBC and SMOC, respectively. Accordingly, the transaction contemplated under the New Shenzhen Joint Venture Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the Transfer and the formation of each of SMBC and SMOC are all entered into with China IC Fund II and within a 12-month period, the transactions contemplated under the New Shenzhen Joint Venture Agreement, the SMBC Joint Venture Agreement and the Lin-Gang Joint Venture Agreement are aggregated as one transaction under Rules 14.22 and 14A.81 of the Hong Kong Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Hong Kong Listing Rules in respect of the New Shenzhen Joint Venture Agreement, the SMBC Joint Venture Agreement and the Lin-Gang Joint Venture Agreement exceed 5% but are less than 25%, the New Shenzhen Joint Venture Agreement, the SMBC Joint Venture Agreement and the Lin-Gang Joint Venture Agreement constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

SECTION 8 SIGNIFICANT EVENTS

As (i) the Board has approved the New Shenzhen Joint Venture Agreement and the transaction contemplated thereunder; and (ii) the Board (including the independent non-executive Directors) has confirmed that the terms of the New Shenzhen Joint Venture Agreement and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Company, in relation to the New Shenzhen Joint Venture Agreement, is only subject to reporting and announcement requirements, but is exempted from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Hong Kong Listing Rules.

The New Shenzhen Joint Venture Agreement and the transactions contemplated thereunder are also required to be disclosed at the SSE as they constitute related transactions pursuant to the Listing Rules of the Science and Technology Innovation Board of the SSE.

(II) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS DISCLOSED UNDER THE HONG KONG LISTING RULES

1. SMNC Centralized Fund Management Agreement – 2019 to 2021 – and Revision

On November 29, 2018, the Company, SMIC Beijing and SMNC (a majority-owned subsidiary of the Company) entered into a centralized fund management agreement for a term of three years commencing on January 1, 2019 and ended on December 31, 2021 (the "SMNC Centralized Fund Management Agreement"), pursuant to which, (i) the Company would authorize SMIC Beijing to carry out centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMNC would participate in the Group's centralized fund management system. For details of the transactions under the SMNC Centralized Fund Management Agreement, please refer to the announcement and circular of the Company dated November 29, 2018 and December 21, 2018, respectively.

At the time of the entering into of the SMNC Centralized Fund Management Agreement, China IC Fund (through its wholly-owned subsidiary, Xinxin HK), held approximately 15.82% of equity interest in the Company and is therefore a connected person of the Company at the issuer level under the Hong Kong Listing Rules. The registered capital of SMNC was held as to approximately 51.00% and 32.00% by the Group and China IC Fund, respectively and SMNC was therefore a connected subsidiary and further a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules.

On February 14, 2019, the Directors (including the independent non-executive Directors) approved to revise and adjust the previous annual caps for the provision of internal deposit services contemplated under the SMNC Centralised Fund Management Agreement to US\$3,500 million (or its equivalent in other currencies) for the years ending December 31, 2019, 2020 and 2021, respectively (the "Revised Deposit Annual Caps"). For details of the Revised Deposit Annual Caps, please refer to the announcement of the Company dated March 19, 2019.

On April 9, 2021, SMNC ceased to be a connected subsidiary and a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules as China IC Fund only hold approximately 9.62% of equity interest in the Company through Xinxin HK.

The annual caps and actual transaction amounts generated by the Company pursuant to the SMNC Centralized Fund Management Agreement for the four months ended April 30, 2021 are set out below:

Transactions	Annual caps on transactions amount for the year ended December 31, 2021 US\$ million	Actual transaction amounts for the four months ended April 30, 2021 US\$ million
Collection and Payment Services and Foreign Exchange Services	200	100.4
Internal Loan Services	500	–
Letter of Credit Services	500	–
Other Financial Services	50	–

2. SJ Semi Centralized Fund Management Agreement – 2019 to 2021

On December 6, 2018, the Company, SMIC Beijing and SJ Semiconductor Corporation ("SJ Semi") entered into centralized fund management agreement for a term of three years commencing on January 1, 2019 and ended on December 31, 2021 (the "SJ Semi Centralized Fund Management Agreement"), pursuant to which, (i) the Company would authorize SMIC Beijing to carry out centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SJ Semi would participate in the Group's centralized fund management system. For details of the transactions under the SJ Semi Centralized Fund Management Agreement, please refer to the announcement and circular of the Company dated December 6, 2018 and December 21, 2018, respectively.

At the time of the entering into of the SJ Semi Centralized Fund Management Agreement, China IC Fund (through its wholly-owned subsidiary, Xinxin HK), held approximately 15.82% of equity interest in the Company and is therefore a connected person of the Company at the issuer level under the Hong Kong Listing Rules. China IC Fund held approximately 29.38% of equity interest in SJ Semi and accordingly, SJ Semi was a connected subsidiary and further a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules.

On April 9, 2021, SJ Semi ceased to be a connected subsidiary and a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules as China IC Fund only hold approximately 9.62% of equity interest in the Company through Xinxin HK.

SECTION 8 SIGNIFICANT EVENTS

The annual caps and actual transaction amounts generated by the Company pursuant to the SJ Semi Centralized Fund Management Agreement for the four months ended April 30, 2021 are set out below.

Transactions	Annual caps on transactions amount for the year ended December 31, 2021	Actual transaction amounts for the four months ended April 30, 2021
	US\$ million	US\$ million
Collection and Payment Services and Foreign Exchange Services	130	–
Internal Loan Services	130	30
Letter of Credit Services	130	–
Other Financial Services	50	–

3. Datang Holdings Framework Agreement – 2019 to 2021

On January 23, 2019, the Company entered into a renewed framework agreement with Datang Holdings for a term of three years commencing on January 1, 2019 and ended on December 31, 2021 (the “Datang Holdings Framework Agreement”), pursuant to which the Group and Datang Holdings (including its related companies) agreed to engage in business collaboration including but not limited to foundry service. For details of the transactions under the Datang Holdings Framework Agreement, please refer to the announcement of the Company dated January 23, 2019.

At the time of entering into the Datang Holdings Framework Agreement, Datang Holdings is the holding company of Datang HK, which is a substantial shareholder of the Company, holding approximately 17.05% of the total issued share capital. Datang Holdings was an associate of Datang HK and hence a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules.

The annual cap and actual transaction amounts generated by the Group pursuant to the Datang Holdings Framework Agreement during the year ended December 31, 2021 are set out below.

Transactions	Annual caps on transactions amount for the year ended December 31, 2021	Actual Transaction Amounts for the year ended December 31, 2021
	US\$ million	US\$ million
The revenue generated by the Group under the Datang Holdings Framework Agreement	48	25.5

4. SMSC Framework Agreement – 2020 to 2021 – and SMSC Amendment Agreement

On December 6, 2019, the Company and its subsidiaries (other than SMSC) and SMSC entered into a framework agreement for a term of two years commencing on January 1, 2020 and ended on December 31, 2021 (the “SMSC Framework Agreement”), in relation to the supply of goods and rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing as well as the sharing of research and development costs and provision of guarantee by the Company and/or its subsidiaries (other than SMSC) for SMSC’s financing activities. For details of the SMSC Framework Agreement, please refer to the announcement and circular of the Company dated December 6, 2019 and January 21, 2020, respectively.

At the time of the entering into of the SMSC Framework Agreement, China IC Fund (through its wholly-owned subsidiary, Xinxin HK) held approximately 15.77% of equity interest in the Company, thus it is a connected person of the Company at the issuer level pursuant to the Hong Kong Listing Rules. The registered capital of SMSC was held as to approximately 50.10% and 27.04% by the Group and China IC Fund, respectively, SMSC was therefore a connected subsidiary and a connected person of the Company under the Chapter 14A of Hong Kong Listing Rules.

On August 31, 2020, the Company and its subsidiaries (other than SMSC) and SMSC entered into the amendment agreement to the SMSC Framework Agreement (the “SMSC Amendment Agreement”) to revise the previous annual caps for the transfer of assets between the Company and SMSC contemplated under the SMSC Framework Agreement to US\$239 million (or its equivalent in other currencies) and US\$658 million (or its equivalent in other currencies) for the years ending December 31, 2020 and 2021, respectively. For details of the SMSC Amendment Agreement, please refer to the announcement and the circular of the Company dated August 31, 2020 and October 20, 2020, respectively.

On April 9, 2021, SMSC ceased to be a connected subsidiary and a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules as China IC Fund only hold approximately 9.62% of equity interest in the Company through Xinxin HK.

The annual caps, revised annual cap and actual transaction amounts generated by the Company from the transactions entered into pursuant to the SMSC Framework Agreement and SMSC Amendment Agreement during the four months ended April 30, 2021 are set out below.

SECTION 8 SIGNIFICANT EVENTS

Transactions	Annual caps on transactions amount for the year ended December 31, 2021 US\$ million	Actual Transaction Amounts for the four months ended April 30, 2021 US\$ million
Purchase and sale of goods	832	2.1
Rendering of or receiving services	401	17.6
Leasing of assets	42	2.6
Transfer of assets	658 (Revised)	–
Provision of technical authorization or licensing	617	0.3
Provision of guarantee	1,000	–
Total	3,550 (Revised)	22.6

5. SJ Semi Framework Agreement – 2020 to 2022

On December 26, 2019, the Company and SJ Semi entered into a framework agreement for a term commencing on January 1, 2020 and ending on December 31, 2022 (the “SJ Semi Framework Agreement”), in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets and provision of technical authorization or licensing by the Company to SJ Semi. For details of the SJ Semi Framework Agreement, please refer to the announcement of the Company dated December 27, 2019.

At the time of the entering into of the SJ Semi Centralized Fund Management Agreement, China IC Fund (through its wholly-owned subsidiary, Xinxin HK), held approximately 15.77% of equity interest in the Company and is therefore a connected person of the Company at the issuer level under the Hong Kong Listing Rules. China IC Fund held approximately 29.36% of equity interest in SJ Semi and accordingly, SJ Semi was a connected subsidiary and further a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules.

On April 9, 2021, SJ Semi ceased to be a connected subsidiary and a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules as China IC Fund only hold approximately 9.62% of equity interest in the Company through Xinxin HK.

The annual caps and actual transaction amounts generated by the Company from the transactions entered into pursuant to the SJ Semi Framework Agreement for the four months ended April 30, 2021 are set out below.

Transactions	Annual caps on transactions amount for the year ended December 31, 2021 US\$ million	Actual Transaction Amounts for the four months ended April 30, 2021 US\$ million
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing generated by the Group	23	1.8
Supply of goods and services and transfer of equipment generated by SJ Semi	91	8.0

6. SMSC Centralized Fund Management Agreement – 2021 to 2023

On August 31, 2020, the Company and its subsidiaries, SMIC Beijing and SMSC entered into the centralized fund management agreement for a term of three years commencing on January 1, 2021 and ending on December 31, 2023 (the “SMSC Centralized Fund Management Agreement”), in relation to the internal deposit services, collection and payment services and foreign exchange services, internal loan services, provision of letter of credit services and other financial services. For details of the SMSC Centralized Fund Management Agreement, please refer to the announcement and the circular of the Company dated August 31, 2020 and October 20, 2020, respectively.

At the time of the entering into of the SMSC Centralized Fund Management Agreement, China IC Fund (through its wholly-owned subsidiary, Xinxin HK) held approximately 10.36% shareholding in the Company and is therefore a connected person of the Company at the issuer level under the Hong Kong Listing Rules. The registered capital of SMSC was held as to approximately 38.515%, 14.562%, 23.077%, 12.308% and 11.538% by SMIC Holdings, China IC Fund, China IC Fund II, Shanghai IC Fund and Shanghai IC Fund II, respectively where SMSC was regarded as a subsidiary of the Company since SMIC Holdings was entitled to appoint the majority of the directors in SMSC’s board of directors and veto certain material matters discussed at a general meeting of SMSC at its sole discretion. The Company has effective control over SMSC and accordingly the financial results of SMSC is consolidated into the consolidated financial statements of the Group under the relevant accounting policy. Each of China IC Fund II, Shanghai IC Fund and Shanghai IC Fund II was also a connected person of the Company by way of being a substantial shareholder (as defined in the Hong Kong Listing Rules) of SMSC. SMSC was therefore a connected subsidiary of the Company as defined under Chapter 14A of the Hong Kong Listing Rules and thus a connected person of the Company under the Hong Kong Listing Rules.

On April 9, 2021, SMSC ceased to be a connected subsidiary and a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules as China IC Fund only hold approximately 9.62% of equity interest in the Company through Xinxin HK.

The annual caps and actual transaction amounts generated by the Company from the transactions entered into pursuant to the SMSC Centralized Fund Management Agreement for the four months ended April 30, 2021 are set out below.

SECTION 8 SIGNIFICANT EVENTS

Transactions	Annual caps on transactions amount for the year ended December 31, 2021 US\$ million	Actual Transaction Amounts for the four months ended April 30, 2021 US\$ million
Collection and Payment Services and Foreign Exchange Services	2,500	773.0
Internal Loan Services	1,500	408.0
Letter of Credit Services	2,000	–
Other Financial Services	50	–

7. SMNC Framework Agreement – 2021 to 2023

On September 2, 2020, the Company and its subsidiaries (other than SMNC and its subsidiaries) and SMNC (on behalf of itself and its subsidiaries) entered into a framework agreement for a term of three years commencing on January 1, 2021 and ending on December 31, 2023 (the “SMNC Framework Agreement”), in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing by the Company and/or its subsidiaries to SMNC and/or its subsidiaries and provision of guarantee by the Company and/or its subsidiaries for SMNC’s financing activities. For details of the SMNC Framework Agreement, please refer to the announcement and the circular of the Company dated September 2, 2020 and October 20, 2020, respectively.

At the time of the entering into of the SMNC Centralized Fund Management Agreement, China IC Fund (through its wholly-owned subsidiary, Xinxin HK), held approximately 10.36% of equity interest in the Company and is therefore a connected person of the Company at the issuer level under the Hong Kong Listing Rules. The registered capital of SMNC was held as to approximately 51.00% and 32.00% by the Group and China IC Fund, respectively and SMNC was therefore a connected subsidiary and further a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules.

On April 9, 2021, SMNC ceased to be a connected subsidiary and a connected person of the Company as defined under Chapter 14A of the Hong Kong Listing Rules as China IC Fund only hold approximately 9.62% of equity interest in the Company through Xinxin HK.

The annual caps and actual amounts generated by the Company from the transactions entered into pursuant to the SMNC Framework Agreement during the four months ended April 30, 2021 are set out below.

Transactions	Annual caps on transactions amount for the year ended December 31, 2021 US\$ million	Actual Transaction Amounts for the four months ended April 30, 2021 US\$ million
Purchase and sale of goods	1,600	378.7
Rendering of or receiving services	200	33.5
Leasing of assets	200	–
Transfer of assets	200	–
Provision of technical authorization or licensing (including the sharing of research and development costs)	100	–
Provision of guarantee	1,000	214.2
Total	3,300	626.4

CONCLUSION

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions disclosed above in the section headed “(II) Non-exempt Continuing Connected Transactions Disclosed under the Hong Kong Listing Rules” for the year ended December 31, 2021 followed the relevant pricing principles of such continuing connected transactions. It is noted that none of the transaction amounts of the above continuing connected transaction items exceeded the annual caps for the year ended December 31, 2021.

The independent non-executive Directors of the Company have confirmed to the Board that they have reviewed all non-exempt continuing connected transactions and are of the view that:

- those transactions were conducted in the ordinary and usual course of business of the Group;
- those transactions were entered into on normal commercial terms or better; and
- those transactions were conducted in accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

SECTION 8 SIGNIFICANT EVENTS

AUDITOR REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information," and with reference to Practice Note 740, "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its conclusions (with a copy provided to the Hong Kong Stock Exchange) in accordance with Rule 14A.56 of the Hong Kong Listing Rules and confirming that nothing has come to their attention that causes them to believe the continuing connected transactions:

- (a) have not been approved by the Board;
- (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involved provision of goods or services by the Group;
- (c) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (d) have exceeded the annual caps.

RELATED PARTY TRANSACTIONS

Save as disclosed above, the Group entered into several transactions with multiple parties that are considered "related parties" under the applicable accounting standards, and these transactions are not regarded as connected transactions under the Hong Kong Listing Rules and STAR Market Listing Rules. Details of such related party transactions are disclosed in Note 43 to the consolidated financial statements.

(III) RELATED PARTY TRANSACTIONS IN RELATION TO DAILY OPERATION

Matters that have been disclosed in temporary announcements and have developments or changes in subsequent implementation

Summary of the event	Inquiry index
On March 31, 2021, the Board reviewed and approved the Proposal for Predicted Line of Daily Connected Transactions in 2021.	For details, please refer to the Announcement on Predicted Line of Daily Connected Transactions in 2021 dated April 1, 2021 published in Shanghai Securities News, China Securities Journal, Securities Times, Securities Daily, and on the website of SSE (http://www.sse.com.cn).

The actual amounts during the reporting period of the daily related transactions, of which estimated amount in RMB are approved in the period and disclosed on the Shanghai Stock Exchange, are as follows:

Related party	Related transaction	Estimated amount for 2021 (RMB'000)	Actual amount for the reporting period (RMB'000)	Percentage in the amount of similar transactions
Semiconductor Global Solutions Corporation	Purchase of goods	4,746	1,399	0.0
	Purchase of machinery and equipment from the related party	205,084	146,050	0.5
JCET Group Co., Ltd.	Subtotal	209,830	147,449	
	Receiving services	60,000	10,316	0.4
	Leasing assets from the related party	3,900	1,087	1.8
	Subtotal	63,900	11,403	
China Fortune-Tech Capital Co., Ltd	Receiving services	2,748	3,488	11.4
	Leasing assets to the related party	3,682	3,806	2.9
	Subtotal	6,430	7,294	
Toppan SMIC Electronic (Shanghai) Co., Ltd	Purchase of goods	54,624	41,303	1.4
	Receiving services	700	—	—
	Leasing assets to the related party	31,862	29,532	22.9
	Subtotal	87,186	70,835	
Brite Semiconductor (Shanghai) Corporation	Sales of goods	385,925	460,660	1.4
	Subtotal	385,925	460,660	
	Total	753,271	697,641	

SECTION 8 SIGNIFICANT EVENTS

The actual amounts during the reporting period of the daily related transactions, of which annual caps in USD are approved in the previous year and disclosed on the Hong Kong Stock Exchange, are as follows:

Related party	Related transaction	Annual caps in 2021 (USD'000)	Actual amount for the reporting period, (USD'000)
Ningbo Semiconductor International Corporation	Purchase and sale of goods	120,000	21,956
	Rendering of or receiving services	1,200	260
	Leasing assets	100	89
	Transferring assets	–	3,508
	Provision of technical authorization or licensing	3,000	–
Sino IC Leasing Co., Ltd.	Financial Services	2,500,000	187,310
	Other related services	50,000	–
Datang Telecom Technology & Industry Holdings Co., Ltd and its related parties	Sales of goods	48,000	25,524

(IV) RELATED PARTY TRANSACTIONS IN THE ACQUISITION OR SALE OF ASSETS OR EQUITY *Matters that have been disclosed in temporary announcements and have no developments or changes in subsequent implementation*

Summary of the event	Inquiry index
On November 23, 2021, SMIC Holdings, SMIC Investment, Shenzhen Major and China IC Fund II had entered into the New Shenzhen Joint Venture Agreement, pursuant to which, among others, SMIC Holdings agreed to transfer to China IC Fund II the capital contribution of US\$531.3 million (representing 22.00% equity interests in SMIC Shenzhen) which has been subscribed by SMIC Holdings under the Shenzhen Joint Venture Agreement but not paid up and China IC Fund II shall be responsible for the relevant capital contribution. As SMIC Holdings had not paid up the relevant equity interests and therefore no consideration was received from China IC Fund II under the Transfer.	For details, please refer to the Announcement on Entry of the New Shenzhen Joint Venture Agreement and Related (connected) Transactions dated November 24, 2021 published in Shanghai Securities News, China Securities Journal, Securities Times, Securities Daily, and on the website of SSE (http://www.sse.com.cn).

(V) SIGNIFICANT RELATED TRANSACTIONS FOR JOINT FOREIGN INVESTMENT *Matters that have been disclosed in temporary announcements and have no developments or changes in subsequent implementation*

Summary of the event	Inquiry index
On November 12, 2021, SMIC Holdings, China IC Fund II and Hailinwei entered into the Lin-Gang Joint Venture Agreement to jointly establish the Lin-Gang Joint Venture Company. The registered capital of the Lin-Gang Joint Venture Company is US\$5.5 billion, of which SMIC Holdings, China IC Fund II and Hailinwei agreed to contribute US\$3.655 billion, US\$922 million and US\$923 million, respectively, representing 66.45%, 16.77% and 16.78% of the registered capital of the Lin-Gang Joint Venture Company, respectively.	For details, please refer to the Announcement on Discloseable and Connected Transaction Formation of Joint Venture Company in Lin-gang, Shanghai dated November 12, 2021 published in Shanghai Securities News, China Securities Journal, Securities Times, Securities Daily, and on the website of SSE (http://www.sse.com.cn).

V. MATERIAL CONTRACTS

(I) GUARANTEES

in USD'000

External guarantees provided by the Company (excluding guarantees provided for its subsidiaries)	
Total guarantee incurred during the reporting period (excluding those provided to subsidiaries)	–
Total balance of guarantee as at the end of the reporting period (A) (excluding those provided to subsidiaries)	–
Guarantee provided by the Company and its subsidiaries to its subsidiaries	
Total guarantee to subsidiaries incurred during the reporting period	119,837
Total balance of guarantee to subsidiaries as at the end of the reporting period (B)	1,687,139
Aggregate guarantees provided by the Company (including those provided to subsidiaries)	
Aggregate guarantee (A+B)	1,687,139
Percentage of aggregate guarantee to net assets of the Company (%)	9.84
Representing:	
Amount of guarantee provided for shareholders, de facto controller and its related parties (C)	–
Amount of debts guarantee directly or indirectly provided to guaranteed parties with gearing ratio over 70% (D)	257,380
Excess amount of aggregate guarantee over 50% of net assets (E)	–
Aggregate amount of the above three categories (C+D+E)	257,380

SECTION 8 SIGNIFICANT EVENTS

(II) ENTRUSTED CASH ASSET MANAGEMENT

1. Entrusted wealth management

in USD'000

Type	Sources of funds	Amount in current period	Outstanding balance	Amounts overdue but not yet recovered
Structured deposits	Self-owned funds	107,157	–	–

2. Other information

Type of investment	Fund manager	Investment amount	Product type	Term of investment	Lawsuits involved or not
Harvest Express Monetary A	Harvest Fund Management Co., Ltd.	RMB233,620,148	Non-principal-guaranteed floating income	Nil	No
Harvest XianJinBao Monetary Market Fund	Harvest Fund Management Co., Ltd.	RMB163,394,584	Non-principal-guaranteed floating income	Nil	No
Harvest ZengYiBao Monetary Market Fund	Harvest Fund Management Co., Ltd.	RMB100,436,745	Non-principal-guaranteed floating income	Nil	No

VI. USE OF THE PROCEEDS

(I) OVERALL UTILIZATION OF PROCEEDS

By way of issue of 1,685,620,000 ordinary shares which were subscribed for in RMB and traded on the SSE STAR Market (the “RMB Share Issue”), the Company made its trading debut on the SSE STAR Market on July 16, 2020 and became the first overseas listed Red-Chip company that was dual-listed on the Main Board of the Hong Kong Stock Exchange and the SSE STAR Market.

As of August 14, 2020, Haitong Securities Co., Ltd. (“Haitong Securities”) has fully exercised the over-allotment options. The Company issued an additional 252,843,000 shares based on the initial issuance of 1,685,620,000 shares at the issue price of RMB27.46 per share of the RMB Share Issue, accounting for 15% of the initial shares of the RMB Share Issue. The total amount of funds raised by the Company from such exercise is approximately RMB6,943.1 million (equivalent to approximately US\$1,000.1 million). The total amount of funds raised from the issue is approximately RMB53,230.2 million (equivalent to approximately US\$7,615.9 million). The net amount of funds raised after deducting the issuance expenses of approximately RMB714.6 million (equivalent to approximately US\$102.2 million) is approximately RMB52,515.6 million (equivalent to approximately US\$7,513.7 million). The net price to each ordinary share was RMB27.09. The proceeds were used according to the intended use of proceeds as disclosed in the Company’s announcement dated May 5, 2020.

In USD'000

The resource of the proceeds	Total proceeds raised from the issue	The net amount of funds raised after deducting the issuance expenses	Total committed investment amount	Total committed investment amount after adjustment (1)	Accumulated investment amount as at the end of the reporting period (2)	Progress in investment as at the end of the reporting period (%) (3) = (2)/(1)	Investment amount for the year (4)	Percentage of investment amount for the year (%) (5) = (4)/(1)	Unutilized proceeds as of the release date of this report	Expected timeline for the use of unutilized proceeds
Public Offering of Ordinary Shares on SSE STAR Market	7,616,128	7,513,885	7,513,885	7,513,885	6,881,129	91.6%	2,431,587	32.4%	632,756	2023

(II) THE BREAKDOWN FOR THE FUNDRAISING INVESTMENT

In USD'000

Items	Whether the investment changes	Source of the proceeds	Total committed investments amount from the Proceeds	Total investment amount after adjustment (1)	Accumulated investment amount as at the end of the reporting period (2)	Progress in investment as at the end of the period (%) (3) = (2)/(1)	Expected usable date for the projects	Whether the investment has been closed	Whether the input schedule is in line with the planned schedule	The specific reason why the investment progress does not reach the plan	Revenue generated and R&D achievements of the items	Whether significant changes have been made to the project feasibility, If so, please specify the specific situation	Balance and the reason for its formation
12-inch wafer SN1 project	No	Public Offering of Ordinary Shares on SSE STAR Market	2,575,424	2,575,424	2,575,424	100.0%	N/A	N/A	Yes	N/A	N/A	No	N/A
Reserve funds for advanced and mature technology	No	Public Offering of Ordinary Shares on SSE STAR Market	1,001,554	1,001,554	594,373	59.3%	N/A	N/A	Yes	N/A	N/A	No	N/A
Construction of matured technology production line	No	Public Offering of Ordinary Shares on SSE STAR Market	1,401,741	1,401,741	1,176,165	83.9%	N/A	N/A	Yes	N/A	N/A	No	N/A
Supplementary working capital	No	Public Offering of Ordinary Shares on SSE STAR Market	2,535,167	2,535,167	2,535,167	100.0%	N/A	N/A	Yes	N/A	N/A	No	N/A

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(I) TABLE OF CHANGES IN SHARES

1. Table of changes in Shares

Unit: Share

	Prior to the change		Increase/decrease (+, -) in the change					After the change	
	Number	Proportion (%)	Issuance of new shares	Shares Dividend	Conversion of Provident Fund to Shares	Others	Sub-total	Number	Proportion (%)
I. Shares subject to selling restrictions	898,231,777	11.66	-	-	-	(830,806,977)	(830,806,977)	67,424,800	0.86
1. Shares held by state-owned legal persons	264,349,403	3.43	-	-	-	(196,924,603)	(196,924,603)	67,424,800	0.86
2. Shares held by other domestic investors	510,007,370	6.62	-	-	-	(510,007,370)	(510,007,370)	-	-
Including: Shares held by domestic non-state-owned legal persons	510,007,370	6.62	-	-	-	(510,007,370)	(510,007,370)	-	-
3. Shares held by foreign investors	123,875,004	1.61	-	-	-	(123,875,004)	(123,875,004)	-	-
Including: Shares held by overseas legal persons	123,875,004	1.61	-	-	-	(123,875,004)	(123,875,004)	-	-
II. Tradable shares not subject to selling restrictions	6,805,275,750	88.34	-	-	-	1,031,156,005	1,031,156,005	7,836,431,755	99.14
1. Ordinary Shares denominated in RMB	1,040,231,223	13.50	-	-	-	830,806,977	830,806,977	1,871,038,200	23.67
2. Overseas-listed foreign shares	5,765,044,527	74.84	-	-	-	200,349,028	200,349,028	5,965,393,555	75.47
III. Total Ordinary Shares	7,703,507,527	100.00	-	-	-	200,349,028	200,349,028	7,903,856,555	100.00

Note: This table does not include the impact of refinancing business on share changes.

2. Description of changes in Shares

- (1) The change of the Company's A-share capital structure is due to the listing and floating of 55,421,777 offline allotment shares of initial public offering on January 18, 2021, and the listing and floating of 775,385,200 shares with sales limit in strategic allotment of initial public offering on July 16, 2021. For details, please see the announcement on the listing and floating of offline placement restricted shares of SMIC's initial public offering (No. 2021-003) on January 9, 2021, and the announcement on listing and floating of shares with sales limit in strategic allotment of SMIC's initial public offering (2021-030) on July 9, 2021 on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn/>).
- (2) The number of Hong Kong Shares of the Company increased by 200,349,028 shares upon the exercise of options, the exercise of restricted share units and the conversion of convertible bonds.

3. The impact of changes in Shares on financial indicators such as earnings per share and net assets per share in the previous year and the latest period (if any)

During the reporting period, the Company's share capital increased upon the exercise of share options and restricted share units. The change has no significant impact on financial indicators, such as earnings per share and net assets per share.

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

(II) CHANGES IN SHARES SUBJECT TO SELLING RESTRICTIONS

Name of shareholder	Number of shares subject to selling restrictions at the beginning of the reporting period	Number of shares released from selling restrictions for the reporting period	Increase in number of shares subject to selling restrictions for the reporting period	Number of shares subject to selling restrictions at the end of the reporting period	Reason for the selling restrictions	Date of release from selling restrictions
Offline allotment accounts	55,421,777	55,421,777	–	–	Subject to selling restrictions under the offline allotment	January 18, 2021
China Information and Communication Technology Group Co., Ltd.	72,470,855	72,470,855	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	127,458,120	127,458,120	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Shanghai Integrated Circuit Industry Investment Fund Co., Ltd.	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
China State-owned Capital Venture Capital Fund Co., Ltd.	6,190,824	6,190,824	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Beijing Tongfu Science and Technology Innovation Service Trade Investment Management Partnership LLP	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
China Insurance Investment Fund LLP	54,624,908	54,624,908	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
China Structural Reform Fund Co., Ltd.	36,416,605	36,416,605	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Guoxin Investment Corporation Limited	36,416,605	36,416,605	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Guo Xin Central Enterprise Operation (Guangzhou) Investment Fund (LLP)	9,832,484	9,832,484	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
China Development Bank Technology Venture Capital Co., Ltd.	1,820,830	1,820,830	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Everbright Xinglong Trust Co., Ltd.	14,493,809	14,493,809	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Shanghai S&T Venture Capital (Group) Co., Ltd.	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Shanghai International Group Asset Management Co., Ltd.	3,623,452	3,623,452	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Shanghai Pudong Kechuang Group Co., Ltd.	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Shenzhen Capital Group Co., Ltd.	18,208,303	18,208,303	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Beijing Yitang Tongzhou Equity Investment Center LLP	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Beijing Financial Street Capital Operation Center	3,641,660	3,641,660	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Hefei Innovation Technology Venture Capital Co., Ltd.	3,641,660	3,641,660	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Jinkong Tianqin (Hangzhou) Venture Capital Partnership LLP	10,924,981	10,924,981	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
People's Daily Media Innovation Co., Ltd.	10,924,981	10,924,981	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
New China Life Insurance Company Ltd.	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Dajia Life Insurance Co., Ltd.	14,622,295	14,622,295	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Shanghai Fosun High Technology (Group) Co., Ltd.	18,208,303	18,208,303	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Maanshan Lianli Zhaoli Shaoshang Integrated Circuit Investment Partnership LLP	18,208,302	18,208,302	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
GIC Private Limited	109,249,819	109,249,819	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Abu Dhabi Investment Authority	14,566,643	14,566,643	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Qingdao Juyuan Xinxing Equity Investment Partnership LLP	80,589,949	80,589,949	–	–	Subject to selling restrictions under the strategic placement	July 16, 2021
Total	830,806,977	830,806,977	–	–		

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

II. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS

(I) TOTAL NUMBER OF SHAREHOLDERS

	Number of registered shareholders
Total number of shareholders of ordinary shares as at the end of the reporting period ⁽¹⁾	347,240
Total number of shareholders of ordinary shares as at the end of the month preceding the day when the annual report was disclosed ⁽²⁾	336,503
Total number of shareholders of preference shares with voting rights restored as at the end of the reporting period	-
Total number of shareholders of preference shares with voting rights restored as at the end of the month preceding the day when the annual report was disclosed	-
Total number of shareholders of shares with special voting rights as at the end of the reporting period	-
Total number of shareholders of shares with special voting rights as at the end of the month preceding the day when the annual report was disclosed	-

Note:

- (1) As at the end of the reporting period, 347,240 registered shareholders consist of 334,757 holding A Shares and 12,483 holding Hong Kong Shares.
- (2) As of February 28, 2022, 336,503 registered shareholders consist of 324,064 holding A Shares and 12,439 holding Hong Kong Shares.

(II) SUBSTANTIAL SHAREHOLDERS

As at December 31, 2021, the Company was informed that the following persons (other than the Directors, and the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or interest or short position in 5% or more of the issued shares and underlying shares recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of Interests	Long/Short Position	Number of Ordinary Shares held		Percentage of Ordinary Shares held to total issued Share Capital ⁽¹⁾	Derivatives	Total Interests	Percentage of total interests to total issued Share Capital ⁽¹⁾
			Held Directly	Held Indirectly				
China Information and Communication Technology Group Co., Ltd. and related stakeholders								
China Information and Communication Technology Group Co., Ltd.	Interest of corporation controlled	Long Position	72,470,855 ⁽²⁾	852,522,595 ⁽²⁾	11.70	–	924,993,450	11.70
Datang Holdings (Hongkong) Investment Company Limited	Beneficial owner	Long Position	852,522,595 ⁽²⁾	–	10.79	–	852,522,595	10.79
Pagoda Tree Investment Company Limited	A concert party to an agreement described in s.317(1)(a)	Long Position	–	859,522,595 ⁽³⁾	10.87	–	859,522,595	10.87
China Integrated Circuit Industry Investment Fund Co., Ltd. and related stakeholders								
China Integrated Circuit Industry Investment Fund Co., Ltd.	Interest of corporation controlled	Long Position	–	617,214,804 ⁽⁴⁾	7.81	–	617,214,804	7.81
Xinxin (Hongkong) Capital Co., Ltd.	Beneficial owner	Long Position	617,214,804 ⁽⁴⁾	–	7.81	–	617,214,804	7.81

Notes:

- (1) Based on 7,903,856,555 Ordinary Shares in issue as at December 31, 2021.
- (2) 852,522,595 shares are held by Datang HK which is a wholly-owned subsidiary of Datang Holdings, which in turn is wholly-owned by CICT. In addition, CICT directly holds 72,470,855 Ordinary Shares denominated in RMB, for a total of 924,993,450 shares.
- (3) Lightmane Holdings Company Limited, a wholly-owned subsidiary of CNIC Corporation Limited, of which Compass Investment Company Limited, a wholly-owned subsidiary of Pagoda Tree Investment Company Limited, has a 90% control, signed an agreement with Datang HK with terms falling under the Section 317(1)(a) or (b) of the SFO. Such agreement was terminated on January 4, 2022. To the best knowledge of the Company, as at the date of this report, Pagoda Tree Investment Company Limited was no longer a substantial shareholder of the Company.
- (4) 617,214,804 shares are held by Xinxin HK, a wholly-owned subsidiary of Xunxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

(III) PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS AND THE TOP TEN SHAREHOLDERS WITH TRADABLE SHARES (OR SHAREHOLDERS NOT SUBJECT TO SELLING RESTRICTIONS) AS AT THE END OF THE REPORTING PERIOD

- As at the end of the reporting period, the Company had issued 5,965,393,555 shares in Hong Kong, accounting for approximately 75.5% of the total share capital of the Company and 1,938,463,000 shares in SSE STAR Market, accounting for approximately 24.5% of the total share capital of the Company.
- The Company's register of members in Hong Kong consists of HKSCC NOMINEES LIMITED and other registered shareholders, among which, shares held by HKSCC NOMINEES LIMITED on behalf of non-registered shareholders account for approximately 99.8% of the Company's Hong Kong Shares; shares held by other registered shareholders account for approximately 0.2% of the Company's Hong Kong Shares.
- According to the SFO, shareholders who are interested in 5% or more of any class of voting shares in the Company are required to make disclosure. The number of shares held by HKSCC NOMINEES LIMITED displayed below excludes 852,522,595 Hong Kong Shares held by Datang HK and 617,214,804 Hong Kong Shares held by Xinxin HK based on the information disclosed in the declaration.
- Nature of A shareholders is reported according to the nature of holders of shares as set out in the A Share register of China Clearing.

Unit: Share

Particulars of shareholdings of top 10 shareholders							
Name of shareholder	Increase/ decrease during the reporting period	Number of shares held at the end of the period	Percentage (%)	Number of shares held with selling restrictions	Number of restricted shares including lending shares for securities financing	Pledged, marked or moratorium Status of shares	Nature of shareholders
HKSCC NOMINEES LIMITED	215,656,602	4,485,017,578	56.74	–	–	Unknown	– Unknown
Datang Holdings (Hongkong) Investment Company Limited	(7,000,000)	852,522,595	10.79	–	–	Nil	– Overseas legal person
Xinxin (Hongkong) Capital Co., Ltd.	(4,840,097)	617,214,804	7.81	–	–	Nil	– Overseas legal person
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	–	127,458,120	1.61	–	–	Nil	– Others
GIC PRIVATE LIMITED	(36,990,296)	73,453,434	0.93	–	–	Nil	– Overseas legal person
China Information and Communication Technology Group Co., Ltd.	–	72,470,855	0.92	–	–	Nil	– State-owned legal person
Qingdao Juyuan Xinxing Equity Investment Partnership LLP	(41,101,744)	39,488,205	0.50	–	–	Nil	– Others
Guoxin Investment Corporation Limited	–	36,416,605	0.46	–	–	Nil	– State-owned legal person
China Merchants Bank Co., Ltd. – ChinaAMC SSE STAR 50 Exchange Traded Funds* (華夏上證科創板50成份交易型開放式指數證券投資基金)	12,550,683	32,326,539	0.41	–	–	Nil	– Others
Industrial and Commercial Bank of China Limited – Lion Growth Stock Securities Investment Fund* (諾安成長股票型證券投資基金)	(23,696,089)	32,031,291	0.41	–	–	Nil	– Others

Particulars of shareholding of the top ten shareholders not subject to selling restrictions			
Name of shareholder	Number of tradable shares held without selling restrictions	Type and number of shares	Number
HKSCC NOMINEES LIMITED	4,485,017,578	Overseas listed foreign shares	4,485,017,578
Datang Holdings (Hongkong) Investment Company Limited	852,522,595	Overseas listed foreign shares	852,522,595
Xinxin (Hongkong) Capital Co., Ltd.	617,214,804	Overseas listed foreign shares	617,214,804
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	127,458,120	Ordinary shares denominated in RMB	127,458,120
GIC PRIVATE LIMITED	73,453,434	Ordinary shares denominated in RMB	73,453,434
China Information and Communication Technology Group Co., Ltd.	72,470,855	Ordinary shares denominated in RMB	72,470,855
Qingdao Juyuan Xinxing Equity Investment Partnership LLP	39,488,205	Ordinary shares denominated in RMB	39,488,205
Guoxin Investment Corporation Limited	36,416,605	Ordinary shares denominated in RMB	36,416,605
China Merchants Bank Co., Ltd. – ChinaAMC SSE STAR 50 Exchange Traded Funds* (華夏上證科創板50成份交易型開放式指數證券投資基金)	32,326,539	Ordinary shares denominated in RMB	32,326,539
Industrial and Commercial Bank of China Limited – Lion Growth Stock Securities Investment Fund* (諾安成長股票型證券投資基金)	32,031,291	Ordinary shares denominated in RMB	32,031,291
Explanations on affiliated relationship or parties acting in concert among the abovementioned shareholders	<ol style="list-style-type: none"> Datang HK is a wholly-owned subsidiary of CICT. Xinxin HK is a wholly-owned subsidiary of China IC Fund; Lou Yuguang (樓宇光), Ding Wenwu (丁文武), Yang Lumin (楊魯閏), Tang Xuefeng (唐雪峰), Yan Jiangui (嚴劍秋) and Wang Wenli (王文利), directors of the China IC Fund, also serve as the directors of China IC Fund II; Supervisors Lin Guifeng (林桂鳳), Li Hongying (李洪影), Song Ying (宋穎) and Ren Zhian (任志安) also serve as supervisors of China IC Fund II; and director Fan Bing (范冰) also serves as the supervisor of China IC Fund II. As the fund manager, Sino IC Capital Co., Ltd. manages China IC Fund and China IC Fund II according to their respective entrusted management agreements. China IC Fund and China IC Fund II have some of the same shareholders. It is unknown whether the above shareholders have other related relationships. 		

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

Number of shares held by top ten shareholders subject to selling restrictions and conditions of selling restrictions

Unit: Share

No.	Name of Shareholders Subject to Selling Restrictions	Number of Shares Held Subject to Selling Restrictions	Listing and Trading of Shares		Conditions of Selling Restrictions
			Subject to Selling Restrictions Listing and Trading Date	Number of Additional Listing and Trading Shares	
1	Haitong Innovation Securities Investment Co., Ltd.	33,712,400	July 16, 2022	-	Within twenty-four months from the date of initial public offering of shares and listing on SSE STAR Market
2	China CICC Wealth Management Securities Company Limited	33,712,400	July 16, 2022	-	Within twenty-four months from the date of initial public offering of shares and listing on SSE STAR Market

(IV) STRATEGIC INVESTORS OR GENERAL LEGAL PERSONS BECOMING TOP 10 SHAREHOLDERS BECAUSE OF THE NEW SHARE PLACING/DEPOSITARY RECEIPTS

Name of Strategic Investors or General Legal Persons	Stipulated start date of shareholding	Stipulated end date of shareholding
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	July 16, 2020	Nil
GIC PRIVATE LIMITED	July 16, 2020	Nil
Qingdao Juyuan Xinxing Equity Investment Partnership LLP	July 16, 2020	Nil
China Information and Communication Technology Group Co., Ltd.	July 16, 2020	Nil
Guoxin Investment Corporation Limited	July 16, 2020	Nil
Explanation on agreed shareholding period of strategic investors or general legal persons participating in placing of new shares	The lock-up period was within twelve months from the date of initial public offering of shares and listing on SSE STAR Market	

(V) STRATEGIC PLACEMENT OF IPO

1. Particulars of shareholding of relevant subsidiaries of sponsors participating in the strategic placement of IPO

Unit: Share

Name of Shareholder	Relationship with the sponsor	Number of allocated shares/depositary receipts	Time available for listing and trading	Changes of number in the reporting period	Number of holdings including lending shares for securities financing/depositary receipts at the end of the period
Haitong Innovation Securities Investment Co., Ltd.	Controlling subsidiary	33,712,400	July 16, 2022	(23,160,800)	33,712,400
China CICC Wealth Management Securities Company Limited	Wholly-owned subsidiary	33,712,400	July 16, 2022	(28,309,340)	33,712,400

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, the shareholding of any single shareholder of the Company is below 30%. The number of Directors nominated by each shareholder is less than 1/2 of the total number of Directors. There are no circumstances in which a single shareholder may determine the selection of more than half of the Company's Board by actually controlling the voting rights of the Company's shares, or has a significant impact on the resolutions of the general meeting, and there is no relationship or concerted relationship between the substantial shareholders of the Company. Therefore, the Company does not have a controlling shareholder nor a de facto controller.

V. OTHER LEGAL PERSON SHAREHOLDERS HOLDING 10% OR MORE OF SHARES

Name of legal person shareholder	Person in charge or legal representative of the unit	Date of establishment	Registered capital	Principal activities or management activities
Datang Holdings (Hongkong) Investment Company Limited	Xiao Bo	December 3, 2008	HK\$1,000	Investment holding

SECTION 10 RELEVANT INFORMATION ON BONDS

I. CORPORATE BONDS, COMPANY BONDS AND DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES

(I) DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES IN INTER-BANK BOND MARKET

1. Basic information of debt financing instruments of non-financial enterprises

Name of bonds	Short Name	Code	Issue Date	Value Date	Maturity Date	Balance of Bonds	Interest rate(%)	Payment of principal and interest	Trading Place	Arrangement (if any) to ensure the suitability of investors	Trading Mechanism	Whether there is a risk of termination of listing for trading
First tranche of 2019 medium-term notes of SMIC	19 SMIC MTN001	101900258	February 28, 2019	March 4, 2019	March 4, 2022	RMB1,500,000,000	3.57	Interest will be payable annually and the principal will be repaid in a lump sum upon maturity	Inter-bank bond market	Nil	Listing for trading	No

2. Intermediaries providing services for bond issuance and maturity business

Name of intermediaries	Place of business	Contact persons	Contact number
China Chengxin International Credit Rating Co.,Ltd	5#, Galaxy SOHO, No. 2, Nanzhugan Hutong, Chaoyangmennei Street, Dongcheng District, Beijing	Wang Yingying	010-66428877
Llinks Law Offices	16/F and 19/F, Times Financial Center, 68 Yincheng Middle Road, Shanghai	Li Zhongying, Xia Qing	021-31358666
Conyers Dill & Pearman	PO Box 2681, Grand Cayman KY 1-1111, Cayman Islands	Rowan Wu	+1 3459453901

3. Use of the proceeds as at the end of the reporting period

Name of bonds	Total proceeds	Amount utilized	Unutilized amount	The operating condition of the special account for the proceeds (if any)	The rectification of illegal use of the proceeds (if any)	If it is consistent with the use, use plan and other provisions promised in the Prospectus
2019 SMIC MTN001	RMB1,500,000,000	RMB1,500,000,000	RMBO	N/A	N/A	Yes

SECTION 10 RELEVANT INFORMATION ON BONDS

(II) ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE TWO YEARS PRECEDING THE END OF THE REPORTING PERIOD

	Year ended		2021/12/31 as compared with 2020/12/31	Explanation
	2021/12/31	2020/12/31		
Current ratio ⁽¹⁾	3.42	3.90	(12.3)	No significant change
Quick ratio ⁽²⁾	3.15	3.69	(14.7)	No significant change
Asset-liability ratio ⁽³⁾	29.6%	30.8%	Decreased by 1.2 percentage points	No significant change
Profit for the year after non-recurring profit or loss	825,285	246,280	235.1	Primarily due to the increase in wafer shipments, higher average selling price and product-mix change.
Total debt to EBITDA ratio ⁽⁴⁾	0.56	0.33	69.3	Primarily due to the increase in wafer shipments, higher average selling price, product-mix change, and gain on disposal of a subsidiary.
Interest coverage ratio (times) ⁽⁵⁾	17.71	11.07	60.0	Primarily due to the increase in wafer shipments, higher average selling price, product-mix change, and gain on disposal of a subsidiary.
Cash interest coverage ratio (times) ⁽⁶⁾	22.03	17.57	25.4	Primarily due to the increase in net cash generated from operating activities.
EBITDA interest coverage ratio (times) ⁽⁷⁾	34.68	28.99	19.6	Primarily due to the increase in wafer shipments, higher average selling price, product-mix change, and gain on disposal of a subsidiary.
Loan repayment ratio (%) ⁽⁸⁾	100.0%	100.0%	–	No significant change
Interest repayment ratio (%) ⁽⁹⁾	100.0%	100.0%	–	No significant change

Notes:

- (1) Current ratio = current assets/current liabilities
- (2) Quick ratio = (current assets – inventories)/current liabilities
- (3) Asset-liability ratio = (total liabilities/total assets) ×100%
- (4) Total debt to EBITDA ratio = EBITDA/total debts
- (5) Interest coverage ratio = profit before interest and tax/(finance costs + capitalised interest expenses)
- (6) Cash interest coverage ratio = (net cash flows from operating activities + interest paid + income tax paid)/interest paid
- (7) EBITDA interest coverage ratio = EBITDA/(finance costs + capitalised interest expenses)
- (8) Loan repayment ratio = actual amount of loan repayment/loan amount repayable ×100%
- (9) Interest repayment ratio = interests actually paid/interests payable ×100%

SECTION 11

FINANCIAL REPORT



INDEPENDENT AUDITOR'S REPORT



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To the shareholders of
Semiconductor Manufacturing International Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Semiconductor Manufacturing International Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 127 to 196, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Fair value measurement of joint venture and associates' portfolio investments

Acting as limited partner, the Group has invested in a number of portfolio investments through several investment funds, which were accounted for as investments in joint venture or associates using equity method. The investment funds measured their portfolio investments at fair value.

The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and application of appropriate assumptions in the valuation. The Group has applied various valuation techniques to determine the fair values of portfolio investments. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve management's judgement and assumptions. Valuation results can vary significantly when different valuation techniques and assumptions are applied.

Due to the significance of the balance of the investment funds, the quantity of the Group's joint venture and associates' portfolio investments, the degree of complexity involved in valuing portfolio investments and the significant degree of judgement exercised by management in determining the valuation methodology and assumptions used in the valuation process, fair value measurement of joint venture and associates' portfolio investments is considered a key audit matter.

Note 4 and Note 20 to the consolidated financial statements. Relevant disclosures are included in Note

How our audit addressed the key audit matter

Our audit procedures included, among others,

Obtaining an understanding of the management's internal control and assessment process of fair value measurement of joint venture and associates' portfolio investments, evaluated the design and operating effectiveness of key controls over the valuation of fair value measurement of joint venture and associates' portfolio investments.

Evaluating the Group's methodology valuing the investment funds and the significant assumptions used with the assistance of our valuation specialists, and testing the accuracy of mathematical calculation applied in the valuation models. We performed the following procedures on a sample basis:

- for portfolio investments that traded in active markets, we assessed the fair values by comparing the fair values applied by the Group with publicly available market data;
- for portfolio investments that had recent equity transactions, we assessed the fair values by reading the recent investment agreements, understanding the relevant investment terms and comparing the fair values of investments with the transaction prices specified in the related agreements;
- for portfolio investments that did not have direct open market value or recent equity transaction, we assessed the appropriateness of the valuation methodology (e.g. market approach) adopted and the key assumptions in the valuation based on our industry knowledge as well as the information of comparable companies.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Ng.

Ernst & Young
Certified Public Accountants

Hong Kong
March 30, 2022

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2021

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

	Notes	Year ended 12/31/21	Year ended 12/31/20
Revenue	6	5,443,112	3,906,975
Cost of sales		(3,767,342)	(2,986,062)
Gross profit		1,675,770	920,913
Research and development expenses		(638,842)	(677,413)
Sales and marketing expenses		(27,642)	(29,466)
General and administration expenses		(275,703)	(266,376)
Impairment losses on financial assets, net	39	997	(199)
Other operating income	7	657,982	364,487
Profit from operations		1,392,562	311,946
Interest income		223,035	170,794
Finance costs	8	(110,143)	(73,234)
Foreign exchange gain		1,407	89,818
Other gains, net	9	80,785	50,741
Share of profits and losses of joint venture and associates		252,678	187,343
Profit before tax		1,840,324	737,408
Income tax expense	10	(65,166)	(68,310)
Profit for the year	11	1,775,158	669,098
Other comprehensive income			
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translating foreign operations		36,789	66,389
Cash flow hedges	28	11,226	(21,286)
Total comprehensive income for the year		1,823,173	714,201
Profit/(loss) for the year attributable to:			
Owners of the Company		1,701,803	715,550 ⁽¹⁾
Non-controlling interests		73,355	(46,452)
		1,775,158	669,098
Total comprehensive income for the year attributable to:			
Owners of the Company		1,749,818	760,639 ⁽¹⁾
Non-controlling interests		73,355	(46,438)
		1,823,173	714,201
Earnings per share attributable to owners of the Company			
Basic	14	\$0.22	\$0.11
Diluted	14	\$0.21	\$0.11

⁽¹⁾ Profit for the year attributable to owners of the Company contains the distribution paid to perpetual subordinated convertible securities holders. Please refer to Note 14 for further information.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021

(In USD'000)

	Notes	12/31/21	12/31/20
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	16	14,260,783	12,138,021
Right-of-use assets	17	553,729	491,238
Intangible assets	18	67,616	81,953
Investments in associates	20	1,859,151	1,440,976
Investment in joint venture	20	17,639	31,521
Deferred tax assets	10	14,624	24,900
Financial assets at fair value through profit or loss	21	223,024	156,367
Financial assets at amortised cost	21	3,725,962	1,638,721
Derivative financial instruments	21	51,073	29,046
Restricted cash	23	117,787	114,811
Other assets		1,688	1,666
Total non-current assets		20,893,076	16,149,220
<i>Current assets</i>			
Inventories	24	1,193,811	798,776
Prepayment and prepaid operating expenses		43,368	48,176
Trade and other receivables	25	1,215,473	975,927
Financial assets at fair value through profit or loss	21	78,184	111,477
Financial assets at amortised cost	21	3,838,129	2,806,517
Derivative financial instruments	21	31,371	4,891
Restricted cash	23	214,191	575,258
Cash and cash equivalents	41	8,581,746	9,826,537
		15,196,273	15,147,559
Assets classified as held-for-sale	26	21,592	23,796
Total current assets		15,217,865	15,171,355
Total assets		36,110,941	31,320,575

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021

(In USD'000)

	Notes	12/31/21	12/31/20
Equity and liabilities			
<i>Capital and reserves</i>			
Ordinary shares	27	31,615	30,814
Share premium	27	13,836,614	13,512,397
Reserves	28	321,576	73,939
Retained earnings	29	2,959,859	1,258,056
Equity attributable to owners of the Company		17,149,664	14,875,206
Perpetual subordinated convertible securities	30	–	299,388
Non-controlling interests		8,288,479	6,507,144
Total equity		25,438,143	21,681,738
<i>Non-current liabilities</i>			
Borrowings	31	4,937,671	4,030,776
Lease liabilities	17	109,461	150,321
Bonds payable	33	597,663	596,966
Convertible bonds	32	–	11,131
Medium-term notes	34	–	229,217
Deferred tax liabilities	10	32,188	–
Deferred government funding	35	538,992	707,016
Derivative financial instruments	21	3,203	20,700
Total non-current liabilities		6,219,178	5,746,127
<i>Current liabilities</i>			
Trade and other payables	36	1,830,415	1,648,556
Contract liabilities	6	1,022,660	181,425
Borrowings	31	789,316	1,260,057
Lease liabilities	17	100,763	94,949
Convertible bonds	32	1,978	–
Medium-term notes	34	235,515	–
Deferred government funding	35	203,368	282,601
Accrued liabilities	37	234,107	253,690
Derivative financial instruments	21	8,848	133,814
Current tax liabilities	10	26,650	17,579
Other liabilities	21	–	20,039
Total current liabilities		4,453,620	3,892,710
Total liabilities		10,672,798	9,638,837
Total equity and liabilities		36,110,941	31,320,575

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

(In USD'000)

	Ordinary shares (Note 27)	Share premium (Note 27)	Equity-settle employee benefit reserve (Note 28)	Foreign currency translation reserve (Note 28)
Balance at December 31, 2019	20,227	5,011,915	52,551	(56,275)
Profit for the year	–	–	–	–
Other comprehensive income for the year	–	–	–	66,375
Total comprehensive income for the year	–	–	–	66,375
Issue of ordinary shares	7,754	7,506,131	–	–
Exercise of stock options	66	21,796	(9,351)	–
Share-based compensation	–	–	9,275	–
Conversion options of convertible bonds exercised during the year	2,119	708,743	–	–
Conversion options of perpetual subordinated convertible securities exercised during the year	648	263,812	–	–
Share of other capital reserve of associates accounted for using equity method	–	–	–	–
Capital injection from non-controlling interests	–	–	–	–
Dilution of interests in subsidiaries	–	–	–	–
Deconsolidation of a subsidiary due to loss of control	–	–	–	(331)
Perpetual subordinated convertible securities distribution	–	–	–	–
Subtotal	10,587	8,500,482	(76)	(331)
Balance at December 31, 2020	30,814	13,512,397	52,475 ⁽¹⁾	9,769 ⁽¹⁾
Profit for the year	–	–	–	–
Other comprehensive income for the year	–	–	–	36,789
Total comprehensive income for the year	–	–	–	36,789
Exercise of stock options	36	14,766	(9,047)	–
Share-based compensation	–	–	68,998	–
Conversion options of convertible bonds exercised during the year	32	10,796	–	–
Conversion options of perpetual subordinated convertible securities exercised during the year	733	298,655	–	–
Share of other capital reserve of associates accounted for using equity method	–	–	–	–
Capital injection from non-controlling interests	–	–	–	–
Dilution of interests in subsidiaries	–	–	–	–
Disposal of a subsidiary	–	–	–	–
Subtotal	801	324,217	59,951	–
Balance at December 31, 2021	31,615	13,836,614	112,426 ⁽¹⁾	46,558 ⁽¹⁾

⁽¹⁾ These reserve accounts comprise the reserves of US\$321,576,000 (December 31, 2020: US\$73,939,000) in the consolidated statement of financial position.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

(In USD'000)

Convertible bond equity reserve (Note 28)	Cash flow hedges (Note 28)	Others	Retained earnings (Note 29)	Attributable to owner of the Company	Perpetual subordinated convertible securities (Note 30)	Non- controlling interests	Total equity
86,200	9,923	(5,650)	550,506	5,669,397	563,848	3,964,617	10,197,862
–	–	–	715,550	715,550	–	(46,452)	669,098
–	(21,286)	–	–	45,089	–	14	45,103
–	(21,286)	–	715,550	760,639	–	(46,438)	714,201
–	–	–	–	7,513,885	–	–	7,513,885
–	–	–	–	12,511	–	207	12,718
–	–	–	–	9,275	–	1,185	10,460
(84,236)	–	–	–	626,626	–	–	626,626
–	–	–	–	264,460	(264,460)	–	–
–	–	3,632	–	3,632	–	–	3,632
–	–	–	–	–	–	2,617,637	2,617,637
–	–	23,112	–	23,112	–	(23,112)	–
–	–	–	–	(331)	–	(6,952)	(7,283)
–	–	–	(8,000)	(8,000)	–	–	(8,000)
(84,236)	–	26,744	(8,000)	8,445,170	(264,460)	2,588,965	10,769,675
1,964 ⁽¹⁾	(11,363) ⁽¹⁾	21,094 ⁽¹⁾	1,258,056	14,875,206	299,388	6,507,144	21,681,738
–	–	–	1,701,803	1,701,803	–	73,355	1,775,158
–	11,226	–	–	48,015	–	–	48,015
–	11,226	–	1,701,803	1,749,818	–	73,355	1,823,173
–	–	–	–	5,755	–	–	5,755
–	–	–	–	68,998	–	9,362	78,360
(1,623)	–	–	–	9,205	–	–	9,205
–	–	–	–	299,388	(299,388)	–	–
–	–	(929)	–	(929)	–	–	(929)
–	–	–	–	–	–	1,972,160	1,972,160
–	–	142,069	–	142,069	–	(142,069)	–
–	154	–	–	154	–	(131,473)	(131,319)
(1,623)	154	141,140	–	524,640	(299,388)	1,707,980	1,933,232
341 ⁽¹⁾	17 ⁽¹⁾	162,234 ⁽¹⁾	2,959,859	17,149,664	–	8,288,479	25,438,143

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

(In USD'000)

	Notes	Year ended 12/31/21	Year ended 12/31/20
Operating activities			
Profit for the year		1,775,158	669,098
Adjustments for:			
Income tax expense	10	65,166	68,310
Depreciation and amortisation	11	1,869,302	1,312,694
Expense recognised in respect of equity-settled share-based payments	11	78,360	10,460
Interest income		(223,035)	(170,794)
Finance costs	8	110,143	73,234
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	7	(48,281)	(2,247)
Gain on disposal and deconsolidation of subsidiaries	7	(231,382)	(904)
(Reversal)/recognition of impairment losses	11	(61,232)	24,456
Net gain arising on financial instruments at fair value through profit or loss	9	(80,155)	(53,629)
Net gain on foreign exchange		(103,749)	(64,711)
Share of profits and losses of joint venture and associates		(252,678)	(187,343)
Other non-cash expense		8,000	4,177
		2,905,617	1,682,801
Operating cash flows before movements in working capital:			
Increase in trade and other receivables		(257,015)	(148,181)
Increase in inventories		(359,649)	(193,003)
Decrease/(increase) in restricted cash relating to operating activities		66,994	(188,225)
Decrease/(increase) in other operating assets		628	(4,492)
Increase in trade and other payables		79,211	199,806
Increase in contract liabilities		841,235	89,092
(Decrease)/increase in deferred government funding		(241,518)	125,064
(Decrease)/increase in other operating liabilities		(15,979)	101,667
Cash generated from operations		3,019,524	1,664,529
Interest paid		(146,602)	(103,305)
Interest received		209,848	150,544
Income taxes paid		(70,875)	(51,358)
Net cash generated from operating activities		3,011,895	1,660,410

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

(In USD'000)

	Year ended 12/31/21	Year ended 12/31/20
Investing activities		
Payments to acquire financial assets at fair value through profit or loss	(207,679)	(365,726)
Proceeds from sale of financial assets at fair value through profit or loss	249,921	299,349
Payments to acquire financial assets at amortised cost	(8,613,200)	(6,048,862)
Proceeds from maturity of financial assets at amortised cost	5,791,955	4,110,400
Payments for property, plant and equipment	(4,120,275)	(5,274,686)
Proceeds from disposal of property, plant and equipment and assets classified as held-for-sale	231,660	38,204
Payments for intangible assets	(9,195)	(9,933)
Payments for land-use right	(210,935)	(24,646)
Proceeds from disposal of land-use right	11,650	–
Proceeds from disposal and deconsolidation of subsidiaries	340,222	7,381
Capital injection in associates	(185,297)	(118,772)
Proceeds from disposal of joint venture and associates	61,246	54,853
Distributions received from associates	2,072	2,838
Proceeds from release of restricted cash relating to investing activities	134,920	269,967
Payments for settlement of derivative financial instruments	(132,500)	–
Payments for contingent consideration	–	(11,750)
Net cash used in investing activities	(6,655,435)	(7,071,383)
Financing activities		
Proceeds from borrowings	1,874,283	3,453,734
Repayment of borrowings	(1,489,505)	(858,451)
Principal elements of lease payments	(101,022)	(94,402)
Proceeds from issue of ordinary shares	–	7,513,885
Proceeds from issue of bonds	–	596,768
Proceeds from issue of short-term notes	–	429,353
Repayment of short-term notes	–	(707,824)
Distribution paid to perpetual subordinated convertible securities holders	–	(8,000)
Proceeds from exercise of employee stock options	5,755	12,718
Capital injection from non-controlling interests	1,972,160	2,617,637
Proceeds from release of restricted cash relating to financing activities	53,000	–
Proceeds from/(payments for) settlement of derivative financial instruments	42,654	(251,203)
Net cash generated from financing activities	2,357,325	12,704,215
Net (decrease)/increase in cash and cash equivalents	(1,286,215)	7,293,242
Cash and cash equivalents at the beginning of the year	9,826,537	2,238,840
Effects of exchange rate changes on the balance of cash held in foreign currencies	41,424	294,455
Cash and cash equivalents at the end of the year	8,581,746	9,826,537

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

1. GENERAL INFORMATION

Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) was established as an exempt company incorporated under the laws of the Cayman Islands on April 3, 2000. The Company’s ordinary shares are listed on the Stock Exchange of Hong Kong Limited and the SSE STAR Market, respectively. The address of the principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. The registered address is at P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The subsidiaries of the Company are engaged in the various business activities, such as manufacture, testing and trading of integrated circuits, as well as technical research and development, manufacture of semiconductor masks and providing of other services. The principal subsidiaries and their activities are set out in Note 19.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, monetary funds and derivative financial instruments which have been measured at fair value. Assets classified as held-for-sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Note 4.

These financial statements are presented in United States dollars (“USD”) and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES IFRSS MANDATORILY EFFECTIVE FOR THE YEAR

The Group has adopted the following revised IFRSs for the first time for the current year’s financial statements:

Amendments to IFRS 9, IFRS 7, IFRS 4, IFRS 16
and IAS 39

Interest Rate Benchmark Reform – Phase 2

The nature and the impact of the revised IFRSs are described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

AMENDMENTS TO IFRS 9, IFRS 7, IFRS 4, IFRS 16 AND IAS 39 — INTEREST RATE BENCHMARK REFORM – PHASE 2

Amendments to IFRS 9, IFRS 7, IFRS 4, IFRS 16 and IAS 39 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. Under the condition of reforming Major Interest Rate Benchmarks by global regulators, the Group has undertaken transition work on contracts that may be affected. In 2021, the Group has formulated detailed procedures to support the transition from the existing interest-rate benchmark London InterBank Offered Rate (“LIBOR”) to the alternative benchmark, which is expected to be completed in 2022. For example, if LIBOR discontinued, it might be replaced with the Secured Overnight Financing Rate

The Group had certain interest-bearing bank borrowings denominated in USD based on LIBOR as of December 31, 2021. The Group also had interest rate swaps whereby the Group pays interest at fixed rates and receives interest at variable rates based on LIBOR on the notional amount. For the LIBOR-based borrowings and interest rate swaps, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings and interest rate swaps are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

IFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework⁽¹⁾</i>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁽³⁾</i>
IFRS 17	<i>Insurance Contracts⁽²⁾</i>
Amendments to IFRS 17	<i>Insurance Contracts^{(2), (4)}</i>
Amendments to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information⁽²⁾</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current⁽²⁾</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies⁽²⁾</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates⁽²⁾</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction⁽²⁾</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use⁽¹⁾</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract⁽¹⁾</i>
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ⁽¹⁾

⁽¹⁾ Effective for annual periods beginning on or after January 1, 2022

⁽²⁾ Effective for annual periods beginning on or after January 1, 2023

⁽³⁾ No mandatory effective date yet determined but available for adoption

⁽⁴⁾ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before January 1, 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from January 1, 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)* IFRSs ISSUED BUT NOT YET EFFECTIVE *(continued)*

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint venture. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after January 1, 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise a deferred tax asset and a deferred tax liability for deductible and taxable temporary differences associated with right-of-use assets and lease liabilities. There is no adjustment to the opening balance of retained profits at the beginning of the earliest comparative period presented due to the cumulative effect of initially applying the amendments is insignificant.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The Group is still analysing impact of the amendments.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after January 1, 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (*continued*) IFRS ISSUED BUT NOT YET EFFECTIVE (*continued*)

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *IFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *IFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

4. SIGNIFICANT ACCOUNTING POLICIES CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

SEPARATE FINANCIAL STATEMENTS OF THE COMPANY

Investments in subsidiaries are accounted for at the equity method in accordance with IAS 27 and IAS 28. Under the equity method, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint venture is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's investments in the associates or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Upon the acquisition of the ownership interest in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments, monetary funds and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of goods

The Group manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Group also sells certain semiconductor standard products to customers.

Revenues are recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

REVENUE RECOGNITION (*continued*)

Sale of goods (continued)

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the stand-alone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer when that right is considered on something other than the passage of time.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Customers have the right of return within one year pursuant to warranty provisions. The Group typically performs tests of its products prior to shipment to identify yield rate per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid by the customer or for the costs to return products and to ship replacement products to the customer. The Group estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects at customers that may exceed historical trends.

Rendering of services

Revenue from the rendering testing services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the reporting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group satisfies performance obligation under the contract (i.e., transfers control of the related goods or services to the customer).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollar ("USD"), which is the Company's functional and the Group's presentation currency.

In preparing the financial statements of each individual group entity transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into United States dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates that for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

GOVERNMENT FUNDING

Government funding relating to property, plant and equipment, whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognised as deferred government funding in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government funding that is receivable as compensation for expenses or losses already incurred is recorded as a liability upon receipt and recognised as other operating income until the requirements (if any) specified in the terms of the funding have been reached.

OTHER EMPLOYEE BENEFITS

Retirement benefits

The Group's local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a rate equal to 19.0% to 20.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid and there are no forfeited contributions that may be used by the Group. The costs are recognised in profit or loss or in underlying assets as they become payable.

SHARE-BASED PAYMENT ARRANGEMENTS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)* **SHARE-BASED PAYMENT ARRANGEMENTS** *(continued)*

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. When share options are exercised, the amount previously recognised in the reserve will be transferred to share premium.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are other service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

TAXATION

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their costs, less accumulated depreciation and any impairment losses. Such cost comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The Group constructs certain of its plant and equipment. In addition to costs under the construction contracts, the costs that are directly related to the construction and acquisition of such plant and equipment are capitalised. Depreciation is recorded at the time assets are ready for their intended use. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

An item at property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	25 years	4%
Machinery and equipment	5 to 10 years	10% to 20%
Office equipment	3 to 5 years	20% to 33 $\frac{1}{3}$ %

Construction in progress represents buildings under construction and equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation, as well as the capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

INTANGIBLE ASSETS

Acquired intangible assets which consists primarily of technology, licenses and patents, are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is computed using the straight-line method over the expected useful lives of the assets of 3 to 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets, financial assets and non-current assets classified as held for sale) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

Recoverable amount is the higher of fair value less costs to disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

LEASES

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	2 to 5 years
Machinery and equipment	3 to 5 years
Land-use right	50 to 70 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of vehicle and computer (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised in profit or loss in the period in which they are earned.

Sale and leaseback transactions

The Group applies the requirements of IFRS 15 *Revenue from Contracts with Customers* to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a seller-lessee

For sale and leaseback transactions in which a transfer of the asset satisfies the requirements in IFRS 15 to be accounted for as a sale, the Group measure the right-of-use assets arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee and accordingly recognises only the amount of the gain that relates to the rights transferred to the buyer-lessor. For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as borrowings within the scope of IFRS 9.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

RESTRICTED CASH

Restricted cash consists of bank deposits pledged against letters of credit, bank deposits pledged against letters of guarantee and unused government funding for certain research and development projects. Changes of restricted cash paid for property, plant and equipment are presented as investing activity in consolidated statement of cash flows. Changes of restricted cash of pledged against letter of credit, short-term and long-term credit facilities and unused government funding for expensed research and development activities are presented as operating activity in consolidated statement of cash flows.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average basis, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other gain in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

The Group recognises an allowance for expected credit losses ("ECL"s) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*) INVESTMENTS AND OTHER FINANCIAL ASSETS (*continued*)

General approach (continued)

Debt investments at financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, lease liabilities, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, derivative financial instruments, bonds payable, convertible bonds, medium-term notes and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised costs

After initial recognition, including borrowings, lease liabilities, trade and other payables and bonds payable are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, cross currency swap contracts and interest rate swap contracts. Further details of derivative financial instruments are disclosed in Note 21 and Note 39, respectively.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACCOUNTING *(continued)*

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of gain or loss on cash flow hedges.

The effective portion of the gain or loss on cash flow hedges is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

PERPETUAL CAPITAL SECURITIES

Perpetual capital securities with no contracted obligation to repay their principal or to pay any distribution are classified as part of equity.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

5. CRITICAL ACCOUNTING ESTIMATES

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued) ESTIMATION UNCERTAINTY (continued)

Share-based compensation expense

The Company's share option plan and SSE STAR Market restricted share incentive scheme use the option pricing model to estimate the fair value of options on the grant date. The option-pricing model requires highly subjective assumptions, including the expected life of the options and the expected fluctuation of the stock price. The expected life of the granted option refers to the time when the granted option is expected to be issued. The Company uses historical volatility to predict stock price fluctuations. These assumptions are inherently uncertain. The fair value of the options are affected by assumptions and judgments. Further details on share-based compensation are disclosed in Note 38 to the consolidated financial statements.

Fair value of financial instruments

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 40 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Fair value measurement of associates and joint venture's portfolio investments

The Group has invested in a number of portfolio investments through several investment funds, which were accounted for as investments in associates or joint venture using equity method. The investment funds measured their equity investments in portfolio investments at fair value. The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation. The unlisted equity investments in portfolio investments have been valued based on a market-based valuation technique as detailed in Note 20 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity. The Group classifies the fair value of these investments as Level 3.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). Further details are included in Note 17 to the consolidated financial statements.

6. SEGMENT INFORMATION AND REVENUE DESCRIPTION OF SEGMENTS

For management purposes, the Group operates in one segment, engaging principally in the computer-aided design, manufacture and trading of integrated circuits. Management makes high-level strategic decisions and reviews the consolidated results of the Group.

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group's operating revenue from customers is detailed as below:

	Revenue from external customers	
	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Geographical market⁽¹⁾		
Chinese Mainland and Hong Kong, China	3,481,734	2,482,180
North America	1,215,545	906,493
Europe and Asia ⁽²⁾	745,833	518,302
	5,443,112	3,906,975
Types of goods or services		
Sales of wafers	4,982,237	3,474,502
Mask making, testing and others	460,875	432,473
	5,443,112	3,906,975
Timing of revenue recognition		
Goods transferred at a point in time	5,342,872	3,906,975
Services transferred over time	100,240	–
	5,443,112	3,906,975

(1) Representing the revenue to those companies whose headquarters are in the locations, but ultimately selling and shipping the products to their global customers.

(2) Excluding Chinese Mainland and Hong Kong, China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

6. SEGMENT INFORMATION AND REVENUE (continued)

LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognised the liabilities related to contracts with customers as contract liabilities of US\$1,022.7 million as of December 31, 2021 (December 31, 2020: US\$181.4 million). The contract liabilities comprises of the prepayments received from customers, to whom the wafers have not been transferred. Revenue recognised that was included in the contract liabilities balance at the beginning of the year was US\$181.4 million (2020: US\$92.3 million). Amount of US\$1,022.7 million is expected to be recognised as revenue within one year as all related contracts have a duration of one year or less.

PERFORMANCE OBLIGATIONS

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery. Some contracts provide customers with a right of return and volume rebates.

Rendering of services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days upon customer acceptance.

SEGMENT ASSETS

The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expand its capacity at the existing fabs. The non-current assets were mainly located in Chinese Mainland.

SIGNIFICANT CUSTOMERS

The following table summarises net revenue from customers, which accounted for 10% or more of net revenue:

	Net revenue for year ended December 31,	
	2021	2020
Customer A	615,446	442,291
	11.3%	11.3%

7. OTHER OPERATING INCOME

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Gain on disposal of property, plant and equipment, right-of-use assets and assets classified as held-for-sale	48,281	2,247
Impairment loss recognised on intangible assets (Note 11)	–	(1,145)
Government funding	378,319	362,481
Gain on disposal and deconsolidation of subsidiaries (Note 42)	231,382	904
	657,982	364,487

8. FINANCE COSTS

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Interest on:		
Bank and other borrowings	75,747	69,475
Leases (Note 17)	8,829	11,464
Convertible bonds (Note 32)	52	7,329
Corporate bonds (Note 33)	16,854	14,255
Medium-term notes (Note 34)	8,661	7,412
Short-term notes (Note 34)	–	6,193
	110,143	116,128
Less: amounts capitalised	–	(42,894)
	110,143	73,234

The weighted average interest rate used for interest capitalisation was 1.91% for 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

9. OTHER GAINS, NET

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Fair value change arising on:		
Cross currency swap contracts	11,356	–
Foreign currency forward contracts	108	(333)
Structural deposits and monetary funds	766	8,499
Equity securities	67,925	45,463
	80,155	53,629
Others	630	(2,888)
	80,785	50,741

10. INCOME TAXES INCOME TAX EXPENSE

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Current tax — Land Appreciation Tax	4,320	–
Current tax — Enterprise Income Tax	18,642	64,595
Deferred tax	42,204	3,715
	65,166	68,310

The income tax expense for the year can be reconciled to the accounting profit as follows:

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Profit before tax	1,840,324	737,408
Income tax expense calculated at 25%	460,081	184,352
Effect of different tax rates of subsidiaries operating in other jurisdictions	(6,598)	(14,471)
Adjustments in respect of current tax of previous periods ⁽¹⁾	(39,367)	43
Share of profits and losses of joint venture and associates	(63,170)	(46,836)
Expenses not deductible for tax	4,496	2,277
Effect on opening deferred tax due to tax rate change	(11,102)	–
Effect of tax holiday and tax concession	(240,041)	(128,909)
Additional deduction for research and development expenditures	(98,988)	(96,141)
Utilisation of previously unrecognised deductible temporary differences	(42,412)	(11,239)
Temporary differences without deferred tax recognised	97,947	179,234
Land appreciation tax	4,320	–
	65,166	68,310

⁽¹⁾ SMIC Beijing, a subsidiary of the Group, enjoyed a tax preference to be exempted from corporate income tax from 2015 to 2019 and is entitled to a 50% tax reduction from 2020 to 2024. However, SMIC Beijing obtained approval from the relevant tax authority in May 2021 to continue to be exempted from corporate income tax from 2020 to 2024. SMIC received the relevant tax refund of US\$35.7 million in 2021 for the relevant tax paid in 2020.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland. No deferred tax liability for withholding taxes has been recognised as the Company is able to control the timing of distributions from subsidiaries and is not expected to distribute these profits of subsidiaries in Chinese Mainland in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Chinese Mainland for which deferred tax liabilities have not been recognised amounted to US\$2,943.3 million (2020: US\$1,121.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

10. INCOME TAXES (continued)

CURRENT TAX LIABILITIES

The Group has recognised the income tax payable as liabilities of US\$26.7 million as of December 31, 2021 (December 31, 2020: US\$17.6 million).

DEFERRED TAX BALANCES

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statement of financial position:

	Property, plant and equipment	Accruals	Intangible assets	Impairment	Loss available for offsetting against future taxable profits	Total
Deferred tax assets	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at December 31, 2019	49,188	6,296	1,531	4,009	1,951	62,975
Recognise in profit or loss	(4,508)	899	(156)	(2,103)	715	(5,153)
Balance at December 31, 2020	44,680	7,195	1,375	1,906	2,666	57,822
Recognise in profit or loss	(21,572)	(4,674)	(156)	(1,554)	(2,666)	(30,622)
Balance at December 31, 2021	23,108	2,521	1,219	352	–	27,200

	Financial asset at fair value through profit or loss	Property, plant and equipment	Total
Deferred tax liabilities	USD'000	USD'000	USD'000
Balance at December 31, 2019	–	34,360	34,360
Recognise in profit or loss	–	(1,438)	(1,438)
Balance at December 31, 2020	–	32,922	32,922
Recognise in profit or loss	31,928	(20,346)	11,582
Exchange differences	260	–	260
Balance at December 31, 2021	32,188	12,576	44,764

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is the net deferred tax balances of the Group for financial reporting purposes:

	12/31/21 USD'000	12/31/20 USD'000
Net deferred tax assets	14,624	24,900
Net deferred tax liabilities	32,188	–

Deferred tax assets have not been recognised in respect of the following items:

	12/31/21 USD'000	12/31/20 USD'000
Tax Losses	910,409	739,673
Deductible temporary differences	2,560,863	2,109,055
	3,471,272	2,848,728

At the end of the reporting period, no deferred tax asset was recognised in respect of tax losses of US\$910.4 million (December 31, 2020: US\$739.6 million) due to the unpredictability of future profit streams, of which US\$58.2 million, US\$197.0 million, US\$110.0 million, US\$204.0 million and US\$341.2 million will expire in 2022, 2023, 2024, 2025 and 2026, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

10. INCOME TAXES (continued)

INCOME TAX RATE

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation. The detailed tax statuses of SMIC's principal PRC entities with tax holidays are elaborated as follows:

SMIS obtained the certificate of high-tech enterprise issued on November 18, 2020 and is entitled to enjoy the preferential income tax rate of 15% from 2020 to 2022. In 2021, the income tax rate for SMIS was 15%.

According to CaiShui [2012] No. 27, Announcement No. 45 of 2020 and relevant tax regulations, SMIT is qualified as an integrated circuit enterprise and entitled to enjoy a 10-year tax holiday (income tax full exemption from 2013 to 2017, 50% reduction of income tax from 2018 to 2022) beginning from 2013 after utilising all prior years' tax losses. Meanwhile, SMIT has obtained the certificate of high-tech enterprise issued on November 28, 2019. In 2021, the income tax rate for SMIT was 12.5%.

According to CaiShui [2012] No. 27, Guofa [2020] No. 8 and relevant tax regulations, SMIB is qualified as an integrated circuit enterprise and entitled to enjoy a 10-year tax holiday (income tax full exemption from 2015 to 2024) beginning from 2015 after utilising all prior years' tax losses. Meanwhile, SMIB has obtained the certificate of high-tech enterprise issued on December 17, 2021. SMIB enjoyed the preferential treatment of full exemption from income tax in 2021 and would submit the required documents in accordance with the relevant regulations.

SMNC obtained the certificate of high-tech enterprise issued on December 2, 2019 and is entitled to enjoy the preferential income tax rate of 15% from 2019 to 2021. In 2021, the income tax rate for SMNC was 15%.

SMIZ obtained the certificate of high-tech enterprise issued on December 11, 2020 and is entitled to enjoy the preferential income tax rate of 15% from 2020 to 2022. In 2021, the income tax rate for SMIZ was 15%.

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

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Impairment losses (reversed)/recognised on assets		
Reversal in allowance on doubtful trade receivables (Note 39)	(481)	(490)
(Reversal)/addition in allowance on doubtful other receivables (Note 39)	(516)	689
Impairment losses (reversed)/recognised on inventories	(60,235)	23,112
Impairment losses recognised on intangible assets (Note 18)	—	1,145
	(61,232)	24,456
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (Note 16)	1,737,457	1,184,571
Depreciation of right-of-use assets (Note 17)	106,938	98,766
Amortisation of intangible assets (Note 18)	24,907	29,357
	1,869,302	1,312,694
Employee benefits expense		
Wages, salaries and social security contributions	589,863	503,232
Bonus	122,876	197,117
Non-monetary benefits	32,350	27,401
Equity-settled share-based payments	78,360	10,460
	823,449	738,210
Royalties expense	32,394	26,355
Auditors' remuneration		
Audit services	1,395	1,653
Non-audit services	6	85
	1,401	1,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

12. DIRECTORS' REMUNERATION

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Salaries, fees, bonus and benefits	4,514	7,871
State-managed pension ⁽¹⁾	23	12
Equity-settled share-based payments	5,079	2,772
	9,616	10,655

⁽¹⁾ The employees of the Group in Chinese Mainland participate in the pension insurance and unemployment insurance scheme administered by the local government. The Group contributes on a monthly basis to these schemes based on certain percentages of the salaries of the employees. After retirement, the local government is responsible for paying basic social pensions to the retired employees.

The equity-settled share-based payments granted to directors include stock options, restricted share units ("RSUs") and restricted shares.

During the year ended December 31, 2021, 1,416,137 share options were granted to the directors (2020: 2,359,665). 617,466 share options were exercised (2020: 314,531) and no stock options were expired (2020: nil).

During the year ended December 31, 2021, 989,336 RSUs were granted to the directors (2020: 1,072,451), 804,966 RSUs automatically vested (2020: 438,750) and no RSUs were forfeited (2020: nil).

During the year ended December 31, 2021, 1,960,000 restricted shares were granted to the directors (2020: nil), no restricted shares automatically vested (2020: nil) and 400,000 restricted shares were forfeited (2020: nil).

In 2021, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2020: nil). No other directors waived any emoluments in 2021 (2020: nil).

The Group has no contributions to pension schemes for directors or past directors, except for the state-managed pension for the executive directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid or payable to independent non-executive directors of the Company during the year were as follows:

	Fees, bonus and benefits USD'000	State- managed pension USD'000	Equity-settled share-based payments USD'000	Total remuneration USD'000
2021				
William Tudor Brown	93	—	319	412
Lau Lawrence Juen-Yee	79	—	107	186
Fan Ren Da Anthony	84	—	107	191
Liu Ming	63	—	555	618
Young Kwang Leei ⁽¹⁾	61	—	74	135
	380	—	1,162	1,542

⁽¹⁾ On November 11, 2021, Dr. Young Kwang Leei has resigned as an independent non-executive director of the Company.

	Fees, bonus and benefits USD'000	State-managed pension USD'000	Equity-settled share-based payments USD'000	Total remuneration USD'000
2020				
William Tudor Brown	93	—	218	311
Cong Jingsheng Jason	45	—	196	241
Lau Lawrence Juen-Yee	78	—	65	143
Fan Ren Da Anthony	83	—	65	148
Young Kwang Leei	68	—	184	252
	367	—	728	1,095

There were no other emoluments payable to the independent non-executive directors during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

12. DIRECTORS' REMUNERATION (continued)

EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR

	Salaries, fees, bonus and benefits USD'000	State- managed pension USD'000	Equity-settled share-based payments USD'000	Total remuneration USD'000
2021				
Executive directors:				
Gao Yonggang	818	9	765	1,592
Zhao Haijun	877	6	681	1,564
Liang Mong Song ⁽¹⁾	879	–	568	1,447
Chiang Shang-Yi ⁽²⁾	716	–	361	1,077
Zhou Zixue ⁽³⁾	844	8	806	1,658
	4,134	23	3,181	7,338
Non-executive directors:				
Lu Guoqing	–	–	391	391
Chen Shanzhi	–	–	319	319
Huang Dengshan	–	–	–	–
Ren Kai	–	–	–	–
Lu Jun ⁽⁴⁾	–	–	–	–
Tong Guohua ⁽⁵⁾	–	–	26	26
Zhou Jie ⁽⁶⁾	–	–	–	–
	–	–	736	736

⁽¹⁾ On November 11, 2021, Liang Mong Song, resigned as an executive director and will continue to serve as the co-chief executive officer of the Company after the aforementioned resignation.

⁽²⁾ On November 11, 2021, Chiang Shang-Yi resigned as the vice chairman of the board and an executive director of the Company.

⁽³⁾ On March 17, 2022, Zhou Zixue resigned as an executive director of the Company.

⁽⁴⁾ On April 29, 2021, Lu Jun resigned as a non-executive director of the Company.

⁽⁵⁾ On May 13, 2021, Tong Guohua resigned as a non-executive director of the Company.

⁽⁶⁾ On November 11, 2021, Zhou Jie resigned as a non-executive director of the Company.

	Salaries, fees, bonus and benefits USD'000	State-managed pension USD'000	Equity-settled share-based payments USD'000	Total remuneration USD'000
2020				
Executive directors:				
Zhou Zixue	1,060	6	517	1,583
Chiang Shang-Yi	32	–	–	32
Zhao Haijun	972	–	139	1,111
Liang Mong Song	4,413	–	517	4,930
Gao Yonggang	1,027	6	457	1,490
	7,504	12	1,630	9,146
Non-executive directors:				
Chen Shanzhi	–	–	218	218
Zhou Jie	–	–	–	–
Ren Kai	–	–	–	–
Lu Jun	–	–	–	–
Tong Guohua	–	–	196	196
	–	–	414	414

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included four (2020: four) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining one (2020: one) non-director, highest paid individual for the year are as follows:

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Salaries and benefits	267	550
Bonus	301	394
State-managed pension	–	–
Equity-settled share-based payments	520	–
	1,088	944

The bonus is determined on the basis of the basic salary and the performance of the Group and the individual.

In 2021, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2020: nil).

The Group has no contributions to pension schemes for directors or past directors, except for the state-managed pension for the executive directors and employees.

The remuneration of the non-director and highest paid individual fell within the following bands is as follows:

	Number of employee	
	2021	2020
Approximately US\$897,401 to US\$961,500	–	1
Approximately US\$1,025,600 to US\$1,089,700	1	–
	1	1

14. EARNINGS PER SHARE BASIC EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	(In USD'000, except share and per share data)	
	Year ended 12/31/21	Year ended 12/31/20
Profit for the year attributable to owners of the Company	1,701,803	715,550
Interest on perpetual subordinated convertible securities holders	(82)	(8,000)
Earnings used in the calculation of basic earnings per share	1,701,721	707,550
Weighted average number of ordinary shares for the purposes of basic earnings per share	7,897,672,423	6,353,497,375
Basic earnings per share	\$0.22	\$0.11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

14. EARNINGS PER SHARE *(continued)*

DILUTED EARNINGS PER SHARE

The earnings used in the calculation of diluted earnings per share are as follows:

	(In USD'000, except share and per share data)	
	Year ended 12/31/21	Year ended 12/31/20
Earnings used in the calculation of basic earnings per share	1,701,721	707,550
Interest on convertible bonds (Note 8)	52	7,329
Interest on perpetual subordinated convertible securities holders	82	8,000
Earnings used in the calculation of diluted earnings per share	1,701,855	722,879
Weighted average number of ordinary shares used in the calculation of basic earnings per share	7,897,672,423	6,353,497,375
Employee options and restricted share units	24,287,236	22,255,752
Restricted shares	7,245,193	–
Convertible bonds	2,084,474	219,232,491
Perpetual subordinated convertible securities	2,509,303	247,547,767
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	7,933,798,629	6,842,533,385
Diluted earnings per share	\$0.21	\$0.11

During the year ended December 31, 2021, the Group had 2,742,167 weighted average outstanding employee stock options (2020: 477,111) excluded from the computation of diluted earnings per share because the exercise price was higher than the average market price of the ordinary shares. The Group had 46,801,216 outstanding restricted shares excluded from the computation of diluted earnings per share due to the uncertainty about the achievement of non-market-based performance conditions in the future (2020: nil). No potential shares upon the conversion of convertible bonds (2020: nil) and no potential shares upon the conversion of perpetual subordinated convertible securities (2020: nil) excluded from the computation of diluted earnings per share due to anti-dilutive effect.

15. DIVIDEND

The board of director did not recommend the payment of any dividend for the year ended December 31, 2021 (December 31, 2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings USD'000	Machinery and equipment USD'000	Office equipment USD'000	Construction in progress USD'000	Total USD'000
Cost					
Balance at December 31, 2019	1,079,088	14,443,651	235,143	2,473,458	18,231,340
Additions	–	–	–	5,607,893	5,607,893
Transfers	241,575	3,528,754	55,685	(3,826,014)	–
Disposals	(5,426)	(21,277)	(717)	(4,578)	(31,998)
Deconsolidation of a subsidiary	–	–	(17)	–	(17)
Reclassified as held-for-sale	(19,544)	–	–	–	(19,544)
Balance at December 31, 2020	1,295,693	17,951,128	290,094	4,250,759	23,787,674
Additions	–	–	–	4,393,099	4,393,099
Transfers	138,930	4,441,947	31,094	(4,611,971)	–
Disposals	(1,322)	(290,954)	(2,898)	(8,000)	(303,174)
Disposal of a subsidiary	(16,986)	(494,187)	(8,093)	(39,698)	(558,964)
Reclassified as held-for-sale	(1,404)	–	–	–	(1,404)
Balance at December 31, 2021	1,414,911	21,607,934	310,197	3,984,189	27,317,231
Accumulated depreciation and impairment					
Balance at December 31, 2019	257,327	10,011,365	194,831	10,570	10,474,093
Depreciation	51,290	1,095,305	37,976	–	1,184,571
Disposals	(719)	(4,817)	(717)	–	(6,253)
Impairment loss written off	–	(3)	–	(544)	(547)
Deconsolidation of a subsidiary	–	–	(2)	–	(2)
Reclassified as held-for-sale	(2,209)	–	–	–	(2,209)
Balance at December 31, 2020	305,689	11,101,850	232,088	10,026	11,649,653
Depreciation	43,144	1,661,868	32,445	–	1,737,457
Disposals	(175)	(94,210)	(2,844)	–	(97,229)
Disposal of a subsidiary	(1,081)	(226,975)	(5,258)	–	(233,314)
Reclassified as held-for-sale	(119)	–	–	–	(119)
Balance at December 31, 2021	347,458	12,442,533	256,431	10,026	13,056,448
Net carrying amount					
Balance at December 31, 2020	990,004	6,849,278	58,006	4,240,733	12,138,021
Balance at December 31, 2021	1,067,453	9,165,401	53,766	3,974,163	14,260,783

CONSTRUCTION IN PROGRESS

Included in the balance of construction in progress of approximately US\$3,974.2 million as of December 31, 2021, US\$942.1 million, US\$1,878.1 million, US\$611.6 million and US\$506.9 million were related to the construction of facilities and payment for acquisition of machinery and equipment of the fabs in Shanghai, the fabs in Beijing, the fabs in Shenzhen and the fab in Tianjin, respectively. US\$35.5 million was used for purchasing machinery and equipment for research and development activities.

BUILDINGS WITHOUT CERTIFICATES

As of December 31, 2021, the ownership certificates of buildings with a net carrying amount of US\$99.2 million (December 31, 2020: US\$113.8 million) have not been obtained.

ASSETS PLEDGED AS SECURITY

As of December 31, 2021, certain of the Group's property, plant and equipment with a carrying amount of approximately US\$215.9 million (December 31, 2020: approximately US\$101.1 million) have been pledged to secure borrowings of the Group under mortgages (Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

17. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for various items of buildings, machinery and equipment, and other equipment used in its operations. Lump sum payments were made to acquire the land-use right with lease periods of 50 to 70 years and no ongoing payments will be made. Leases of buildings, machinery and equipment generally have lease terms between 2 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings	Machinery and equipment	land-use right	Total
	USD'000	USD'000	USD'000	USD'000
Balance at December 31, 2019	1,884	236,719	138,264	376,867
Additions	1,047	91,147	129,059	221,253
Depreciation	(1,001)	(94,641)	(3,124)	(98,766)
Disposals	–	–	(6,385)	(6,385)
Reclassified as held-for-sale	–	–	(1,731)	(1,731)
Balance at December 31, 2020	1,930	233,225	256,083	491,238
Additions	2,099	65,336	112,391	179,826
Depreciation	(673)	(100,537)	(5,728)	(106,938)
Disposals	–	–	(9)	(9)
Disposal of a subsidiary	(1,373)	–	(9,015)	(10,388)
Balance at December 31, 2021	1,983	198,024	353,722	553,729

Land-use right pledged as security

As of December 31, 2021, certain land-use right with a carrying amount of approximately US\$34.2 million (December 31, 2020: US\$10.0 million) have been pledged to secure borrowings of the Group under mortgages (Note 31).

Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	12/31/21 USD'000	12/31/20 USD'000
Balance at January 1,	245,270	247,732
New leases	67,435	92,194
Interest charged	8,829	11,464
Repayment	(109,851)	(105,866)
Disposal of a subsidiary	(1,575)	–
Foreign exchange loss/(gain)	116	(254)
Balance at December 31,	210,224	245,270
Current portion	100,763	94,949
Non-current portion	109,461	150,321
	210,224	245,270

The maturity analysis of lease liabilities is disclosed in Note 39 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

17. LEASES (continued)

THE GROUP AS A LESSEE (continued)

Profit or loss in relation to leases

The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Interest expense	8,829	11,464
Depreciation of right-of-use assets	106,938	98,766
Gains arising from sublease of right-of-use assets	117	335
Gains arising from sale and leaseback transaction	(2,576)	–
Expense relating to short-term and low-value leases	9,564	23,232

Cash outflow in relation to leases

The total cash outflow for leases is disclosed in Note 41 to the consolidated financial statements.

THE GROUP AS A LESSOR

The Group leases parts of its buildings under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was US\$20.0 million (2020: US\$16.8 million).

As of December 31, 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	12/31/21 USD'000	12/31/20 USD'000
Within 1 year	8,695	6,129
1-2 years	5,543	6,075
Over 2 years	7,210	2,272
	21,448	14,476

18. INTANGIBLE ASSETS

	Patents and license USD'000
Cost	
Balance at December 31, 2019	445,121
Additions	15,512
Balance at December 31, 2020	460,633
Additions	10,570
Balance at December 31, 2021	471,203
Accumulated amortisation and impairment	
Balance at December 31, 2019	348,178
Amortisation	29,357
Impairment loss recognised	1,145
Balance at December 31, 2020	378,680
Amortisation	24,907
Balance at December 31, 2021	403,587
Net carrying amount	
Balance at December 31, 2020	81,953
Balance at December 31, 2021	67,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

19. SUBSIDIARIES

The principle subsidiaries of the Company at the end of the reporting period are as follows:

Name of entity	Place of establishment/ incorporation	Legal nature Limited corporation	Paid up registered capital	Percentage of equity attributable to the Company		Principal activities
Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai") [#]	People's Republic of China (the "PRC")	Limited corporation	USD1,790,000,000	Indirectly	100%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing") [#]	PRC	Limited corporation	USD1,000,000,000	Indirectly	100%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin") [#]	PRC	Limited corporation	USD870,000,000	Indirectly	100%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIZ" or "SMIC Shenzhen") ^{# (1)}	PRC	Limited corporation	USD1,626,000,000	Indirectly	73.27%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") [#]	PRC	Limited corporation	USD4,800,000,000	Indirectly	51%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing South China Corporation ("SMSC") ^{# (2)}	PRC	Limited corporation	USD6,500,000,000	Indirectly	38.52%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing Beijing Corporation ("SMBC") ^{# (4)}	PRC	Limited corporation	USD2,254,900,000	Indirectly	56.54%	Manufacture and trading of semiconductor products
Semiconductor Manufacturing Oriental Corporation ("SMOC") ^{# (3)}	PRC	Limited corporation	USD2,750,000,000	Indirectly	66.45%	Manufacture and trading of semiconductor products
SMIC New Technology Research & Development (Shanghai) Corporation ("SMIC New Technology") [#]	PRC	Limited corporation	USD400,000,000	Indirectly	100%	Research and development activities
Better Way Enterprises Limited ("Better Way")	Samoa	–	USD1	Directly	100%	Provision of marketing related activities
SMIC, Americas	United States of America	–	USD500,000	Directly	100%	Provision of marketing related activities
SMIC Japan Corporation	Japan	–	JPY10,000,000	Directly	100%	Provision of marketing related activities
SMIC Europe S.R.L.	Italy	–	EUR100,000	Directly	100%	Provision of marketing related activities
Semiconductor Manufacturing International (BVI) Corporation ("SMIC BVI")	British Virgin Islands	–	USD10	Directly	100%	Provision of marketing related activities
SMIC Investment (Shanghai) Corporation ("SMIC Investment") [#]	PRC	Limited corporation	USD465,800,000	Directly	100%	Investment holding
SMIC Shanghai (Cayman) Corporation	Cayman Islands	–	USD50,000	Directly	100%	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands	–	USD50,000	Directly	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	–	USD10,000	Directly	100%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	–	HKD1,000	Indirectly	100%	Investment holding
SilTech Semiconductor (Shanghai) Corporation Limited ("SilTech Shanghai") [#]	PRC	Limited corporation	USD12,000,000	Indirectly	100%	Investment holding
SMIC Holdings Corporation ("SMIC Holdings") [#]	PRC	Limited corporation	USD50,000,000	Directly	100%	Investment holding
Magnificent Tower Limited	British Virgin Islands	–	USD50,000	Indirectly	100%	Investment holding
China IC Capital Co., Ltd.	PRC	Limited corporation	RMB2,741,500,000	Indirectly	100%	Investment holding
China IC Capital (Ningbo) Co., Ltd.	PRC	Limited corporation	RMB1,851,500,000	Indirectly	100%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC	Limited partnership	RMB17,775,918	Indirectly	99%	Investment holding
Qingdao Juyuan Jintai Capital Fund, LLP	PRC	Limited partnership	RMB81,700,000	Indirectly	78.55%	Investment holding
SMIC Private School (Shanghai)	PRC	Non-profit private school	RMB4,000,000	Indirectly	100%	Private education
SMIC Private School (Beijing)	PRC	Non-profit private school	RMB5,000,000	Indirectly	100%	Private education
SMIC Development (Chengdu) Corporation ("SMICD") [#]	PRC	Limited corporation	USD5,000,000	Directly	100%	Construction, operation, and management of living quarters

[#] Abbreviation for identification purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

19. SUBSIDIARIES (continued)

- (1) On August 27, 2021, SMIC Holdings, SMIC Investment and Shenzhen Major Industry Investment Group Co., Ltd. ("Shenzhen Major") entered into a Shenzhen joint venture agreement, pursuant to which, the parties had agreed that the registered capital of SMIC Shenzhen shall be increased to US\$2,415 million, of which SMIC Holdings, SMIC Investment and Shenzhen Major agreed to subscribe for capital contribution of US\$1,732.55 million, US\$127 million and US\$555.45 million, respectively.
- On November 23, 2021, SMIC Holdings, SMIC Investment, Shenzhen Major and China IC Fund II entered into a new Shenzhen joint venture agreement, pursuant to which, SMIC Holdings agreed to transfer to China IC Fund II the capital contribution of US\$531.3 million subscribed by SMIC Holdings under the previous Shenzhen joint venture agreement but not paid up and China IC Fund II shall be responsible for the relevant capital contribution. Since SMIC Holdings had not paid up the subscribed capital contribution, no consideration is received from China IC Fund II for the transfer. As of December 31, 2021, the actual shareholding of the Company in SMIC Shenzhen was 73.27%.
- (2) As of December 31, 2021 and 2020, the shareholding of the Company in SMSC was 38.52%. According to the Articles of Association of SMSC, decisions on SMSC's related events were made by the board of directors. The resolution of the board of directors on matters other than those protective matters, shall be approved by at least half of the directors attending the meeting. There were 7 members on the board of directors of SMSC, and the Group had the right to appoint 4 directors, so the proportion of voting rights held by the Company was 57.14%.
- (3) On November 12, 2021, the Company, through SMIC Holdings, China IC Fund II and Shanghai Hailinwei IC Inc. ("Hailinwei") entered into the Lin-Gang Joint Venture Agreement to jointly establish Semiconductor Manufacturing Oriental Corporation ("SMOC"). The registered capital of the SMOC is US\$5.5 billion, of which SMIC Holdings, China IC Fund II and Hailinwei agreed to contribute US\$3.655 billion, US\$922 million and US\$923 million, respectively. As of December 31, 2021, SMIC Holdings has invested a total of US\$1.828 billion, with a shareholding of 66.45%.
- (4) According to the Articles of Association of SMBC, each shareholder should complete the capital contribution before December 31, 2024. In 2021, the second phase of China IC Fund II invested US\$612.3 million, and SMIC Holdings invested US\$510.0 million, resulting in the Group's shareholding in SMBC decreasing from 67.54% to 56.54%.
- (5) The Company entered into a share transfer agreement to transfer the equity interests in SJ Semi in 2021. SJ Semi ceased to be a subsidiary of the Company from May 6, 2021. Details can be referred to Note 42.

MATERIAL NON-CONTROLLING INTERESTS ("NCI")

The table below shows details of the non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of company	Place of establishment and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		12/31/21	12/31/20	12/31/21	12/31/20	12/31/21	12/31/20
				USD'000	USD'000	USD'000	USD'000
SMNC	Beijing, PRC	49.00%	49.00%	153,896	93,509	2,391,364	2,233,828
SMSC	Shanghai, PRC	61.48%	61.48%	(78,381)	(143,412)	3,701,077	3,776,349

Summarised financial information in respect of the Company's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

SMNC

	12/31/21	12/31/20
	USD'000	USD'000
Current assets	2,399,455	2,847,918
Non-current assets	3,541,335	3,042,113
Current liabilities	(872,867)	(1,028,081)
Non-current liabilities	(187,588)	(303,117)
Net assets	4,880,335	4,558,833
Equity attributable to owners of the Company	2,488,971	2,325,005
Non-controlling interests	2,391,364	2,233,828
Net assets	4,880,335	4,558,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

19. SUBSIDIARIES (continued)

SMNC (continued)

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Revenue	1,513,276	967,886
Expense	(1,213,005)	(968,611)
Other income	13,803	191,559
Profit for the year	314,074	190,834
Profit attributable to owners of the Company	160,178	97,325
Profit attributable to the non-controlling interests	153,896	93,509
Profit for the year	314,074	190,834
Total comprehensive income attributable to owners of the Company	98,918	(62,841)
Total comprehensive income attributable to the non-controlling interests	95,039	(60,375)
Total comprehensive income for the year	193,957	(123,216)
Dividends paid to non-controlling interests	—	—
Net cash inflow from operating activities	527,423	445,470
Net cash outflow from investing activities	(189,147)	(323,521)
Net cash outflow from financing activities	(305,793)	(116,818)
Net cash inflow	32,483	5,131

SMSC

	12/31/21 USD'000	12/31/20 USD'000
Current assets	3,731,237	4,052,065
Non-current assets	5,063,571	5,411,470
Current liabilities	(1,671,774)	(2,330,471)
Non-current liabilities	(1,103,065)	(990,662)
Net assets	6,019,969	6,142,402
Equity attributable to owners of the Company	2,318,892	2,366,053
Non-controlling interests	3,701,077	3,776,349
Net assets	6,019,969	6,142,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

19. SUBSIDIARIES (continued)

SMSC (continued)

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Revenue	691,769	139,158
Expense	(867,323)	(468,798)
Other income	48,063	78,863
Loss for the year	(127,491)	(250,777)
Loss attributable to owners of the Company	(49,110)	(107,365)
Loss attributable to the non-controlling interests	(78,381)	(143,412)
Loss for the year	(127,491)	(250,777)
Total comprehensive income attributable to owners of the Company	(108,721)	(285,623)
Total comprehensive income attributable to the non-controlling interests	(173,523)	(443,497)
Total comprehensive income for the year	(282,244)	(729,120)
Dividends paid to non-controlling interests	—	—
Net cash inflow from operating activities	938,996	140,252
Net cash outflow from investing activities	(2,766,414)	(2,195,496)
Net cash (outflow)/inflow from financing activities	(15,703)	3,762,750
Net cash (outflow)/inflow	(1,843,121)	1,707,506

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The details of the Company's material associates, which are all unlisted companies except for JCET Group Co., Ltd. listed on the Shanghai Stock Exchange, at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of share held	Statutory percentage of ownership interest attributable to the Group	
			12/31/21	12/31/20
JCET Group Co., Ltd. ("JCET")	Jiangsu, PRC	Ordinary	12.86%	14.3%
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")	Shanghai, PRC	Ordinary	8.17%	8.17%
Ningbo Semiconductor International Corporation ("NSI")	Zhejiang, PRC	Ordinary	15.85%	15.85%
Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC")	Zhejiang, PRC	Ordinary	19.57%	19.57%

In accordance with the investment agreements, the Group has significant influence through the right the Group owned to appoint director(s) to the board of directors of the above companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

All of these associates are accounted for using the equity method in these consolidated financial statements. Summarised financial information in respect of the Group's material associates, which include JCET, Sino IC Leasing, NSI and SMEC is below:

	12/31/21 USD'000	12/31/20 USD'000
Current assets	5,070,604	4,642,919
Non-current assets	13,573,624	10,463,609
Current liabilities	(3,103,832)	(3,110,590)
Non-current liabilities	(8,319,727)	(5,984,087)
Net assets	7,220,669	6,011,851
Less: non-controlling interests	(129,625)	(124,935)
Equity attributable to owners of the associates	7,091,044	5,886,916
Share of equity of associates	863,157	758,267
Goodwill	308,218	342,083
Less: unrealised profit	(29,164)	(34,484)
Carrying amount of the Group's interest	1,142,211	1,065,866
	Year ended 12/31/21 USD'000	Year ended 12/30/20 USD'000
Total revenue	5,520,318	4,357,980
Profit attributable to owners	319,690	33,878
Total comprehensive income attributable to owners	487,869	63,114
Dividends received from the associates	1,770	3,061

The details of the Group's joint venture, which is an unlisted entity invested indirectly through China IC Capital (Ningbo) Co., Ltd., at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of share held	Statutory percentage of ownership interest attributable to the Group	
			12/31/21	12/31/20
Shanghai Xinxin Investment Centre (Limited Partnership)	Shanghai, PRC	Limited partner interest	49.00%	49.00%

The following table illustrates the aggregate financial information of the Group's associates and joint venture:

	Investments in associates		Investment in joint venture	
	2021 USD'000	2020 USD'000	2021 USD'000	2020 USD'000
Share of profit for the year	212,051	86,172	(13,028)	43,693
Share of total comprehensive income for the year	223,644	106,904	(12,304)	46,888
Aggregate carrying amount of the Group's investments	716,941	375,110	17,639	31,521

The associates and the joint venture included several investment funds, which measured their equity investments in portfolio investments at fair value. As of December 31, 2021, the carrying amount of those investment funds was US\$671.8 million (December 31, 2020: US\$353.0 million). The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation. The unlisted equity investments in portfolio investments have been valued using recent transaction price or market approach, the listed equity investments in portfolio investments have been valued using quoted market prices adjusted for marketability and liquidity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

	12/31/21 USD'000	12/31/20 USD'000
Financial assets		
Non-current portion		
<i>Financial assets at fair value through profit or loss</i>		
Listed equity securities	18,468	36,482
Unlisted equity securities	204,556	119,885
<i>Financial assets at amortised cost</i>		
Bank deposits with more than 1 year	3,725,962	1,638,721
<i>Other financial assets at amortised cost</i>		
Restricted cash	117,787	114,811
Other assets ⁽¹⁾	991	991
<i>Derivative financial instruments</i>		
Cross currency swap contracts — cash flow hedges	46,547	29,046
Interest rate swap contracts — cash flow hedges	4,526	—
Current portion		
<i>Financial assets at fair value through profit or loss</i>		
Structural deposits	—	111,094
Monetary funds	78,184	383
<i>Financial assets at amortised cost</i>		
Bank deposits with more than 3 months	3,838,129	2,806,517
<i>Other financial assets at amortised cost</i>		
Cash and cash equivalents	8,581,746	9,826,537
Restricted cash	214,191	575,258
Trade and other receivables ⁽²⁾ (Note 25)	806,487	608,906
<i>Derivative financial instruments</i>		
Cross currency swap contracts — cash flow hedges	31,371	4,891
	17,668,945	15,873,522

⁽¹⁾ Other assets included the security deposits for derivative financial instruments, which were recognised as financial assets at amortised cost.

⁽²⁾ Trade and other receivables at amortised cost excluded the value-added tax to be deducted and tax recoverables, which were not recognised as financial assets at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 39.

	12/31/21 USD'000	12/31/20 USD'000
Financial liabilities		
Non-current		
Financial liabilities at amortised cost		
Borrowings (Note 31)	4,937,671	4,030,776
Lease liabilities (Note 17)	109,461	150,321
Bonds payable (Note 33)	597,663	596,966
Convertible bonds (Note 32)	—	11,131
Medium-term notes (Note 34)	—	229,217
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	2,065	13,000
Interest rate swap contracts — cash flow hedges	1,138	7,700
Current		
Financial liabilities at amortised cost		
Financial liabilities included in trade and other payables and accrual liabilities	1,856,814	1,686,671
Borrowings (Note 31)	789,316	1,260,057
Lease liabilities (Note 17)	100,763	94,949
Convertible bonds (Note 32)	1,978	—
Medium-term notes (Note 34)	235,515	—
Other payables	—	20,039
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	8,848	133,481
Foreign currency forward contracts	—	333
	8,641,232	8,234,641

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments included forward foreign exchange contracts, cross currency swap contracts and interest rate swap contracts, the carrying amounts of those derivative financial instruments were presented in Note 21.

FORWARD FOREIGN EXCHANGE CONTRACTS

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within the exposure generated. The Group also enters into forward foreign exchange contracts to manage the foreign currency exposure from purchases/sales and financing activities.

The forward foreign exchange contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging interest rate swaps amounting to US\$-0.3 million (2020: US\$0.3 million) were charged to profit or loss during the year.

CROSS CURRENCY SWAP CONTRACTS - CASH FLOW HEDGE

Cross currency swap contracts are designated as hedging instruments in cash flow hedges of outstanding bank deposits and debts denominated in RMB. It is the policy of the Group to enter into cross currency swap contracts to mitigate the impact of volatility of future cash flows caused by the changes in exchange rates associated with outstanding bank deposits and debts denominated in RMB.

The following table details the notional amounts and remaining terms of the cross currency swap contracts outstanding at the end of the reporting period:

	Average exchange rate		Notional value			
	2021	2020	12/31/21 RMB'000	12/31/20 RMB'000	12/31/21 USD'000	12/31/20 USD'000
Buy RMB						
Within 1 year	6.7632	6.5469	3,360,000	2,150,000	527,688	328,498
1-5 years	6.5170	6.6638	12,418,329	7,673,429	1,950,298	1,150,362
Sell RMB						
Within 1 year	6.3724	6.7005	17,148,400	30,927,025	2,693,156	4,616,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The impacts of the cross currency swap contracts on the statement of financial position are as follows:

	Notional amount	Carry amount		Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	Assets USD'000	Liabilities USD'000	USD'000	USD'000
Buy RMB	15,778,329	77,918	(2,810)	Derivative financial instrument (liabilities)	(86,232)
Sell RMB	17,148,400	–	(8,103)	Derivative financial instrument (liabilities)	101,092

The effects of the cross currency swap contracts on the statement of profit or loss and other comprehensive income are as follows:

	Total hedging loss recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss and other comprehensive income	Amount reclassified from other comprehensive income to profit or loss	Line item in the statement of profit or loss and other comprehensive income
	USD'000	USD'000		USD'000	
Buy RMB	(86,232)	–	N/A	85,521	Foreign exchange gain, Finance costs
Sell RMB	101,092	–	N/A	(101,472)	Foreign exchange gain, Finance costs

The Group does not enter into any cross currency swap contract for speculative purposes.

INTEREST RATE SWAP CONTRACTS – CASH FLOW HEDGE

Interest rate swap contracts are designated as hedging instruments in cash flow hedges of debts with variable interest rates. Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

The following table details the notional amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

	Average interest rate		Notional value	
	2021	2020	12/31/21 USD'000	12/31/20 USD'000
Receive floating pay fixed rates				
1-5 years	2.03%	2.00%	369,000	418,097

The impacts of the interest rate swap contracts on the statement of financial position are as follows:

	Notional amount	Carry amount		Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	USD'000	Assets USD'000	Liabilities USD'000	USD'000	USD'000
Receive floating pay fixed rates	369,000	4,526	(1,138)	Derivative financial instrument (liabilities)	21,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

22. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The effects of the interest rate swap contracts on the statement of profit or loss and other comprehensive income are as follows:

	Total hedging loss recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss and other comprehensive income	Amount reclassified from other comprehensive income to profit or loss	Line item in the statement of profit or loss and other comprehensive income
	USD'000	USD'000	USD'000	USD'000	USD'000
Receive floating pay fixed rates	21,990	–	N/A	(9,673)	Finance costs

The interest rate swaps are settled on a quarterly basis. The floating rate on the interest rate swaps is linking to 3 month LIBOR. The Company will settle the difference between the fixed and floating interest rates on a net basis.

23. RESTRICTED CASH

	12/31/21 USD'000	12/31/20 USD'000
Non-current portion ⁽¹⁾	117,787	114,811
Current portion ⁽²⁾	214,191	575,258
	331,978	690,069

⁽¹⁾ As of December 31, 2021, the non-current restricted cash was a bank time deposit pledged against for borrowings.

⁽²⁾ As of December 31, 2021, the current restricted cash consisted of US\$36.7 million (December 31, 2020: US\$199.1 million) of bank deposits pledged against letters of credit and borrowings, US\$21.1 million (December 31, 2020: US\$2.3 million) of bank deposits pledged against letters of guarantee, US\$7.9 million (December 31, 2020:nil) of bank deposits pledged against foreign exchange trading, and US\$148.5 million (December 31, 2020: US\$373.9 million) of government funding received for the payment of the research and development equipment and expenses to be incurred.

24. INVENTORIES

	12/31/21 USD'000	12/31/20 USD'000
Raw materials	455,071	307,621
Work in progress	664,362	406,807
Finished goods	74,378	84,348
	1,193,811	798,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

25. TRADE AND OTHER RECEIVABLES

	12/31/21 USD'000	12/31/20 USD'000
Trade receivables	691,314	445,990
Allowance on doubtful trade receivables (Note 39)	(751)	(1,777)
	690,563	444,213
Other receivables	49,667	31,303
Allowance on doubtful other receivables (Note 39)	(1,070)	(1,586)
	48,597	29,717
Notes receivables	4,367	4,910
Value-added tax to be deducted	349,137	361,642
Tax recoverables	59,849	5,379
Investment receivables	3,761	–
Interest receivables	27,998	68,345
Refundable deposits and surety	31,201	61,721
	1,215,473	975,927

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

Age of trade receivables	12/31/21 USD'000	12/31/20 USD'000
Within 1 year	671,658	444,697
1-2 years	19,207	526
2-3 years	58	129
Over 3 years	391	638
	691,314	445,990

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. They are generally due for settlement within 30-90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 39.

The following is an aged analysis of other receivables at the end of the reporting period.

Age of other receivables	12/31/21 USD'000	12/31/20 USD'000
Within 1 year	22,998	16,903
1-2 years	12,194	2,163
2-3 years	7,281	857
Over 3 years	7,194	11,380
	49,667	31,303

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

26. ASSETS CLASSIFIED AS HELD-FOR-SALE

	12/31/21 USD'000	12/31/20 USD'000
Assets related to employee's living quarters	21,592	23,796

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. As of December 31, 2021, the expected disposal expense is US\$6.7 million (December 31, 2020: US\$9.4 million).

27. SHARES AND ISSUED CAPITAL ISSUED AND FULLY PAID ORDINARY SHARES

	Number of shares	Share capital USD'000	Share premium USD'000
Balance at December 31, 2019	5,056,868,912	20,227	5,011,915
Issue of ordinary shares under the Company's employee stock incentive plans (Note 38)	16,484,979	66	21,796
Conversion options of convertible bonds exercised	529,883,056	2,119	708,743
Conversion options of perpetual subordinated convertible securities exercised	161,807,580	648	263,812
Issue of ordinary shares	1,938,463,000	7,754	7,506,131
Balance at December 31, 2020	7,703,507,527	30,814	13,512,397
Issue of ordinary shares under the Company's employee stock incentive plans (Note 38)	9,192,989	36	14,766
Conversion options of convertible bonds exercised	7,977,636	32	10,796
Conversion options of perpetual subordinated convertible securities exercised	183,178,403	733	298,655
Balance at December 31, 2021	7,903,856,555	31,615	13,836,614

STOCK INCENTIVE PLANS

The Company has adopted the stock incentive plans under which options to subscribe for the Company's shares have been granted to certain employees, officers and other service providers (Note 38).

28. RESERVES EQUITY-SETTLED EMPLOYEE BENEFIT RESERVE

The equity-settled employee benefit reserve related to share options and RSUs granted by the Company to the Group's employees and service providers under stock incentive plans. Items included in equity-settled employee benefit reserve will not be reclassified subsequently to profit or loss.

FOREIGN CURRENCY TRANSLATION RESERVE

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. United States dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating the net assets of foreign operations) are reclassified to profit or loss on the disposal or deconsolidation of the foreign operation.

CONVERTIBLE BOND EQUITY RESERVE

The conversion option from the issuance of convertible bonds classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument (i.e. convertible bond) as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to ordinary shares and share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option. Conversion option that will be settled by the exchange of a fixed amount of cash of another financial asset for a fixed number of the Group's equity instruments is an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

28. RESERVES (continued)

CASH FLOW HEDGES

To mitigate the impact of volatility of future cash flows caused by the changes in exchange rates and interest rate associated with outstanding debts, the Group entered into several cross currency swap contracts and interest rate swap contracts, which were designated as hedging instruments. Any gains or losses arising from changes in fair value of these hedging instruments are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income/(loss) and later reclassified to profit or loss when the hedged item affects profit or loss.

The hedging reserve is used to record gains or losses on derivatives designated and qualified as cash flow hedges that are recognised in other comprehensive income. Amounts will be reclassified to profit or loss when the associated hedged transaction affects profit or loss.

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Other comprehensive income on cash flow hedges recognised		
Fair value gain/(loss)	179,123	(46,862)
Offset foreign exchange (gain)/loss	(158,462)	24,968
(Deducted)/added finance cost	(9,435)	608
Reclassified into profit or loss due to disposal of a subsidiary	154	–
	11,380	(21,286)
Balance at January 1	(11,363)	9,923
Balance at December 31	17	(11,363)

29. RETAINED EARNINGS

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of the registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law.

In 2021, the Company did not declare or pay any cash dividends on the ordinary shares (2020: nil).

In 2021, the Company paid no distribution to perpetual subordinated convertible securities holders (2020: US\$8.0 million).

30. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

In 2017 and 2018, the Company completed the issue of the perpetual subordinated convertible securities ("PSCS") pursuant to the subscription agreement entered with China IC Fund, Xinxin HK, Datang Holding and Datang HK.

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

For the year ended December 31, 2021, 183,178,403 PSCS (2020: 161,807,580) have been converted into ordinary shares of the Company, and no distribution (2020: US\$8.0 million) was paid by the Company.

As of December 31, 2021, the PSCS were fully converted into ordinary shares, and the net book value of PSCS was nil (December 31, 2020: US\$299.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

31. BORROWINGS

	12/31/21 USD'000	12/31/20 USD'000
At amortised cost		
Short-term bank borrowings		
– secured	–	150,000
– unsecured nor unguaranteed	170,000	302,627
Long-term bank borrowings		
– guaranteed	1,267,819	1,546,856
– secured	278,082	159,502
– unsecured nor unguaranteed	3,984,462	2,661,145
Other borrowings		
– secured	26,624	470,703
	5,726,987	5,290,833
Current		
Short-term bank borrowings	170,000	452,627
Current maturities of long-term bank borrowings and other borrowings	619,316	807,430
	789,316	1,260,057
Non-current		
Non-current maturities of long-term bank borrowings and other borrowings	4,937,671	4,030,776
	5,726,987	5,290,833
Borrowing by repayment schedule		
Within 1 year	789,316	1,260,057
1-2 years	657,850	563,237
2-5 years	3,909,968	3,104,738
Over 5 years	369,853	362,801
	5,726,987	5,290,833

As of December 31, 2021, the Group's bank borrowings amounting to US\$1,470.4 million were guaranteed by the Company.

The Group's bank borrowings and other borrowings amounting to US\$304.7million were secured by the mortgage of assets and the pledge of bank deposits of the Group as follows:

	12/31/21 USD'000	12/31/20 USD'000
Secured by		
– Property, plant and equipment and land-use rights	202,624	530,703
– Restricted cash	102,082	249,502
	304,706	780,205

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	12/31/21 USD'000	12/31/20 USD'000
RMB	4,813,787	3,830,605
USD	913,200	1,460,228
	5,726,987	5,290,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

31. BORROWINGS (continued)

The weighted average effective interest rates of borrowings are set out as follows:

	12/31/21 USD'000	12/31/20 USD'000
RMB	2.27%	2.42%
USD	1.66%	1.62%

The carrying amounts of short-term and current borrowings approximate their fair values, as the impact of discounting is not significant.

32. CONVERTIBLE BONDS

The Company issued the convertible bonds (the "Convertible Bonds") at a par value of US\$250.0 thousand each with an aggregate principal amount of US\$650.0 million, including US\$450.0 million issued on July 7, 2016 (the "2016 Issue") and US\$200.0 million issued on December 9, 2019 (the "2019 Issue").

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

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

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

Subsequent to the initial recognition, the liability component of the Convertible Bonds was carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Bonds was 2.20% per annum. The movements of the liability component and the equity component of the Convertible Bonds for the year ended December 31, 2021 are set out below:

	Liability component USD'000	Equity component USD'000	Total USD'000
Balance at December 31, 2019	630,428	86,200	716,628
Interest charged	7,329	–	7,329
Conversion options exercised	(626,626)	(84,236)	(710,862)
Balance at December 31, 2020	11,131	1,964	13,095
Interest charged (Note 8)	52	–	52
Conversion options exercised	(9,205)	(1,623)	(10,828)
Balance at December 31, 2021	1,978	341	2,319

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

As of December 31, 2021, 1,679,553 ordinary shares would be issued upon full conversion of the Convertible Bonds.

KEY TERMS OF THE CONVERTIBLE BONDS

The Convertible Bonds will mature on July 7, 2022. If payment of principal or premium is improperly withheld or refused, such unpaid amount shall bear interest at the rate of 2.00% per annum. All the Convertible Bonds which are redeemed, converted or purchased by the Company will forthwith be cancelled.

The Company will redeem the outstanding Convertible Bonds at principal amount on July 7, 2022 or in certain circumstances specified in the agreements.

The Company may at any time and from time to time purchase the Convertible Bonds at any price in the open market or otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

32. CONVERTIBLE BONDS (continued)

KEY TERMS OF THE CONVERTIBLE BONDS (continued)

Bondholders may convert their bonds into ordinary shares at any time on or after August 17, 2016. Conversion shares will be issued upon full conversion of the Convertible Bonds based on the conversion price of HK\$9.25 with a fixed exchange rate of 7.7677 HK\$/US\$.

Upon the occurrence of a change of control of the Company, the bondholders will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the change of control put date at their principal amount of the Convertible Bonds. The bondholders will also have the right to require the Company to redeem all or some only of the Convertible Bonds of such holders on July 7, 2020 at their principal amount.

33. BONDS PAYABLE

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

	USD'000
Principal amount	600,000
Discount of bonds payable	(3,232)
Transaction cost	(368)
	596,400

The movement of the corporate bonds is set out below:

	USD'000
At the date of issue	596,400
Interest charged	14,255
Interest payable recognised	(13,689)
Balance at December 31, 2020	596,966
Interest charged (Note 8)	16,854
Interest payable recognised	(16,157)
Balance at December 31, 2021	597,663

34. MEDIUM-TERM AND SHORT-TERM NOTES

On February 28, 2019, the Company issued medium-term notes in a principal amount of RMB1,500.0 million (approximately US\$224.0 million) with a maturity date of March 4, 2022 and with an interest rate of 3.57%.

The movements of the medium-term and short-term notes is set out below:

	Medium-term Notes USD'000	Short-term Notes USD'000
Balance at December 31, 2019	214,193	286,512
Issue	–	429,353
Repayment	–	(707,824)
Interest charged	7,412	6,193
Interest payable recognised	(7,095)	(6,193)
Foreign exchange loss/(gain)	14,707	(8,041)
Balance at December 31, 2020	229,217	–
Interest charged (Note 8)	8,661	–
Interest payable recognised	(8,310)	–
Foreign exchange loss	5,947	–
Balance at December 31, 2021	235,515	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

35. DEFERRED GOVERNMENT FUNDING

In 2021, the Group received government funding under specific research and development ("R&D") projects (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US\$63.9 million (2020: US\$414.1 million) and recognised US\$302.9 million (2020: US\$286.7 million) as other operating income for several specific R&D projects. The government funding is recorded as a liability upon receipt and recognised as other operating income over the useful life of R&D equipment or until the milestones specified in the terms of the funding have been reached.

36. TRADE AND OTHER PAYABLES

	12/31/21 USD'000	12/31/20 USD'000
Payables for property, plant and equipment	1,175,499	905,962
Trade payables	528,910	567,311
Deposits received	51,796	99,928
Others	74,210	75,355
	1,830,415	1,648,556

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

The following is an aged analysis of trade payables and payables for property, plant and equipment presented based on the invoice date at the end of the reporting period.

Age of payables	12/31/21 USD'000	12/31/20 USD'000
Within 30 days	1,640,658	1,034,060
31-60 days	33,501	33,075
Over 60 days	30,250	406,138
	1,704,409	1,473,273

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

37. ACCRUED LIABILITIES

The amounts of accrued liabilities as of December 31, 2021 and 2020 were US\$234.1 million and US\$253.7 million, within which the amounts of accrued bonus were US\$139.7 million and US\$175.1 million respectively.

38. SHARE-BASED PAYMENTS STOCK INCENTIVE PLANS

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

The expense arising from equity-settled share-based payments for the year ended December 31, 2021 was US\$78.4 million (2020: US\$10.5million).

Stock option plan

The options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of 4 years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

Equity incentive plan

The Company adopted the plan whereby the Company provided additional incentives to the Group's employees, directors and external consultants through the issuance of restricted shares, RSUs and stock appreciation rights to the participants at the discretion of the Board of Directors. The units vest over a requisite service period of 4 years and expire 10 years from the date of grant. As of December 31, 2021, the Company only granted RSUs under the plan.

The fair value of each unit is based on ordinary stock price on grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

38. SHARE-BASED PAYMENTS (continued)

STOCK INCENTIVE PLANS (continued)

SSE STAR Market restricted share incentive scheme

Pursuant to the board resolution dated July 19, 2021, the Company granted 67,535,200 restricted shares to 3,944 awardees, including directors, senior management, core technicians, middle and senior business management and key technical and business staff at a grant price of RMB20 per share. The purpose of the scheme is to further stabilise its core team and align the interests of employees and the shareholders.

Validity periods are the period starting from grant date to the date of attribution of 12 months, 24 months, 36 months and 48 months. SSE STAR Market Restricted Share Incentive Scheme is subject to the cancellation in the event of resignation of the grantee; and the vesting conditions of such employee based on his or her annual performance appraisal and financial performance of the Group conducted once an accounting year, taking the average operating income and the average EBITDA of 2018 to 2020 as the performance base. The vesting period is four years, during which 30%, 25%, 25%, and 20% of SSE STAR Market Restricted Share Incentive Scheme granted will vest on each of the four anniversaries of the grant date.

The fair value of restricted shares granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which restricted shares were granted.

DESCRIPTIONS DURING THE YEAR

	2021	2020
The number of		
Granted during the year	82,299,957	18,713,299
Forfeited and expired during the year	4,469,351	3,727,768
Exercised during the year	9,192,989	16,484,979
Share options under stock option plan		
The range of exercise prices for the outstanding	US\$0.37 to US\$3.14	US\$0.37 to US\$2.97
The weighted average remaining contractual life for the outstanding	6.75 years	6.68 years
RSUs under equity incentive plan		
The exercise prices for the outstanding	US\$0.004	US\$0.004
The weighted average remaining contractual life for the outstanding	8.17 years	8.02 years
Restricted shares under SSE STAR Market restricted share incentive scheme		
The exercise prices for the outstanding	RMB20	–
The remaining contractual life for the outstanding	4.55 years	–

MOVEMENTS DURING THE YEAR

Share options

The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the year:

	2021 Number	2021 WAEP	2020 Number	2020 WAEP
Outstanding at January 1	36,738,628	US\$1.56	39,355,224	US\$1.04
Granted during the year	9,805,101	US\$3.02	13,147,502	US\$2.51
Forfeited and expired during the year	(2,826,363)	US\$2.05	(2,852,324)	US\$1.40
Exercised during the year	(5,137,802)	US\$1.21	(12,911,774)	US\$0.97
Outstanding at December 31	38,579,564	US\$1.94	36,738,628	US\$1.56
Exercisable at December 31	12,203,390	US\$1.22	11,486,071	US\$0.95

The weighted average closing price of the Company’s shares immediately before the dates while the share options were exercised was US\$3.18 (2020: US\$2.56).

During the year ended December 31, 2021, share options were granted on May 31, September 15 and November 19, 2021 with the weighted average fair value of US\$1.49 respectively (May 25, September 9 and November 23, 2020: US\$1.03)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

38. SHARE-BASED PAYMENTS (continued)

MOVEMENTS DURING THE YEAR (continued)

Share options (continued)

The following table list the inputs to the Black-Scholes Option Pricing models used for the option granted during the years ended December 31, 2021 and 2020 respectively:

	2021	2020
Dividend yield (%)	–	–
Expected volatility	56.43%	49.39%
Risk-free interest rate	1.03%	0.36%
Expected life of share options	5 years	5 years

The risk-free rate for periods within the contractual life of the option is based on the yield of the United States Treasury Bond. The expected life of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the average volatility of the Company's stock prices with the time period commensurate with the expected term of the options. The dividend yield is based on the Company's intended future dividend plan.

The valuation of the options are based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

RSUs

The following table illustrates the number and WAEP of, and movements in, RSUs during the year:

	2021 Number	2021 WAEP	2020 Number	2020 WAEP
Outstanding at January 1	10,924,467	US\$0.004	9,807,319	US\$0.004
Granted during the year	4,959,656	US\$0.004	5,565,797	US\$0.004
Forfeited during the year	(966,668)	US\$0.004	(875,444)	US\$0.004
Exercised during the year	(4,055,187)	US\$0.004	(3,573,205)	US\$0.004
Outstanding at December 31	10,862,268	US\$0.004	10,924,467	US\$0.004

The weighted average closing price of the Company's shares immediately before the dates on which the RSUs were vested was US\$3.13 (2020: US\$2.10).

During the year ended December 31, 2021, RSUs were granted on May 31, September 15 and November 19, 2021 with the weighted average fair value of US\$3.02 respectively (May 25, September 9 and November 23, 2020: US\$2.45)

The valuation of the RSUs is based on ordinary stock price on grant date.

Restricted shares

The following table illustrates the number and WAEP of, and movements in, the exercisable option of restricted shares during the year:

	2021 Number	2021 WAEP
Granted during the year	67,535,200	RMB\$20
Forfeited during the year	(676,320)	RMB\$20
Outstanding at December 31	66,858,880	RMB\$20

The following table list the inputs to the models used for the plans for the years ended December 31, 2021:

	2021
Dividend yield (%)	–
Expected volatility	53.43%
Risk-free interest rate	2.69%
Expected life of restricted shares	1 year, 2 years, 3 years and 4 years

During the year ended December 31, 2021, the weighted-average fair value of the exercisable option of restricted shares granted on July 19, 2021 was of US\$5.25.

The risk-free rate for periods within the contractual life of the restricted shares is based on the yield of the PRC Treasury Bond. The expected life of restricted shares granted represents the period from the date of grant of restricted shares to the vesting date of each period. Expected volatilities are based on the average volatility of the Company's stock prices with the time period commensurate with the expected term of the restricted shares. The dividend yield is based on the Company's intended future dividend plan.

The valuation of the restricted shares is based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these restricted shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the capital structure.

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

This section sets out an analysis of net debt as below:

	12/31/21 USD'000	12/31/20 USD'000
Net Debt		
Borrowings	5,726,987	5,290,833
Lease liabilities	210,224	245,270
Bonds payable	597,663	596,966
Convertible bonds	1,978	11,131
Medium-term notes	235,515	229,217
Subtotal	6,772,367	6,373,417
Less:		
Cash and cash equivalents	8,581,746	9,826,537
Restricted cash – current	214,191	575,258
Financial assets at fair value through profit or loss – current	78,184	111,477
Financial assets at amortised cost	7,564,091	4,445,238
	(9,665,845)	(8,585,093)

The gearing ratio at end of the reporting period was as follows.

	12/31/21 USD'000	12/31/20 USD'000
Net debt	(9,665,845)	(8,585,093)
Equity	25,438,143	21,681,738
Net debt to equity ratio	-38.0%	-39.6%

FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise borrowings, lease liabilities, convertible bonds, medium-term notes, bonds payables, restricted cash, cash and cash equivalents, and bank deposits with more than 3 months. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally cross currency swaps, interest rate swaps and forward currency exchanges. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- forward foreign exchange contracts and cross currency swap contracts to mitigate the impact of volatility of future cash flows caused by the fluctuation in exchange rates associated with outstanding long-term debts and financial asset at amortised cost denominated in a currency other than the USD; and
- interest rate swaps to mitigate the risk of rising interest rates.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as of December 31, 2021 and 2020.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT (continued)

FOREIGN CURRENCY RISK (continued)

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities, considering the effects of derivative financial instruments and unsettled foreign exchange contracts, at the end of the reporting period are as follows:

	Liabilities		Assets	
	12/31/21 USD'000	12/31/20 USD'000	12/31/21 USD'000	12/31/20 USD'000
EUR	7,789	56,904	22,037	54,412
JPY	77,089	25,586	61,862	84,837
RMB	3,262,085	3,466,754	3,795,123	2,880,393
Others	103,013	110,865	10,380	17,895

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of RMB.

The following table details the Group's sensitivity to a 5% increase in the foreign currencies against USD. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. For a 5% decrease of the foreign currency against USD, there would be an equal and opposite impact on the profit or loss after tax and equity below predicted.

	RMB	
	2021 USD'000	2020 USD'000
(Loss)/profit after tax	(27,533)	27,689
Equity	(27,533)	27,689

INTEREST RATE RISK

The Group is exposed to interest rate risk relates primarily to the Group's long-term borrowing obligations, which the Group generally assumes to fund capital expenditures and working capital requirements. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

Interest rate sensitivity analysis

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At December 31, 2021, after taking into account the effect of the interest rate swaps, approximately 36% (2020: 26%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a 10% increase in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate borrowings) and the Group's equity. For a 10% decrease of interest rates, there would be an equal and opposite impact on the profit or equity below predicted.

	2021 USD'000	2020 USD'000
Profit after tax	5,213	6,562
Equity	5,213	6,562

PRICE RISK

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 21).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

On December 31, 2021, 5% increase/(decrease) in equity securities price would result in increase/(decrease) in net profit by US\$8.36 million (December 31, 2020: US\$5.86 million).

CREDIT RISK

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly exposed to credit risk from trade and other receivables, other financial assets at amortised cost include bank deposits with more than 3 months, refundable deposits and surety, and financial assets at fair value through profit or loss.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and is offered credit terms only with the approval from Finance and Sales Division. Credit quality of a customer is assessed using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and credit ratings of its counterparties are continuously monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

At the end of the reporting period, the Group had certain concentrations of credit risk as 18.8% (2020: 5.4%) and 32.8% (2020: 44.6%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Trade receivables and other receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and ageings.

The loss allowance as of December 31, 2021 and 2020 was determined as follows for trade receivables:

December 31, 2021	Balance	Expected loss rate	Allowance on doubtful receivables
Within 1 year	671,658	0.1%	316
1-2 years	19,207	0.1%	11
2-3 years	58	57%	33
Over 3 years	391	100%	391
	691,314		751

December 31, 2020	Balance	Expected loss rate	Allowance on doubtful receivables
Within 1 year	444,697	0.2%	970
1-2 years	526	20%	105
2-3 years	129	50%	64
Over 3 years	638	100%	638
	445,990		1,777

For other receivables, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on other receivables has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to 12-month ECL. Based on the assessment, the impairment loss reversed during the year for other receivables was US\$0.5 million.

The closing allowance on doubtful trade receivables and other receivables as of December 31, 2021 reconcile to the opening balance as follows:

	12/31/21 USD'000	12/31/20 USD'000
Balance at January 1,	3,363	3,164
Reversal in allowance on doubtful trade receivables	(481)	(490)
(Reversal)/addition in allowance on doubtful other receivables	(516)	689
Disposal of a subsidiary	(545)	–
Balance at December 31,	1,821	3,363

Other financial assets at amortised cost

Other financial assets at amortised cost include bank deposits with more than 3 months, debentures and refundable deposits. The main credit risk on bank deposits with more than 3 months is limited because the counterparties are banks with high credit-ratings. The above mentioned financial assets are considered to have low credit risk as no significant increase in credit risk since the initial recognition.

Based on the assessment, the loss allowance recognised during the year for other financial assets at amortised cost was immaterial to 12 months expected losses. Thus there were no impairment loss recognised for other financial assets at amortised cost as of December 31, 2021 (December 31, 2020: nil).

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as of December 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Maximum exposure and year-end staging (continued)

The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			Total
	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Simplified approach USD'000	USD'000
December 31, 2021					
Trade receivables ⁽¹⁾	–	–	–	691,314	691,314
Other receivables and others					
– Normal ⁽²⁾	116,994	–	–	–	116,994
Financial assets at amortised cost ⁽³⁾					
– Not yet past due	7,564,091	–	–	–	7,564,091
Restricted cash					
– Not yet past due	331,978	–	–	–	331,978
Cash and cash equivalents ⁽³⁾					
– Not yet past due	8,581,746	–	–	–	8,581,746

	12-month ECLs	Lifetime ECLs			Total
	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Simplified approach USD'000	USD'000
December 31, 2020					
Trade receivables ⁽¹⁾	–	–	–	445,990	445,990
Other receivables and others					
– Normal ⁽²⁾	166,279	–	–	–	166,279
Financial assets at amortised cost ⁽³⁾					
– Not yet past due	4,445,238	–	–	–	4,445,238
Restricted cash					
– Not yet past due	690,069	–	–	–	690,069
Cash and cash equivalents ⁽³⁾					
– Not yet past due	9,826,537	–	–	–	9,826,537

⁽¹⁾ For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in Note 39 to the financial statements.

⁽²⁾ The credit quality of the financial assets included in other receivables and others is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

⁽³⁾ The credit risk on cash and cash equivalents and bank time deposits are limited because the counterparties are banks with high credit-ratings.

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Liquidity and interest risk tables (continued)

		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
December 31, 2021							
Interest-bearing bank and other borrowings	Fixed	2.38%	88,497	358,409	1,423,560	167,296	2,037,762
	Floating	2.08%	138,124	323,759	3,382,912	227,913	4,072,708
Lease liabilities		3.70%-5.00%	28,943	77,239	113,150	–	219,332
Convertible bonds		2.20%	–	2,000	–	–	2,000
Medium-term notes		3.57%	243,985	–	–	–	243,985
Bonds payable		2.69%	8,079	8,079	640,395	–	656,553
Financial liabilities included in trade and other payables and accrual liabilities			1,813,663	26,404	–	–	1,840,067
			2,321,291	795,890	5,560,017	395,209	9,072,407

		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
December 31, 2020							
Interest-bearing bank and other borrowings	Fixed	2.05%	8,269	65,933	729,372	199,722	1,003,296
	Floating	2.23%	865,407	417,329	3,165,617	196,883	4,645,236
Lease liabilities		3.70-5.00%	26,022	76,787	155,613	–	258,422
Convertible bonds		3.88%	–	–	11,500	–	11,500
Medium-term notes		3.57%	8,197	–	237,819	–	246,016
Bonds payable		2.69%	8,079	8,079	656,553	–	672,711
Financial liabilities included in trade and other payables and accrual liabilities			1,542,131	127,877	–	–	1,670,008
Other liabilities			–	20,666	–	–	20,666
			2,458,105	716,671	4,956,474	396,605	8,527,855

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Interest rates above do not include effect by hedging Instruments.

The Group has access to short-term credit facilities, of which US\$7,372 million were unused at the end of the reporting period (December 31, 2020: US\$4,146.3 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

39. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Liquidity and interest risk tables (continued)

The following table details the Group's liquidity analysis for the cross currency swap contracts and interest rate swap contract. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on the cross currency swap contracts that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Over 5 years USD'000	Total USD'000
December 31, 2021					
<i>Cross currency swap contracts — cash flow hedges</i>					
Gross settled:					
– inflows	2,489,923	576,427	1,898,851	–	4,965,201
– outflows	(2,493,403)	(577,025)	(1,786,894)	–	(4,857,322)
Net settled:					
– net inflows	9,381	–	9,881	–	19,262
<i>Interest rate swap contracts — cash flow hedges</i>					
Gross settled:					
– inflows	1,174	3,444	8,583	–	13,201
– outflows	(1,846)	(5,418)	(12,846)	–	(20,110)
	5,229	(2,572)	117,575	–	120,232
	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Over 5 years USD'000	Total USD'000
December 31, 2020					
<i>Cross currency swap contracts — cash flow hedges</i>					
Gross settled:					
– inflows	1,455,062	3,245,382	930,544	–	5,630,988
– outflows	(1,519,853)	(3,325,157)	(884,218)	–	(5,729,228)
Net settled:					
– net inflows	1,183	323	14,523	–	16,029
<i>Interest rate swap contracts — cash flow hedges</i>					
Gross settled:					
– inflows	1,445	4,234	15,358	–	21,037
– outflows	(2,044)	(5,985)	(20,726)	–	(28,755)
	(64,207)	(81,203)	55,481	–	(89,929)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	12/31/21 USD'000	12/31/20 USD'000	12/31/21 USD'000	12/31/20 USD'000
Financial assets				
Bank deposits with more than 1 year	3,725,962	1,638,721	3,749,744	1,646,273
Restricted cash – non-current	117,787	114,811	118,539	115,340
Listed equity securities	18,468	36,482	18,468	36,482
Unlisted equity securities	204,556	119,885	204,556	119,885
Structural deposits	–	111,094	–	111,094
Monetary funds	78,184	383	78,184	383
Cross currency swap contracts				
– cash flow hedges	77,918	33,937	77,918	33,937
Interest rate swap contracts				
– cash flow hedges	4,526	–	4,526	–
	4,227,401	2,055,313	4,251,935	2,063,394
Financial liabilities				
Borrowings	5,726,987	5,290,833	5,725,950	5,350,805
Bonds payable	597,663	596,966	593,160	589,158
Convertible bonds	1,978	11,131	1,978	11,045
Medium-term notes	235,515	229,217	235,515	237,705
Cross currency swap contracts				
– cash flow hedges	10,913	146,481	10,913	146,481
Interest rate swap contracts				
– cash flow hedges	1,138	7,700	1,138	7,700
Foreign currency forward contracts	–	333	–	333
	6,574,194	6,282,661	6,568,654	6,343,227

VALUATION TECHNIQUES AND ASSUMPTIONS APPLIED FOR THE PURPOSES OF MEASURING FAIR VALUE

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

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the year ended December 31, 2021 and 2020:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)* FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

December 31, 2021	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
Listed equity securities	Using quoted market prices	2,335	–	–	2,335
Restricted listed equity securities	Using Asian options pricing model	–	–	16,133	16,133
Unlisted equity securities	Using valuation multiples or the latest price method of financing	–	–	204,556	204,556
Monetary funds	Using observable prices	–	78,184	–	78,184
Cross currency swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	77,918	–	77,918
Interest rate swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	4,526	–	4,526
		2,335	160,628	220,689	383,652
Financial liabilities					
Cross currency swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	10,913	–	10,913
Interest rate swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	1,138	–	1,138
		–	12,051	–	12,051
December 31, 2020	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
Listed equity securities	Using quoted market prices	36,482	–	–	36,482
Unlisted equity securities	Using valuation multiples or the latest price method of financing	–	–	119,885	119,885
Structural deposits	Using discount cash flows	–	–	111,094	111,094
Monetary funds	Using observable prices	–	383	–	383
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	33,937	–	33,937
		36,482	34,320	230,979	301,781
Financial liabilities					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	146,481	–	146,481
Interest rate swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	7,700	–	7,700
Foreign currency forward contracts	Using forward exchange rates at the balance sheet date	–	333	–	333
		–	154,514	–	154,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued) FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The following table presents the changes in level 3 instruments for the year ended:

	Restricted listed equity securities USD'000	Unlisted equity securities USD'000	Structural deposits USD'000	Total USD'000
Balance at December 31, 2019	–	89,318	–	89,318
Additions	–	7,258	322,718	329,976
Disposals	–	(4,036)	(224,636)	(228,672)
Gain recognised	–	20,867	3,938	24,805
Foreign exchange gain	–	6,478	9,074	15,552
Balance at December 31, 2020	–	119,885	111,094	230,979
Additions	6,279	49,659	–	55,938
Disposals	–	(7,306)	(111,094)	(118,400)
Gains recognised	9,596	38,822	–	48,418
Foreign exchange gain	258	3,496	–	3,754
Balance at December 31, 2021	16,133	204,556	–	220,689

VALUATION INPUTS AND RELATIONSHIPS TO FAIR VALUE

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

	Fair value at December 31, 2021	Valuation techniques	Unobservable input
Unlisted equity securities	204,556	Valuation multiples or the latest price method of financing	Average PE/PS multiple of peers and the latest price of financing
Restricted listed equity securities	16,133	Asian options pricing model	Liquidity discounts

	Fair value at December 31, 2020	Valuation techniques	Unobservable input
Unlisted equity securities	119,885	Valuation multiples or the latest price method of financing	Average PE/PS multiple of peers and the latest price of financing
Structural deposits	111,094	Discount cash flow	Internal rate of return

The sensitivity analysis of unobservable inputs as of December 31, 2021 is summarised as below:

The higher the average PE/PS multiple of peers, the higher the fair value.

The higher the latest price of financing, the higher the fair value.

The higher the liquidity discounts, the lower the fair value.

VALUATION PROCESSES

The finance department performs the valuations of financial assets required for financial reporting purposes and reports directly to the chief financial officer. Discussions of valuation processes, results and change analyses are held by the chief financial officer and the financial team annually, in line with the Group's yearly reporting periods. The valuation is reviewed by the audit committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)* **FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS FOR WHICH FAIR VALUES ARE DISCLOSED**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments for which fair values are disclosed:

December 31, 2021	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Bank deposits with more than 1 year	–	3,749,744	–	3,749,744
Restricted cash – non-current	–	118,539	–	118,539
	–	3,868,283	–	3,868,283
Financial liabilities				
Borrowings	–	5,725,950	–	5,725,950
Bonds payable	593,160	–	–	593,160
Convertible bonds	–	1,978	–	1,978
Medium-term notes	–	235,515	–	235,515
	593,160	5,963,443	–	6,556,603
December 31, 2020	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Bank deposits with more than 1 year	–	1,646,273	–	1,646,273
Restricted cash – non-current	–	115,340	–	115,340
	–	1,761,613	–	1,761,613
Financial liabilities				
Borrowings	–	5,350,805	–	5,350,805
Bonds payable	589,158	–	–	589,158
Convertible bonds	–	11,045	–	11,045
Medium-term notes	–	237,705	–	237,705
	589,158	5,599,555	–	6,188,713

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

41. CASH FLOW INFORMATION

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Liabilities from financing activities	Borrowings	Lease liabilities	Bonds payable	Convertible bonds	Medium-term notes	Short-term notes	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at December 31, 2019	2,566,669	247,732	–	630,428	214,193	286,512	3,945,534
Net cash flows in/(out)	2,595,283	(94,402)	596,768	–	–	(278,471)	2,819,178
Acquisition – leases	–	92,194	–	–	–	–	92,194
Conversion options exercised	–	–	–	(626,626)	–	–	(626,626)
Foreign exchange loss/(gain)	128,881	–	–	–	14,707	(8,041)	135,547
Interest charged	–	–	14,255	7,329	13,605	–	35,189
Interest payable recognised	–	–	(13,689)	–	(13,288)	–	(26,977)
Other changes	–	(254)	(368)	–	–	–	(622)
Balance at December 31, 2020	5,290,833	245,270	596,966	11,131	229,217	–	6,373,417
Net cash flows in/(out)	384,778	(101,022)	–	–	–	–	283,756
Acquisition – leases	–	67,435	–	–	–	–	67,435
Conversion options exercised	–	–	–	(9,205)	–	–	(9,205)
Interest charged	–	–	16,854	52	–	–	16,906
Interest payable recognised	–	–	(16,157)	–	–	–	(16,157)
Foreign exchange loss	51,376	–	–	–	5,947	–	57,323
Other changes	–	(1,459)	–	–	351	–	(1,108)
Balance at December 31, 2021	5,726,987	210,224	597,663	1,978	235,515	–	6,772,367

NON-CASH INVESTING AND FINANCING ACTIVITIES

	12/31/21 USD'000	12/31/20 USD'000
Conversion options of convertible bonds exercised during the year	9,205	626,626
Conversion options of perpetual subordinated convertible securities exercised during the year	299,388	264,460
Increase of right-of-use assets (excluded land-use right)	67,435	92,194
	376,028	983,280

TOTAL CASH OUTFLOW OF LEASES

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Within operating activities	18,393	34,999
Within financing activities	101,022	94,402
	119,415	129,401

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

42. DISPOSAL OF A SUBSIDIARY

On April 22, 2021, the Company entered into a share transfer agreement with the third-party purchasers. Pursuant to the share transfer agreement, the purchasers agreed to purchase all the shares of SJ Semi held by the Company, i.e. representing approximately 56% of the total issued share capital of SJ Semi for a total consideration of approximately US\$397 million. The Company lost control of SJ Semi on May 6, 2021.

The carrying amounts of assets and liabilities as of the date of sale of SJ Semi were:

	2021 USD'000
Carrying amount of assets disposed	
Property, plant and equipment	327,022
Inventories	24,850
Trade and other receivables	38,501
Cash and cash equivalents	56,861
Other assets	37,782
	485,016
Carrying amount of liabilities disposed	
Borrowings	108,014
Trade and other payables	68,423
Other liabilities	11,559
	187,996
Net assets	297,020
Less: non-controlling interests	(131,473)
	165,547

An analysis of the gain and the cash flows in respect of the disposal of a subsidiary is as follows:

	Year ended 12/31/21 USD'000
Gain on disposal of a subsidiary	
Cash consideration received	397,083
Carrying amount of net assets disposed	(165,547)
Loss reclassified from cash flow hedge reserve	(154)
	231,382
Net cash flows arising on disposal of a subsidiary	
Cash consideration received	397,083
Cash outflow of disposal of a subsidiary	(56,861)
	340,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

43. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the year ended December 31, 2021 and the relationships with the Group are disclosed below:

Related party name	Relationship
Subsidiaries ("Datang") of China Information and Communication Technology Group Co., Ltd. ("CICT")	CICT indirectly holding more than 5% shares of the Company
Toppan SMIC Electronic (Shanghai) Co., Ltd. ("Toppan")	An associate of the Group
Brite Semiconductor (Shanghai) Corporation ("Brite") and its subsidiaries	An associate of the Group
China Fortune-Tech China Fortune-Tech Capital Co., Ltd. ("China Fortune-Tech")	An associate of the Group
JECT Group Co., Ltd. ("JECT") and its subsidiaries	An associate of the Group
Sino IC Leasing Co., Ltd. ("Sino IC Leasing") and its subsidiaries	An associate of the Group
Semiconductor Manufacturing Electronics (Shaoxing) Corp. ("SMEC")	An associate of the Group
Ningbo Semiconductor International Corporation ("NSI")	An associate of the Group
Semiconductor Global Solutions Corporation ("SGS")	An associate of the Group
Semiconductor Technology Innovation Center (Beijing) Co., Ltd. ("Beijing Innovation Center")	An associate of the Group
SJ Semiconductor (Jiangyin) Corporation ("SJ Semi Jiangyin", a subsidiary of SJ Semi)	A disposed subsidiary in the past 12 months
Subsidiaries of National Silicon Industry Group ("Silicon")	A director of the Company served as its director
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. ("China IC Fund II")	A director of the Company served as its director
Haitong Securities Co., Ltd. ("Haitong")	A within 12 month resigned director of the Company served as its director
Key Management Personnel who have transactions with the Group	Directors and senior management personnel

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

43. RELATED PARTY TRANSACTIONS (continued)

TRADING TRANSACTIONS

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

		Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Sale of goods and services			
Brite and its subsidiaries	Sale of goods	111,830	47,548
Beijing Innovation Center	Sale of goods and services	108,394	1,348
Datang ⁽¹⁾	Sale of goods	25,524	7,235
NSI	Sale of goods and services	22,216	12,891
SJ Semi Jiangyin	Sale of services	925	N/A
SMEC	Sale of goods and services	400	43,373
JCET and its subsidiaries	Sale of services	8	54,220
Purchase of goods and services			
Silicon	Purchase of goods	23,958	9,315
Toppan	Purchase of goods	6,389	8,963
JCET and its subsidiaries	Purchase of services	2,639	8,078
China Fortune-Tech	Purchase of services	540	931
SMEC	Purchase of services	13	2,473
SGS	Purchase of goods	223	343
Haitong ⁽³⁾	Purchase of services	–	88,542
Transfer of assets			
SGS	Purchase of equipment	22,715	16,494
SMEC	Purchase of equipment	–	4,817
NSI	Sale of equipment	3,508	–
SMEC	Sale of equipment	–	8,143
SMEC	Grant of licensing	1,255	–
Group as a lessor			
Toppan	Rent income	4,582	4,178
SJ Semi Jiangyin	Rent income	2,325	N/A
SMEC	Rent income	527	4,943
Beijing Innovation Center	Rent income	669	29
China Fortune-Tech	Rent income	588	175
NSI	Rent income	89	99
SGS	Rent income	42	13
Group as a lessee			
Sino IC Leasing and its subsidiaries ⁽²⁾	Increase of right-of-use assets	65,336	91,147
Sino IC Leasing and its subsidiaries	Payment of lease liabilities	109,269	105,306
JCET and its subsidiaries	Payment of lease liabilities	167	519

⁽¹⁾ The related party transactions in respect of (1) above constituted non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules. Details are disclosed in "IV.(II) Non-exempt Continuing Connected Transactions Disclosed under the Hong Kong Listing Rules" in "Section 8 Significant Events" in the annual report. The other party transactions did not constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules.

⁽²⁾ As of December 31, 2021, lease liabilities to Sino IC leasing and its subsidiaries were US\$208.0 million (2020: US\$243.1 million) respectively.

⁽³⁾ Haitong provided the sponsor and underwriting services for the Company's Initial Public Offering on SSE STAR Market in 2020.

The pricing of trading transactions with related parties that are not members of the Group refers to the pricing standards of third parties for comparable product or services at the same time and in the same region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

43. RELATED PARTY TRANSACTIONS (continued)

TRADING TRANSACTIONS (continued)

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

	Amounts due from related parties		Amounts due to related parties	
	12/31/21 USD'000	12/31/20 USD'000	12/31/21 USD'000	12/31/20 USD'000
Brite and its subsidiaries	27,650	11,743	–	–
SJ Semi Jiangyin	31,139	N/A	–	N/A
SMEC	20,337	27,021	–	–
SGS	11,202	4,898	5,302	–
Toppan	880	793	523	592
Beijing Innovation Center	48,392	788	752	–
China Fortune-Tech	24	–	–	–
Sino IC Leasing	–	–	207,964	243,141
Datang	2,650	1,271	33,671	–
NSI	5,422	7,123	10,117	–
Silicon	–	–	2,882	1,306
JCET and its subsidiaries	–	439	29	2,440

Amounts due from related parties are normally settled on 30 to 90-day terms. Amounts due to related parties are normally settled on 30-day to 60-day terms.

CAPITAL CONTRIBUTION

The Group engaged with China IC Fund II in several capital contributions in SMZC, SMBC and SMOC during the year. Please refer to Note 19 for further details.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Directors and senior management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

The remuneration of directors and senior management personnel during the year are as follows:

	Year ended 12/31/21 USD'000	Year ended 12/31/20 USD'000
Salaries, bonus and benefits	5,377	8,785
State-managed pension	33	18
Equity-settled share-based payments	5,777	3,025
	11,187	11,828

The remuneration of directors and senior management personnel is determined by the Compensation Committee having regard to the Group's profitability, business achievement, individual performance and market trends.

SALE OF LIVING QUARTER UNITS

In December 2021, the Group sold a self-developed living quarter units with a sales amount of US\$1.6 million, which referred to the appraisal price, to one senior management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

44. FINANCIAL INFORMATION OF THE COMPANY STATEMENT OF FINANCIAL POSITION

	12/31/21 USD'000	12/31/20 USD'000
Assets		
<i>Non-current assets</i>		
Property, plant and equipment	51,380	73,640
Intangible assets	2,788	11,392
Investment in subsidiaries	7,627,007	5,962,431
Investment in associates	226,975	210,729
Other assets	46,593	35,650
Total non-current assets	7,954,743	6,293,842
<i>Current assets</i>		
Prepayment and prepaid operating expenses	1,247	1,213
Trade and other receivables	31,037	26,220
Due from subsidiaries	8,906,506	9,880,529
Financial assets at amortised cost	400,000	150,000
Derivative financial instruments	31,371	4,621
Restricted cash	7,852	–
Cash and cash equivalents	1,767,708	428,603
Total current assets	11,145,721	10,491,186
Total assets	19,100,464	16,785,028
Equity and liabilities		
<i>Capital and reserves</i>		
Ordinary shares	31,615	30,814
Share premium	13,836,614	13,512,397
Reserves	321,576	73,939
Retained earnings	2,959,859	1,258,056
Equity attributable to owners of the Company	17,149,664	14,875,206
Perpetual subordinated convertible securities	–	299,388
Total equity	17,149,664	15,174,594
<i>Non-current liabilities</i>		
Borrowings	519,450	373,800
Convertible bonds	–	11,131
Bonds payable	597,663	596,966
Medium-term notes	–	229,217
Derivative financial instruments	1,703	7,211
Total non-current liabilities	1,118,816	1,218,325
<i>Current liabilities</i>		
Trade and other payables	35,690	31,345
Due to subsidiaries	351,797	229,474
Borrowings	181,800	11,800
Convertible bonds	1,978	–
Medium-term notes	235,515	–
Accrued liabilities	17,937	18,473
Derivative financial instruments	7,267	101,017
Total current liabilities	831,984	392,109
Total liabilities	1,950,800	1,610,434
Total equity and liabilities	19,100,464	16,785,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

44. FINANCIAL INFORMATION OF THE COMPANY (continued)

STATEMENT OF CHANGES IN EQUITY

(In USD'000)

	Ordinary shares	Share premium	Reserves	Retained earnings	Attributable to owner of the Company	Perpetual subordinated convertible securities	Total equity
Balance at December 31, 2019	20,227	5,011,915	86,749	550,506	5,669,397	563,848	6,233,245
Profit for the year	–	–	–	715,550	715,550	–	715,550
Other comprehensive income for the year	–	–	45,089	–	45,089	–	45,089
Total comprehensive income for the year	–	–	45,089	715,550	760,639	–	760,639
Issue of ordinary shares	7,754	7,506,131	–	–	7,513,885	–	7,513,885
Exercise of stock options	66	21,796	(9,351)	–	12,511	–	12,511
Share-based compensation	–	–	9,275	–	9,275	–	9,275
Conversion options of convertible bonds exercised during the year	2,119	708,743	(84,236)	–	626,626	–	626,626
Conversion options of perpetual subordinated convertible securities exercised during the year	648	263,812	–	–	264,460	(264,460)	–
Share of other capital reserve of associates accounted for using equity method	–	–	3,632	–	3,632	–	3,632
Transaction with non-controlling interests	–	–	23,112	–	23,112	–	23,112
Deconsolidation of a subsidiary due to loss of control	–	–	(331)	–	(331)	–	(331)
Perpetual subordinated convertible securities distribution	–	–	–	(8,000)	(8,000)	–	(8,000)
Subtotal	10,587	8,500,482	(57,899)	(8,000)	8,445,170	(264,460)	8,180,710
Balance at December 31, 2020	30,814	13,512,397	73,939	1,258,056	14,875,206	299,388	15,174,594
Profit for the year	–	–	–	1,701,803	1,701,803	–	1,701,803
Other comprehensive income for the year	–	–	48,015	–	48,015	–	48,015
Total comprehensive income for the year	–	–	48,015	1,701,803	1,749,818	–	1,749,818
Exercise of stock options	36	14,766	(9,047)	–	5,755	–	5,755
Share-based compensation	–	–	68,998	–	68,998	–	68,998
Conversion options of convertible bonds exercised during the year	32	10,796	(1,623)	–	9,205	–	9,205
Conversion options of perpetual subordinated convertible securities exercised during the year	733	298,655	–	–	299,388	(299,388)	–
Share of other capital reserve of associates accounted for using equity method	–	–	(929)	–	(929)	–	(929)
Transaction with non-controlling interests	–	–	142,069	–	142,069	–	142,069
Disposal of a subsidiary	–	–	154	–	154	–	154
Subtotal	801	324,217	199,622	–	524,640	(299,388)	225,252
Balance at December 31, 2021	31,615	13,836,614	321,576	2,959,859	17,149,664	–	17,149,664

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

45. COMMITMENTS

CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	12/31/21 USD'000	12/31/20 USD'000
Commitments for building and facility construction	594,056	79,328
Commitments for acquisition of machinery and equipment	8,077,734	2,031,710
Commitments for acquisition of intangible assets	24,909	25,609
Capital contributions payable to associates	216,342	127,348
	8,913,041	2,263,995

NON-CANCELLABLE OPERATING LEASES

The Group leases certain of its production equipment under lease arrangements. Leases are negotiated for terms ranging from three to five years.

The Group has recognised right-of-use assets for these leases. Please refer to Note 17 for further information.

46. CONTINGENCY EVENTS

ARBITRATION OF CONTRACT DISPUTED WITH PDF SOLUTIONS, INC.

On May 7, 2020, SMIC New Technology, a subsidiary of the Company, received an arbitration notice issued by the Hong Kong International Arbitration Center, whereby PDF SOLUTIONS, INC. ("PDF") filed an arbitration request with the Hong Kong International Arbitration Center. PDF disputed the rights and obligations of both parties under a series of agreements it entered into with SMIC New Technology. PDF required SMIC New Technology to pay the relevant fees under the agreements. SMIC New Technology has formally responded to the Hong Kong International Arbitration Center and opined that the fees it owed to PDF had already been fully paid in accordance with the contractual obligations and no additional fee is required.

Management of the Group is of the view that the aforementioned contract dispute is still ongoing and the result of arbitration is uncertain and cannot be reasonably ascertainable. As of December 31, 2021, the Group did not make provision for the contingent liabilities from the contract dispute.

CIVIL COMPLAINT FILED WITH THE UNITED STATES DISTRICT COURT

The Company noted that on December 10, 2020 (U.S. eastern standard time), a civil complaint was filed with the United States District Court, Central District of California relating to certain securities of the Company (the "Complaint"). The plaintiff filed the Complaint on behalf of herself and other persons alleged to have acquired certain Company securities publicly traded on the OTCQX market. The Complaint lists the Company and certain of its directors as defendants. It seeks unquantified financial compensation for alleged violations of sections 10(b) and 20(a) of the United States ("U.S.") Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by the U.S. Securities and Exchange Commission, which prohibit certain misrepresentations and omissions in connection with the purchase or sale of securities, in respect of certain statements or documents published by the Company.

Management of the Group is of the view that the aforementioned civil complaint is still ongoing and the result is uncertain and cannot be reasonably ascertainable. As of December 31, 2021, the Group did not make provision for the contingent liabilities from the civil complaint.

47. SUBSEQUENT EVENTS

There is no material subsequent event undertaken by the Group after December 31, 2021.

48. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors of the Company on March 30, 2022.