



中芯國際集成電路製造有限公司*
Semiconductor Manufacturing International Corporation
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00981

2022 Annual Report





LEADING FOUNDRY

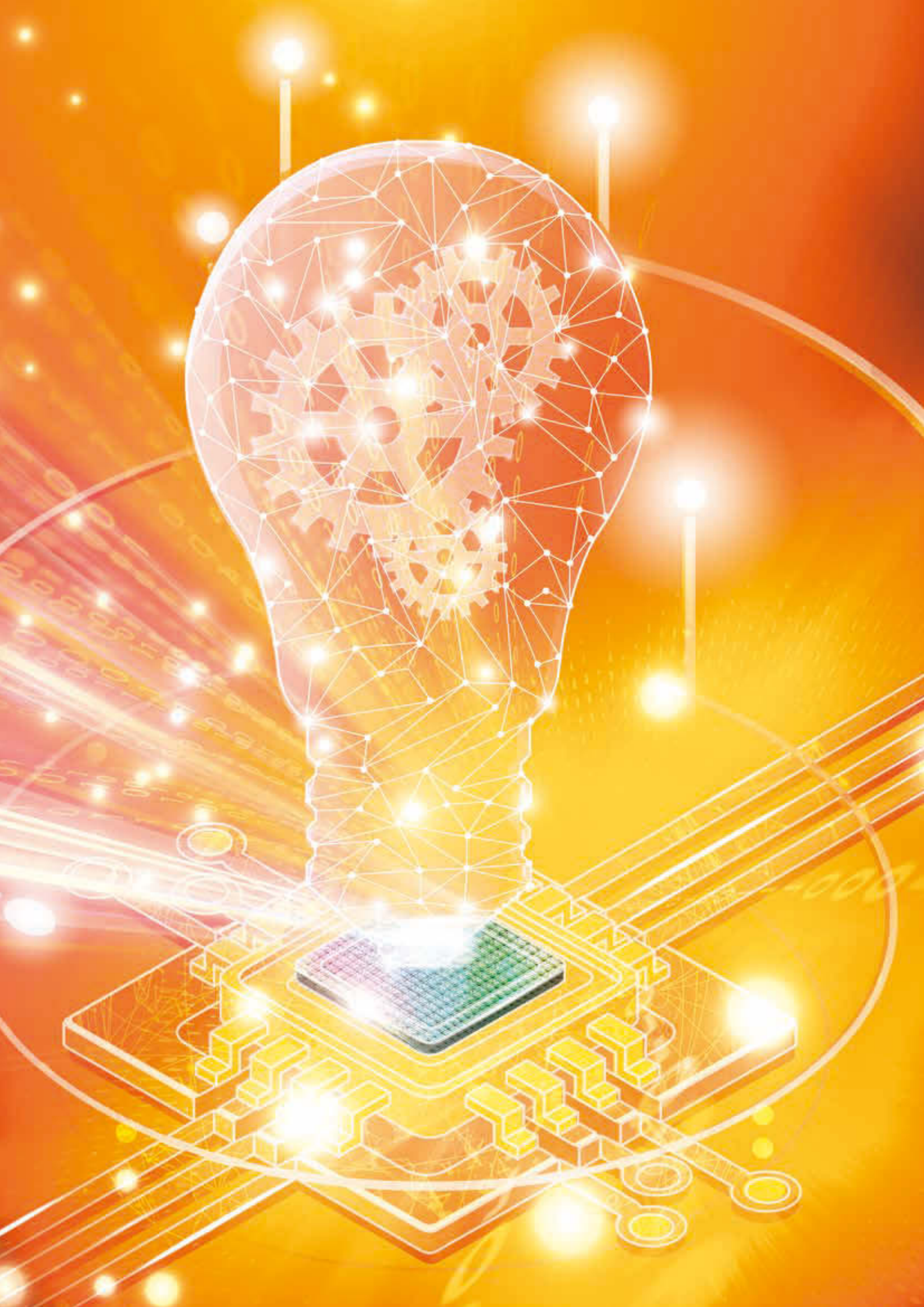
IN CHINESE MAINLAND

**EMPOWERED
TECHNOLOGY**

**ENRICHED
SERVICES**

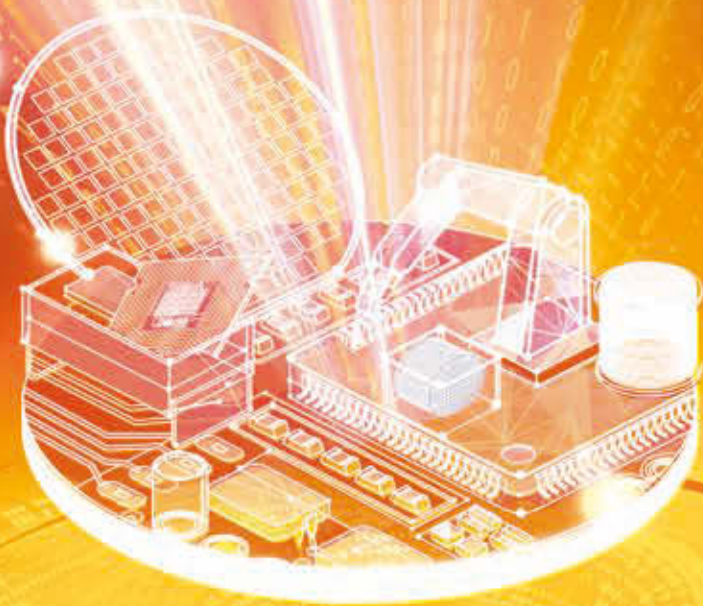
**ENHANCED
COMPETITIVENESS**





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IMPORTANT NOTICE

- I. **The Board of Directors, 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**
None
- 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, Wu Junfeng, the person-in-charge of Finance, 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 2022. The proposal still needs to be submitted to the 2023 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 estimates made by SMIC's senior management based on their best judgment and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicity and market conditions in the semiconductor industry, intense competition in the semiconductor industry, 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, orders or judgments from pending litigation, intellectual property litigation in the semiconductor industry, general economic conditions, fluctuations in currency exchange rates and the risk of geopolitics.
- 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**
None

BEING

TRUSTWORTHY
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
SMIS	for	Semiconductor Manufacturing International (Shanghai) Corporation
SMIB	for	Semiconductor Manufacturing International (Beijing) Corporation
SMIT	for	Semiconductor Manufacturing International (Tianjin) Corporation
SMIZ	for	Semiconductor Manufacturing International (Shenzhen) Corporation
SMNC	for	Semiconductor Manufacturing North China (Beijing) Corporation
SMSC	for	Semiconductor Manufacturing South China Corporation
SMBC	for	Semiconductor Manufacturing Beijing Corporation
SMOC	for	Semiconductor Manufacturing Oriental Corporation
SMTC	for	Semiconductor Manufacturing Tianjin-Xiqing 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.
2022 AGM	for	the Company's annual general meeting held on June 24, 2022
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
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
SSE STAR Market Listing Rules	for	the Rules Governing the Listing of Securities on the SSE STAR Market, 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
Reporting period, this period or this year	for	Period from January 1, 2022 to December 31, 2022
Corresponding period, previous period for or last year	for	Period from January 1, 2021 to December 31, 2021

All references in this report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. 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 FinFET include the stated linewidth of the process technology, as well as linewidth down to, but not including, the next key process technology node of narrower linewidth. 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 IFRS.

LETTER TO SHAREHOLDERS



SECTION 2 LETTER TO SHAREHOLDERS

Dear shareholders and investors,

On behalf of the Company, I would like to express my heartfelt thanks to our friends who have always cared about and supported the development of SMIC! As a semiconductor manufacturing company registered in the Cayman Islands, positioned in China, and serving global customers, SMIC has always adhered to the principle of independence and globalization, operating in compliance with laws and regulations, and striving to provide worldwide customers with high-quality products and services.

In recent years, the international environment of the semiconductor industry has been undergoing a new round of changes, and the globalized supply chain has been hit. Facing this new external situation and its challenges, SMIC needs to build sustainable and high-quality development capability in a more scientific way.

With the efforts of all employees, the Company set new records for its annual performance. The Company's revenue for 2022 crossed to \$7.2 billion, up around 34% year-over-year, gross margin increased to 38%, profit for the year attributable to owners of the Company exceeded \$1.8 billion, all hitting new highs. The Company's asset structure remained solid, with total assets at year-end reaching \$43.8 billion, an increase of 21% compared to that of the previous year, and the asset-liability ratio was 34%. The Company gave full play to the risk management capabilities accumulated over the past 22 years, and delivered a hard-won answer to the shareholders and society with an increased revenue scale, improved profitability and a stabilized asset structure.

Adhering to the principle of being people-centered, SMIC attracts, cultivates, and retains outstanding talents through the Company's continuous increase in investment for building up talents and optimization of development channels. Rewards are given according to individual contribution, with resources and opportunities preferentially targeting to those with outstanding talent, and the Company preferentially appoints cadres from successful business departments and successful teams, and from those who have demonstrated continuous excellence. The Company continues to execute various approaches to effectively stimulate the organization's vitality and employees' sense of mission. The Company also strives to build a team with ideals, beliefs, capability, self-motivation, and dedication. A stable career development platform, a complete training system, and good living conditions with solid benefits all allow employees to have a win-win relationship with the Company, and employee satisfaction has been effectively improved. In 2022, the Company's turnover rate was greatly reduced.

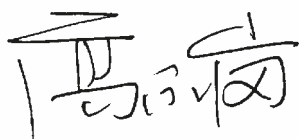
With the Company's development, SMIC has also actively participated in social welfare activities, sharing the benefits of corporate growth with society, making continuous efforts to achieve common development. In 2022, the Company held the tenth annual "Liver Transplant Program for Children" donation drive. This project has raised in total nearly RMB40 million accumulatively, which has helped 745 children with liver disease from all over the country to successfully complete surgery and regain their health. In addition, the Company has also engaged in various other activities such as youth health care and education development, medical assistance projects, community activities and environmental protection, and has given back to society with concrete actions.

In the past 22 years, the Company has manufactured more than 60 million 8-inch equivalent wafers, close to one hundred billion chips accumulatively. Our products have spread to thousands of families all over the world and are widely used in different sectors, such as mobile phones, consumer electronics, smart home, industrial, and automotive. The Company has contributed towards technological progress and better living for mankind.

As an important force among worldwide foundries, SMIC will continue to give full play to its own advantages, increasing efforts in the development and optimization of differentiated process technologies, so as to build richer and more competitive process platforms. As a trusted and reliable partner for global customers, the Company will firmly adhere to being "market-oriented, customer-focused," will establish a more efficient business, operation and management system, and will provide customers with better products and services. Although facing various difficulties and challenges, we firmly believe the growing demand for wafer manufacturing will remain unchanged, and we are confident in the Company's medium- to long-term development.

Mainland China is one of the largest and fastest-growing IC markets in the world and is an important region in the division of labor within the global IC industry, while the semiconductor industry is one of the fields that can best demonstrate global technological collaboration and progress. SMIC, as a leading IC enterprise in Mainland China, has always maintained and will continue to adhere to compliant operation, open innovation, and an attitude of co-existence within a win-win arrangement, and commits to promoting the co-development of our upstream and downstream supply chain. The Company is willing to jointly establish and maintain a healthy and efficient semiconductor ecosystem, together with both domestic and foreign industry chain partners.

Here, we would like to thank all shareholders, investors and all sectors of society for their kindness and support over the years.



Chairman

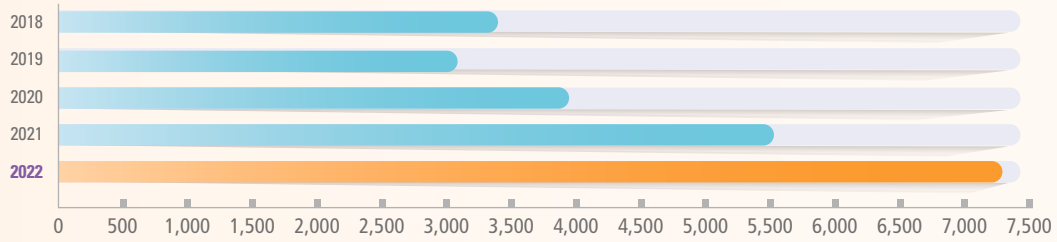
Shanghai, PRC
March 28, 2023

**STRIVING
FOR RETURNS
FOR OUR SHAREHOLDERS**

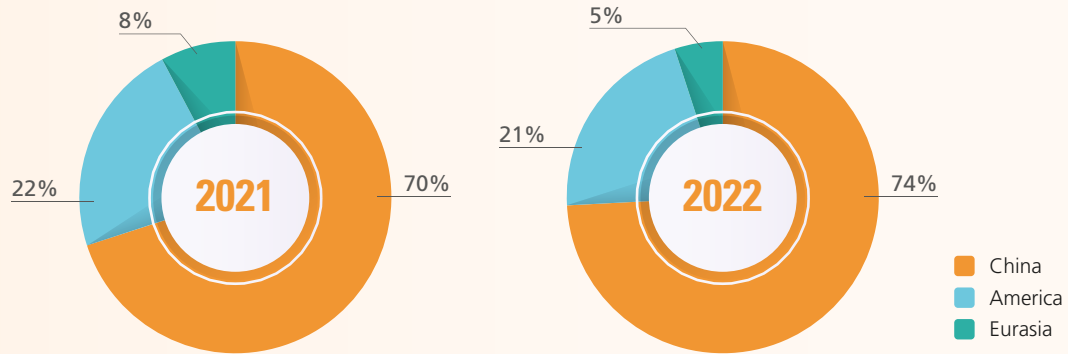


Total Revenue

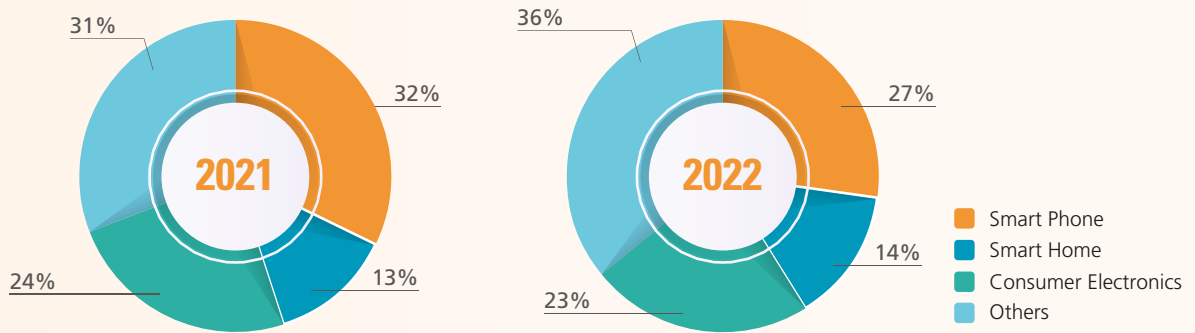
US\$ million



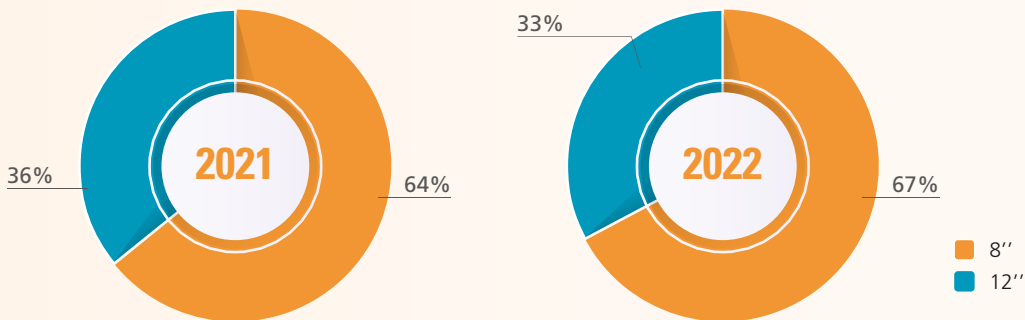
Sales by Region



Wafer Sales by Application



Wafer Sales by Size



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
Authorized Representatives under Hong Kong Listing Rules	Gao Yonggang, Guo Guangli
Company Secretary	Guo Guangli
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
Place of business in Hong Kong	Suite 3003, 30th Floor, No. 9 Queen's Road Central, Hong Kong
Postal code of the office address of the Company	201203
Website address	http://www.smics.com/
E-mail	ir@smics.com
Hong Kong Share registrar	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Custodian of A Shares	Shanghai Branch of China Securities Depository and Clearing Corporation Limited

Financial calendar

2022 annual results announcement	March 28, 2023
2023 annual general meeting	June 28, 2023
Book closure period for 2023 annual general meeting (Hong Kong Shares)	June 23, 2023 to June 28, 2023, both days inclusive
Record date for the 2023 annual general meeting (A Shares)	June 21, 2023
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, and its Chairman 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

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	Hong Kong Stock Exchange	SMIC	00981

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 Certified Public Accountant and Registered public interest entity auditor
	Office address	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
Joint sponsor (lead underwriter) continuously performing its supervisory function during the reporting period	Name of signing sponsor representative	Wei Xianyong, 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 December 31,			
	2022	2021	2022 as compared with 2021 (%)	2020
Revenue	7,273,284	5,443,112	33.6	3,906,975
Profit for the year attributable to owners of the Company	1,817,942	1,701,803	6.8	715,550
Profit for the year attributable to owners of the Company, net of non-recurring profit or loss	1,469,816	825,285	78.1	246,280
Net cash flow generated from operating activities	5,347,916	3,011,895	77.6	1,660,410
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	4,611,048	3,819,769	20.7	2,123,336

	As of December 31,			
	2022	2021	2022 as compared with 2021 (%)	2020
Equity attributable to owners of the Company	19,149,976	17,149,664	11.7	14,875,206
Total assets	43,807,784	36,110,941	21.3	31,320,575

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(II) PRINCIPAL FINANCIAL INDICATORS

	Year ended December 31,			
	2022	2021	2022 as compared with 2021 (%)	2020
Gross margin	38.0%	30.8%	Increased by 7.2 percentage points	23.6%
Net margin	30.2%	32.6%	Decreased by 2.4 percentage points	17.1%
EBITDA margin	63.4%	70.2%	Decreased by 6.8 percentage points	54.3%
Basic earnings per share	\$0.23	\$0.22	4.5	\$0.11
Diluted earnings per share	\$0.23	\$0.21	9.5	\$0.11
Basic earnings per share, net of non-recurring profit or loss	\$0.19	\$0.10	90.0	\$0.04
Weighted average return on equity ⁽¹⁾	10.0%	10.5%	Decreased by 0.5 percentage points	7.4%
Weighted average return on equity, net of non-recurring profit or loss ⁽²⁾	8.1%	5.1%	Increased by 3.0 percentage points	2.6%
Percentage of research and development ("R&D") investment to revenue	10.1%	11.7%	Decreased by 1.6 percentage points	17.3%

Notes:

- (1) Weighted average return on equity = profit for the period attributable to owners of the Company/weighted average equity
- (2) Weighted average return on equity, net of non-recurring profit or loss = profit for the period attributable to owners of the Company, net of non-recurring profit or loss/weighted average equity

Revenue, profit for the year attributable to owners of the Company, profit for the year attributable to owners of the Company, net of non-recurring profit or loss, EBITDA and gross margin for this year were increased, primarily due to the increase in wafer shipment and higher average selling price for this year.

Net cash flow generated from operating for this year was increased, primarily due to the increase in received cash from sale of goods.

Net margin and EBITDA margin for this year was decreased, primarily due to the decrease in the gain on the investment in associates, fund portfolios and the equity securities, and the gain on disposal of a subsidiary did not occurred this year.

VII. DISCREPANCIES IN ACCOUNTING DATA BETWEEN DIFFERENT ACCOUNTING STANDARDS

(I) DISCREPANCIES IN PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY AND EQUITY 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 12/31/22	Year ended 12/31/21	As of 12/31/22	As of 12/31/21
Prepared in accordance with CAS	1,806,942	1,667,673	19,149,976	17,149,664
Adjustments to items and amounts prepared in accordance with IFRS:				
The equity interest in an associate being passively diluted ^(Note)	11,000	34,130	—	—
Prepared in accordance with IFRS	1,817,942	1,701,803	19,149,976	17,149,664

Note: 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.

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

VIII. PRINCIPAL FINANCIAL DATA FOR THE YEAR OF 2022 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	1,841,894	1,903,164	1,906,956	1,621,270
Profit attributable to owners of the Company	447,227	514,332	470,849	385,534
Profit attributable to owners of the Company, net of non- recurring profit or loss	407,874	389,768	422,292	249,882
Net cash flow generated from operating activities	1,592,970	2,122,489	1,069,149	563,308

IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

in USD'000

	Year ended December 31,		
	2022	2021	2020
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	45,774	35,996	1,496
Government funding	288,504	379,319	362,483
Gain on disposal of a subsidiary and some shares of an associate	5,299	266,405	83,504
Net gain arising on financial instrument at FVPL	12,257	80,155	53,962
Share of gain arising on financial instruments at FVPL of investment using equity method	87,341	194,572	120,842
One-off adjustments to the profit or loss under the requirements of tax, accounting and other laws and regulations	9,524	48,862	–
Others	(285)	46	(1,045)
	448,414	1,004,355	621,242
Effects of income tax	(8,696)	(71,517)	(84,831)
Impact on non-controlling interests (after tax)	(91,592)	(56,320)	(67,141)
Total	348,126	876,518	469,270

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 December 31,			
	2022	2021	Change in the reporting period	Impact on profit for the reporting period
Investments in equity securities	208,307	223,024	(14,717)	842
Structural deposits and monetary funds	375,776	78,184	297,592	11,415
Derivative financial instruments	119,124	70,393	48,731	–
Total	703,207	371,601	331,606	12,257

XI. EBITDA

in USD'000

	Year ended December 31,		
	2022	2021	2020
Profit for the year	2,198,082	1,775,158	669,098
Finance costs	125,582	110,143	73,234
Depreciation and amortization	2,271,361	1,869,302	1,312,694
Income tax expense	16,023	65,166	68,310
EBITDA	4,611,048	3,819,769	2,123,336

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

XII. BUSINESS PERFORMANCE HIGHLIGHTS FOR THE PREVIOUS FIVE YEARS

(I) PROFIT OR LOSS DATA

	Year ended December 31,				
	2022	2021	2020	2019	2018
	(in US\$ thousands, except per share, shares, percentages and piece)				
Revenue	7,273,284	5,443,112	3,906,975	3,115,672	3,359,984
Cost of sales	(4,511,636)	(3,767,342)	(2,986,062)	(2,473,213)	(2,613,307)
Gross profit	2,761,648	1,675,770	920,913	642,459	746,677
Research and development expenses	(733,096)	(638,842)	(677,413)	(687,369)	(663,368)
Sales and marketing expenses	(33,834)	(27,642)	(29,466)	(26,836)	(30,455)
General and administration expenses	(493,730)	(275,703)	(266,376)	(254,924)	(199,818)
Impairment losses on financial assets, net	(605)	997	(199)	(1,076)	(937)
Other operating income	335,296	657,982	364,487	376,656	162,541
Profit from operations	1,835,679	1,392,562	311,946	48,910	14,640
Interest income	349,135	223,035	170,794	138,988	64,339
Finance costs	(125,582)	(110,143)	(73,234)	(63,460)	(24,278)
Foreign exchange gain/(loss)	6,586	1,407	89,818	9,495	(8,499)
Other gains, net	26,763	80,785	50,741	42,981	24,282
Share of profits and losses of joint venture and associates	121,524	252,678	187,343	5,362	21,203
Profit before tax	2,214,105	1,840,324	737,408	182,276	91,687
Income tax expense	(16,023)	(65,166)	(68,310)	(23,416)	(14,476)
Profit for the year	2,198,082	1,775,158	669,098	158,860	77,211
Profit/(loss) for the year attributable to:					
Owners of the Company	1,817,942	1,701,803	715,550	234,681	134,055
Non-controlling interests	380,140	73,355	(46,452)	(75,821)	(56,844)
	2,198,082	1,775,158	669,098	158,860	77,211
Earnings per share					
Basic	\$0.23	\$0.22	\$0.11	\$0.04	\$0.03
Diluted	\$0.23	\$0.21	\$0.11	\$0.04	\$0.03
Shares issued and outstanding	7,912,664,696	7,903,856,555	7,703,507,527	5,056,868,912	5,039,819,199
Financial ratio					
Gross margin	38.0%	30.8%	23.6%	20.6%	22.2%
Net margin	30.2%	32.6%	17.1%	5.1%	2.3%
Operating data					
Wafers shipped (in piece)	7,098,458	6,747,190	5,698,624	5,028,796	4,874,663

(II) PRINCIPAL FINANCIAL POSITION DATA

	As of December 31,				
	2022	2021	2020	2019	2018
	(in USD'000)				
Total assets	43,807,784	36,110,941	31,320,575	16,437,820	14,424,320
Property, plant and equipment	18,855,532	14,260,783	12,138,021	7,757,247	6,777,970
Financial assets at amortised cost	10,676,151	7,564,091	4,445,238	2,276,370	1,996,808
Cash and cash equivalents	6,932,587	8,581,746	9,826,537	2,238,840	1,786,420
Total liabilities	14,846,363	10,672,798	9,638,837	6,239,958	5,500,740
Borrowings	7,986,522	5,726,987	5,290,833	2,566,669	2,290,768
Trade and other payables	3,217,001	1,830,415	1,648,556	1,034,079	964,860
Total equity	28,961,421	25,438,143	21,681,738	10,197,862	8,923,580
Non-controlling interests	9,811,445	8,288,479	6,507,144	3,964,617	2,905,766

(III) PRINCIPAL CASH FLOW DATA

	Year ended December 31,				
	2022	2021	2020	2019	2018
	(in USD'000)				
Net cash generated from operating activities	5,347,916	3,011,895	1,660,410	1,019,057	799,426
Profit for the year	2,198,082	1,775,158	669,098	158,860	77,211
Depreciation and amortization	2,271,361	1,869,302	1,312,694	1,127,756	1,048,410
Net cash used in investing activities	(10,391,505)	(6,655,435)	(7,071,383)	(1,948,507)	(3,197,261)
Payments for property, plant and equipment	(6,172,106)	(4,120,275)	(5,274,686)	(1,869,563)	(1,808,253)
Net cash generated from financing activities	3,614,290	2,357,325	12,704,215	1,376,278	2,376,922
Net (decrease)/increase in cash and cash equivalents	(1,429,299)	(1,286,215)	7,293,242	446,828	(20,913)

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

I. DISCUSSION AND ANALYSIS ON BUSINESS

In 2022, the overall IC market has entered into the slow growth stage due to multiple factors affecting global IC industry. At macro-economy level, the slowdown in global economic growth, the energy crisis caused by international geography conflicts overlapped with currency fluctuations, etc. led to the soft consumer demand globally. From the perspective of the IC industry, the intense situation of supply and demand in the IC industry chain had been gradually relieved in structural adjustment in the first half of 2022, and quickly entered into inventory correction stage in the second half of the year. According to Gartner's updates in December 2022, the worldwide semiconductor market sales were US\$601.7 billion in 2022, representing an increase of 1.1% from 2021. The demand was weakened in the application fields of smartphone and personal computer, with shipments declined for 11% and 16% respectively year-on-year. In the meanwhile, the demand from the fields of the internet of things, green energy and industrial control have been keeping the stable growing pace in 2022 supported by relatively resilience of end consumer market. During the reporting period, the Company continued to strengthen the cooperation with our customers, timely obtained comprehensive understanding on the actual market demand, while synchronously adjusted and optimized product portfolio as needed, and provided more valued products and services to our customers.

From the perspective of the industry form, the international environment of the semiconductor industry is undergoing a new round of changes. The trend of regionalized global supply chain segmentations has appeared. Facing the industry common difficulties, the Company has been actively seeking diversified cooperation with upstream and downstream industrial chains, increased efforts in the development and optimization of differentiated process technologies in order to build more comprehensive and competitive process platforms to meet customer demand.

During the reporting period, through concrete overall planning and all employees' dedicated efforts, the Company has further consolidated win-win cooperation with our customers, achieved revenue objective of 2022, while the Company executed medium to long-term constructions programme in cautious manner to solidify the foundations for the coming new round of industry growth cycle.

During the reporting period, the Group recorded the total revenue of US\$7,273.3 million, representing a year-on-year growth of 33.6%. In particular, the wafer revenue amounted to US\$6,735.6 million, representing a year-on-year growth of 35.2%.

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

(I) PRINCIPAL BUSINESS, MAJOR PRODUCTS OR SERVICES

SMIC is one of the leading semiconductor foundries in the world and also the front runner in Chinese Mainland, with leading manufacturing capability, manufacturing scale and comprehensive services. SMIC Group provides semiconductor foundry and technology services to global customers on 0.35 micron to FinFET 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.

(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 and a complete R&D process management system, equipped with professional R&D teams. The Company promoted the application platforms' development, 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 successful conversion of R&D projects.

3. Procurement model

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.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

4. Production model

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 promotional 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 2022, the global IC industry has entered into the slow growth stage. The regional conflicts further escalated, energy crisis, high inflation and other multiple events, which brought negative impact to macro-economy and caused demand soft and inventory increased on smartphone and personal computer. The semiconductor manufacturing capacity has become loose as compared to the year of 2021. In the meanwhile, the trend of globalized supply chains has been further interfered, thus the importance of IC industry localizations has magnified continuously. Overall, with the global foundry capacity scale continuous expansion, the collaborations of local supply chain, operating cost control, technology competitiveness, and research and development resource allocations are becoming key developing focus of future global foundry industry.

From the perspective of Chinese Mainland, benefiting from the latest round of local scientific and technological innovation measures targeted at the industrialisations on smart internet of things, green energy and other digital technologies fields, the product segmentations of IC design industry keep expanding its application range, which is driving wafer foundry industry further developing manufacturing scale and process technologies. In the meanwhile, the local IC industry scale still cannot match with the actual market demand, and the manufacturing technologies are still behind the global leading companies.

The Company is dedicated to the IC wafer foundry industry. The R&D process of wafer foundry involves science of material, chemistry, semiconductor physics, optics, microelectronics, quantum mechanics and other 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. Overall, the IC wafer foundry industry is highly technology-intensive, talent-intensive and capital-intensive.

2. Analysis on the industry position of the Company

SMIC is one of the leading semiconductor foundries in the world and also the front runner in Chinese Mainland, with leading manufacturing capability, manufacturing scale and comprehensive services. According to the ranking in terms of sales published by each pure-play foundry enterprise in 2022, SMIC ranks the fourth globally and the first among the enterprises in Chinese Mainland.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

3. Development of new technologies, new industries, new sectors and new models during the Reporting Period 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. In recent years, the leading foundries have been taking more advantages in pursuing market share through high capital investment and high technology barriers. The foundry manufacturers take platform diversity, differentiation and technological leadership as their core advantages to attract customers. As the technological development trend of the industry became more and more diversified, pursuing smaller transistor structures vertically and carrying out derivative platforms at existing technology nodes horizontally based on the advantages of the cost and performance are both industry focus to meet the application needs of the huge end market and the differentiated needs from different customers in each market segment.

Besides, IC industry has been developing more technology innovations in the fields of IC packaging, design services and photomask. Various new packaging technologies have provided more systematic solutions to exceed the limitation of transistor feature dimension and improve the compatibility of multi-chip integration; in the design services sector, DTCO (Design Technology Co-Optimization) is utilized to evaluate and adjust the coordination between IC design and manufacturing process, to effectively reduce the cost of semiconductor process development and minimize the risk of process going for production; photomask is also used as a core tool in IC industry chain. With the evolution of photomask types and graphic transfer media, the process performance of design pattern lithography has been further improved.

In recent years, with the changes in macro industrial layout, the foundries' capacity scale and collaboration capabilities in localised industry chain have become one of the important factors for customers' assessment of supply chain stability and completeness. Therefore, while focusing on own process technology capabilities and platform establishments, foundry companies are also paying more attention to the industrial ecological layout.

On the whole, the foundry industry requires investment for sustainable resources from talents to capital, continuous strengthening of the technical barrier through internal impetus on R&D and external expansion on capacity scale, improvement of competitive advantage and adaptability within the industry, so as to maintain, consolidate and raise the market position.

(IV) CORE TECHNOLOGIES AND R&D PROGRESS

1. Core technologies and the advancement and their changes during the reporting period

SMIC has a comprehensive core technology system of semiconductor foundry, which can effectively help customers reduce costs and shorten the time to market. SMIC has successfully developed a variety of technology nodes ranging from 0.35 micron to FinFET, which are mainly used in logic technology platforms and specialty technology platforms.

In 2022, the R&D of 28nm high voltage display driver integrated circuit technology platform, the first-phase development of 55nm BCD platform, 90nm BCD technology platform and 0.11um silicon based OLED technology platform were completed and its products entered small batch trial production.

In 2022, the development of multiple platforms projects are carrying out as planned. Please refer to "II. (IV) 4. R&D projects" in this section.

2. R&D achievements during the reporting period

List of intellectual property rights obtained this year:

	Addition during the year		Accumulative number	
	Number of applications	Number of rights obtained	Number of applications	Number of rights obtained
Invention patents	792	379	17,001	11,079
Utility model patents	25	21	1,798	1,790
Layout design rights	–	–	94	94
Total	817	400	18,893	12,963

3. Analysis of R&D costs

in USD'000

Year ended December 31,

	2022	2021	2022 as compared with 2021 (%)
Expensed R&D costs	733,096	638,842	14.8
Capitalized R&D costs	–	–	–
Total R&D costs	733,096	638,842	14.8
Total R&D costs as a percentage of revenue	10.1%	11.7%	Decreased by 1.6 percentage points
Capitalized Percentage of R&D costs	–	–	–

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

4. R&D projects

No.	Name of project	Progress or milestone achievements	Proposed objects	Technology positioning	Specific application prospects
1	28nm HKD ULP Technology Platform	Based on 28HKC+ platform, the process condition has been further fixed while boosting device performance and the whole set of devices and ultra-low-power SRAM have been developed. The reliability verification is going on well.	To further improve the performance and complete the development of the platform based on 28HKC+, including a full set of logic devices, ultra-low-power SRAM, model and PDK, to adapt furtherly to the needs of low power from consumer electronics field.	Chinese Mainland leadership	Mainly applied to IoT and consumer electronics, etc.
2	40nm eFlash Automotive Platform	The process, devices reliability verifications of the platform have met the requirements of Automotive Grade. Products have been introduced for verification.	To complete the development of the platform. Process and IP reliability to meet the standards of Automotive Grade, and to satisfy the demands with automotive electronics.	Chinese Mainland leadership	Mainly applied to automotive electronics and to meet the demand of the intelligence of automotive electronics.
3	4Xnm NOR Flash Technology Platform	The process and device reliability qualification passed. The yield and reliability of test products reached the standard. Products have been introduced for verification.	To support more advanced and competitive technology and smaller storage unit size, and to realise the mass production.	Chinese Mainland leadership	Mainly applied to IoT, automotive, etc.
4	40nm ULP CIP Platform	Based on the 40nm ULP platform developed a platform with lower power and low leakage. Product design has been engaged in.	To complete the development of the platform, to engage with customers and realise the mass production.	Chinese Mainland leadership	Mainly applied to ultra-low power consumer terminal e.g. Bluetooth, WiFi, etc.
5	55nm High-Voltage Display Driver Automotive Platform	The process, devices and the reliability verifications of the platform have met the requirements of Automotive Grade. Products have been introduced and entered the verification phase.	To complete the development of the platform, to complete reliability verification for the standards of Automotive Grade, to engage with customers and realise the mass production.	Chinese Mainland leadership	Mainly applied to automotive display drivers.
6	8" and 12" BCD Continuous Development Project	Multi-platforms development ongoing, completed high voltage platform product engagement, process fixed and product test passed.	To complete multi-platforms development, achieve high voltage platform risk production.	Chinese Mainland leadership	Mainly applied to Power Management, Industrial application, etc.
7	0.11um MSGL AL BEOL Platform	Completed back end of line process development, performance has been met with target. Reliability has been going on well and ready to engage customers in product design.	To complete SMIC own platform with full set of IP and competitive SRAM, and realise mass production.	Chinese Mainland leadership	Mainly applied to consumer electronics e.g. Bluetooth, home appliances, etc.
8	0.13um EEPROM Automotive Platform	Based on 0.13um EEPROM consumer platform, process has been optimized. Process reliability verification has been progressed successfully.	To complete the development of the platform, to engage with customers, and realise the mass production to achieve functional leading.	Chinese Mainland leadership	Mainly applied to automotive electronics.
9	0.18um CIS Ambient and Proximity Light Sensor Platform	Based on 0.18um Logic platform, the platform of process development were completed, the reliability verification passed. Key performance has been met with requirements.	To complete the development of the platform process to meet various light sensor technical needs.	Chinese Mainland leadership	Mainly applied to consumer electronics.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

5. R&D staff

Basic information

	2022	2021
Number of R&D Staff of the Group	2,326	1,758
Number of R&D staff as a percentage of the total workforce of the Group	10.8%	9.9%
Total compensation of R&D staff (in USD'000)	153,516	114,270
Average compensation of R&D staff (in USD'000)	66	65

Education level

Education level	Number of persons by education
Doctorate	409
Master	1,275
Bachelor	326
Junior college and below	316

Age structure

Age group	Number of persons by age
Aged below 30 (excluding 30)	1,154
Aged 30-40 (excluding 40)	814
Aged 40-50 (excluding 50)	332
Aged 50 and above	26

III. ANALYSIS ON THE CORE COMPETITIVENESS DURING THE REPORTING PERIOD

(I) ANALYSIS ON CORE COMPETITIVENESS

The Company continued to strengthen its core competitiveness during the reporting period as described below:

1. Advantages in R&D platforms

According to the overall strategy and customer demand-oriented, the Company's R&D center has continuously improved its process R&D and innovation capabilities, strengthened platform construction, and upgraded product performance. The R&D project fully benchmarked the technical requirements of the product in the early stage, effectively utilized R&D resources, ensured the quality and reliability of output, actively shortened the cycle from R&D to mass production, and met the market demand for product innovation and rapid iteration, and strived to provide new business growth points 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 comprise of 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 FinFET, 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, 2022, the Company had 12,869 patents in total, including 11,079 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 globalised layout in accordance with the concept of having globalised operations at all times, the Company aims to provide services for global customers. The Company has established an internationalised 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 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, environment, safety and health 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 (ISO 27001), Quality Management System Accreditation (ISO 9001), Environmental Management System Accreditation (ISO 14001), Occupational Health and Safety Management System Accreditation (ISO 45001), Quality Management System Accreditation for Automotive Industry (IATF 16949), Quality Management System Accreditation for Telecommunication Industry (TL 9000), Hazardous Substance Process Management System Accreditation (QC 080000), Greenhouse Gas Emission Inventory Accreditation (ISO 14064), Energy Management System Accreditation (ISO 50001), and the Road Vehicles – Functional Safety Accreditation (ISO 26262), etc.

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, etc. 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, experiencing early technical demonstration, and the continuous R&D practice in the later period for a relative and long cycle. If the Company fails 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 relative reasonable talent policy and salary management system, and implemented multiple incentive measures, including share incentives 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 recruit or train 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 sustainable 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 policies including the information security protection policies, and signed confidentiality agreements with relevant technical personnel to make non-competition provisions 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 investments. In the future, if the Company fails to generate sufficient operating income or financing is restricted, which would result in reduced investment and may in turn have an adverse impact on the Company's competitiveness.

2. *The risk of too high or too low customer concentration*

The downstream industry market of the global IC wafer foundry industry has a relatively high concentration, however, the market concentration of downstream industry in China's IC foundry industry is relatively fragmented. 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 the Company may still face the risk of too high or too low customer concentration. If there are material issues in the production and operation of major customers in the future, or if customers are scattered, weak and small, and need the Company to invest more in sales, operation and production costs, the Company's performance stability, operating efficiency and sustained profitability will be adversely affected.

3. *The risk of supply chain*

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

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(III) FINANCIAL RISKS

1. *The risk of performance fluctuations*

Fluctuations in the macro environment, change in the cycle of integrated circuit, domestic and foreign customers' demand not meeting expectations, price of major raw material rising sharply, the company's continuous production capacity expansion or high capital expenditure and R&D investment, may cause the Company to expose to the risks in certain period of time, increased cost or depreciation, lower than expected capacity utilization, fluctuations in sales revenue, gross margin and profit.

2. *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 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 the "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 national industrial policies will adversely affect the Company's development.

2. *The risk of industry competition*

From a global perspective, the competition in the foundry industry is fierce. Compared with global 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*

Affected by global macroeconomic fluctuations, industry prospect, 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 geopolitics*

As geopolitical conflicts intensify, the United States continues to issue the export control policies against Chinese high-tech semiconductor companies, the international export control policies are also showing a trend of tightening, and economic globalization has been greatly challenged, bringing uncertain risks to the stability of the global semiconductor market and chip supply chain. In the future, if the trade friction between the United States or other countries/regions and China escalates, such as in the form of height-end import, export and investment restrictions, increased tariffs or establishment of other trade barriers, the company may also face the risk of tight supply on production materials, such as related restricted equipment, raw material, parts, software, and the risk of financing restriction, etc., consequently adversely affect the Company's R&D, production, operating and business.

On December 3, 2020 U.S. eastern standard time ("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 U.S. president 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.

3. *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 through bookkeeping at the spot exchange rate on the balance sheet date, thus affecting exchange gains or losses. 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) INTERNAL CONTROL MANAGEMENT RISKS

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.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(VII) LEGAL RISKS

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 Hong Kong Listing Rules and SSE STAR Market Listing Rules. 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.

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 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. On June 9, 2022 (Los Angeles, U.S. time), the ruling of the Federal District Court for the Central District of California, the U.S., rejected all the civil actions disclosed in the announcement issued by the Company on December 15, 2020, and the plaintiff shall not sue for the same reason or sue again after modifying the complaint. The plaintiff submitted the notice of appeal to the original ruling Court on July 8, 2022 (Los Angeles, U.S. time). United States Court of Appeals for the Ninth Circuit confirmed receipt of the appeal with a notification on July 11, 2022 (Log Angeles, U.S. time). The litigation is still ongoing.

(VIII) RISKS OF FIRE, EXPLOSIONS, NATURAL DISASTERS AND UTILITY SUPPLY DISRUPTION

SMIC uses flammable toxic and harmful chemical substances in its production process, which may cause risks of fire, explosion or environmental impact; in addition, global climate change or systemic regional geological changes may cause natural disasters such as extreme climate, 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 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 (ISO 14001) and occupational safety and health management system (ISO 45001), 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 the reporting period, 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.

(IX) IT RISKS

The Company has organised an information security team to align with the overall strategic planning of the Company, formulated information security policies and objectives, and built security technology solutions. Relying on ISO 27001, the authoritative standards in the field of information security management, the Company carries out information security governance and performs the three major tasks of anti-virus, anti-hack and anti-leakage. The Company pays attention to the protection of core technology and customer information. Through a continuously strengthening security team and continuously optimized information security technologies, the Company has formed a comprehensive technological prevention, control and monitoring system for confidential information.

However, due to uncontrollable factors of the cyber securities threats, including but not limited to 0Day weakness, professional hacker attacks etc., the Company still faces to the potential risk of data loss, disruption of customer services 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\$7,273.3 million, representing a year-on-year growth of 33.6%. The Group recorded a net profit of US\$2,198.1 million, representing a year-on-year growth of 23.8%. During the reporting period, the Group generated US\$5,347.9 million in net cash from operating activities, representing a year-on-year increase of 77.6%; payments for property, plant and equipment, intangible assets and land-use right totalled US\$6,260.5 million, representing a year-on-year increase of 44.2%.

(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 December 31,		
	2022	2021	2022 as compared with 2021 (%)
Revenue	7,273,284	5,443,112	33.6
Cost of sales	(4,511,636)	(3,767,342)	19.8
Gross profit	2,761,648	1,675,770	64.8
Research and development expenses	(733,096)	(638,842)	14.8
Sales and marketing expenses	(33,834)	(27,642)	22.4
General and administrative expenses	(493,730)	(275,703)	79.1
Other operating income	335,296	657,982	(49.0)
Finance income, net	230,139	114,299	N/A
Other gains, net	26,763	80,785	(66.9)
Share of profits and losses of joint venture and associates	121,524	252,678	(51.9)
Net cash generated from operating activities	5,347,916	3,011,895	77.6
Net cash used in investing activities	(10,391,505)	(6,655,435)	56.1
Net cash generated from financing activities	3,614,290	2,357,325	53.3

(1) Revenue

The Group's revenue increased by 33.6% from US\$5,443.1 million for last year to US\$7,273.3 million for this year, primarily due to the increase in wafer shipment and higher average selling price for this year. The wafer shipment quantity increased by 5.2% from 6,747 thousand 8" wafer equivalents for last year to 7,098 thousand 8" wafer equivalents for this year. The average selling price, calculated as the wafer revenue divided by total shipments of the wafers, increased from US\$738 per wafer for last year to US\$949 per wafer for this year. The increase of average selling price was associated with higher prices and product-mix change.

(2) Cost of sales

Cost of sales increased by 19.8% from US\$3,767.3 million for last year to US\$4,511.6 million for this year, primarily due to the increase in the quantity of wafer shipments and product-mix change.

(3) Gross profit

Gross profit increased by 64.8% from US\$1,675.8 million for last year to US\$2,761.6 million for this year, primarily due to the increase in the quantity of wafer shipments and higher average selling price.

(4) Profit from operations for the year

Profit from operations increased from US\$1,392.6 million for last year to US\$1,835.7 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 increased from US\$638.8 million for last year to US\$733.1 million for this year. The change was mainly attributable to the higher level of R&D activities for this year.

Sales and marketing expenses were US\$33.8 million for this year, compared to US\$27.6 million for last year.

General and administrative expenses increased from US\$275.7 million for last year to US\$493.7 million for this year. The change was primarily due to the increased start-up cost associated with the new fabs incurred for this year.

Other operating income, net decreased from US\$658.0 million for last year to US\$335.3 million for this year. The decrease was mainly due to the one-off net gain of US\$231.4 million from the disposal of a subsidiary last year, which did not occur this year.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(5) Profit for the year

Finance income, net includes interest income, finance costs and foreign exchange gain. The change of finance income, net was mainly due to the increase in interest income for this year.

The decrease in other gains, net was primarily due to the decrease in the gain on the fair value change of the investments in equity securities recognised as financial assets at fair value through profit or loss.

The decrease in share of profits and losses of joint venture and associates was due to the decrease in the gain arising from the fair value change of the investment fund portfolios and the operating profit of certain associates.

The Group had a net profit of US\$2,198.1 million for this year, compared to a net profit of US\$1,775.2 million for last year, representing an increase of 23.8%, 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 received cash from sale of goods.

The change in net cash used in investing activities was mainly due to the increase in net cash outflow from selling and payments for financial assets, and the increased payment for property, plant and equipment. In addition, gain from disposal of a subsidiary did not occur this year.

The change in net cash generated from financing activities was mainly because the net cash inflow of new and repaid borrowings, partially offset by the decrease of the capital injection from non-controlling interests during this year.

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	7,273,284	4,511,636	38.0	33.6	19.8	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	6,735,640	4,241,209	37.0	35.2	20.7	Increased by 7.5 percentage points
Others	537,644	270,427	49.7	16.7	6.1	Increased by 5.0 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	7,273,284	4,511,636	38.0	33.6	19.8	Increased by 7.2 percentage points

Revenue of principal businesses by region

By region ^(Note)	Year ended 12/31/22	Year ended 12/31/21
China	74.2%	69.9%
America	20.8%	22.3%
Eurasia	5.0%	7.8%

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

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

Analysis on revenue of IC wafer foundry

By application	Year ended 12/31/22	Year ended 12/31/21
Smart phone	27.0%	32.2%
Smart home	14.1%	12.8%
Consumer electronics	23.0%	23.5%
Others	35.9%	31.5%

By Size	Year ended 12/31/22	Year ended 12/31/21
8'' wafers	33.0%	36.1%
12'' wafers	67.0%	63.9%

(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	7,510,811	7,098,458	516,724	11.2	5.2	395.1

Note: Inventory increased mainly due to the pre-build of inventory.

(3) Costs analysis

in USD'000

By industry

By industry	Cost structure	Year ended 12/31/22	The reporting period accounting for total costs (%)	Year ended 12/31/21	The corresponding period last year accounting for total costs (%)	Year ended 12/31/22 as compared with 12/31/21 (%)
IC industry	Cost of production	4,511,636	100.0	3,767,342	100.0	19.8

By product

By product	Cost structure	Year ended 12/31/22	The reporting period accounting for total costs (%)	Year ended 12/31/21	The corresponding period last year accounting for total costs (%)	Year ended 12/31/22 as compared with 12/31/21 (%)
IC wafer foundry	Direct material	325,363	7.2	301,820	8.0	7.8
IC wafer foundry	Direct labor	145,915	3.2	124,449	3.3	17.2
IC wafer foundry	Manufacturing expenses	3,769,931	83.6	3,086,274	81.9	22.2
Others	Cost of production	270,427	6.0	254,799	6.8	6.1

(4) Major customers and suppliers

i. Information about the major customers of the Group

During the reporting period, sales to the largest customer and the five largest customers amounted to US\$857.1 million and US\$2,122.8 million, respectively, accounting for 11.8% and 29.2% of the total revenue for the year, respectively. No related-party sales were transacted to the five largest customers.

ii. Information about the major suppliers of the Group

During the reporting period, purchases from the largest and five largest raw materials suppliers amounted to US\$147.9 million and US\$532.5 million, respectively, accounting for 9.3% and 33.7% of the Group's overall raw materials 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 2022, 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 Group'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 December 31,		
	2022	2021	2022 as compared with 2021 (%)
Net cash generated from operating activities	5,347,916	3,011,895	77.6
Net cash used in investing activities	(10,391,505)	(6,655,435)	56.1
Net cash generated from financing activities	3,614,290	2,357,325	53.3
Net change in cash and cash equivalents	(1,429,299)	(1,286,215)	11.1

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

	As of December 31,	
	2022	2021
Borrowings	7,986,522	5,726,987
Lease liabilities	109,531	210,224
Bonds payable	598,379	597,663
Convertible bonds	–	1,978
Medium-term notes	–	235,515
Total interest-bearing debt	8,694,432	6,772,367
Cash and cash equivalents	(6,932,587)	(8,581,746)
Restricted cash – current	(676,937)	(214,191)
Financial assets at FVPL – current ⁽¹⁾	(375,776)	(78,184)
Financial assets at amortised cost ⁽²⁾	(10,676,151)	(7,564,091)
Net debt	(9,967,019)	(9,665,845)

Notes:

(1) Mainly include structural deposits and monetary funds.

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

At the end of the reporting period, the Group's outstanding debts amounted to US\$8,694.4 million, and primarily consisted of secured bank loans of US\$2,508.1 million, unsecured bank loans of US\$5,478.4 million, lease liabilities and bonds payable. Debt due within one year amounted to US\$1,320.1 million. For details, please refer to Note 30 to the consolidated financial statements.

(3) Capital expenditure and funding sources

Most of the capital expenditure in 2022 are used for capacity expansion and new fabs' construction.

The Group's actual expenditure may differ from its planned expenditure for a variety of reasons, including factors such as changes in customers' demand, equipment's delivery, business plan, market condition and industry policies. The Company will closely monitor the global economy, the semiconductor industry, the demands of its customers, 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. 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 the reporting period, the Group had expenditure commitments of US\$1,163.1 million for facilities and buildings construction, US\$11,213.4 million to purchase machinery and equipment, US\$45.2 million to purchase intellectual property and US\$209.7 million for capital contributions.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(5) Exchange rate and interest rate risks

The Group's revenue, expenses, and capital expenditure 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 expenditure 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 38 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 - government funding	288,504	13.1	Primarily due to the recognised income of government funds received during the year	No

(III) ANALYSIS ON ASSETS AND LIABILITIES

1. Assets and liabilities

in USD'000

Items	As of 12/31/22	The closing balance to the total assets (%)	As of 12/31/21	The opening balance to the total assets (%)	12/31/22 as compared with 12/31/21 (%)	Explanations
Property, plant and equipment	18,855,532	43.0	14,260,783	39.5	32.2	Increase due to new fabs constructions and capacity expansion in the year.
Financial assets at amortised cost - non current	5,553,445	12.7	3,725,962	10.3	49.0	Increase due to new time deposits with more than 1 year in the year.
Derivative financial instruments- net assets	119,124	0.3	70,393	0.2	69.2	Increase mainly due to the change in fair value of cross currency swap contracts in the year.
Inventories	1,911,487	4.4	1,193,811	3.3	60.1	Increase mainly due to the pre-build of inventory.
Prepayment and prepaid operating expenses	103,368	0.2	43,368	0.1	138.4	Increase mainly due to the pre-build of inventory.
Financial assets at fair value through profit or loss - current	375,776	0.9	78,184	0.2	380.6	Increase due to the increase in structural bank deposits in the year.
Financial assets at amortised cost - current	5,122,706	11.7	3,838,129	10.6	33.5	Increase due to the increase of bank deposits of more than 3 months.
Restricted cash - current	676,937	1.5	214,191	0.6	216.0	Increase due to the increase in bank time deposit pledged against for borrowings.
Borrowings - non current	6,718,304	15.3	4,937,671	13.7	36.1	Increase due to the increase in capital financing demand for capacity expansion.
Trade and other payables	3,217,001	7.3	1,830,415	5.1	75.8	Increase due to the increase in equipment and raw materials procurement.
Contract liabilities	1,977,058	4.5	1,022,660	2.8	93.3	Increase due to the increase in prepayments relevant to sale of goods in the year.
Borrowings - current	1,268,218	2.9	789,316	2.2	60.7	Increase due to the new short-term bank loans.
Convertible bonds	-	-	1,978	0.0	(100.0)	Decrease due to the conversion of convertible bonds in the year.
Medium-term notes	-	-	235,515	0.7	(100.0)	Decrease due to the repayment of the medium-term notes in the year.
Accrued liabilities	309,183	0.7	234,107	0.6	32.1	Increase due to the increase in accrued employee bonus at the end of the year.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

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

(1) Assets pledged as security

At the end of the reporting period, property, plant and equipment and land-use right with a carrying amount of approximately US\$231.8 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 bank time deposits of US\$676.9 million pledged for letters of credit, letters of guarantee 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 to balance its overall capital structure, 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

As of December 31,		
Gearing ratio	2022	2021
Net debt	(9,967,019)	(9,665,845)
Equity	28,961,421	25,438,143
Net debt to equity ratio	-34.4%	-38.0%

(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. No interest was capitalised during the reporting period and the corresponding period. For the reporting period and the corresponding period of last year, the Group recorded depreciation expenses relating to the capitalised interest of US\$35.9 million and US\$42.5 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

The following is the paid-in amount of the Company's investment in associates during the reporting period:

in USD'000

Year ended December 31,			
	2022	2021	Change
Capital injection in associates	100,697	185,297	-45.7%

1. Significant equity investments

The following is the major equity agreement disclosed and announced by the Company during the reporting period:

Name of invested company	Principle activities	Investment mode	Investment amount	Percentage of equity attribute to the Company	funding sources	Progress by the end of the reporting period	Current investment profit and loss	Disclosure date and Inquiry index
Semiconductor Manufacturing Tianjin-Xiqing Corporation	Foundry	Newly Established	US\$ 5,000,000 thousand	100%	Self-owned funds	Contributed Capital of US\$100,000 thousand	Not Applicable	Aug 26, 2022 (Voluntary Announcement-Entering into the cooperation framework agreement in relation to a project in Tianjin)

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

2. Financial assets at fair value

In USD'000

item	As of 1/1/2022	Fair value gains/ (losses) during the reporting period	Cumulative changes in fair value recognized in equity	Amount added in this period	Amount sold/ redeemed in the period	Others	As of 12/31/22
Stock	30,789	12,586	–	5,949	(9,397)	(2,106)	37,821
Private equity funds	192,235	(12,067)	–	18,193	(12,620)	(15,255)	170,486
Structural deposits and monetary funds	78,184	11,415	–	678,918	(360,798)	(31,943)	375,776
Derivative financial instruments	82,444	–	97,183	–	–	–	179,627
Total	383,652	11,934	97,183	703,060	(382,815)	(49,304)	763,710

Descriptions of securities investment

In USD'000

Security type	Stock code	Investment cost as of 12/31/2022	Source of funds	As of 12/31/2021	Fair value gains/ (losses) during the reporting period	Addition	Disposal	Others	As of 12/31/2022	Account
Domestic and foreign stocks	List Company A	1,152	Self-owned funds	55	(15)	–	–	(4)	36	Financial assets at fair value through profit or loss
Domestic and foreign stocks	List Company B	1,152	Self-owned funds	738	(165)	–	–	(54)	519	Financial assets at fair value through profit or loss
Domestic and foreign stocks	List Company C	1,152	Self-owned funds	298	(189)	–	–	(15)	94	Financial assets at fair value through profit or loss
Domestic and foreign stocks	List Company D	4,555	Self-owned funds	–	8,680	5,949	–	(163)	14,466	Financial assets at fair value through profit or loss
Domestic and foreign stocks	List Company E	–	Self-owned funds	16,133	(6,942)	–	(8,188)	(1,003)	–	Financial assets at fair value through profit or loss
Domestic and foreign stocks	List Company F	–	Self-owned funds	1,244	(35)	–	(1,209)	–	–	Financial assets at fair value through profit or loss
Others	IPO-bound company G	11,264	Self-owned funds	12,321	11,252	–	–	(867)	22,706	Financial assets at fair value through profit or loss
Total		19,275		30,789	12,586	5,949	(9,397)	(2,106)	37,821	

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

Descriptions of private equity funds

In USD'000

Name	Signing time of investment agreement	Investment cost as of 12/31/2022	Any involved controlling shareholders or related parties	Descriptions of fund investment for the reporting period	Account	Gains/(losses) for the reporting period
A	March 2011	17	NO	Invest in integrated circuits and related industries	Financial assets at fair value through profit or loss	183
B	September 2014	6,301	NO	Invest in integrated circuits and related industries	Financial assets at fair value through profit or loss	(34,886)
C	September 2016	195	NO	Invest in strategic emerging industries	Financial assets at fair value through profit or loss	2,437
D	May 2017	3,568	NO	Invest in integrated circuits and related industries	Financial assets at fair value through profit or loss	1,968
E	March 2018	10,499	NO	Invest in integrated circuits and related industries	Financial assets at fair value through profit or loss	6,224
F	April 2018	8,998	NO	Invest in integrated circuits and related industries	Financial assets at fair value through profit or loss	3,741
G	June 2018	2,383	NO	Invest in strategic emerging industries	Financial assets at fair value through profit or loss	299
H	August 2020	3,004	NO	Invest in integrated circuits and related industries	Financial assets at fair value through profit or loss	8,267
I	October 2021	2,829	NO	Invest in regional strategic emerging industries	Financial assets at fair value through profit or loss	-
J	November 2021	20,102	NO	Invest in strategic emerging industries	Financial assets at fair value through profit or loss	(110)
K	December 2021	14,358	NO	Invest in strategic emerging industries	Financial assets at fair value through profit or loss	-
L	December 2022	5,743	NO	Invest in strategic emerging industries	Financial assets at fair value through profit or loss	-
Total		77,997				(11,877)

Descriptions of derivative financial instruments

Details are set out in Note 22 to the consolidated financial statements.

(VI) ANALYSIS OF PRINCIPAL CONTROLLED AND INVESTEE COMPANIES

1. Major subsidiaries

The major subsidiaries of the Company are SMIS, SMIB, SMIT, SMNC, SMIZ, SMSC, SMBC, SMOC and SMTC. The followings are the principal consolidated accounting data of the major subsidiaries:

in USD'000

Total assets	Net assets	Revenue	Profit from operations	Profit for the year
50,674,516	28,519,072	7,266,052	2,322,118	2,564,248

For details of each of the major subsidiaries, please refer to Note 19 to the consolidated financial statements.

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

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

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

(I) INDUSTRY LANDSCAPE AND TRENDS

Through decades of development, the global IC industry has formed obvious leading effect with a small number of players in dominance in the IC market. With more complexities of wafer process, as compared with IDM companies, the pure play foundry has distinguished itself with more advantages on productivity, product yield, cost control, economies of scale, intellectual property and other aspects for its dedication in process technologies. More and more design companies and a certain amount of IDMs tend to establish close and long-term partnership with pure play foundries, in order to cope with the intensifying industry competitions.

From the perspective of applications, the foundry market demand is mainly involved in the fields of communications, consumer electronics, computers and other application fields. In recent years, IC application fields have expanded continuously in line with the advance of science and technologies. The emerging market segments including smart internet of things, green energy and other application fields have boomed and opened up broader space for the IC industry growth. Although the demand in the overall consumer IC market like smartphone and personal computer started to shrink in 2022, the industrial expectation turned to weak, however, in the wake of new round of science and technologies moving towards industrialization, the industrial demand for technologies upgrading and foundry capacity expansion are still increasing. According to Gartner's forecast of global foundry sales in 4Q22, the revenue of the foundry market will grow at a compound annual growth rate (CAGR) of 5% from 2022 through 2026.

In recent years, some countries and regions have been actively planned geographical layouts for localized foundry capacity constructions in the anticipations of continuous geopolitical trade tensions, greatly encouraging localized chain collaborations. These measures will cause certain impacts on the existing global industry pattern. The regional semiconductor industry development will obtain the opportunities from the advantages of near market, and will face the challenges of losing industrial resources mobility.

(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 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

Looking forward into 2023, it still takes time for the smartphone and consumer electronics market to recover, the industrial sector is relatively stable, while the incremental demand in the automotive electronics industry can only partially offset the negative impact of weak mobile phones and consumer electronics. In the first half of the year, the industry cycle is still at the bottom, the impact of external uncertainties is still complex. Although the visibility for the second half of the year is still not clear, the Company has already seen some recovery of customers' confidence, and the reserve of new products' tape-out is relatively sufficient.

Based on the premise that the external environment is relatively stable, according to IFRS, for the year of 2023: Revenue is expected to decline by low-teens percentage year-over-year, and the gross margin is expected to be around 20%; Depreciation is expected to increase by more than 20% year-over-year, and the capital expenditures is expected to maintain roughly flat compared to that of previous year; The incremental monthly capacity by the end of the year is expected to be similar to that of previous year.

During the process of continuous investments, gross margin is under the pressure of high depreciation. The Company will always target sustained profitability, and strive to grasp the pace of capacity expansion to ensure a certain level of gross margin.

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 and SSE related requirements.

II. BOARD OF DIRECTORS

Members of the Board are elected or re-elected by the shareholders of the Company. The Board has 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.

Please refer to “V. 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, 2022.

IV. DIVIDENDS AND DIVIDEND POLICY

The Company has not declared or paid any cash dividends on the Ordinary Shares. For details, please refer to “XII. 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, 2022 amounted to US\$4,217.4 million.

VII. ISSUANCE OF EQUITY SECURITIES

Please refer to “II. Issue and Listing of Securities” in “Section 9 Changes in Shares and Information of Shareholders” for details of issuance of equity securities.

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

During the year, the Company repurchased certain of its shares on the Hong Kong Stock Exchange. Please refer to “I. Changes in Share Capital” in “Section 9 Changes in Shares and Information of Shareholders” for details.

IX. EQUITY-LINKED AGREEMENTS

The Company has made various stock incentive plans which subsist as of December 31, 2022 as set out in Note 37 to the consolidated financial statements.

X. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

Please refer to “V. (V) Analysis on Investments” in “Section 4 Management Discussion and Analysis” for details of the Company’s material investment, acquisition during the reporting period. There is no material assets and equity disposal during the reporting period.

XI. CONNECTED TRANSACTIONS

Please refer to “V. 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 41 to the consolidated financial statements for details of related party transactions.

XIII. SUBSTANTIAL SHAREHOLDERS

Please refer to “III. 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.

SECTION 5 REPORT OF THE DIRECTORS

XV. DIRECTOR'S INTERESTS IN SECURITIES

Please refer to "V. (IV) The Equity Incentives Granted to the Directors, Senior Management and Core Technicians During the Reporting Period" in "Section 6 Corporate Governance" for details.

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

Save as disclosed in "V. 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 2022.

XVII. DIRECTOR'S SERVICE CONTRACTS

No Director proposed for re-election has 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 "V. (III) Remunerations of Directors, Senior Management and Core Technicians" in "Section 6 Corporate Governance" for details.

XX. EMOLUMENTS TO THE KEY MANAGEMENT

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

XXI. EMPLOYEES

Please refer to "XI. Particulars of Employees of the Company at the End of the Reporting Period" in "Section 6 Corporate Governance" for details.

XXII. REMUNERATION POLICY

Please refer to "XI. Particulars of Employees of the Company at the End of the Reporting Period" in "Section 6 Corporate Governance" for details.

XXIII. STOCK INCENTIVE SCHEMES

Please refer to "XIII. 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 Group's major suppliers and customers.

XXVII. COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation.

XXVIII. AUDITORS

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

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

Shanghai, China
 March 28, 2023

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. The Company is committed to complying with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Hong Kong Listing Rules which contains code provisions (the "Code Provisions") and 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 (latest amended on February 10, 2022) 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. 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, 2022.

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 and listed on the Stock Exchange of Hong Kong and the Science and Technology Innovation Board of Shanghai Stock Exchange. 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. The main differences involve the rights of investors to obtain asset returns, the rights of investors to participate in major decisions, the board of supervisors, the merger, division, acquisition, liquidation, dissolution of the company, the use of capital reserves to cover losses, and the mechanism of independent non-executive directors. For specific differences and descriptions, 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 VII 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.

The level of protection of investors' rights and interests, including asset returns, participation in major decisions, and distribution of residual property, by the above differences is generally not lower than the requirements of domestic laws and regulations, which can effectively protect investors' rights and interests.

II. 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.

The level of protection of investors' rights and interests, including asset returns, participation in major decisions, and distribution of residual property, by the above differences is generally not lower than the requirements of domestic laws and regulations, which can effectively protect investors' rights and interests.

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

For application matters applicable to the adjustment of the Company's 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.

The applicable matters of the Company's continuous regulatory adjustment shall be implemented in accordance with the special provisions of red chip enterprises in Section 1 of Chapter 13 of the Listing Rules of the Shanghai Stock Exchange on the Science and Technology Innovation Board, unless otherwise stipulated by laws and regulations.

SECTION 6 CORPORATE GOVERNANCE

III. 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 Company Secretary or the Secretary to the Board, or directly 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 Company Secretary 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

According to Article 72 of the Company's Articles of Association, the Company's 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.

Such shareholders may put forth proposals at an annual general meeting of the Company by submitting written notice to the Company Secretary or the Secretary to the Board. The procedures for shareholders to put forward proposals at an annual general meeting are also available upon request from the Company Secretary or the Secretary to the Board.

(II) SHAREHOLDER COMMUNICATIONS

The Company and the Board recognises the importance of maintaining open and frequent communications with its shareholders.

The key to effectively communicate with shareholders and investors is to release information about the Company in a timely manner. 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/webcasts four times a year, during which the senior management reports the performance, the latest developments, and answers questions from participants. The senior management and Investor Relations also keep communication with equity research analysts, shareholders and investors through announcements, general meetings, SSE E-interactive, investor hotlines and E-mails, company's website, roadshows, reverse roadshow, surveys, brokerage conference, etc.

The Company holds general meeting each year and the shareholder circular is available to all shareholders in accordance with the Hong Kong Listing Rules and the Articles of Association and other relevant provisions. The circular and the accompanying materials shall 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 general meeting will announce the result of the on-site voting on each resolution. The final poll results will then be published in accordance with the requirements of the Hong Kong Listing Rules and STAR Market Listing Rules. Directors, members of the management, as well as the Company's external auditors, are present to answer questions from the shareholders at the date of the annual general meeting.

The 2023 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 28, 2023. The Company will issue an announcement to inform all shareholders.

IV. 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 2022 annual general meeting	June 24, 2022	The website of the Hong Kong Stock Exchange (http://www.hkexnews.hk)/The website of the SSE (http://www.sse.com.cn)	June 24, 2022/ June 25, 2022

At the annual general meeting of the Company, which was held by means of communication on June 24, 2022, the Company's shareholders:

- received and considered the 2021 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, 2021);
- re-elected Mr. Ren Kai as a non-executive Director, re-elected Academician Liu Ming as an independent non-executive Director and authorized the Board to fix the remuneration of the re-elected Directors;
- re-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 2021;

SECTION 6 CORPORATE GOVERNANCE

- approved the general mandate to the Board to allot, issue, grant, distribute and otherwise deal with Hong Kong Shares in the Company, not exceeding 20% of the issued Hong Kong Share capital of the Company as at the date of 2022 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 2022 AGM;
- authorized the Board to exercise the powers to allot, issue, grant, distribute and otherwise deal with the additional authorized but unissued Hong Kong Shares in the Company repurchased by the Company;
- approve the grant of restricted stock units to connected persons on May 31, 2021 in accordance with the terms of the 2014 Equity Incentive Plan; and
- approve the grant of restricted stock units to connected persons on April 8, 2022 in accordance with the terms of the 2014 Equity Incentive Plan.

V. 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	Class of Director	Gender	Age ⁽¹⁾	Commencement date of the term ⁽²⁾	Cessation date/ Re-election of the term ⁽³⁾	Number of ordinary shares held at the beginning of the year ⁽⁴⁾	Number of ordinary shares held at the end of the year ⁽⁴⁾	Changes in shares held for the year	Reason for changes	Receiving remunerations from connected parties of the Company or not ⁽⁵⁾
Gao Yonggang	Chairman and Executive Director	Class I	Male	57	June 23, 2009	the date of 2023 annual general meeting	-	-	-		Yes
Lu Guoqing	Non-executive Director	Class I	Male	60	May 13, 2021	the date of 2023 annual general meeting	-	-	-		Yes
Chen Shanzhi	Non-executive Director	Class II	Male	53	June 23, 2009	the date of 2024 annual general meeting	-	-	-		Yes
Yang Lumin	Non-executive Director	Class III	Male	43	November 10, 2022	the date of 2023 annual general meeting	-	-	-		Yes
Huang Dengshan	Non-executive Director	Class II	Male	55	May 13, 2021	the date of 2024 annual general meeting	-	-	-		Yes
Lau Lawrence Juen-Yee	Independent Non-executive Director	Class II	Male	78	June 22, 2018	the date of 2024 annual general meeting	-	-	-		No
Fan Ren Da Anthony	Independent Non-executive Director	Class II	Male	62	June 22, 2018	the date of 2024 annual general meeting	-	-	-		No
Liu Ming	Independent Non-executive Director	Class III	Female	58	February 4, 2021	the date of 2025 annual general meeting	-	-	-		No
Wu Hanming	Independent Non-executive Director	Class I	Male	70	August 11, 2022	the date of 2023 annual general meeting	-	-	-		No
Zhao Haijun	Co-Chief Executive Officer	-	Male	59	October 16, 2017	-	-	-	-		Yes
Liang Mong Song	Co-Chief Executive Officer	-	Male	70	October 16, 2017	-	-	-	-		No
Guo Guangli	Board Secretary/Company Secretary	-	Female	53	November 11, 2020	-	-	-	-		Yes
Wu Junfeng	Senior Vice President Person-in-charge of Finance	-	Male	49	February 9, 2023	-	-	-	-		No
Zhang Xin	Senior Vice President Core Technician	-	Male	57	April 30, 2020	-	-	23,000	23,000	Vesting and sale of STAR Market restricted shares	No
Jin Da	Vice President Core Technician	-	Male	47	June 30, 2022	-	-	48,000	48,000	Vesting of STAR Market restricted shares	No
Yan Dayong	Vice President Core Technician	-	Male	44	June 30, 2022	-	-	-	-		No
Zhou Zixue (Resigned)	Executive Director	-	Male	66	March 6, 2015	March 17, 2022	-	120,000	120,000	Vesting of STAR Market restricted shares	Yes
William Tudor Brown (Resigned)	Independent Non-executive Director	-	Male	64	August 8, 2013	August 11, 2022	-	-	-		No
Ren Kai (Resigned)	Non-executive Director	-	Male	50	August 11, 2015	November 10, 2022	-	-	-		Yes
Zhou Meisheng (Resigned)	Core Technician Executive Vice President	-	Female	64	October 12, 2017	June 30, 2022	-	-	-		No
Total							-	191,000	191,000		

SECTION 6 CORPORATE GOVERNANCE

Notes:

- (1) Age is calculated as of December 31, 2022.
- (2) The commencement date of the term refers to the earliest date of serving as a director, senior manager and core technician in the Company.
- (3) The relevant Director shall retire from office at the relevant annual general meeting and, if eligible, offer himself/herself for re-election as a Director of the Company.
- (4) The number of ordinary shares held at the beginning or at the end of the year only refers to the A-share holdings of the Company.
- (5) The related parties of the Company refer to the related parties defined in the Listing Rules on the STAR Market of Shanghai Stock Exchange.

The Board of Directors

Executive Directors



Gao Yonggang
Chairman

Non-Executive Directors



Lu Guoqing



Chen Shanzhi



Yang Lumin



Huang Dengshan

Independent Non-Executive Directors



Lau Lawrence Juen-Yee



Fan Ren Da Anthony



Liu Ming



Wu Hanming

Note: Above photos of Directors only include current Directors.

SECTION 6 CORPORATE GOVERNANCE

Name	Major working experience
The Board of Directors Gao Yonggang <i>Chairman and Executive Director</i>	Dr. Gao Yonggang serves as the Chairman of the Board, an executive Director, and also a director or chairman of several subsidiaries and affiliated companies of the Company. Dr. Gao is currently the chairman 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: 688301). He is also a standing committee member of the Accounting Society of China, a founding director of the Hong Kong Independent Non-Executive Director Association, a vice president of the China Federation of Electronics and Information Industry and a standing committee member of China Center for International Economic Exchanges, etc. 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 holds a Ph.D. in management from Nankai University.
Lu Guoqing <i>Non-Executive Director</i>	Mr. Lu Guoqing serves as a non-executive Director of the Company. Mr. Lu has long tenured in technology research and development and enterprise management positions. He has served as the main person in charge of the enterprise for many years and has rich experience in operation and management. He is currently the secretary of the Party Committee and chairman of CICT, the secretary of the Party Committee, chairman, president of FiberHome Technologies Group Co., Ltd. and the secretary of the Party Committee, chairman, general manager of Wuhan Research Institute of Posts and Telecommunications. In addition, Mr. Lu served as the chairman of Fiberhome Communication Technologies Co., Ltd. (a company listed on Shanghai Stock Exchange: 600498) from August 2016 to May 2022, 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 <i>Non-Executive Director</i>	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, the chief engineer and the head of science and technology committee of CICT. In addition, Dr. Chen served as a director of Fiberhome Telecommunication Technologies Co.,Ltd. (a company listed on Shanghai Stock Exchange: 600498) from September 2019 to May 2022. 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. 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.
Yang Lumin <i>Non-Executive Director</i>	Mr. Yang Lumin serves as a non-executive Director of the Company. Mr. Yang also serves as a director of China IC Fund and a director of China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. ("China IC Fund II"). Mr. Yang worked in the International Finance Bureau, Investment Business Bureau, Personnel Bureau, Jiangsu Branch of China Development Bank, and China Development Bank Capital Co., Ltd.. He is currently the deputy secretary of the Party Committee, the president and a director of Sino IC Capital Co., Ltd.. Mr. Yang is a senior economist, and obtained his master's degree in finance from Peking University in 2003.
Huang Dengshan <i>Non-Executive Director</i>	Mr. Huang Dengshan serves as a non-executive Director of the Company. He also serves as a director of certain subsidiaries of the Company. Since May 2015, Mr. Huang has been serving as the vice president of China IC Fund. Since September 2019, he has been serving as vice president of China IC Fund II. 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. Mr. Huang holds a Bachelor's degree in economics from Dongbei University of Finance and Economics.
Lau Lawrence Juen-Yee <i>Independent Non-executive Director</i>	Professor Lau Lawrence Juen-Yee serves as an independent non-executive Director of the Company. Professor Lau 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; on the Shanghai Stock Exchange: 600938), and an Independent Non-Executive Director of Far EasTone Telecommunications Company Limited (a company listed on the Taiwan Stock Exchange: 4904). He also serves as Chairman of the Board of Directors of The Chinese University of Hong Kong (Shenzhen) Finance Institute, a Non-official Member of the Board of the Hong Kong Investment Corporation Limited and a Non-official Member of the Candidate Eligibility Review Committee of the Hong Kong Special Administrative Region, a member of the Currency Board Sub-Committee of the Exchange Fund Advisory Committee of the Hong Kong Special Administrative Region, a member of Board of Governors 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. Professor Lau 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. Professor Lau was a member of the 11th and 12th National Committees of the Chinese People's Political Consultative Conference from 2008 to 2012 and from 2013 to 2018 respectively, a Vice-Chairman of the Sub-committee of Population, Resources and Environment from 2010 to 2013, and a Vice-Chairman of the Sub-Committee of Economics from 2013 to 2018. Professor Lau received his B.S. degree in Physics from Stanford University and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley.

SECTION 6 CORPORATE GOVERNANCE

Name	Major working experience
Fan Ren Da Anthony <i>Independent Non-executive Director</i>	Dr. Fan Ren Da Anthony serves as an independent non-executive Director of the Company. Dr. Fan is the chairman and managing director of AsiaLink Capital Limited. Dr. 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), an executive director of Tenfu (Cayman) Holdings Company Limited (6868) and a non-executive director of Hilong Holding Limited (1623), all listed on the Main Board of the Hong Kong Stock Exchange. Dr. Fan holds a Ph.D. in Economics. Dr. Fan is the Founding President of The Hong Kong Independent Non-Executive Director Association.
Liu Ming <i>Independent Non-executive Director</i>	Academician Liu Ming serves as an independent non-executive Director of the Company. Since 2021, Academician Liu has been a professor in Fudan University. Academician 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. During Academician 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. Academician 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). Academician 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. In 2015, she was elected as an academician 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.
Wu Hanming <i>Independent Non-executive Director</i>	Academician Wu Hanming serves as an independent non-executive Director of the Company. Academician Wu is an expert in microelectronics technology. Academician Wu is currently the dean of the School of Micro-Nano Electronics, Zhejiang University, the dean of the National Demonstration School of Microelectronics, University of Science and Technology of China, the chairman of Zhejiang ICsprout Semiconductor Co., Ltd., an independent director of Innotron Memory Co., Ltd., an independent director of BYD Semiconductor Company Limited, an independent director of Piotech Inc. (a company listed on Shanghai Stock Exchange: 688072), and an independent director of NAURA Technology Group Co., Ltd. (a company listed on Shenzhen Stock Exchange: 002371). He served as a senior engineer of Intel Corporation of the United States from September 1999 to August 2001, a technical director, vice president of the R&D department and consultant of Semiconductor Manufacturing International Corporation from August 2001 to October 2018, and an executive director of EtownIP Innovation Design Service Center (Ningbo) Co., Ltd. from October 2017 to February 2021. Academician Wu has been working in China's integrated circuit industry for a long time and has made outstanding contributions. Academician Wu has published 116 papers and has been granted 67 invention patents. Academician Wu was selected as the first "Beijing Scholar", and awarded the title of "the top 10 national outstanding scientists and engineers" and "national outstanding professional and technical talents", etc. He was also the chairman of the China Semiconductor Technology International Conference (CSTIC). Academician Wu obtained his Ph.D. from the Institute of Mechanics, Chinese Academy of Sciences in 1987. In 2019, he was elected as an academician of the Chinese Academy of Engineering.
Senior Management Gao Yonggang	Biographical details are set out on page 41 of this annual report.
Zhao Haijun <i>Co-Chief Executive Officer</i>	Dr. Zhao Haijun serves as Co-Chief Executive Officer of the Company. Dr. Zhao also serves as a director of certain subsidiaries and affiliated companies of the Company. Dr. Zhao has more than 30 years of experience in semiconductor operations and technology development. Dr. Zhao has also served as a director on the board of directors of Zhejiang Juhua Co., Ltd. (a company listed on Shanghai Stock Exchange: 600160) since November 2016. Dr. Zhao served as an executive Director of the Company from October 16, 2017 to August 11, 2022, served as the Chief Operating Officer and Executive Vice President of the Company, General Manager of SMNC from 2010 to 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.
Liang Mong Song <i>Co-Chief Executive Officer</i>	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.

SECTION 6 CORPORATE GOVERNANCE

Name	Major working experience
Guo Guangli <i>Senior Vice President, Board Secretary and Company Secretary</i>	Ms. Guo Guangli serves as a senior vice president, Board Secretary and Company Secretary of the Company. Ms. Guo is a member of the Sixth Session of the Review Committee of the Shanghai Stock Exchange, a member of Expert Committee of China Enterprise Financial Management Association and a guest advisor of Central University of Finance and Economics. Ms. Guo has served as 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 has rich experience in corporate governance, financial management and investment and financing projects of capital market. 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.
Wu Junfeng <i>Senior Vice President and Person-in-charge of Finance</i>	Dr. Wu Junfeng serves as a senior vice president and Person-in-charge of Finance of the Company. He also serves as a director of certain subsidiaries of the Company. Mr. Wu is the master's tutor for Southwestern University of Finance and Economics, Central University of Finance and Economics, etc. Dr. Wu served as a member of the Standing Committee of the Party Committee, the chief accountant, the board secretary of China General Nuclear Power Corporation, the chairman of CGN Finance Co., Ltd., a member of the leading group and the chief financial officer of New Hope Group Co., Ltd., and the chairman of New Hope Finance Co., Ltd.. Dr. Wu has rich experience in financial management and capital market investment and financing projects. Dr. Wu holds a Ph.D. from Southwestern University of Finance and Economics. He is a member of ACCA, a Chinese Certified Public Accountant and an Advanced Level Accountant.
Core Technicians	
Zhao Haijun	Biographical details are set out on page 42 of this annual report.
Liang Mong Song	Biographical details are set out on page 42 of this annual report.
Zhang Xin <i>Senior Vice President</i>	Mr. Zhang Xin serves as a senior vice president of the Company. He also serves as a director of several subsidiaries and affiliated companies of the Company. 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. Mr. Zhang has long worked overseas in the semiconductor industry, serving successively as a high profile in TSMC and Global Foundries. Mr. Zhang holds Bachelor's and Master's degrees in engineering from the Department of Radio Electronics, Tsinghua University.
Jin Da <i>Vice President</i>	Mr. Jin Da serves as a vice president of the Company. Mr. Jin successively served in technical and management positions in research and development and multiple production departments of the Company. He has rich experience in the development of integrated circuit process technology. Mr. Jin holds a bachelor's degree in materials engineering from Nanyang Technological University, Singapore, and a master's degree in electrical engineering from the National University of Singapore.
Yan Dayong <i>Vice President</i>	Mr. Yan Dayong serves as a vice president of the Company. Mr. Yan successively served as the manager and director of process integration department, senior director and vice president of characteristic process research and development of the Company. He has rich experience in process integration and characteristic process technology research and development. Mr. Yan graduated from the Department of Electronic Science and Technology of Xi'an Jiaotong University with a bachelor's degree and a master's degree in engineering.

SECTION 6 CORPORATE GOVERNANCE

(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	China Academy of Telecommunications Technology Co., Ltd.	Vice General Manager	December 2017	–
Chen Shanzhi	Datang Telecom Technology & Industry Holdings Co., Ltd.	Senior Vice President	December 2009	–
Yang Lumin	China Integrated Circuit Industry Investment Fund Co., Ltd.	Director	May 2021	–
Yang Lumin	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	Director	March 2021	–
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	–

2. Positions in other entities

Name	Name of other entities	Position held in other entities	Commencement date of term ^(note)	Cessation date of term
Gao Yonggang	JCET Group Co., Ltd.	Director	July 2017	March 2023
Gao Yonggang	SMIC Juyuan Private Equity Fund Management (Shenzhen) Co., Ltd.	Chairman of the Board	March 2023	–
Gao Yonggang	SMIC Juyuan Private Equity Fund Management (Shenzhen) Co., Ltd.	Executive Director	May 2021	–
Gao Yonggang	Lizhu Intelligent Equipment (Tianjin) Co., Ltd.	Chairman of the Board	December 2020	August 2022
Gao Yonggang	iRay Technology Company Limited	Independent Director	November 2020	–
Gao Yonggang	Ningbo Semiconductor International Corporation	Chairman of the Board	April 2018	September 2022
Gao Yonggang	Semiconductor Global Solutions	Chairman of the Board	March 2018	–
Gao Yonggang	China Fortune-Tech Capital (Beijing) Co., Ltd.	Executive Director	February 2018	–
Gao Yonggang	China Fortune-Tech Capital Co., Ltd.	Chairman of the Board	February 2014	–
Zhao Haijun	Brite Semiconductor (Shanghai) Co., Ltd.	Chairman of the Board	January 2017	–
Zhao Haijun	Toppan SMIC Electronic (Shanghai) Co., Ltd.	Vice Chairman of the Board	January 2017	–
Zhao Haijun	Zhejiang Juhua Co., Ltd.	Director	November 2016	–
Lu Guoqing	Wuhan Research Institute of Posts and Telecommunications	Secretary of the Party Committee, Chairman, General Manager	December 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 of the Board	August 2016	May 2022
Chen Shanzhi	FiberHome Telecommunication Technologies Co., Ltd.	Director	September 2019	May 2022
Yang Lumin	Yangtze Memory Phase II Technologies Co., Ltd.	Director	March 2022	–
Yang Lumin	Wuhan Xinxin Semiconductor Manufacturing Co., Ltd.	Director	September 2021	–
Yang Lumin	Yangtze Memory Technologies Holding Co., Ltd.	Director	September 2021	–
Yang Lumin	Yangtze Memory Technologies Co., Ltd.	Director	September 2021	–
Yang Lumin	China Development Bank Capital Co., Ltd.	Member of the Party Committee and Vice President	February 2021	February 2023
Yang Lumin	Sino IC Capital Co., Ltd.	Director and President	February 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	Hilong Holding Limited	Non-executive Director	July 2022	–

SECTION 6 CORPORATE GOVERNANCE

Name	Name of other entities	Position held in other entities	Commencement date of term ^(note)	Cessation date of term
Fan Ren Da Anthony	Tenfu (Cayman) Holdings Company Limited	Executive Director	May 2021	–
Fan Ren Da Anthony	Neo-Neon Holdings Limited	Independent Non-executive Director	August 2014	–
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	Shanghai Industrial Urban Development Group Limited	Independent Non-executive Director	July 2010	–
Fan Ren Da Anthony	Hong Kong Resources Holdings Company Limited	Independent Non-executive Director	September 2008	–
Fan Ren Da Anthony	China Dili Group	Independent Non-executive Director	August 2008	–
Fan Ren Da Anthony	Uni-President China Holdings Ltd.	Independent Non-executive Director	September 2007	–
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	–
Liu Ming	Fudan University	Professor	January 1, 2021	–
Wu Hanming	Innotron Memory Co., Ltd.	Independent Director	September 2021	–
Wu Hanming	Zhejiang ICsprout Semiconductor Co., Ltd.	Chairman of the Board	January 2021	–
Wu Hanming	Piotech Inc.	Independent Director	January 2021	–
Wu Hanming	BYD Semiconductor Company Limited	Independent Director	December 2020	–
Wu Hanming	University of Science and Technology of China	Dean of the National Demonstration School of Microelectronics	April 2020	–
Wu Hanming	Zhejiang University	Dean of the School of Micro-Nano Electronics	December 2019	–
Wu Hanming	NAURA Technology Group Co., Ltd.	Independent Director	December 2019	–
Wu Hanming	EtownIP Microelectronics (Beijing) Co., Ltd.	Director	July 2018	September 2022
Wu Hanming	Canxin Chuangzhi Microelectronics Technology (Beijing) Co., Ltd.	Director	January 2015	September 2022
Guo Guangli	Beijing Tianma Intelligent Control Technology Co., Ltd.	Independent Director	October 2021	–
Zhou Zixue (resigned)	Giga Force Electronics Co., Ltd.	Director	September 2022	–
Zhou Zixue (resigned)	Xianhe Co., Ltd.	Independent Director	March 2022	–
Zhou Zixue (resigned)	Zhejiang Jingsheng Mechanical & Electrical Co., Ltd.	Director	December 2021	–
Zhou Zixue (resigned)	Zhejiang Shengyang Science and Technology Co., Ltd.	Independent Director	November 2021	–
Zhou Zixue (resigned)	JCET Group Co., Ltd.	Chairman of the Board	May 2019	March 2023
Zhou Zixue (resigned)	Yunnan Nantian Electronics Information Co., Ltd.	Independent Director	February 2017	–
William Tudor Brown (resigned)	Ceres Power Holdings plc	Independent Non-executive Director	April 2021	–
William Tudor Brown (resigned)	Marvell Technology Group	Independent Non-executive Director	December 2016	–
William Tudor Brown (resigned)	Lenovo Group Limited	Independent Non-executive Director	January 2013	–
Ren Kai (resigned)	Yangtze Memory Phase II Technologies Co., Ltd.	Director	March 2022	September 2022
Ren Kai (resigned)	Yangtze Memory Technologies Holding Co., Ltd.	Director	December 2016	September 2022
Ren Kai (resigned)	Hubei Zixin Technology Investment Co. Ltd.	Director	November 2016	November 2022
Ren Kai (resigned)	Hubei Ziguang Guoqi Technology Holding Co., Ltd.	Director	November 2016	November 2022
Ren Kai (resigned)	Yangtze Memory Technologies Co., Ltd.	Director	July 2016	September 2022
Ren Kai (resigned)	Wuhan Xinxin Semiconductor Manufacturing Co., Ltd.	Director	July 2016	September 2022
Ren Kai (resigned)	San'an Optoelectronics Co., Ltd.	Director	April 2016	October 2022
Ren Kai (resigned)	JCET Group Co., Ltd.	Director	April 2016	October 2022
Ren Kai (resigned)	Sino IC Capital Co., Ltd.	Director and Vice President	September 2014	September 2022
Zhou Meisheng (resigned)	Shanghai IC Manufacturing Innovation Center Co., Ltd.	Director	January 2018	June 2022

Note: The commencement date of term refers to the earliest date of holding the above positions of directors and senior managements in the other entities.

SECTION 6 CORPORATE GOVERNANCE

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

1. Remunerations of Directors, senior management and core technicians

The Company has formulated Policy on Directors and Senior Management Remuneration, according to which, formal and transparent procedures are implemented to formulate remuneration packages for Directors and senior management. Remuneration level should be maintained at a reasonable level and sufficient to attract and retain Directors and senior management to run the Company successfully. No Directors or senior management should be involved in deciding his or her own remuneration.

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 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. If the above persons are connected persons, the stock granting shall be approved by the Board.
The basis for determining remunerations of Directors and senior management	Policy on Director and Senior Management Remuneration 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\$6.9 million
Total actual compensations received by core technical personnel during the reporting period	US\$4.6 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 and remunerations otherwise received from the Company, exclude share incentive received.

2. Remuneration to the Senior Management

The remuneration to the senior management for the year ended December 31, 2022 is as follows.

	<i>in USD'000</i>
	2022
Salaries, bonus and benefits	6,529
State-managed pension ^(Note)	33
Total	6,562

Note: 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 pensions to the retired employees.

SECTION 6 CORPORATE GOVERNANCE

(IV) THE EQUITY INCENTIVES GRANTED TO THE DIRECTORS, SENIOR MANAGEMENT AND CORE TECHNICIANS DURING THE REPORTING PERIOD**1. Directors and chief executives Stock Option****(1) 2004 Stock Option Plan**

Unit: Share

Name	Position	Options grant date	Exercise price at grant date per share (HKD)	Unexercised options as of 1/1/2022	New grants during the reporting period	Lapsed options during the reporting period	Cancelled options during the reporting period	Exercised options during the reporting period	Weighted average closing price of H Shares immediately before exercise dates (HKD)	Unexercised options as of 12/31/2022	Closing Price of H Shares immediately before grant dates (HKD)	Exercisable period
Gao Yonggang	Chairman and Executive Director	6/17/2013	6.24	1,360,824	-	-	-	-	-	1,360,824	5.45	6/17/2013-6/16/2023
Zhao Haijun	Co-Chief Executive Officer	6/11/2013	6.40	188,233	-	-	-	-	-	188,233	5.54	6/11/2013-6/10/2023
Total				1,549,057	-	-	-	-	-	1,549,057		

(2) 2014 Stock Option Plan

Unit: Share

Name	Position	Options grant date	Exercise price at grant date per share (HKD)	Unexercised options as of 1/1/2022	New grants during the reporting period	Lapsed options during the reporting period	Cancelled options during the reporting period	Exercised options during the reporting period	Weighted average closing price of H Shares immediately before exercise dates (HKD)	Unexercised options as of 12/31/2022	Closing Price of H Shares immediately before grant dates (HKD)	Exercisable period
Gao Yonggang	Chairman and Executive Director	6/12/2014	6.40	288,648	-	-	-	-	-	288,648	6.40	6/12/2014-6/11/2024
Gao Yonggang	Chairman and Executive Director	5/25/2020	18.10	586,793	-	-	-	-	-	586,793	16.92	5/25/2020-5/24/2030
Gao Yonggang	Chairman and Executive Director	5/31/2021	24.50	296,085	-	-	-	-	-	296,085	24.15	5/31/2021-5/30/2031
Chen Shanzhi	Non-executive Director	5/25/2016	6.42	98,958	-	-	-	98,958	17.00	-	6.50	5/25/2016-5/24/2026
Chen Shanzhi	Non-executive Director	9/12/2016	8.72	1,198	-	-	-	1,198	17.00	-	8.80	9/12/2016-9/11/2026
Chen Shanzhi	Non-executive Director	4/5/2017	9.83	62,500	-	-	-	62,500	17.00	-	9.71	4/5/2017-4/4/2027
Chen Shanzhi	Non-executive Director	5/23/2018	10.51	125,000	-	-	-	125,000	17.00	-	10.40	5/23/2018-5/22/2028
Chen Shanzhi	Non-executive Director	5/21/2019	8.58	62,500	-	-	-	62,500	17.00	-	8.67	5/21/2019-5/20/2029
Lau Lawrence Juen-Yee	Independent Non-executive Director	5/31/2021	24.50	32,877	-	-	-	-	-	32,877	24.15	5/31/2021-5/30/2031
Fan Ren Da Anthony	Independent Non-executive Director	9/13/2018	8.57	187,500	-	-	-	-	-	187,500	8.35	9/13/2018-9/12/2028
Fan Ren Da Anthony	Independent Non-executive Director	5/31/2021	24.50	32,877	-	-	-	-	-	32,877	24.15	5/31/2021-5/30/2031
Liu Ming	Independent Non-executive Director	5/31/2021	24.50	187,500	-	-	-	-	-	187,500	24.15	5/31/2021-5/30/2031
Zhao Haijun	Co-Chief Executive Officer	9/7/2017	7.90	1,687,500	-	-	-	-	-	1,687,500	7.83	9/7/2017-9/6/2027
Zhao Haijun	Co-Chief Executive Officer	5/25/2020	18.10	219,706	-	-	-	-	-	219,706	16.92	5/25/2020-5/24/2030
Zhao Haijun	Co-Chief Executive Officer	5/31/2021	24.50	277,149	-	-	-	-	-	277,149	24.15	5/31/2021-5/30/2031
Liang Mong Song	Co-Chief Executive Officer	5/25/2020	18.10	659,117	-	-	-	-	-	659,117	16.92	5/25/2020-5/24/2030
Zhou Zixue (resigned)	Executive Director	5/20/2015	8.30	2,521,163	-	-	-	-	-	2,521,163	8.20	5/20/2015-5/19/2025
Zhou Zixue (resigned)	Executive Director	5/25/2020	18.10	659,117	-	274,633	-	-	-	384,484	16.92	5/25/2020-5/24/2030
Zhou Zixue (resigned)	Executive Director	5/31/2021	24.50	277,149	-	207,862	-	-	-	69,287	24.15	5/31/2021-5/30/2031
William Tudor Brown (resigned)	Independent Non-executive Director	5/23/2018	10.51	87,500	-	-	-	87,500	17.26	-	10.40	5/23/2018-5/22/2028
William Tudor Brown (resigned)	Independent Non-executive Director	5/21/2019	8.58	62,500	-	-	-	62,500	17.26	-	8.67	5/21/2019-5/20/2029
William Tudor Brown (resigned)	Independent Non-executive Director	5/25/2020	18.10	62,500	-	62,500	-	-	-	-	16.92	5/25/2020-5/24/2030
William Tudor Brown (resigned)	Independent Non-executive Director	5/31/2021	24.50	62,500	-	62,500	-	-	-	-	24.15	5/31/2021-5/30/2031
Total				8,538,337	-	607,495	-	500,156	-	7,430,686		

SECTION 6 CORPORATE GOVERNANCE

2. Directors and chief executives Restricted Share Units

(1) 2014 Equity Incentive Plan

Unit: Share

Name	Position	RSUs grant date	Purchase Price per share (HKD)	The vested RSUs held as of 1/1/2022	Unvested RSUs as of 1/1/2022	New grants during the reporting period	Lapsed RSUs during the reporting period	Cancelled RSUs during the reporting period	Vested RSUs during the reporting period	Weighted average closing price of H Shares immediately before vesting dates (HKD)	Unvested RSUs as of 12/31/2022	The vested RSUs held as of 12/31/2022	Closing Price of H Shares immediately before grant dates (HKD)	Vesting period
Gao Yonggang	Chairman and Executive Director	11/17/2014	0.031	85,505	-	-	-	-	-	9.37	-	85,505	8.60	6/17/2013-3/1/2018
Gao Yonggang	Chairman and Executive Director	5/25/2020	0.031	37,008	37,008	-	-	-	18,504	19.87	18,504	55,512	16.92	3/1/2019-3/1/2023
Gao Yonggang	Chairman and Executive Director	5/25/2020	0.031	39,321	117,963	-	-	-	39,321	22.25	78,642	78,642	16.92	3/1/2020-3/1/2024
Gao Yonggang	Chairman and Executive Director	5/31/2021	0.031	-	147,482	-	-	-	36,870	19.60	110,612	36,870	24.15	3/1/2021-3/1/2025
Gao Yonggang	Chairman and Executive Director	4/8/2022	0.031	-	-	400,764	-	-	-	-	400,764	-	16.80	3/1/2022-3/1/2026
Chen Shanzhi	Non-executive Director	5/25/2016	0.031	98,958	-	-	-	-	98,958	7.90	-	-	6.50	6/1/2014-12/31/2015
Chen Shanzhi	Non-executive Director	9/12/2016	0.031	1,198	-	-	-	-	1,198	6.60	-	-	8.80	5/25/2014-5/31/2014
Chen Shanzhi	Non-executive Director	4/5/2017	0.031	62,500	-	-	-	-	62,500	12.18	-	-	9.71	1/1/2016-12/31/2016
Chen Shanzhi	Non-executive Director	5/23/2018	0.031	125,000	-	-	-	-	125,000	10.19	-	-	10.40	1/1/2017-1/1/2019
Chen Shanzhi	Non-executive Director	5/21/2019	0.031	62,500	-	-	-	-	62,500	11.94	-	-	8.67	1/1/2019-1/1/2020
Chen Shanzhi	Non-executive Director	5/25/2020	0.031	62,500	-	-	-	-	62,500	22.10	-	-	16.92	1/1/2020-1/1/2021
Chen Shanzhi	Non-executive Director	5/31/2021	0.031	-	62,500	-	-	-	62,500	18.66	-	-	24.15	1/1/2021-1/1/2022
Lau Lawrence Juen-Yee	Independent Non-executive Director	5/31/2021	0.031	-	32,877	-	-	-	32,877	18.66	-	32,877	24.15	6/22/2021-1/1/2022
Lau Lawrence Juen-Yee	Independent Non-executive Director	4/8/2022	0.031	-	-	92,500	-	-	-	-	92,500	-	16.8	1/1/2022-1/1/2023
Fan Ren Da Anthony	Independent Non-executive Director	5/31/2021	0.031	-	32,877	-	-	-	32,877	18.66	-	32,877	24.15	6/22/2021-1/1/2022
Fan Ren Da Anthony	Independent Non-executive Director	4/8/2022	0.031	-	-	92,500	-	-	-	-	92,500	-	16.80	1/1/2022-1/1/2023
Liu Ming	Independent Non-executive Director	5/31/2021	0.031	-	187,500	-	-	-	61,875	18.68	125,625	-	24.15	2/4/2021-2/4/2024
Wu Hanming	Independent Non-executive Director	9/5/2022	0.031	-	-	277,500	-	-	-	-	277,500	-	15.00	8/11/2022-8/11/2025
Zhao Haijun	Co-Chief Executive Officer	5/25/2020	0.031	21,650	64,953	-	-	-	21,651	22.25	43,302	43,301	16.92	3/1/2020-3/1/2024
Zhao Haijun	Co-Chief Executive Officer	5/31/2021	0.031	-	138,050	-	-	-	34,512	19.60	103,538	34,512	24.15	3/1/2021-3/1/2025
Zhao Haijun	Co-Chief Executive Officer	4/8/2022	0.031	-	-	401,538	-	-	-	-	401,538	-	16.80	3/1/2022-3/1/2026
Liang Mong Song	Co-Chief Executive Officer	5/25/2020	0.031	43,301	43,302	-	-	-	21,651	19.87	21,651	64,952	16.92	3/1/2019-3/1/2023
Liang Mong Song	Co-Chief Executive Officer	5/25/2020	0.031	43,301	129,904	-	-	-	43,301	22.25	86,603	86,602	16.92	3/1/2020-3/1/2024
Liang Mong Song	Co-Chief Executive Officer	4/8/2022	0.031	-	-	401,538	-	-	-	-	401,538	-	16.80	3/1/2022-3/1/2026
Zhou Zixue (resigned)	Executive Director	5/20/2015	0.031	1,080,498	-	-	-	-	-	8.96	-	1,080,498	8.20	3/6/2015-3/6/2019
Zhou Zixue (resigned)	Executive Director	5/25/2020	0.031	43,301	43,302	-	21,651	-	21,651	19.87	-	64,952	16.92	3/1/2019-3/1/2023
Zhou Zixue (resigned)	Executive Director	5/25/2020	0.031	43,301	129,904	-	86,603	-	43,301	22.25	-	86,602	16.92	3/1/2020-3/1/2024
Zhou Zixue (resigned)	Executive Director	5/31/2021	0.031	-	138,050	-	103,538	-	34,512	19.60	-	34,512	24.15	3/1/2021-3/1/2025
Zhou Zixue (resigned)	Executive Director	4/8/2022	0.031	-	-	382,349	382,349	-	-	-	-	-	16.80	3/1/2022-3/1/2026
William Tudor Brown (resigned)	Independent Non-executive Director	5/23/2018	0.031	87,500	-	-	-	-	87,500	10.19	-	-	10.40	1/1/2017-1/1/2019
William Tudor Brown (resigned)	Independent Non-executive Director	5/21/2019	0.031	62,500	-	-	-	-	62,500	11.94	-	-	8.67	1/1/2019-1/1/2020
William Tudor Brown (resigned)	Independent Non-executive Director	5/25/2020	0.031	62,500	-	-	-	-	62,500	22.10	-	-	16.92	1/1/2020-1/1/2021
William Tudor Brown (resigned)	Independent Non-executive Director	5/31/2021	0.031	-	62,500	-	-	-	62,500	18.66	-	-	24.15	1/1/2021-1/1/2022
William Tudor Brown (resigned)	Independent Non-executive Director	4/8/2022	0.031	-	-	92,500	-	-	92,500	17.14	-	-	16.80	1/1/2022-8/11/2022
Total				2,062,342	1,368,172	2,141,189	594,141	-	1,285,559		2,254,817	1,818,214		

SECTION 6 CORPORATE GOVERNANCE

3. Type II Restricted Shares

Unit: Share

Name	Position	Restricted Shares grant date	Grant price per share (RMB)	Unvested Restricted Shares as of 1/1/2022	New grants during the reporting period	Lapsed Restricted Shares during the reporting period	Cancelled Restricted Shares during the reporting period	Vested Restricted Shares during the reporting period	Weighted average closing price of A Shares immediately before vesting dates (RMB)	Unvested Restricted Shares as of 12/31/2022	Closing Price of A Shares immediately before grant dates (RMB)	Vesting period
Zhang Xin	Senior Vice President	7/19/2021	20	320,000	-	-	-	96,000	-	224,000	54.86	7/20/2022-7/17/2026
Jin Da	Vice President	7/19/2021	20	160,000	-	-	-	48,000	-	112,000	54.86	7/20/2022-7/17/2026
Yan Dayong	Vice President	7/19/2021	20	140,000	-	-	-	42,000	-	98,000	54.86	7/20/2022-7/17/2026
Zhou Zixue (resigned)	Executive Director	7/19/2021	20	400,000	-	280,000	-	120,000	39.94	-	54.86	7/20/2022-7/17/2026
Zhou Meisheng (resigned)	Executive Vice President	7/19/2021	20	360,000	-	360,000	-	-	-	-	54.86	7/20/2022-7/17/2026
Total				1,380,000		640,000	-	306,000		434,000		

Note: Please refer to “XIII.Information about the Company’s Stock Incentive Plans, Employee Equity Incentive Plan or Other Employee Incentive Measures and Their Impacts” in this section for the principle terms of the above-mentioned stock incentive plans.

4. The interests and rights of directors and chief executives required to be disclosed under the Hong Kong Listing Rules

As at December 31, 2022, 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 Hong Kong 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	Options (Hong Kong Share) ⁽²⁾	Restricted Share Units (Hong Kong Share) ⁽²⁾	Derivatives	Total Interests	Percentage of aggregate interests to total issued share capital of the Company ⁽¹⁾
Executive Directors								
Gao Yonggang	Long Position	Beneficial Owner	-	2,532,350	865,051		3,397,401	0.043%
Non-executive Directors								
Lu Guoqing	-	-	-	-	-		-	-
Chen Shanzhi	-	-	-	-	-		-	-
Yang Lumin	-	-	-	-	-		-	-
Huang Dengshan	-	-	-	-	-		-	-
Independent Non-executive Directors								
Lau Lawrence Juen-Yee	Long Position	Beneficial Owner	-	32,877	125,377		158,254	0.002%
Fan Ren Da Anthony	Long Position	Beneficial Owner	187,500	220,377	125,377		533,254	0.007%
Liu Ming	Long Position	Beneficial Owner	-	187,500	125,625		313,125	0.004%
Wu Hanming	Long Position	Beneficial Owner	-	-	277,500		277,500	0.004%
Co-Chief Executive Officer								
Zhao Haijun	Long Position	Beneficial Owner	-	2,372,588	626,191		2,998,779	0.038%
Liang Mong Song	Long Position	Beneficial Owner	-	659,117	661,346		1,320,463	0.017%

Notes:

(1) Based on 7,912,664,696 shares in issue as at December 31, 2022.

(2) As at December 31, 2022, the interests held by Directors and Co-CEOs were all in Hong Kong Shares. The details of options (Hong Kong Share) and RSUs (Hong Kong Share) are as in the above information: 2004 Stock Option Plan, 2014 Stock Option Plan and 2014 Equity Incentive Plan.

SECTION 6 CORPORATE GOVERNANCE

(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
Gao Yonggang	Chairman	Appointment	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	Resignation	Dr. Zhou Zixue, has resigned as an executive Director with effect from March 17, 2022 due to health reasons.
Zhou Meisheng	Executive Vice President and Core Technician	Resignation	Dr. Zhou Meisheng, executive vice president and core technician of the Company, ceased to hold any post in the Company with effect from June 30, 2022 due to retirement.
Jin Da	Core Technician	Appointment	According to the Company's consideration and decision, Mr. Jin Da was newly identified as a core technician of the Company with effect from June 30, 2022.
Yan Dayong	Core Technician	Appointment	According to the Company's consideration and decision, Mr. Yan Dayong was newly identified as a core technician of the Company with effect from June 30, 2022.
Zhao Haijun	Executive Director	Resignation	Dr. Zhao Haijun, has resigned as an executive Director with effect from August 11, 2022 in order to focus on discharging his duties as the Co-Chief Executive Officer of the Company.
William Tudor Brown	Independent Non-executive Director	Resignation	Mr. William Tudor Brown has resigned as an independent non-executive Director, the chairman of the compensation committee, a member of the audit committee, the nomination committee and the strategic committee of the Board with effect from August 11, 2022 due to other work commitments.
Wu Hanming	Independent Non-executive Director	Appointment	The Board approved the appointment of Academician Wu Hanming as an independent non-executive Director, a member of the nomination committee and the strategic committee of the Board with effect from August 11, 2022.
Ren Kai	Non-executive Director	Resignation	In view of the inability of Ren Kai to perform his duty as a Director, the Board passed a resolution on November 10, 2022 in accordance with Article 130.2 of the Articles of Association of the Company to remove Ren Kai from the position as a non-executive Director and a member of the strategic committee of the Board with effect from November 10, 2022.
Yang Lumin	Non-executive Director	Appointment	The Board approved the appointment of Mr. Yang Lumin, the candidate nominated by China IC Fund, as a Class III non-executive Director and a member of the strategic committee of the Board with effect from November 10, 2022.
Gao Yonggang	Chief Financial Officer	Resignation	Dr. Gao Yonggang has resigned from his position as the chief financial officer of the Company with effect from February 9, 2023 in order to focus on discharging his duties as the Chairman of the Board and the executive Director of the Company.
Wu Junfeng	Person-in-Charge of Finance	Appointment	The Board approved the appointment of Dr. Wu Junfeng as person-in-charge of finance and senior management of the Company, with effect from February 9, 2023.

Save as disclosed above, there were no changes in the members of the Board, between the period from the date of the 2022 interim report and the date of this annual report. In addition to the disclosure in "V.(II) Positions of Current and Resigned Directors and Senior Management During the Reporting Period" in this section, 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 2022 interim report of the Company.

SECTION 6 CORPORATE GOVERNANCE

VI. OVERVIEW OF THE BOARD

(I) THE RESPONSIBILITY OF THE BOARD

The Board shall assume responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the Company. 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 establishment of corporate governance practices and policies, the review of the Company's system of internal controls, and the oversight of the Company's financial performance and the preparation of the accounts. 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 or financial status.

(II) THE COMPOSITION OF THE BOARD

As at the date of this report, the Board has 9 members, including 1 Chairman (executive Director), 4 non-executive Directors and 4 independent non-executive Directors. There are no relationships among members of the Board. The personal information of each Director is set out in "V. Particulars of Directors and Senior Management" in this section, and published on the Company's website.

Independent non-executive Directors account for at least one-third of the total number of Board members. On an annual basis, each independent non-executive Director confirms his or her 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).

Members of the Board have different professional backgrounds, and they actively provide their valuable experiences to the Board to promote the best interests of the Company and shareholders. Independent non-executive Directors are committed to ensuring that the Board safeguards the interests of all shareholders of the Company and ensures independence and objectivity.

(III) THE CHAIRMAN AND THE EXECUTIVE OFFICER

For the year ended December 31, 2022, the roles of Chairman and Co-Chief Executive Officers are segregated. The role of 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.

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

(IV) PROCEDURE REGARDING THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

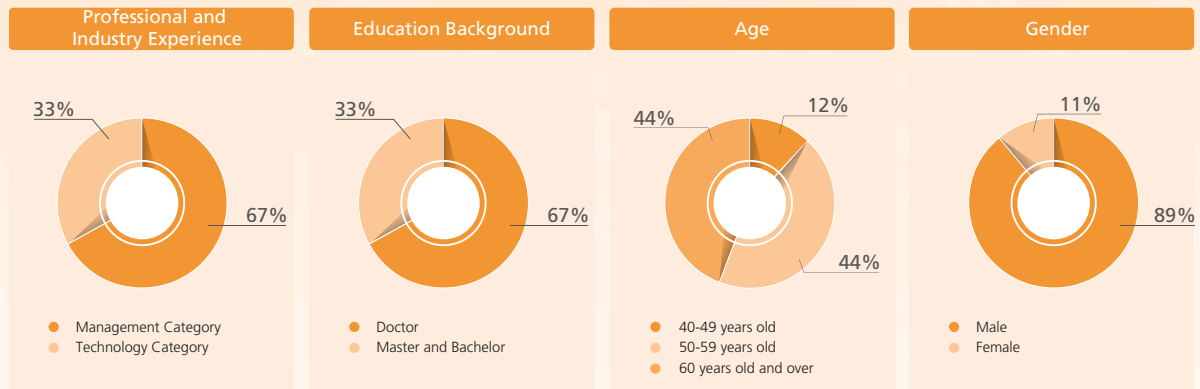
In accordance with the Company's Article of Associations and related regulations, the Company has adopted the standard procedure regarding the appointment of Directors, setting forth the process by which individuals are appointed as members of the Board. Under the policy, the Board will consider, among 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 decide whether to appoint such nominee to fill a casual vacancy on the Board or to add the nominee to the existing Directors, and then to appoint such nominee into one of the three classes of Directors as stipulated in the Articles of Association of the Company.

Directors appointed by the Board are subject to re-election at the first annual general meeting following the appointment. Directors may hold office until the expiration of their respective term upon an election passed at a 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

(V) BOARD DIVERSITY POLICY

The Board has adopted a Board Diversity Policy. 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. Board appointments will also be made on the principle of meritocracy and objective criteria, taking into account factors based on the Company's business model and specific needs from time to time. The Nomination Committee of the Board will give consideration to this policy when identifying qualified candidates to become members of the Board. The Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.



(VI) 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 newly appointed Director is provided with training with respect to such Director's responsibilities under the Hong Kong Listing Rules and the STAR Market Listing Rules, as well as the Company's corporate governance policies and practices. The Company also provides each Director and senior management with relevant trainings on the code of conduct 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 Listing Rules, the STAR Market Listing Rules, the corporate governance practices and other law and regulations applicable to the Company, and arranges director trainings organized by relevant PRC institutions and ethics & compliance training provided by legal advisors. The Company Secretary maintains the training records of all Directors. In 2022, the Directors complied with Code Provision C.1.4 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.

(VII) 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 to all Directors, received confirmation that all Directors have complied with the Management System and Implementation Rules for Insiders of the Company and the Model Code throughout the year ended December 31, 2022.

All directors, senior management, 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.

(VIII) MECHANISMS TO ENSURE INDEPENDENT VIEWS AND INPUT ARE AVAILABLE TO THE BOARD

The Company has established mechanisms to ensure independent views and input are available to the Board. The mechanisms may be covered in the following aspects: (1) independent non-executive director's recruitment process (e.g. independent non-executive director's time commitments and qualification), (2) number of independent non-executive directors and their time contribution, (3) evaluation of independent non-executive directors' contribution, and (4) other channels where independent views are available (e.g. directors' access to external independent professional advice to assist performance of their duties). The Board has reviewed the implementation and effectiveness of such mechanisms in 2022.

SECTION 6 CORPORATE GOVERNANCE

(IX) CORPORATE GOVERNANCE FUNCTIONS

According to the revised CG Code which came into effect on January 1, 2022, the Company revised its Corporate Governance Policy in February 2022, which provides overall direction to achieve better corporate governance. Pursuant to this policy, 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, 2022, the aforesaid corporate governance functions had been carried out by the Board pursuant to the Corporate Governance Policy.

(X). PROCEEDINGS OF THE BOARD

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 Company Secretary 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. 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. 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 shall abstain from voting on the relevant matters.

VII. PERFORMANCE OF DUTIES BY DIRECTORS

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

For the year ended December 31, 2022, 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 at Board meetings				Attendance by way of communication (times)	Any failure in attending in person for two consecutive meetings	Attendance at the general meetings (time)/Required attendance (times)
			Attendance in person (times)	Attendance by proxy (times)	Absence (times)				
Executive Director									
Gao Yonggang	No	5	5	0	0	1	No	1/1	
Zhao Haijun (resigned)	No	3	3	0	0	1	No	1/1	
Zhou Zixue (resigned)	No	1	1	0	0	1	No	0/0	
Non-executive Director									
Lu Guoqing	No	5	5	0	0	5	No	0/1	
Chen Shanzhi	No	5	4	1	0	4	No	1/1	
Yang Lumin	No	1	1	0	0	1	No	0/0	
Huang Dengshan	No	5	4	1	0	4	No	1/1	
Ren Kai (resigned)	No	4	4	0	0	4	No	1/1	
Independent Non-executive Director									
Lau Lawrence Juen-Yee	Yes	5	5	0	0	5	No	0/1	
Fan Ren Da Anthony	Yes	5	5	0	0	5	No	1/1	
Liu Ming	Yes	5	5	0	0	3	No	1/1	
Wu Hanming	Yes	2	2	0	0	0	No	0/0	
William Tudor Brown (resigned)	Yes	3	3	0	0	3	No	1/1	
Number of Board meetings held in the year								5	
Including: Number of physical meetings								0	
Number of meetings held by way of communication								1	
Number of meetings held in combination of physical meetings and meetings by way of communication								4	

SECTION 6 CORPORATE GOVERNANCE

(II) INFORMATION ON THE BOARD MEETINGS CONVENED DURING THE REPORTING PERIOD

For the year ended December 31, 2022, the Company held 5 board meetings and made 5 written resolutions and reviewed the proposals mainly including:

- 2021 annual report and 2022 interim report
- quarterly financial statements and results announcements and quarterly guidance and other related proposals
- 2022 CAPEX plan of the Group
- 2022 financial budget
- production expansion budget and new project construction budget
- 2021 Hong Kong equity grant scheme for connected persons
- 2022 performance indicators of the Company
- proposal of no profit distribution for 2021
- report on the depository and use of raised funds in 2021 and semi-annual 2022
- proposal on forecast of daily related transaction quota in 2022
- proposal on the forecast of the amount of external guarantee in 2022
- the environmental, social and governance report in 2021
- proposal to reappoint the Company's auditor
- proposal for general mandate to issue shares and repurchase shares
- re-election of directors and determination of their remunerations
- appointment of the chairman and the authorized representative of the Stock Exchange
- appointment of new independent non-executive directors and their remuneration
- change of non-executive directors
- change of the chairman and members of the Board committee
- proposal in relation to annual remuneration of non-executive directors
- proposal of medium and long term funding reserve
- proposal in relation to capital increase of controlling subsidiaries
- proposal in relation to entering into of the Tianjin Project Investment Framework Agreement and establishment of a wholly-owned subsidiary
- proposal for equity transfer of controlling or participating subsidiaries
- formulate and amend corporate governance policies
- proposal in relation to the Datang Holdings 2022 Framework Agreement
- proposal on donation, etc.

SECTION 6 CORPORATE GOVERNANCE

VIII. SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

The Board has established four special committees, including the Audit Committee, the Compensation Committee, the Nomination Committee and the Strategy Committee. Each special committee performs the duties and authorities entrusted by the Board in accordance with the articles of association of each special committee. The latest articles of association of the each special committee can be obtained from the website of the Company and the Hong Kong Stock Exchange.

(I) AUDIT COMMITTEE

The responsibilities of the Audit Committee

The Audit Committee is responsible for supervising the Company's accounting and financial reporting systems and procedures, auditing the Company's financial statements and the Company's risk management and internal control systems. The main 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.

Performance of the Audit Committee

As of the publication date of this annual report, the members of the Company's audit committee (the "Audit Committee") are Dr. Fan Ren Da Anthony (Chairman of Audit Committee), Professor Lau Lawrence Juen-Yee and Academician Liu Ming.

SECTION 6 CORPORATE GOVERNANCE

During the year ended December 31, 2022, the Audit Committee held a total of 4 meetings and made 2 written resolutions. Details of the Directors' attendance at the Audit Committee meetings and the main proposals reviewed are set forth below:

Audit Committee	Actual attendance/ Expected attendance (times)	Note
Independent Non-executive Director		
Fan Ren Da Anthony	4/4	
Lau Lawrence Juen-Yee	4/4	
Liu Ming	1/1	Appointed as the member of the Audit Committee on August 11, 2022.
William Tudor Brown (resigned)	3/3	The meeting on August 10, 2022 was attended by Dr. Fan Ren Da Anthony as a proxy on his behalf. Resigned as the member of the Audit Committee on August 11, 2022.
The review proposals mainly include:		
<ul style="list-style-type: none"> • 2021 Annual Report and 2022 Interim Report • Quarterly financial statements, results announcements and guidance • 2021 and 2022 semi-annual special reports on the deposit and actual use of raised funds • Audit Committee's 2021 Duty Performance Report • Proposal for the reappointment of auditors for 2022 • Information security management work report • Optimize the reporting frequency of the audit committee and revise the reports of the "Internal Audit Charter" and "Risk Management Committee Charter" • 2022 internal audit plan and quarterly internal audit (including risk management assessment) work report • Ethics and Compliance Office Ethics and Compliance Office Rules of Work, work report and reported case handling report • Quarterly reports of external auditors and audit plans for 2022, etc 		

(II) COMPENSATION COMMITTEE

The responsibilities of the Compensation Committee

The Compensation Committee is responsible for performing all duties related to the remuneration of executive directors and senior management personnel of the Company, including equity remuneration. The main responsibilities of the Compensation Committee include, among other things:

- 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;
- determining the compensation packages of executive Directors and making recommendations to the Board with respect to non-executive Directors' compensation, including equity-based compensation;
- evaluating the performance of and determining and approving the compensation to be paid to the Company's Co-Chief Executive Officer;
- approving and overseeing the total compensation package for the Company's individual senior management after taking the recommendation from executive Directors;
- 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;
- 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.

Performance of the Compensation Committee

As of the publication date of this annual report, the members of the Company's compensation committee (the "Compensation Committee") are Dr. Fan Ren Da Anthony (Chairman of Compensation Committee), Mr. Lu Guoqing, Professor Lau Lawrence Juen-Yee and Academician Liu Ming.

SECTION 6 CORPORATE GOVERNANCE

During the year ended December 31, 2022, the Compensation Committee held a total of 5 meetings. Details of the Directors' attendance at the Compensation Committee meetings and the main proposals reviewed are set forth below:

Compensation Committee	Actual attendance/ Expected attendance(times)	Note
Independent Non-executive Director		
Fan Ren Da Anthony	5/5	
Lau Lawrence Juen-Yee	5/5	
Liu Ming	5/5	
William Tudor Brown (resigned)	4/4	The meeting on August 10, 2022 was attended by Dr. Fan Ren Da Anthony as a proxy on his behalf. Resigned as the member of the Compensation Committee on August 11, 2022.
Non-executive Director		
Lu Guoqing	5/5	
The review proposals mainly include:		
<ul style="list-style-type: none"> • corporate goals and performance bonus provision of the Company for 2022 • annual performance bonus for executive directors and senior management • annual bonuses and stock grant for non-executive directors • Hong Kong stock grant for employees • remuneration proposal for the new independent non-executive director • remuneration proposal for re-election of directors at the 2022 annual general meeting 		

(III) NOMINATION COMMITTEE

The responsibilities Nomination Committee

The Nomination Committee is responsible for ensuring that the Company's Board of Directors has an effective size, structure and composition to implement corporate strategies. The main responsibilities of the Nomination Committee include, among other things:

- 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.

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.

SECTION 6 CORPORATE GOVERNANCE

- **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 of the Company approve the election of candidate, who stands for election at the next following annual general meeting, as a director.

Performance of the Nomination Committee

As of the publication date of this annual report, the members of the Company's nomination committee (the "Nomination Committee") are Dr. Gao Yonggang (Chairman of Nomination Committee), Mr. Huang Dengshan, Professor Lau Lawrence Juen-Yee, Dr. Fan Ren Da Anthony and Academician Wu Hanming.

During the year ended December 31, 2022, the Nomination Committee held 3 meetings. Details of Directors' attendance at the Nomination Committee meetings and the main proposals reviewed are set forth below:

Nomination Committee	Actual attendance/ Expected attendance (times)	Note
Executive Director Gao Yonggang	3/3	
Non-executive Director Huang Dengshan	3/3	
Independent Non-executive Director Lau Lawrence Juen-Yee	3/3	
Fan Ren Da Anthony	3/3	
Wu Hanming	1/1	Appointed as the member of the Nomination Committee on August 11, 2022.
William Tudor Brown (resigned)	2/2	The meeting on August 10, 2022 was attended by Dr. Gao Yonggang as a proxy on his behalf. Resigned as the member of the Nomination Committee on August 11, 2022.
The review proposals mainly include:		
<ul style="list-style-type: none"> • 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 • nomination of independent non-executive directors, members of the Nomination Committee and members of the Strategy Committee • nomination of the chairman of the Remuneration Committee and members of the Audit Committee • proposed appointment of non-executive directors and members of the Strategy Committee 		

(IV) STRATEGIC COMMITTEE

The responsibilities of the Strategic Committee

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

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

SECTION 6 CORPORATE GOVERNANCE

Performance of the 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. Yang Lumin, Professor Lau Lawrence Juen-Yee, Academician Liu Ming and Academician Wu Hanming.

During the year ended December 31, 2022, the Strategic Committee held 1 meeting. Details of Directors' attendance at the Strategic Committee and the main proposals reviewed are set forth below:

Strategic Committee	Actual attendance/ Expected attendance (times)	Note
Non-executive Director		
Chen Shanzhi	1/1	
Yang Lumin	0/0	Appointed as the member of the Strategy Committee on November 10, 2022.
Ren Kai (resigned)	1/1	Resigned as the member of the Strategy Committee on November 10, 2022.
Independent Non-executive Director		
Lau Lawrence Juen-Yee	1/1	
Liu Ming	1/1	
Wu Hanming	0/0	Appointed as the member of the Strategy Committee on August 11, 2022.
William Tudor Brown (resigned)	1/1	The meeting on August 10, 2022 was attended by Dr. Chen Shanzhi as a proxy on his behalf. Resigned as the member of the Strategy Committee on August 11, 2022.
The review proposals mainly include:		
<ul style="list-style-type: none"> evaluated the Company's strategic planning; and made recommendations to the Board and the Company's management on strategic planning. 		

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

X. COMPANY SECRETARY

As of the publication date of this report, Ms. Guo Guangli acts as the Company Secretary of the Company. Ms. Hoo Mei Fung has resigned as the Joint Company Secretary on February 9, 2023. The biographical detail of Ms. Guo Guangli is set out in "V. (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 Company Secretary reports to the chairman of the Board. All Directors have access to the Company Secretary, who is 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 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 Listing Rules, 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, 2022.

XI. PARTICULARS OF EMPLOYEES OF THE COMPANY AT THE END OF THE REPORTING PERIOD

(I) PARTICULARS OF EMPLOYEES

Number of in-service employees of the Company	2
Number of in-service employees of the subsidiaries	21,617
Total number of in-service employees	21,619
The number of retired employees whose expenses are borne by the Company and its subsidiaries	9

SECTION 6 CORPORATE GOVERNANCE

Composition of professions

Type of profession	Number of person by profession
Production staff	16,903
Sales staff	243
R&D staff	2,326
Administrative staff	2,147
Total	21,619

Education level

Type of education level	Number of persons
Doctorate	557
Master	4,543
Bachelor	8,101
Junior college and below	8,418
Total	21,619

Gender ratio

Gender	Percentage (%)
Male	63.6
Female	36.4

The Company firmly believes that employees are the core driving force of sustainable development. The Group provides every employee with the freedom and space to develop in a safe and stable workplace that has an equal and diversified working atmosphere. Meanwhile, adhering to the people-oriented philosophy, the Group cares for the well-being of the employees, continues to improve welfare system, builds advanced training systems, and sets up various employee communication channels. The Group recruits excellent talents extensively from all over the world through diversified recruitment channels, providing employment opportunities for talents with or without disabilities from different countries, ethnic groups, and cultural backgrounds. The Group encourages gender diversity across its workplace with maintaining workplace gender equality while building talent teams and firmly believes that a diversified talent pipeline will help for fuel innovative capacity into corporate development, improve scientific research efficiency and better meet the complex and diverse customer demands, thus driving the business growth.

During the year, the Board was not aware of any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

(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. According to the relevant national and local regulations, the Group pays social insurance and housing provident fund for employees on the job, and also provides employees with rich benefits, including company welfare paid annual leave, commercial insurance, welfare rental, meal allowance, etc.

(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 realization 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 2022, the Company conducted diversified training projects and courses in combination with offline teaching, online learning and team building. More than 340,000 employees received training, and the online and offline training coverage rate reached 100%.

XII. 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 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.

SECTION 6 CORPORATE GOVERNANCE

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 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 capital expenditure in 2022 was approximately US\$6.35 billion. The capital expenditure in 2023 is expected to maintain roughly flat compared to 2022, which exceeded 10% of the Company's latest audited net assets with large capital needs. The Company proposed not make profit distribution for 2022 as considered by the Board.

Undistributed profits are mainly used for capacity expansion and the infrastructures for new fabs.

The independent non-executive Directors believe that, the Company's plan not to distribute profits in 2022 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 the year 2022.

XIII. 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 (shares) ⁽¹⁾	Percentage of target shares (%) ⁽²⁾	Number of participants ⁽³⁾	Percentage of participants (%) ⁽⁴⁾	Price of target shares granted
2004 Stock Option	Stock option	243,466,873	3.08	2,379	11.0	HK\$5.85
2014 Stock Option	Stock option	320,737,712	4.05	4,115	19.0	HK\$13.35
2014 Equity Incentive Plan	Restricted Share Units	80,184,428	1.01	1,995	9.2	HK\$0.031
2021 STAR Market Restricted Share Incentive Scheme	Type II Restricted Shares	75,650,400	0.96	4,616	21.4	RMB20

Notes:

- (1) The number of target shares is the maximum number of ordinary shares granted under the stock incentive plans as at the end of the reporting period.
- (2) The percentage of target shares is the proportion of the target shares to the total share capital of the Company as at the end of the reporting period.
- (3) The number of participants is the total number of participants after deducting the duplicate participants.
- (4) The percentage of participants is the proportion of the number of participants to the number of the Company as at the end of the reporting period.

SECTION 6 CORPORATE GOVERNANCE

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

Unit: Share

Name of plan	Number of Stock Incentives granted at the beginning of the year	Number of newly granted Stock Incentives in the reporting period	Number of exercisable/ vestable Stock Incentives in the reporting period	Number of exercised/ vested Stock Incentives in the reporting period	Grant price/ exercise price	Number of Stock Incentives granted at the end of the year	Number of exercised/ vested Stock Incentives at the end of the year
2004 Stock Option Plan	57,289,680	–	4,127,569	1,682,918	Note1	57,289,680	47,258,011
2014 Stock Option Plan	66,879,993	–	12,165,306	1,610,765	Note1	66,879,993	18,476,097
2014 Equity Incentive Plan	56,746,488	8,695,676	3,471,031	3,471,031	HK\$0.031	65,442,164	41,775,193
2021 STAR Market Restricted Share Incentive Scheme	66,858,880	8,115,200	19,714,000	18,939,720	RMB20	68,863,616	18,939,720

Note: The details of grant prices of each period are as in the following information: 2004 Stock Option Plan and 2014 Stock Option Plan.

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.

At the beginning and end of the year, there was no stock options available to be granted under 2004 Stock Option Plan. At the beginning and end of the year, there were 267,269,950 options and 270,204,947 options available to be granted under 2014 Stock Option Plan, respectively. At the beginning and end of the year, there were 23,602,856 RSUs and 16,849,889 RSUs available to be granted under 2014 Equity Incentive Plan, respectively. At the beginning and end of the year, there were 8,115,200 shares. At the end of the year, there was no RSUs available for grant.

During the year, the proportion of the shares of all stock option and incentive plan of the Company to the weighted average issued shares is 0.2%.

Please refer to Note 4 and Note 37 to the consolidated financial statements for the accounting standards and policies adopted for stock options and incentives and the fair value on the grant date.

(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 options granted to employees of the Group (except Directors of the Company) under the 2004 Stock Option Plan during the year ended December 31, 2022 is as follows:

Unit: share

Options grant date	Exercise price at grant date per share (HKD)	Unexercised number as of 1/1/2022	Number of new grants during the reporting period	Lapsed number during the reporting period	Cancelled number during the reporting period	Exercised number during the reporting period	Weighted average closing price of H Shares immediately before exercise dates (HKD)	Unexercised number as of 12/31/2022	Closing Price of H Shares immediately before grant dates (HKD)	Exercisable period
5/22/2012	3.46	1,714,218	–	367,345	–	1,346,873	16.06	–	3.50	5/22/2012-5/21/2022
9/12/2012	2.90	25,200	–	8,600	–	16,600	16.41	–	2.85	9/12/2012-9/11/2022
11/15/2012	3.65	88,216	–	33,716	–	54,500	16.47	–	3.70	11/15/2012-11/14/2022
5/7/2013	5.92	84,928	–	91	–	18,025	16.11	66,812	6.00	5/7/2013-5/6/2023
6/11/2013	6.40	1,278,010	–	14,000	–	231,520	17.13	1,032,490	6.20	6/11/2013-6/10/2023
9/6/2013	5.62	46,325	–	–	–	13,800	16.56	32,525	5.70	9/6/2013-9/5/2023
11/4/2013	5.74	57,900	–	–	–	1,600	16.88	56,300	5.60	11/4/2013-11/3/2023
Total		3,294,797	–	423,752	–	1,682,918		1,188,127		

Summary of the 2004 Stock Option Plan is as follows:

Purpose

The purposes of the 2004 Stock Option Plan are to attract, retain and motivate employees and Directors of the Company, to provide a means of long-term incentives for their contributions to the growth and profits of the Company, and to allow such employees and Directors to participate in such growth and profitability.

Participants

The Company's 2004 Stock Option Plan is administered by 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 Directors, 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.

SECTION 6 CORPORATE GOVERNANCE

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, 2022.

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.

Maximum entitlement of each participant

The total number 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.

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 maximum term of options granted under the 2004 Stock Option Plan is ten years, subject to changes under the Hong Kong 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.

Acceptance and payments

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

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.

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 the 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 options granted to employees of the Group (except Directors of the Company) under the 2014 Stock Option Plan during the year ended December 31, 2022 is as follows:

Unit: share

Options grant date	Exercise price at grant date per share (HKD)	Unexercised number as of 1/1/2022	Number of new grants during the reporting period	Lapsed number during the reporting period	Cancelled number during the reporting period	Exercised number during the reporting period	Weighted average closing price of H Shares immediately before exercise dates (HKD)	Unexercised number as of 12/31/2022	Closing Price of H Shares immediately before grant dates (HKD)	Exercisable period
6/12/2014	6.40	133,229	-	-	-	80,000	17.00	53,229	6.40	6/12/2014-6/11/2024
11/17/2014	8.50	1,188,745	-	14,534	-	140,812	17.24	1,033,399	8.60	11/17/2014-11/16/2024
2/24/2015	7.08	21,500	-	-	-	2,000	16.74	19,500	6.90	2/24/2015-2/23/2025
5/20/2015	8.30	35,916	-	-	-	-	-	35,916	8.20	5/20/2015-5/19/2025
5/25/2016	6.42	30,450	-	-	-	-	-	30,450	6.50	5/25/2016-5/24/2026
5/22/2017	8.48	11,687	-	-	-	-	-	11,687	8.35	5/22/2017-5/21/2027
9/7/2017	7.90	1,687,500	-	-	-	-	-	1,687,500	7.83	9/7/2017-9/6/2027
5/23/2018	10.51	6,884,572	-	111,825	-	779,175	16.93	5,993,572	10.40	5/23/2018-5/22/2028
11/19/2018	6.85	62,000	-	-	-	-	-	62,000	6.86	11/19/2018-11/18/2028
9/12/2019	9.82	361,500	-	19,000	-	88,000	17.00	254,500	9.70	9/12/2019-9/11/2029
5/25/2020	18.10	6,130,299	-	650,431	-	20,622	18.87	5,459,246	16.92	5/25/2020-5/24/2030
9/9/2020	22.05	108,851	-	100,000	-	-	-	8,851	18.80	9/9/2020-9/8/2030
11/23/2020	23.00	3,083,283	-	348,196	-	-	-	2,735,087	22.75	11/23/2020-11/22/2030
5/31/2021	24.50	3,538,073	-	337,818	-	-	-	3,200,255	24.15	5/31/2021-5/30/2031
9/15/2021	23.18	362,000	-	-	-	-	-	362,000	22.95	9/15/2021-9/14/2031
11/19/2021	22.41	4,276,973	-	558,198	-	-	-	3,718,775	22.35	11/19/2021-11/18/2031
Total		27,916,578	-	2,140,002	-	1,110,609		24,665,967		

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

SECTION 6 CORPORATE GOVERNANCE

Summary of the 2014 Stock Option Plan is as follows:

Purpose

The purposes of the 2014 Stock Option Plan are to attract, retain and motivate employees and Directors of the Company; to provide a means of long-term incentives for their contributions to the growth and profits of the Company; and to allow such employees and Directors to participate in such growth and profitability.

Participants

The Company's 2014 Stock Option Plan is administered by 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 Directors, 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.

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 4.05% of the issued Ordinary Shares as at December 31, 2022.

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 the aggregate, exceed 30% of the then outstanding Ordinary Shares in issuance.

Maximum entitlement of each participant

The total number 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.

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 maximum term of options granted under the 2014 Stock Option Plan is ten years, subject to changes under the Hong Kong 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.

Acceptance and payments

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

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.

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.

(3) 2014 Equity Incentive Plan

The Company' shareholders adopted the 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.

SECTION 6 CORPORATE GOVERNANCE

Movement of the RSUs granted to employees of the Group (except Directors of the Company) under the 2014 Equity Incentive Plan during the year ended December 31, 2022 is as follows:

Unit: share

RSUs grant date	Purchase Price per share (HKD)	Unvested RSUs as of 1/1/2022	New grants during the reporting period	Lapsed RSUs during the reporting period	Cancelled RSUs during the reporting period	Vested RSUs during the reporting period	Weighted average closing price of H Shares immediately before vesting dates (HKD)	Unvested RSUs as of 12/31/2022	Closing Price of H Shares immediately before grant dates (HKD)	Vesting period
5/23/2018	0.031	806,950	-	6,300	-	800,650	19.60	-	10.40	12/19/2016-3/8/2022
9/13/2018	0.031	47,000	-	-	-	47,000	16.72	-	8.35	4/27/2018-6/5/2022
11/19/2018	0.031	6,000	-	-	-	6,000	16.04	-	6.86	8/13/2018-8/16/2022
9/12/2019	0.031	57,000	-	7,500	-	37,500	18.08	12,000	9.70	10/15/2018-12/12/2022
5/25/2020	0.031	1,660,121	-	118,672	-	609,538	19.57	931,911	16.92	3/1/2019-3/1/2024
9/9/2020	0.031	30,995	-	19,500	-	10,622	16.39	873	18.80	3/1/2019-5/6/2024
11/23/2020	0.031	1,066,950	-	91,670	-	354,684	19.30	620,596	22.75	3/1/2020-9/29/2024
5/31/2021	0.031	1,721,431	-	131,851	-	429,513	19.50	1,160,067	24.15	10/16/2021-3/1/2025
9/15/2021	0.031	141,000	-	-	-	35,250	17.12	105,750	22.95	4/1/2021-6/10/2025
11/19/2021	0.031	2,017,283	-	212,749	-	492,537	19.45	1,311,997	22.35	3/1/2021-9/27/2025
4/8/2022	0.031	-	6,404,813	475,871	-	46,574	16.30	5,882,368	16.80	11/1/2021-3/1/2026
5/20/2022	0.031	-	119,970	-	-	-	-	119,970	15.88	1/4/2022-2/9/2026
9/5/2022	0.031	-	173,610	-	-	-	-	173,610	15.00	4/1/2022-6/28/2026
11/18/2022	0.031	-	566,670	66,330	-	-	-	500,340	17.40	8/29/2022-9/27/2026
Total		7,554,730	7,265,063	1,130,443	-	2,869,868		10,819,482		

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 the Directors of the Company and the employees of the Group. Summary of the 2014 Equity Incentive Plan is as follows:

Purpose

The purposes of the 2014 Equity Incentive Plan are to attract, retain and motivate employees and Directors of the Company, to provide a means of long-term incentives for their contributions to the growth and profits of the Company, and to allow such employees and Directors to participate in such growth and profitability.

Participants

The Company's 2014 Equity Incentive Plan is administered by the Company's compensation committee. The Company's 2014 Equity Incentive provides for the grant of awards to the Company's employees, officers or Directors, 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.

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, 2022.

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

Maximum entitlement of each participant

The total number of RSUs (including both vested 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.

Awards period

Awards granted under the 2014 Equity Incentive Plan vest over a four-year or three-year period. Awards may vest based on time or achievement of performance conditions.

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; Or awards issued to new employees and then existing employees generally vest at a rate of 33.3% of the shares upon the first, second and third anniversaries of the vesting commencement date, respectively.

SECTION 6 CORPORATE GOVERNANCE

Acceptance and payments

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

Purchase price

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

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 otherwise required by applicable law.

(4) 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 restricted shares granted under the 2021 STAR Market Restricted Share Incentive Scheme to employees of the Group (except Directors of the Company), during the year ended December 31, 2022 is as follows:

Unit: share

Restricted Shares grant date	Grant price per share (RMB)	Unvested Restricted Shares as of 1/1/2022	New grants during the reporting period	Lapsed Restricted Shares during the reporting period	Cancelled Restricted Shares during the reporting period	Vested Restricted Shares during the reporting period	Weighted average closing price of A Shares immediately before vesting dates (RMB)	Unvested Restricted Shares as of 12/31/2022	Closing Price of A Shares immediately before grant dates (RMB)	Vesting period
7/19/2021	20.00	66,098,880	-	4,882,064	-	18,819,720	39.94	42,397,096	54.86	7/20/2022-7/17/2026
6/21/2022	20.00	-	8,115,200	588,400	-	-	-	7,526,800	45.68	6/22/2023-6/18/2027
Total		66,098,880	8,115,200	5,470,464	-	18,819,720		49,923,896		

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

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.

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.

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, 2022. 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, 2022. 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, 2022.

Scope of awardees

The total number of awardees for the first grant and reserved grant proposed under the Scheme represents approximately 21.4% of the Company's employees as of December 31, 2022. The Awardees include Directors, senior management, core technicians, middle and senior business management and key technical and business staff of the Company.

Grant price of restricted shares

The grant price of the restricted shares for 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 price. The grant price of the restricted shares for the reserved grant shall be the same as the grant price of the restricted shares for the first grant, i.e. RMB20 per share.

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 awardees have been vested or lapsed, such period shall not exceed 72 months.

Attribution arrangements under the Scheme

The restricted shares granted under the scheme may be vested in tranches as per the agreed proportions 30%, 25%, 25%, 20% upon the awardees satisfying the corresponding vesting conditions. A vest date must be a trading day within the validity period of the scheme, and shall not fall within the lock-up periods.

SECTION 6 CORPORATE GOVERNANCE

Performance assessment requirements at the Company level

The Company has selected the average revenue and the average EBITDA from 2018 to 2020 as the performance basis, and the growth rate of the definite proportion of the cumulative revenue 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% and 415%.

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

Performance assessment requirements at 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/>).

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

in USD'000

Name of plan	Completion of assessment indicators at the Company level during the reporting period	Total share-based payment recognised in the reporting period
2004 Stock Option Plan	Not Applicable	–
2014 Stock Option Plan	Not Applicable	3,561
2014 Equity Incentive Plan	Not Applicable	10,709
2021 STAR Market Restricted Share Incentive Scheme	100%	138,815
Total		153,085

(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 28, 2022	Next day disclosure return on the Hong Kong Stock Exchange: January 28, 2022
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 31, 2022	Next day disclosure return on the Hong Kong Stock Exchange: March 31, 2022
Non-Exempt Connected Transaction – Proposed Grant of Restricted Share Units	Next day disclosure return on the Hong Kong Stock Exchange: April 10, 2022
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 28, 2022	Next day disclosure return on the Hong Kong Stock Exchange: April 28, 2022
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 May 26, 2022	Next day disclosure return on the Hong Kong Stock Exchange: May 26, 2022
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 30, 2022	Next day disclosure return on the Hong Kong Stock Exchange: May 30, 2022
On June 21, 2022, the Company's Board reviewed and approved the "Proposal on Granting Part of Reserved Restricted Shares to Incentive Objects" and other proposals in the form of written resolutions.	For details, please see the Announcement of "SMIC on Granting Part of Reserved Restricted Shares to Incentive Objects" (Announcement No.: 2022-016), and "SMIC 2021 STAR Market Restricted Share Incentive Scheme List of Reserved Grant Partial to Incentive Objects (as of the date of grant)" on the website of the SSE (www.sse.com.cn), on June 22, 2022
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 28, 2022	Next day disclosure return on the Hong Kong Stock Exchange: June 28, 2022

SECTION 6 CORPORATE GOVERNANCE

Summary of the event	Inquiry index
On July 20, 2022, the Proposal in relation to the Void of Certain Restricted Shares under the 2021 STAR Market Restricted Shares Incentive Scheme, the Proposal in relation to Meeting the Vesting Conditions for the First Vesting Period of the First Grant of the 2021 STAR Market Restricted Shares 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 Void of Certain Restricted Shares under the 2021 STAR Market Restricted Shares Incentive Scheme (No. 2022-021) and the Announcement of Meeting the Vesting Conditions for the First Vesting Period of the First Grant of the 2021 STAR Market Restricted Shares Incentive Scheme (No. 2022-022) as disclosed on the website of the Shanghai Stock Exchange (www.sse.com.cn) on July 21, 2022.
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by non-directors of the Company on July 29, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: July 29, 2022
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by non-directors of the Company on August 30, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: August 30, 2022
On September 1, 2022, the Company completed the share registration for the first vesting period of the first grant of the 2021 STAR Market Restricted Shares Incentive Scheme. The listing and circulation date of vested shares is September 6, 2022.	For details, please see the Announcement on the Vesting Results of the First Vesting Period of the First Grant of the 2021 STAR Market Restricted Share Incentive Scheme and the Listing of Shares (No. 2022-026) as disclosed on the website of the Shanghai Stock Exchange (www.sse.com.cn) on September 3, 2022, and Next day disclosure return on the Hong Kong Stock Exchange: September 2, 2022.
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by non-directors of the Company on September 8, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: September 8, 2022
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by directors and non-directors of the Company on September 29, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: September 29, 2022
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by non-directors of the Company on October 28, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: October 28, 2022
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by directors of the Company on November 21, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: November 21, 2022
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by non-directors of the Company on November 29, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: November 29, 2022
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on 13 June 2013) by non-directors of the Company on December 30, 2022.	Next day disclosure return on the Hong Kong Stock Exchange: December 30, 2022

XIV. RELEVANT INFORMATION ON INTERNAL CONTROL FOR THE REPORTING PERIOD

(I) CONSTRUCTION AND IMPLEMENTATION OF RISK MANAGEMENT AND INTERNAL CONTROL

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, these systems can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or omission.

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.

SECTION 6 CORPORATE GOVERNANCE

(II) INTERNAL AUDIT

Internal audit is an independent and objective assessment function 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 Department shall check and investigate major problems identified by senior managers. Major internal control audit results, the management's corrective measures and the follow-ups of these measures will be reported to the Audit Committee, the Chairman and the Chief Executive Officers. The audit report is reported to the Audit Committee semi-annually, and the Annual Internal Audit Plan shall be submitted to the Audit Committee within two months after each fiscal year end.

Responsibilities of the internal audit include:

- reviewing the management's internal control measures, providing reasonable assurance of the authenticity, accuracy and integrity of financial and operational 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; and
- assisting in establishing and improving the anti-fraud mechanism, identifying the key areas, key links and main contents of anti-fraud, and rationally concerning and reviewing possible fraud in the internal audit process.

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

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

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

The 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 Company's management or the external auditor.

(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 scope 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 sensitive 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.

XV. THE MANAGEMENT AND CONTROL 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.

SECTION 6 CORPORATE GOVERNANCE

XVI. 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 chapter 13 section 1 Special Provisions for Red Chip Enterprises of 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.

XVII. ETHICS COMPLIANCE

The Company's 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. The Company's 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 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 action. The ECO is also responsible for organizing employees' ethics compliance training, improving their awareness of ethics compliance, and promoting ethics hotline.

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

Whether relevant mechanisms for environmental protection have been established	Yes
Environmental protection funds invested in the reporting period	US\$190 million

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

The subsidiaries of SMIC, including SMIS, SMIB, SMNC, SMIT, SMIZ and SMSC, are the key pollutant discharging companies.

1. Information on pollutant discharging

In 2022, none of the above companies have excessive emissions.

Exhaust Gases					
Methods of emission	Discharged after treatment		Number and distribution of outlets	233 outlets on the roof and ground	
Region	Type	Name of main pollutants	Maximum emission concentration of exhaust gases (mg/m ³)	Emission standard (mg/m ³)	Compliance
Shanghai Region	Acid exhaust	Nitrogen oxides	8.9	150	Achieve
		Fluoride	0.5		1.5
	Alkaline exhaust	Ammonia	14.9	No concentration limit	Achieve
Beijing Region	Organic exhaust	Non-methane hydrocarbon	45.2	70	Achieve
	Acid exhaust	Nitrogen oxides	12.8	50	Achieve
		Fluoride	0.4	3	Achieve
Tianjin Region	Alkaline exhaust	Ammonia	2.9	10	Achieve
	Organic exhaust	Non-methane hydrocarbon	5.9	10	Achieve
	Acid exhaust	Nitrogen oxides	28.0	50	Achieve
Fluoride		0.9	9	Achieve	
Shenzhen Region	Alkaline exhaust	Ammonia	2.0	100	Achieve
	Organic exhaust	Non-methane hydrocarbon	13.0	20	Achieve
	Acid exhaust	Nitrogen oxides	3.3	120	Achieve
		Fluoride	0.4	9	Achieve
	Alkaline exhaust	Ammonia	4.4	No concentration limit	Achieve
	Organic exhaust	Non-methane hydrocarbon	8.1	20	Achieve

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

Wastewater				
Methods of emission	Discharged through the pipe after treatment	Number and distribution of outlets	13 outlets in workshop and non-workshop	
Region	Name of main pollutants	Maximum emission concentration of wastewater (mg/L)	Emission standard (mg/L)	Compliance
Shanghai Region	Fluoride	17.7	20	Achieve
	Chemical Oxygen Demand (COD)	386.0	500	Achieve
	Ammonia nitrogen	22.7	45	Achieve
Beijing Region	Arsenic	0.0639	0.2	Achieve
	Fluoride	6.7	10	Achieve
	Chemical Oxygen Demand (COD)	242.7	500	Achieve
Tianjin Region	Ammonia nitrogen	26.0	45	Achieve
	Arsenic	0.0180	0.1	Achieve
	Fluoride	5.3	20	Achieve
Shenzhen Region	Chemical Oxygen Demand (COD)	135.0	500	Achieve
	Ammonia nitrogen	4.2	35	Achieve
	Fluoride	12.2	20	Achieve
	Chemical Oxygen Demand (COD)	164.0	500	Achieve
	Ammonia nitrogen	21.7	45	Achieve

2. Construction and operation of pollution prevention and control facilities

In 2022, SMIC can treat 118,640 m³ of wastewater and 340,837,200 m³ of exhaust gas per day, all pollution prevention and control facilities are in normal operation. 15 sets of acid exhaust treatment equipment, 8 sets of alkaline exhaust treatment equipment and 4 sets of organic exhaust treatment equipment are under construction/completed. 6 sets of ammonia-containing wastewater treatment system, 4 sets of fluorine-containing wastewater treatment system, 1 set of arsenic-containing wastewater treatment facility, 1 set of acid-base wastewater treatment facility and 1 set of copper-containing wastewater treatment facility are under construction/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.

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 (the "Plan"). All units have 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 Plan. 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, ISO 50001 energy management system, and IECQ QC 080000 hazardous substance management system, and have effectively implemented them in accordance with the system requirements.

(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

Total GHG emissions in 2022 reached 2,558,421 tons of equivalent CO₂ with a year-over-year. The GHG emissions of per 8-inch equivalent wafer photomask layer reached 10.2 kg of equivalent CO₂ in emission intensity.

2. Consumption of energy resource

In 2022, the total electricity consumption of the Company was 2,869 million kWh, and the energy consumption intensity was 10.3 kWh per 8-inch equivalent wafer photomask layer; the total natural gas consumption was 19,418 thousand km³, and the energy consumption intensity was 68.0 km³ per 8-inch equivalent wafer photomask layer; the total steam consumption was 302 thousand tons, and the energy consumption intensity was 1.2 kg per 8-inch equivalent wafer photomask layer; the total water consumption was 24,713 thousand tons, and the energy consumption intensity was 0.088 tons per 8-inch equivalent wafer photomask layer.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

3. Discharge of waste and pollutants

In 2022, SMIC have disposed 46,141 tons of general industrial solid waste, 58,268 tons of hazardous waste and 2,075 tons of domestic waste. The emission concentration and total amount of various pollutants have met the requirements of environmental permit.

The environmental management system of the Company

SMIC does not only pay 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

Whether carbon reduction measures have been taken	Yes
CO ₂ equivalent reduction	6,576 tons
Type of carbon reduction measures (such as the use of clean energy for power generation, the use of carbon reduction technology in the production process, and the development and production of new products that contribute to carbon reduction)	Use carbon reduction technologies in the production process

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 selection of local treatment systems for waste gas containing fluorinated greenhouse gases and energy conservation. The main carbon emission control measures and achievements during the reporting period are as below:

In 2022, SMIC has implemented 28 projects, including lighting system transformation, replacement of frequency conversion refrigeration sets, optimization of heating mode of fresh air system, and adjustment of water supply temperature of local treatment system, to improve energy utilization efficiency, reduce energy consumption, and reduce carbon emissions, equivalent to an annual carbon reduction of about 6,576 tons of equivalent CO₂.

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

The Chinese subsidiaries of the Company 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.

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 and fulfill environmental responsibility, to reduce the impact on the ecological environment.

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 leading level of independent R&D of integrated circuit manufacturing technology in Chinese Mainland. In terms of specialty technologies, SMIC has successively launched the leading 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.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

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

SMIC has successfully developed a variety of technology nodes ranging from 0.35 micron to FinFET, which are mainly used in logic technology platforms and specialty technology platforms.

(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 2022, SMIC filed 18,799 patent applications in total, of which 12,869 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 2022, the Group's shipments were 7,098 thousand 8-inch wafer equivalents and the monthly capacity reached 714,000 8-inch wafer equivalents.

(II) TYPE AND CONTRIBUTIONS OF PUBLIC CHARITY ACTIVITIES ENGAGED

Type	Number	Descriptions
External donations funds	RMB10 million	Nil
Donation funds for charities	RMB2.43 million	SMIC Liver Transplant Program for Children
The person of salvage	89 persons	

1. SPECIFIC CONDITIONS OF PUBLIC CHARITY ACTIVITIES ENGAGED

Public charity

In 2013, SMIC launched the "SMIC Liver Transplant Program for Children" charity project. The project has donated a total of RMB39.02 million over the past ten years. By the end of 2022, 745 children from the Chinese Mainland had been helped.

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.

(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, continue to complete the corporate governance structure, establish and improve the internal control system, implement a solid financial policy, and standardise the Company's operating, increase investors' and creditors' 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 shareholders and creditors.

(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.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

Employee health & safety

SMIC attained OHSAS 18001 (Occupational Health and Safety Assessment Series) certification in 2003. The OHSAS 18001 (renamed ISO 45001) 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.

Employee shareholding

Number of employees holding shares	3,831
Proportion of employee holding shares in the total number of employees	17.72%
Number of shares held by employees (thousand shares)	86,061
Proportion of employee shareholding in total share capital	1.09%

Note: The number of employees and the number of shares held by employees are the number of active employees of the Company vested under stock incentives plans and the total number of shares held by themselves as at the end of the year, excluding the shares of the Company held by employees in the secondary market.

(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.

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).

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

- 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.

In the practices of fulfilling CSR, we 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 Company to be awarded with HSI ESG rating A+, while continuing to be included in the Hang Seng Corporate Sustainability Index. In 2022, SMIC has been newly included in the HSI ESG Enhanced Index and HSI ESG Enhanced Select Index so as to honor our outstanding performance in environmental, social and governance areas. For details, please see www.hsi.com.hk.

IV. OTHER CORPORATE GOVERNANCE

(I) INVESTOR RELATIONS AND PROTECTION

Type	Time	Relevant information
Convening the calls/webcasts	4	Holding earnings calls/webcasts four times a year to facilitate calls for investors to have a more comprehensive and timely in-depth understanding of the Company's operating performance, and answer analysts, investors 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, capacity building and other 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, reserve roadshows, research meetings, 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辦法》) 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.

(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 and management. 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.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

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

SECTION 8 SIGNIFICANT EVENTS

Note 1:

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

1. 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).
2. 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.
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.

SECTION 8 SIGNIFICANT EVENTS

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 standardised 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.

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.

SECTION 8 SIGNIFICANT EVENTS

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 stabilisation 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 organisation(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 stabilisation 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 Stabilisation 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 Stabilisation 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

1. The Company undertakes that the A Share offering by issuer is not fraudulent.
2. If the Company 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.

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

1. Undertake that the Company's A Share issuance is not fraudulent.
2. If the Company obtains registration of the issuance by fraud, and has issued and listed shares when it does not meet the conditions for issuance and listing, urge the Company to 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.

SECTION 8 SIGNIFICANT EVENTS

Note 6:

Commitments by the Company

The Company will take active measures in 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 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.
7. I undertake 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.

SECTION 8 SIGNIFICANT EVENTS

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.

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.

SECTION 8 SIGNIFICANT EVENTS

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.

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.

SECTION 8 SIGNIFICANT EVENTS

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 the “Company Commitments”) are true and binding on the Company. The Company voluntarily accepts the supervision by regulatory authorities, self-regulatory organisations 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) Taking 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.

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 the “Shareholders Commitments”) are true and binding on the Company. The Company voluntarily accepts the supervision by regulatory authorities, self-regulatory organisations and the public. The Company will perform all obligations and take all responsibilities under the Shareholders 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) Taking 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 the “Individual Commitments”) are true and binding on me. I voluntarily accept the supervision by regulatory authorities, self-regulatory organisations and the public. I will perform all obligations and take all responsibilities under the Individual 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) Taking 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 Individual 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.

SECTION 8 SIGNIFICANT EVENTS

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.

Commitments by directors and senior management personnel

1. 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.
2. I will not raise any objection to the above-mentioned applicable law and competent court.

II. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

in USD'000

	Current appointment
Name of the domestic accounting firm	Ernst & Young Hua Ming LLP (Special General Partnership)
Remuneration of the domestic accounting firm	620
Duration of the domestic accounting firm	2 years
Name of the domestic accountants	Meng Dong, Gu Shenwei
Duration of the domestic accountants	Meng Dong (2 years), Gu Shenwei (2 years)
Name of the overseas accounting firm	Ernst & Young
Remuneration of the overseas accounting firm	890
Duration of the overseas accounting firm	2 years
Name of the overseas accountants	Ng Cheung
Duration of the overseas accountants	2 years

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 received a ruling from the United States District Court for the Central District of California dated June 9, 2022 (Los Angeles, U.S. time) dismissing, in its entirety, the civil lawsuit as disclosed in the Company's announcement dated December 15, 2020, with prejudice and without leave to amend.	For details, please refer to the Announcement of Complete Dismissal of Civil Lawsuit published on the website of SSE (http://www.sse.com.cn) dated June 10, 2022, and Announcement of Complete Dismissal of Civil Lawsuit published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) dated June 10, 2022.

SECTION 8 SIGNIFICANT EVENTS

(II) OTHER LITIGATION

1. 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. The arbitration is still ongoing.

2. Civil complaint filed in the United States

On July 8, 2022 (Los Angeles, U.S. time), the plaintiff filed a notice appeal from the dismissal of the civil complaint as mentioned in (I) above. United States Court of Appeals for the Ninth Circuit confirmed receipt of the appeal with a notification on July 11, 2022 (Log Angeles, U.S. time). The litigation is still ongoing.

IV. SUSPECTED VIOLATION OF LAWS AND REGULATIONS, AND PUNISHMENT AND RECTIFICATION BY LISTED COMPANY AND THE DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES, CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLERS

On September 16, 2022, the Company acknowledged that Ren Kai, the non-executive director, could not perform his duties due to his suspected serious violation of discipline and law. On November 10, 2022, the Board of Directors, in accordance with Article 132.2 of the Articles of Association of the Company, removed Ren Kai from the position as a non-executive director and a member of the Strategic Committee of the Board, and appointed Mr. Yang Lumin, a candidate nominated by the China IC Fund, as a non-executive director and a member of the Strategic Committee of the Company with effect from November 10, 2022.

V. SUBSTANTIAL CONNECTED AND RELATED TRANSACTIONS

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

1. Grant of Restricted Share Units

The Board announces that on April 8, 2022, the Company proposes to grant 2,451,668 Restricted Share Units under the 2014 Equity Incentive Plan to 13 connected persons of the Company, including Directors, former Directors, Co-chief executive officers and directors of Subsidiary of the Company (the "Proposed RSU Grants"). Each of the Restricted Share Units granted to the connected persons represents the right to receive a Hong Kong Share on the date it vests.

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 RSU Grants and any transactions contemplated thereunder constitute 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. The Proposed RSU Grants and the transactions were approved by the Independent Shareholders at the annual general meeting of the Company held on June 24, 2022. For details of the Proposed RSU Grants, please refer to the announcement of the Company dated 10 April, 2022.

2. Grant of Restricted Share Units

The Board announces that on September 5, 2022, the Company proposed to grant 277,500 Restricted Share Units under the 2014 Equity Incentive Plan to Academician Wu Hanming ("Academician Wu"), an independent non-executive Director, subject to the Independent Shareholders' approval at the general meeting. Each of the Restricted Share Units granted to the Academician Wu represents the right to receive a Hong Kong Share on the date it vests.

In accordance with the terms of the 2014 Equity Incentive Plan, the grant to Academician Wu 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).

Academician Wu is an independent non-executive Director and hence a connected person of the Company. The grant to Academician Wu and any transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are thus subject to reporting and announcement requirements, and to be submitted to independent shareholders for approval. For details of the grant of RSU to Academician Wu, please refer to the announcement of the Company dated 5 September 2022.

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

Datang Holdings Framework Agreement – 2022 to 2024

On February 10, 2022, the Company entered into a renewed framework agreement with Datang Holdings for a term of three years commencing on January 1, 2022 and ended on December 31, 2024 (the "Datang Holdings Framework Agreement"). For details of the transactions under the Datang Holdings Framework Agreement, please refer to the announcement of the Company dated February 10, 2022.

On May 12, 2022, the Directors approved to revise and adjust the annual cap for the year ended 31 December 2022 under the Datang Holdings Framework Agreement from US\$181 million to US\$266 million due to the further increase in demand of Datang Holdings for the foundry services. Save for the aforesaid revision, all other terms and conditions under the Datang Holdings Framework Agreement remain unchanged. For the details of the revision, please refer to the announcement of the Company dated May 12, 2022.

SECTION 8 SIGNIFICANT EVENTS

At the time of entering into the Datang Holdings Framework Agreement and the subsequent revision date (i.e. May 12, 2022). Datang Holdings is the holding company of Datang HK, which is a substantial shareholder of the Company, holding approximately 10.78% of the total issued share capital of the Company on the date of revision. Datang Holdings is therefore an associate of Datang HK and hence a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules.

The revised annual cap and actual transaction amounts generated by the Group pursuant to the Datang Holdings Framework Agreement during the year ended December 31, 2022 are set out below:

Transactions	Annual cap on transactions amount for the year ended December 31, 2022 US\$ million	Actual transaction amounts for the year ended December 31, 2022 US\$ million
The revenue generated by the Group under the Datang Holdings Framework Agreement	266 (Revised)	214

Conclusion

The Company has confirmed that the execution and enforcement of the implementation agreement 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, 2022 followed the relevant pricing principles of such continuing connected transactions. None of the transaction amounts exceeded the annual caps for the year ended December 31, 2022.

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:

- (a) those transactions were conducted in the ordinary and usual course of business of the Group;
- (b) those transactions were entered into on normal commercial terms or better; and
- (c) 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.

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 the aforesaid continuing connected transactions:

- (a) have been approved by the Board;
- (b) were 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 entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
- (d) have not exceeded the annual caps.

Related party transactions

Save as disclosed above, the Group entered into several transactions with 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 41 to the consolidated financial statements.

(III) RELATED PARTY TRANSACTIONS IN RELATION TO DAILY OPERATION

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

Summary of the event	Inquiry index
On March 30, 2022, the Board of the Company reviewed and approved the Proposal for Predicted Line of Daily Connected Transactions in 2022.	For details, please refer to the Announcement on Predicted Line of Daily Connected Transactions in 2022 dated March 31, 2022 published in Shanghai Securities News, China Securities Journal, Securities Times, Securities Daily, and on the website of SSE (http://www.sse.com.cn).

SECTION 8 SIGNIFICANT EVENTS

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 2022 (RMB'000)	Actual amount for the period (RMB'000)	Percentage in the amount of similar transactions (%)
Semiconductor Global Solutions Corporation	Purchase of goods	2,000	217	0.0
	Receiving services	–	1,529	0.3
	Leasing assets to the related party	1,550	2,688	1.6
	Purchase of machinery and equipment from the related party	200,000	124,387	0.3
	Sale of machinery and equipment from the related party	10,000	2,130	0.2
	Subtotal	213,550	130,951	
China Fortune-Tech Capital Co., Ltd	Receiving services	5,046	4,031	9.5
	Leasing assets to the related party	4,378	5,206	3.1
	Subtotal	9,424	9,237	
Toppan SMIC Electronic (Shanghai) Co., Ltd	Purchase of goods	67,504	14,937	0.1
	Leasing assets to the related party	31,302	30,653	18.2
	Subtotal	98,806	45,590	
Brite Semiconductor (Shanghai) Corporation	Sale of goods	699,225	621,759	1.4
	Subtotal	699,225	621,759	
	Total	1,021,005	807,537	

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

Related party	Related transaction	Annual caps in 2022 (USD' million)	Actual amount for the period (USD' million)
Datang Holdings and its related companies	Sale of goods	266	214

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

Related party	Related transaction	Annual caps in 2022 (USD' million)	Actual amount for the period (USD' million)
Sino IC Leasing Co., Ltd.	Financial Services	2,500	496
	Other related services	50	–

SECTION 8 SIGNIFICANT EVENTS

VI. 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	943,342
Total balance of guarantee to subsidiaries as at the end of the reporting period (B)	2,165,299
Aggregate guarantee of the Company (including those provided to subsidiaries)	
Aggregate guarantee (A+B)	2,165,299
Percentage of aggregate guarantee to net assets of the Company (%)	11.3
Representing:	
Amount of guarantee provided for shareholders, de facto controller and related parties (C)	–
Amount of debts guarantee directly or indirectly provided to guaranteed parties with gearing ratio over 70% (D)	1,118,526
Excess amount of aggregate guarantee over 50% of net assets (E)	–
Aggregate amount of the above three categories (C+D+E)	1,118,526

(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
Structural deposits	Self-owned funds	502,541	287,167	–

2. Other information

Type of investment	Fund manager	Investment amount	Product type	Term of investment	Lawsuits involved or not
Harvest Express Money Market Fund A	Harvest Fund Management Co., Ltd.	RMB30,627,938	Non-principal-guaranteed with floating income	Nil	No
Harvest Express Money Market Fund A	Harvest Fund Management Co., Ltd.	RMB459,550,132	Non-principal-guaranteed with floating income	Nil	No
Harvest Cash Box Money Market Fund	Harvest Fund Management Co., Ltd.	RMB81,063,790	Non-principal-guaranteed with floating income	Nil	No
Harvest Benefit Added Money Market Fund	Harvest Fund Management Co., Ltd.	RMB22,509,924	Non-principal-guaranteed with floating income	Nil	No

SECTION 8 SIGNIFICANT EVENTS

VII. 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\$7,616.1 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\$7,513.9 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	7,513,885	100.0	632,756	8.4	US\$0	N/A

(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 reporting 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	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	1,001,554	100.0	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	1,401,740	1,401,740	1,401,740	100.0	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	67,424,800	0.86	-	-	-	(67,424,800)	(67,424,800)	-	-
1. Shares held by state-owned legal persons	67,424,800	0.86	-	-	-	(67,424,800)	(67,424,800)	-	-
II. Tradable shares not subject to selling restrictions	7,836,431,755	99.14	18,939,720	-	-	57,293,221	76,232,941	7,912,664,696	100.00
1. Ordinary Shares denominated in RMB	1,871,038,200	23.67	18,939,720	-	-	67,424,800	86,364,520	1,957,402,720	24.74
2. Overseas-listed foreign shares	5,965,393,555	75.47	-	-	-	(10,131,579)	(10,131,579)	5,955,261,976	75.26
III. Total Ordinary Shares	7,903,856,555	100.00	18,939,720	-	-	(10,131,579)	8,808,141	7,912,664,696	100.00

Note: This table does not include the impact of refinancing business on share changes.

2. Description of changes in Shares

- The change of the Company's A-share capital is due to the listing and floating of 67,424,800 shares with sales limit in strategic allotment of initial public offering on July 18, 2022, and the listing and floating of 18,939,720 Restricted Shares vested during the first vesting period of the first grant of the 2021 STAR Market Restricted Share Incentive Scheme of the Company on September 6, 2022. For details, please see the Announcement on the Listing and Floating of Strategic Placement Restricted Shares of SMIC's Initial Public Offering (No. 2022-019) on July 9, 2022, and the Announcement on the Vesting Results of the First Vesting Period of the First Grant of the 2021 STAR Market Restricted Share Incentive Scheme and the Listing of Shares (2022-026) on September 3, 2022 on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn/>).
- This year, the Company repurchased certain shares from the Hong Kong Stock Exchange, and the shares which have been cancelled by the Company during the year are as follows:

Date	Number of shares repurchased (Shares)	Price per share		Total price paid (HK\$'000)
		Highest (HK\$)	Lowest (HK\$)	
5/19/2022 ⁽ⁱ⁾	4,215,000	15.88	15.66	66,566
5/24/2022 ⁽ⁱ⁾	4,110,500	16.68	16.38	68,016
9/6/2022 ⁽ⁱⁱ⁾	5,079,000	15.52	15.14	78,012
9/7/2022 ⁽ⁱⁱ⁾	933,500	15.68	15.66	14,636
9/15/2022 ⁽ⁱⁱ⁾	3,301,500	16.28	15.90	53,220
9/16/2022 ⁽ⁱⁱ⁾	1,200,000	16.38	16.08	19,569
Total	18,839,500			300,019

Notes:

- These repurchases were conducted pursuant to the mandate from shareholders obtained at the annual general meeting held on June 25, 2021.
- These repurchases were conducted pursuant to the mandate from shareholders obtained at the annual general meeting held on June 24, 2022.

The repurchase of the Company's Hong Kong shares during the year was effected with a view to benefiting shareholders by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries repurchased, redeemed or sold any of the Company's listed securities during the year.

- During the reporting period, the number of Hong Kong share capital of the Company decreased by 10,131,579 shares due to the mutual offset of the new shares in the stock incentive plan, the conversion of convertible bonds into shares, and the cancellation of shares repurchased.

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 total number of share capital of the Company increased after offsetting by the vesting of STAR Market restricted shares, the new issued shares under the Hong Kong stock incentive plan, the conversion of convertible bonds to shares, and the cancellation of shares repurchased. This 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

Unit: Share

Name of shareholder	Number of shares subject to selling restrictions at the beginning of the year	Number of shares released from selling restrictions for the year	Increase in number of shares subject to selling restrictions for the year	Number of shares subject to selling restrictions at the end of the year	Reason for the selling restrictions	Date of release from selling restrictions
Haitong Innovation Securities Investment Co., Ltd.	33,712,400	33,712,400	-	-	Subject to selling restrictions under the strategic placement	July 18, 2022
China CICC Wealth Management Securities Company Limited	33,712,400	33,712,400	-	-	Subject to selling restrictions under the strategic placement	July 18, 2022
Total	67,424,800	67,424,800	-	-		

II. ISSUE AND LISTING OF SECURITIES

(I) ISSUE OF SECURITIES IN THE YEAR

Unit: Share

Type of shares and derivative securities	Issue date	Issue price	Issue amounts	Listing date	Amounts approved for listing	Ending date for transaction
RMB ordinary shares (A shares)	September 1, 2022	RMB20	18,939,720	September 6, 2022	18,939,720	/

On September 1, 2022, the Company completed the share registration for the first vesting period of the first grant of the 2021 STAR Market Restricted Shares Incentive Scheme, and issued 18,939,720 A-share ordinary shares to awardees, which were listed and circulated on September 6, 2022.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS

(I) TOTAL NUMBER OF SHAREHOLDERS

Total number of shareholders of ordinary shares as at the end of the reporting period ⁽¹⁾	309,568
Total number of shareholders of ordinary shares as at the end of the month preceding the day when the annual report was disclosed ⁽²⁾	305,362
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	-

Notes:

- As at the end of the reporting period, 309,568 registered shareholders consist of 297,284 holding A Shares and 12,284 holding Hong Kong Shares.
- As of February 28, 2023, 305,362 registered shareholders consist of 293,130 holding A Shares and 12,232 holding Hong Kong Shares.

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

(II) SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware that there was any party who, as at December 31, 2022, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and its subsidiaries:

Unit: Share

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⁾	1,116,852,595 ⁽²⁾	15.03%	-	1,189,323,450	15.03%
Datang Holdings (Hongkong) Investment Company Limited	Beneficial owner	Long Position	1,116,852,595 ⁽²⁾	-	14.11%	-	1,116,852,595	14.11%
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 ⁽³⁾	7.80%	-	617,214,804	7.80
Xinxin (Hongkong) Capital Co., Ltd.	Beneficial owner	Long Position	617,214,804 ⁽³⁾	-	7.80%	-	617,214,804	7.80

Notes:

- (1) Based on 7,912,664,696 shares in issue as at December 31, 2022.
- (2) 1,116,852,595 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 1,189,323,450 shares.
- (3) 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.

(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

1. As at the end of the reporting period, the Company had issued 5,955,261,976 shares in Hong Kong, accounting for approximately 75.3% of the total share capital of the Company and 1,957,402,720 shares in SSE STAR Market, accounting for approximately 24.7% of the total share capital of the Company.
2. 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.
3. 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 1,116,852,595 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.

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

4. 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 or moratorium Status of shares	Number	Nature of shareholders
HKSCC NOMINEES LIMITED	(275,986,434)	4,209,031,144	53.19	-	-	Unknown	-	Unknown
Datang Holdings (Hongkong) Investment Company Limited	264,330,000	1,116,852,595	14.11	-	-	Nil	-	Overseas legal person
Xinxin (Hongkong) Capital Co., Ltd.	-	617,214,804	7.80	-	-	Nil	-	Overseas legal person
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	-	127,458,120	1.61	-	-	Nil	-	Others
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)	75,263,148	107,589,687	1.36	-	-	Nil	-	Others
China Information and Communication Technology Group Co., Ltd.	-	72,470,855	0.92	-	-	Nil	-	State-owned legal person
China Construction Bank Corporation – ChinaAMC CNI Semiconductor Wafer Exchange Traded Funds* (華夏國證半導體芯片交易型開放式指數證券投資基金)	Unknown	39,669,162	0.50	-	-	Nil	-	Others
Guoxin Investment Corporation Limited	(382,120)	36,034,485	0.46	-	-	Nil	-	State-owned legal person
Industrial and Commercial Bank of China Limited – E Fund SSE STAR 50 Exchange Traded Funds* (易方達上證科創板50成份交易型開放式指數證券投資基金)	16,385,958	34,745,131	0.44	-	-	Nil	-	Others
China Merchants Bank Co., Ltd. – Galaxy Innovation Growth Mixed Securities Investment Fund* (銀河創新成長混合型證券投資基金)	6,700,000	33,700,000	0.43	-	-	Nil	-	Others

Particulars of shareholding of the top 10 shareholders not subject to selling restriction				
Name of shareholder	Number of tradable shares held without selling restrictions		Type and number of shares	
	Type	Number	Type	Number
HKSCC NOMINEES LIMITED	4,209,031,144		Overseas listed foreign shares	4,209,031,144
Datang Holdings (Hongkong) Investment Company Limited	1,116,852,595		Overseas listed foreign shares	1,116,852,595
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
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)	107,589,687		Ordinary shares denominated in RMB	107,589,687
China Information and Communication Technology Group Co., Ltd.	72,470,855		Ordinary shares denominated in RMB	72,470,855
China Construction Bank Corporation – ChinaAMC CNI Semiconductor Wafer Exchange Traded Funds* (華夏國證半導體芯片交易型開放式指數證券投資基金)	39,669,162		Ordinary shares denominated in RMB	39,669,162
Guoxin Investment Corporation Limited	36,034,485		Ordinary shares denominated in RMB	36,034,485
Industrial and Commercial Bank of China Limited – E Fund SSE STAR 50 Exchange Traded Funds* (易方達上證科創板50成份交易型開放式指數證券投資基金)	34,745,131		Ordinary shares denominated in RMB	34,745,131
China Merchants Bank Co., Ltd. – Galaxy Innovation Growth Mixed Securities Investment Fund* (銀河創新成長混合型證券投資基金)	33,700,000		Ordinary shares denominated in RMB	33,700,000
Explanations on affiliated relationship or parties acting in concert among the above mentioned 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), Yang Lumin (楊魯閩), Tang Xuefeng (唐雪峰), Yan Jianqiu (嚴劍秋) and Wang Wenli (王文莉), directors of China IC Fund, also serve as the directors of China IC Fund II; supervisors Lin Guifeng (林桂鳳) and Song Ying (宋穎) 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. <p>Apart from this, the Company does not know whether the other shareholders mentioned above have affiliated relationship or parties acting in concert.</p>			

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

(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
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	(33,712,400)	-
China CICC Wealth Management Securities Company Limited	Wholly-owned subsidiary	33,712,400	July 16, 2022	(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 company	Date of establishment	Organization code	Registered capital	Principal activities or management activities
China Information and Communication Technology Group Co., Ltd.	Lu Guoqing	August 15, 2018	91420100MA4LOGG411	RMB\$30,000,000,000	Investment and asset management
Datang Holdings (Hongkong) Investment Company Limited	Xiao Bo	December 3, 2008	Not applicable	HK\$1,000	Investment holding

Note: For details of shareholding, please refer to "III. (II) Substantial shareholders" in this section.

VI. SPECIFIC IMPLEMENTATION OF SHARE REPURCHASE IN THE REPORTING PERIOD

Name of share repurchase scheme	Not Applicable
Disclosure time of share repurchase plan	Not Applicable
Number of shares to be repurchased and its proportion in total share capital (%)	Not Applicable
Proposed repurchase amount	Not Applicable
Proposed repurchase period	Not Applicable
Repurchase purpose	De-registration after Share Buy-back
Repurchased quantity (Hong Kong shares)	18,839,500
The proportion of repurchased shares in the underlying shares involved in the equity incentive plan (%) (if any)	Not Applicable
Progress of the Company's reduction of its repurchased shares through centralized bidding	Not Applicable

Note: This year, the Company repurchased certain shares from the Hong Kong Stock Exchange, and the shares which have been cancelled by the Company during the year, please refer to "I. (I) 2. Description of changes in Shares" in this section.

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	RMBO	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 KY1-1111, 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 medium-term notes of SMIC MTN001	RMB1,500,000,000	RMB1,500,000,000	-	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 December 31,

	2022	2021	2022 as compared with 2021 (%)	Explanations
Current ratio (times) ⁽¹⁾	2.4	3.4	(29.4)	Primarily due to the increase in contract liabilities and the received deposits.
Quick ratio (times) ⁽²⁾	2.1	3.1	(32.3)	Primarily due to the increase in contract liabilities and the received deposits.
Asset-liability ratio (%) ⁽³⁾	33.9	29.6	Increased by 4.3 percentage points	No significant change

As of December 31,

	2022	2021	2022 as compared with 2021 (%)	Explanations
Profit for the year attributable to owners of the Company, net of non-recurring profit or loss (in USD'000)	1,469,816	825,285	78.1	Primarily due to the increase in wafer shipments, higher average selling price and product-mix change in the year.
Total debt to EBITDA ratio (%) ⁽⁴⁾	53.0	56.4	Decreased by 3.4 percentage points	No significant change
Interest coverage ratio (times) ⁽⁵⁾	18.6	17.7	5.1	Primarily due to the increase in wafer shipments, higher average selling price and product-mix change in the year.
Cash interest coverage ratio (times) ⁽⁶⁾	33.6	22.0	53.2	Primarily due to the increase in net cash generated from operating activities.
EBITDA interest coverage ratio (times) ⁽⁷⁾	36.7	34.7	5.8	Primarily due to the increase in wafer shipments, higher average selling price and product-mix change in the year.
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 ×100%
- (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 105 to 168, which comprise the consolidated statement of financial position as at December 31, 2022, 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, 2022, 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 a 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.

Relevant disclosures are included in Note 4, Note 5 and Note 20 to the consolidated financial statements.

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 value of the investments 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 28, 2023

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2022

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

	Notes	2022	2021
Revenue	6	7,273,284	5,443,112
Cost of sales		(4,511,636)	(3,767,342)
Gross profit		2,761,648	1,675,770
Research and development expenses		(733,096)	(638,842)
Sales and marketing expenses		(33,834)	(27,642)
General and administration expenses		(493,730)	(275,703)
Impairment losses on financial assets, net	38	(605)	997
Other operating income	7	335,296	657,982
Profit from operations		1,835,679	1,392,562
Interest income		349,135	223,035
Finance costs	8	(125,582)	(110,143)
Foreign exchange gain		6,586	1,407
Other gains, net	9	26,763	80,785
Share of profits and losses of joint venture and associates		121,524	252,678
Profit before tax		2,214,105	1,840,324
Income tax expense	10	(16,023)	(65,166)
Profit for the year	11	2,198,082	1,775,158
Other comprehensive income			
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translating foreign operations		(149,125)	36,789
Cash flow hedges	28	94,916	11,226
Total comprehensive income for the year		2,143,873	1,823,173
Profit for the year attributable to:			
Owners of the Company		1,817,942	1,701,803
Non-controlling interests		380,140	73,355
		2,198,082	1,775,158
Total comprehensive income for the year attributable to:			
Owners of the Company		1,763,975	1,749,818
Non-controlling interests		379,898	73,355
		2,143,873	1,823,173
Earnings per share			
Basic	14	\$0.23	\$0.22
Diluted	14	\$0.23	\$0.21

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2022

(In USD'000)

	Notes	2022	2021
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	16	18,855,532	14,260,783
Right-of-use assets	17	529,795	553,729
Intangible assets	18	45,331	67,616
Investments in associates	20	1,912,042	1,859,151
Investment in joint venture	20	9,051	17,639
Deferred tax assets	10	14,244	14,624
Financial assets at fair value through profit or loss	21	208,307	223,024
Financial assets at amortised cost	21	5,553,445	3,725,962
Derivative financial instruments	21	32,958	51,073
Restricted cash	23	–	117,787
Other assets		52,877	1,688
Total non-current assets		27,213,582	20,893,076
<i>Current assets</i>			
Inventories	24	1,911,487	1,193,811
Prepayment and prepaid operating expenses		103,368	43,368
Trade and other receivables	25	1,302,642	1,215,473
Financial assets at fair value through profit or loss	21	375,776	78,184
Financial assets at amortised cost	21	5,122,706	3,838,129
Derivative financial instruments	21	146,669	31,371
Restricted cash	23	676,937	214,191
Cash and cash equivalents	21	6,932,587	8,581,746
		16,572,172	15,196,273
Assets classified as held-for-sale	26	22,030	21,592
Total current assets		16,594,202	15,217,865
Total assets		43,807,784	36,110,941

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2022

(In USD'000)

	Notes	2022	2021
Equity and liabilities			
<i>Capital and reserves</i>			
Ordinary shares	27	31,651	31,615
Share premium	27	13,963,465	13,836,614
Reserves	28	377,059	321,576
Retained earnings	29	4,777,801	2,959,859
Equity attributable to owners of the Company		19,149,976	17,149,664
Non-controlling interests		9,811,445	8,288,479
Total equity		28,961,421	25,438,143
<i>Non-current liabilities</i>			
Borrowings	30	6,718,304	4,937,671
Lease liabilities	17	57,682	109,461
Bonds payable	32	598,379	597,663
Deferred tax liabilities	10	34,980	32,188
Deferred government funding	34	396,803	538,992
Derivative financial instruments	21	15,286	3,203
Total non-current liabilities		7,821,434	6,219,178
<i>Current liabilities</i>			
Trade and other payables	35	3,217,001	1,830,415
Contract liabilities	6	1,977,058	1,022,660
Borrowings	30	1,268,218	789,316
Lease liabilities	17	51,849	100,763
Convertible bonds	31	–	1,978
Medium-term notes	33	–	235,515
Deferred government funding	34	153,812	203,368
Accrued liabilities	36	309,183	234,107
Derivative financial instruments	21	45,217	8,848
Current tax liabilities		2,591	26,650
Total current liabilities		7,024,929	4,453,620
Total liabilities		14,846,363	10,672,798
Total equity and liabilities		43,807,784	36,110,941

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

(In USD'000)

	Ordinary shares (Note 27)	Share premium (Note 27)	Equity-settle employee benefit reserve (Note 28)	Foreign currency translation reserve (Note 28)
As at January 1, 2021	30,814	13,512,397	52,475	9,769
Profit for the year	–	–	–	–
Other comprehensive income for the year	–	–	–	36,789
Total comprehensive income for the year	–	–	–	36,789
Issue of shares under stock incentive plans	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	–
As at December 31, 2021	31,615	13,836,614	112,426	46,558
Profit for the year	–	–	–	–
Other comprehensive income for the year	–	–	–	(148,883)
Total comprehensive income for the year	–	–	–	(148,883)
Issue of shares under stock incentive plans	104	162,765	(104,753)	–
Share-based compensation	–	–	135,081	–
Shares repurchased	(75)	(38,239)	–	–
Conversion options of convertible bonds exercised during the year	7	2,325	–	–
Share of other capital reserve of associates accounted for using equity method	–	–	–	–
Capital injection from non-controlling interests	–	–	–	–
Dilution of interests in subsidiaries	–	–	–	–
Subtotal	36	126,851	30,328	–
As at December 31, 2022	31,651	13,963,465	142,754 ⁽¹⁾	(102,325) ⁽¹⁾

⁽¹⁾ These reserve accounts comprise the reserves of US\$377,059 thousand (December 31, 2021: US\$321,576 thousand) in the consolidated statement of financial position.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

(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	Non-controlling interests	Total equity
1,964	(11,363)	21,094	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	17	162,234	2,959,859	17,149,664	–	8,288,479	25,438,143
–	–	–	1,817,942	1,817,942	–	380,140	2,198,082
–	94,916	–	–	(53,967)	–	(242)	(54,209)
–	94,916	–	1,817,942	1,763,975	–	379,898	2,143,873
–	–	–	–	58,116	–	–	58,116
–	–	–	–	135,081	–	18,004	153,085
–	–	–	–	(38,314)	–	–	(38,314)
(341)	–	–	–	1,991	–	–	1,991
–	–	4,341	–	4,341	–	–	4,341
–	–	–	–	–	–	1,200,186	1,200,186
–	–	75,122	–	75,122	–	(75,122)	–
(341)	–	79,463	–	236,337	–	1,143,068	1,379,405
– ⁽¹⁾	94,933 ⁽¹⁾	241,697 ⁽¹⁾	4,777,801	19,149,976	–	9,811,445	28,961,421

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

(In USD'000)

	Notes	2022	2021
Operating activities			
Profit for the year		2,198,082	1,775,158
Adjustments for:			
Income tax expense	10	16,023	65,166
Depreciation and amortisation	11	2,271,361	1,869,302
Equity-settled share-based payments expense	11	153,085	78,360
Interest income		(349,135)	(223,035)
Finance costs	8	125,582	110,143
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	7	(46,792)	(48,281)
Gain on disposal of a subsidiary	7	–	(231,382)
Gain on partial disposal of an associate		(5,299)	–
Recognition/(reversal) of impairment losses	11	64,692	(61,232)
Net gain arising on financial instruments at fair value through profit or loss	9	(12,257)	(80,155)
Net gain on foreign exchange		166,935	(103,749)
Share of profits and losses of joint venture and associates		(121,524)	(252,678)
Other non-cash expense		(65)	8,000
		4,460,688	2,905,617
Adjustments for the movements in working capital:			
Increase in trade and other receivables		(11,510)	(257,015)
Increase in inventories		(781,763)	(359,649)
Decrease in restricted cash relating to operating activities		162,766	66,994
(Increase)/decrease in other operating assets		(111,187)	628
Increase in trade and other payables		792,311	79,211
Increase in contract liabilities		954,398	841,235
Decrease in deferred government funding		(191,745)	(241,518)
Increase/(decrease) in other operating liabilities		80,306	(15,979)
Cash generated from operations		5,354,264	3,019,524
Interest paid		(165,205)	(146,602)
Interest received		212,428	209,848
Income taxes paid		(53,571)	(70,875)
Net cash generated from operating activities		5,347,916	3,011,895

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

(In USD'000)

Notes	2022	2021
Investing activities		
Payments to acquire financial assets at fair value through profit or loss	(703,083)	(207,679)
Proceeds from sale of financial assets at fair value through profit or loss	382,762	249,921
Payments to acquire financial assets at amortised cost	(19,193,398)	(8,613,200)
Proceeds from maturity of financial assets at amortised cost	15,174,163	5,791,955
Payments for property, plant and equipment	(6,172,106)	(4,120,275)
Proceeds from disposal of property, plant and equipment and assets classified as held-for-sale	64,815	231,660
Payments for intangible assets	(9,500)	(9,195)
Payments for land-use right	(78,940)	(210,935)
Proceeds from disposal of land-use right	6,325	11,650
Proceeds from disposal of a subsidiary	–	340,222
Capital injection in associates	(100,697)	(185,297)
Proceeds from disposal of joint venture and associates	53,378	61,246
Distributions received from associates	8,243	2,072
Proceeds from release of restricted cash relating to investing activities	33,300	134,920
Proceeds from/(payments for) settlement of derivative financial instruments	143,233	(132,500)
Net cash used in investing activities	(10,391,505)	(6,655,435)
Financing activities		
Proceeds from borrowings	3,763,758	1,874,283
Repayment of borrowings	(1,073,253)	(1,489,505)
Principal elements of lease payments	(96,759)	(101,022)
Repayment of medium-term notes	(238,042)	–
Proceeds from exercise of employee stock options	58,116	5,755
Payment for shares repurchased	(38,314)	–
Capital injection from non-controlling interests	1,200,186	1,972,160
Proceeds from release of restricted cash relating to financing activities	–	53,000
Payments for deposit relating to financing activities	(19,936)	–
Proceeds from settlement of derivative financial instruments	58,534	42,654
Net cash generated from financing activities	3,614,290	2,357,325
Net decrease in cash and cash equivalents	(1,429,299)	(1,286,215)
Cash and cash equivalents at the beginning of the year	8,581,746	9,826,537
Effects of exchange rate changes on the balance of cash held in foreign currencies	(219,860)	41,424
Cash and cash equivalents at the end of the year	6,932,587	8,581,746

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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 mainboard of 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 certain 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, 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 IFRS 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 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued) IFRSS MANDATORILY EFFECTIVE FOR THE YEAR (continued)

Amendments to IFRS 3 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* (the "Conceptual Framework") 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 has applied the amendments prospectively to business combinations that occurred on or after January 1, 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

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 as determined by IAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after January 1, 2022. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at January 1, 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Annual Improvements to IFRSs 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are 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. The Group has applied the amendment prospectively from January 1, 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁽³⁾
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ⁽²⁾
IFRS 17	<i>Insurance Contracts</i> ⁽¹⁾
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{(1), (5)}
Amendments to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i> ⁽⁶⁾
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i> ^{(2), (4)}
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i> ⁽²⁾
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ⁽¹⁾
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ⁽¹⁾
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ⁽¹⁾

⁽¹⁾ Effective for annual periods beginning on or after January 1, 2023

⁽²⁾ Effective for annual periods beginning on or after January 1, 2024

⁽³⁾ No mandatory effective date yet determined but available for adoption

⁽⁴⁾ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after January 1, 2024.

⁽⁵⁾ 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

⁽⁶⁾ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

Further information about those IFRSs that are expected to be applicable to the Group is described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued) IFRSS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) 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 (2011) 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 IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after January 1, 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., January 1, 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, 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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

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 in IAS 12 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 (provided that sufficient taxable profit is available) 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 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, 2022

4. SIGNIFICANT ACCOUNTING POLICIES

INVESTMENT IN SUBSIDIARIES

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 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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, 2022

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, 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES

These consolidated financial statements are presented in United States dollars ("USD"), which is the Company's functional currency and the Group's presentation currency.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions

The functional currencies of certain subsidiaries, joint ventures and associates are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the average exchange rates that for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates that approximate to those prevailing at the dates of the transactions are used.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

On disposal of 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 is recognised at their fair value where there is reasonable assurance that the funding will be received and all attaching conditions will be complied with. When the funding relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the funding relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

OTHER EMPLOYEE BENEFITS

Retirement benefits

The Group's 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 14.0% to 16.0% 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 share option schemes 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 in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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.

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.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

INCOME TAX

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 provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to 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, 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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.

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 ¹ / ₃ %

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.

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 (OTHER THAN GOODWILL)

The Group's intangible assets consist primarily of technology, licenses and patents, which are acquired separately and measured on initial recognition at cost. Intangible assets are subsequently amortised over the useful economic life of 3 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit 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.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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	5 to 6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

RESTRICTED CASH

Restricted cash consists of bank deposits pledged against letters of credit, letters of guarantee, borrowings, etc. In the consolidated statement of cash flows, change of restricted cash to be only paid for property, plant and equipment is presented as an investing activity. Change of restricted cash pledged against borrowings is presented as a financing activity. Change of restricted cash pledged against letter of credit is presented as an operating activity.

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. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held-for-sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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, 2022

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 of financial assets

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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days 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, 2022

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)* 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 38, respectively.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at 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.

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.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is must be accounted for as described above.

REPURCHASE OF SHARES

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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.

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 37 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 39 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

6. SEGMENT INFORMATION AND REVENUE

DESCRIPTION OF SEGMENTS

For management purposes, the Group operates in one segment, engaging principally in the 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	
	2022 USD'000	2021 USD'000
Geographical market⁽¹⁾		
China	5,400,629	3,802,742
America	1,510,291	1,215,545
Eurasia	362,364	424,825
	7,273,284	5,443,112
Types of goods or services		
Sale of wafers	6,735,640	4,982,237
Mask making, testing and others	537,644	460,875
	7,273,284	5,443,112
Timing of revenue recognition		
Goods transferred at a point in time	7,153,875	5,342,872
Services transferred over time	119,409	100,240
	7,273,284	5,443,112

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

LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognised the liabilities related to contracts with customers as contract liabilities of US\$1,977.1 million as of December 31, 2022 (December 31, 2021: US\$1,022.7 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 as at the beginning of the year was US\$1,022.7million (2021: US\$181.4 million). Amount of US\$1,977.1 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 revenue:

	2022	2021
Customer A	857,143	615,446
	11.8%	11.3%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

7. OTHER OPERATING INCOME

	2022 USD'000	2021 USD'000
Gain on disposal of property, plant and equipment and assets classified as held-for-sale	46,792	48,281
Government funding	288,504	378,319
Gain on disposal of a subsidiary	–	231,382
	335,296	657,982

8. FINANCE COSTS

	2022 USD'000	2021 USD'000
Interest on:		
Bank and other borrowings	102,078	75,747
Leases (Note 17)	5,154	8,829
Convertible bonds (Note 31)	13	52
Corporate bonds (Note 32)	16,873	16,854
Medium-term notes (Note 33)	1,464	8,661
	125,582	110,143

9. OTHER GAINS, NET

	2022 USD'000	2021 USD'000
Net gain arising on financial instruments at fair value through profit or loss:		
Cross currency swap contracts	–	11,356
Foreign currency forward contracts	–	108
Structural deposits and monetary funds	11,415	766
Equity securities	842	67,925
	12,257	80,155
Others	14,506	630
	26,763	80,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

10. INCOME TAXES INCOME TAX EXPENSE

	2022 USD'000	2021 USD'000
Current tax — Land Appreciation Tax	25	4,320
Current tax — Enterprise Income Tax	10,495	18,642
Deferred tax	5,503	42,204
	16,023	65,166

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2022 USD'000	2021 USD'000
Profit before tax	2,214,105	1,840,324
Income tax expense calculated at 25%	553,526	460,081
Effect of different tax rate in other jurisdictions	112,044	(6,598)
Adjustments in respect of current tax of previous periods	–	(39,367)
Share of profits and losses of joint venture and associates	(30,381)	(63,170)
Expenses not deductible for tax	1,814	4,496
Effect on opening deferred tax due to tax rate change	–	(11,102)
Effect of tax holiday and tax concession	(475,910)	(240,041)
Additional deduction	(244,244)	(98,988)
Temporary differences and tax losses not recognised	99,149	55,535
Land appreciation tax	25	4,320
	16,023	65,166

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 Chinese Mainland. 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\$5,033.3 million (2021: US\$2,943.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

10. INCOME TAXES (continued) DEFERRED TAX BALANCES

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets	Property, plant and equipment USD'000	Accruals USD'000	Intangible assets USD'000	Impairment USD'000	Loss available for offsetting against future taxable profits USD'000	Total USD'000
As at January 1, 2021	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)
As at December 31, 2021	23,108	2,521	1,219	352	–	27,200
Recognise in profit or loss	(689)	1,837	(156)	926	16,225	18,143
As at December 31, 2022	22,419	4,358	1,063	1,278	16,225	45,343

Deferred tax liabilities	Financial asset at fair value through profit or loss USD'000	Property, plant and equipment USD'000	Total USD'000
As at January 1, 2021	–	32,922	32,922
Recognise in profit or loss	31,928	(20,346)	11,582
Exchange differences	260	–	260
As at December 31, 2021	32,188	12,576	44,764
Recognise in profit or loss	(2,095)	25,741	23,646
Exchange differences	(2,331)	–	(2,331)
As at December 31, 2022	27,762	38,317	66,079

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:

	2022 USD'000	2021 USD'000
Net deferred tax assets	14,244	14,624
Net deferred tax liabilities	34,980	32,188

Deferred tax assets have not been recognised in respect of the following items:

	2022 USD'000	2021 USD'000
Tax Losses	2,711,835	910,409
Deductible temporary differences	1,022,280	2,560,863
	3,734,115	3,471,272

At the end of the reporting period, no deferred tax asset was recognised in respect of tax losses of US\$2,711.8 million (December 31, 2021: US\$910.4 million) due to the unpredictability of future profit streams, of which US\$181.3 million, US\$104.7 million, US\$172.1 million, US\$420.3 million and US\$1,833.4 million will expire in 2023, 2024, 2025, 2026 and 2027, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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 2022, 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 utilizing all prior years' tax losses. Meanwhile, SMIT has obtained the certificate of high-tech enterprise issued on November 15, 2022. In 2022, 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 utilizing 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 2022 and would submit the required documents in accordance with the relevant regulations.

SMNC obtained the certificate of high-tech enterprise issued on December 30, 2022 and is entitled to enjoy the preferential income tax rate of 15% from 2022 to 2024. In 2022, 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 2022, the income tax rate for SMIZ was 15%.

SMSC obtained the certificate of high-tech enterprise issued on December 14, 2022 and is entitled to enjoy the preferential income tax rate of 15% from 2022 to 2024. In 2022, the income tax rate for SMSC 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):

	2022 USD'000	2021 USD'000
Cost of sales		
Cost of wafers sold	4,241,209	3,512,543
Cost of others sold	270,427	254,799
Recognition/(reversal) of impairment losses		
Addition/(reversal) in allowance on doubtful trade receivables (Note 38)	809	(481)
Reversal in allowance on doubtful other receivables (Note 38)	(204)	(516)
Impairment losses recognised/(reversed) on inventories	64,087	(60,235)
	64,692	(61,232)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (Note 16)	2,154,126	1,737,457
Depreciation of right-of-use assets (Note 17)	98,268	106,938
Amortisation of intangible assets (Note 18)	18,967	24,907
	2,271,361	1,869,302
Employee benefits expense		
Wages and salaries	659,776	528,219
State-managed pension ⁽¹⁾	75,851	61,644
Bonus	219,671	122,876
Non-monetary benefits	50,528	32,350
Equity-settled share-based payments expense (Note 37)	153,085	78,360
	1,158,911	823,449
Other expense/(gain)		
Royalties expense	38,548	32,394
Foreign exchange gain	(6,586)	(1,407)
Gain on disposal of a subsidiary (Note 7)	-	(231,382)
Auditors' remuneration		
Audit services	1,510	1,653
Non-audit services	143	6
	1,653	1,659

⁽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 pensions to the retired employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

12. DIRECTORS' EMOLUMENTS

	2022 USD'000	2021 USD'000
Salaries, fees, bonus and benefits	5,005	4,514
State-managed pension	22	23
Equity-settled share-based payments expense	3,704	5,079
	8,731	9,616

The Group has no contributions to pension schemes for directors or past directors, except for the state-managed pension for the executive directors.

DIRECTORS' REMUNERATION

2022	Salaries, fees, bonus and benefits USD'000	State-managed pension USD'000	Total remuneration USD'000
Executive directors:			
Gao Yonggang	1,538	10	1,548
Zhou Zixue ⁽¹⁾	63	2	65
	1,601	12	1,613
Non-executive directors:			
Lu Guoqing	-	-	-
Chen Shanzhi	-	-	-
Yang Lumin	-	-	-
Huang Dengshan	-	-	-
Ren Kai ⁽²⁾	-	-	-
	-	-	-
Independent non-executive directors:			
Lau Lawrence Juen-Yee	83	-	83
Fan Ren Da Anthony	88	-	88
Liu Ming	72	-	72
Wu Hanming	27	-	27
William Tudor Brown ⁽³⁾	55	-	55
	325	-	325
Co-CEOs:			
Zhao Haijun ⁽⁴⁾	1,539	10	1,549
Liang Mong Song	1,540	-	1,540
	3,079	10	3,089
	5,005	22	5,027

⁽¹⁾ On March 17, 2022, Zhou Zixue resigned as an executive director of the Company.

⁽²⁾ On November 10, 2022, Ren Kai resigned as a non-executive director of the Company.

⁽³⁾ On August 11, 2022, William Tudor Brown resigned as an independent non-executive director of the Company.

⁽⁴⁾ On August 11, 2022, Zhao Haijun resigned as an executive director and will continue to serve as the co-chief executive officer of the Company after the aforementioned resignation.

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, 2022

12. DIRECTORS' EMOLUMENTS (continued) EQUITY-SETTLED SHARE-BASED PAYMENTS EXPENSE

The equity-settled share-based payments granted to directors include stock options, restricted share units ("RSUs") and restricted shares.

The directors during the year held stock options and RSUs. The related expense for the year ended December 31, 2022 was as follows:

	2022 USD'000
Gao Yonggang	483
Lu Guoqing	78
Lau Lawrence Juen-Yee	280
Fan Ren Da Anthony	280
Liu Ming	287
Wu Hanming	144
Zhao Haijun	420
Liang Mong Song	330
Zhou Zixue (resigned)	1,201
William Tudor Brown (resigned)	201
	3,704

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included three (2021: four) directors, details of whose emoluments are set out in Note 12 above. Details of the emoluments of the remaining two (2021: one) non-directors, highest paid individual for the year are as follows:

	2022 USD'000
Salaries and benefits	636
Bonus	617
State-managed pension	18
Equity-settled share-based payments expense	1,371
	2,642

The bonus is determined on the basis of the basic salary and the performance of the Group and the individual.

In 2022, 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 (2021: nil).

The emoluments of the non-director and highest paid individual fell within the following bands is as below:

	2022
Approximately US\$1,259,001 to US\$1,325,000	1
Approximately US\$1,325,001 to US\$1,391,000	1
	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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)	
	2022	2021
Profit for the year attributable to owners of the Company	1,817,942	1,701,803
Interest on perpetual subordinated convertible securities holders	–	(82)
Earnings used in the calculation of basic earnings per share	1,817,942	1,701,721
Weighted average number of ordinary shares for the purposes of basic earnings per share	7,907,846,013	7,897,672,423
Basic earnings per share	\$0.23	\$0.22

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)	
	2022	2021
Earnings used in the calculation of basic earnings per share	1,817,942	1,701,721
Interest on convertible bonds (Note 8)	13	52
Interest on perpetual subordinated convertible securities holders	–	82
Earnings used in the calculation of diluted earnings per share	1,817,955	1,701,855
Weighted average number of ordinary shares used in the calculation of basic earnings per share	7,907,846,013	7,897,672,423
Employee options	8,169,992	14,735,790
Restricted share units	8,762,134	9,551,446
Restricted shares	14,230,435	7,245,193
Convertible bonds	464,739	2,084,474
Perpetual subordinated convertible securities	–	2,509,303
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	7,939,473,313	7,933,798,629
Diluted earnings per share	\$0.23	\$0.21

During the year ended December 31, 2022, the Group had 17,199,117 (2021: 2,742,167) weighted average outstanding employee stock options 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 15,569,224 (2021: 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. No potential shares upon the conversion of convertible bonds (2021: nil).

15. DIVIDEND

The board of director did not recommend the payment of any dividend for the year ended December 31, 2022 (December 31, 2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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					
As at January 1, 2021	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)
As at December 31, 2021	1,414,911	21,607,934	310,197	3,984,189	27,317,231
Additions	–	–	–	6,772,293	6,772,293
Transfers	81,480	3,992,117	97,969	(4,171,566)	–
Disposals	(221)	(152,588)	(2,975)	(2,221)	(158,005)
Reclassified as held-for-sale	(13,119)	–	–	–	(13,119)
As at December 31, 2022	1,483,051	25,447,463	405,191	6,582,695	33,918,400
Accumulated depreciation and impairment					
As at January 1, 2021	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)
As at December 31, 2021	347,458	12,442,533	256,431	10,026	13,056,448
Depreciation	61,007	2,046,926	46,193	–	2,154,126
Disposals	(60)	(134,659)	(2,975)	–	(137,694)
Impairment loss written off	–	(153)	–	(2,221)	(2,374)
Reclassified as held-for-sale	(7,638)	–	–	–	(7,638)
As at December 31, 2022	400,767	14,354,647	299,649	7,805	15,062,868
Net carrying amount					
As at December 31, 2021	1,067,453	9,165,401	53,766	3,974,163	14,260,783
As at December 31, 2022	1,082,284	11,092,816	105,542	6,574,890	18,855,532

CONSTRUCTION IN PROGRESS

Included in construction in progress as of December 31, 2022, US\$2,321.1 million, US\$2,877.8 million, US\$751.6 million and US\$624.4 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.

BUILDINGS WITHOUT CERTIFICATES

As of December 31, 2022, the Group was in the process of applying for the ownership certificates of buildings with a net carrying amount of US\$89.9 million (December 31, 2021: US\$99.2 million).

ASSETS PLEDGED AS SECURITY

As of December 31, 2022, certain of the Group's property, plant and equipment with a carrying amount of approximately US\$198.4 million (December 31, 2021: approximately US\$215.9 million) have been pledged to secure borrowings (Note 30) of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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 3 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:

	Machinery and			Total
	Buildings	equipment	land-use right	
	USD'000	USD'000	USD'000	USD'000
As at January 1, 2021	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)
Reclassified as held-for-sale	–	–	(9)	(9)
Disposal of a subsidiary	(1,373)	–	(9,015)	(10,388)
As at December 31, 2021	1,983	198,024	353,722	553,729
Additions	–	–	78,940	78,940
Depreciation	(353)	(89,737)	(8,178)	(98,268)
Reclassified as held-for-sale	–	–	(48)	(48)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(4,558)	–	(4,558)
As at December 31, 2022	1,630	103,729	424,436	529,795

Land-use right pledged as security

As of December 31, 2022, certain land-use right with a carrying amount of approximately US\$33.4 million (December 31, 2021: US\$34.2 million) have been pledged to secure borrowings (Note 30) of the Group.

Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022	2021
	USD'000	USD'000
As at January 1,	210,224	245,270
New leases	–	67,435
Interest charged	5,154	8,829
Repayment	(101,913)	(109,851)
Disposal of a subsidiary	–	(1,575)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(4,558)	–
Foreign exchange loss	624	116
As at December 31,	109,531	210,224
Current portion	51,849	100,763
Non-current portion	57,682	109,461
	109,531	210,224

The maturity analysis of lease liabilities is disclosed in Note 38 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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:

	2022 USD'000	2021 USD'000
Interest expense	5,154	8,829
Depreciation of right-of-use assets	98,268	106,938
Gains arising from sublease of right-of-use assets	–	(117)
Gains arising from sale and leaseback transaction	–	(2,576)
Expense relating to short-term and low value leases	5,881	9,564

Cash outflow in relation to leases

The total cash outflow for leases is disclosed in Note 40 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\$25.0 million (2021: US\$20.0 million).

As of December 31, 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2022 USD'000	2021 USD'000
Within 1 year	5,873	8,695
1-2 years	3,448	5,543
Over 2 years	4,163	7,210
	13,484	21,448

18. INTANGIBLE ASSETS

	Patents and license USD'000
Cost	
As at January 1, 2021	460,633
Additions	10,570
As at December 31, 2021	471,203
Additions	941
Disposals	(4,259)
As at December 31, 2022	467,885
Accumulated amortisation and impairment	
As at January 1, 2021	378,680
Amortisation	24,907
As at December 31, 2021	403,587
Amortisation	18,967
As at December 31, 2022	422,554
Net carrying amount	
As at December 31, 2021	67,616
As at December 31, 2022	45,331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

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") [#]	PRC	Limited corporation	USD1,790,000,000	Indirectly	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Beijing) Corporation ("SMB") [#]	PRC	Limited corporation	USD1,000,000,000	Indirectly	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT") [#]	PRC	Limited corporation	USD870,000,000	Indirectly	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIZ") [#]	PRC	Limited corporation	USD2,144,742,056	Indirectly	59.80%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") [#]	PRC	Limited corporation	USD4,800,000,000	Indirectly	51%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing South China Corporation ("SMSC") [#]	PRC	Limited corporation	USD6,500,000,000	Indirectly	38.52%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing Beijing Corporation (SMBC) [#]	PRC	Limited corporation	USD3,200,000,000	Indirectly	51.00%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing Oriental Corporation (SMOC) [#]	PRC	Limited corporation	USD3,733,012,107	Indirectly	70.35%	Manufacturing 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
Semiconductor Manufacturing Tianjin-Xiqing Corporation ("SMTC") ^{#(1)}	PRC	Limited corporation	USD100,000,000	Indirectly	100%	Manufacturing and trading of semiconductor products
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 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	RMB3,458,000,000	Indirectly	100%	Investment holding
China IC Capital (Ningbo) Co., Ltd [#]	PRC	Limited corporation	RMB2,568,000,000	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

[#] For identification purposes only.

- (1) On August 26, 2022, the Company, through SMIC Holdings, Tianjin Xiqing Economic Development Group Co., Ltd and Tianjin Xiqing Economic and Technology Development Area Management Committee entered into a "SMIC Tianjin 12-inch wafer production line cooperation framework agreement" to jointly establish SMTC. The registered capital of the SMTC is US\$5.0 billion, of which SMIC Holdings agreed to contribute US\$5.0 billion, with a shareholding of 100%. As of December 31, 2022, SMIC Holdings has invested a total of US\$100.0 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

19. SUBSIDIARIES (continued)

MATERIAL NON-CONTROLLING INTERESTS ("NCI")

The non-wholly owned subsidiaries of the Company that have material non-controlling interests are SMNC and SMBC. The combined summary of financial information is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2022 USD'000	2021 USD'000
Current assets	3,429,011	3,853,830
Non-current assets	6,390,865	4,550,108
Current liabilities	(1,252,730)	(1,085,523)
Non-current liabilities	(124,600)	(187,588)
Net assets	8,442,546	7,130,827
Equity attributable to owners of the Company	4,305,698	3,761,399
Non-controlling interests	4,136,848	3,369,428
Net assets	8,442,546	7,130,827
	2022 USD'000	2021 USD'000
Revenue	1,884,773	1,513,276
Expense	(1,509,514)	(1,222,556)
Other income	(24,196)	19,148
Profit for the year	351,063	309,868
Profit attributable to owners of the Company	178,616	158,066
Profit attributable to the non-controlling interests	172,447	151,802
Profit for the year	351,063	309,868
Total comprehensive income attributable to owners of the Company	186,551	96,806
Total comprehensive income attributable to the non-controlling interests	180,068	92,945
Total comprehensive income for the year	366,619	189,751
Dividends paid to non-controlling interests	-	-
Net cash inflow from operating activities	860,527	527,947
Net cash outflow from investing activities	(1,580,481)	(2,070,830)
Net cash inflow from financing activities	854,529	812,403
Net cash inflow/(outflow)	134,575	(730,480)

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

The details of the Group's material associates, 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	
			2022	2021
JCET Group Co., Ltd. ("JCET")	Jiangsu, PRC	Ordinary	12.86%	12.86%
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%

Among the above enterprises, NSI is a non-listed company. JCET and SMEC are listed on the Shanghai Stock Exchange. Sino IC Leasing issued bonds on the Shanghai Stock Exchange.

In accordance with the Articles of Association of the investees, 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, 2022

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:

	2022 USD'000	2021 USD'000
Current assets	4,894,514	5,070,604
Non-current assets	14,186,058	13,573,624
Current liabilities	(3,662,163)	(3,103,832)
Non-current liabilities	(7,968,287)	(8,319,727)
Net assets	7,450,122	7,220,669
Less: non-controlling interests	(607,358)	(129,625)
Equity attributable to owners of the associates	6,842,764	7,091,044
Share of equity of associates	817,025	863,157
Goodwill	308,218	308,218
Less: unrealised profit	(23,831)	(29,164)
Carrying amount of the Group's interest	1,101,412	1,142,211
	2022 USD'000	2021 USD'000
Total revenue	6,191,716	5,520,318
Profit attributable to owners	199,935	319,690
Total comprehensive income attributable to owners	(214,971)	487,869
Dividends received from the associates	7,708	1,770

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	Proportion of ownership interest and voting power held by the Group	
			2022	2021
Shanghai Xinxin Investment Centre (Limited Partnership)	Shanghai, PRC	Limited partner interest	49.00%	49.00%

The following table illustrates the financial information of the Group's remaining associates and joint venture:

	Investments in associates		Investment in joint venture	
	2022 USD'000	2021 USD'000	2022 USD'000	2021 USD'000
Share of profit for the year	96,442	212,051	(2,364)	(13,028)
Share of total comprehensive income for the year	30,298	223,644	(3,232)	(12,304)
Aggregate carrying amount of the Group's investments	810,630	716,940	9,051	17,639

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, 2022, the carrying amount of those investment funds was US\$745.3 million (December 31, 2021: US\$671.8 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.

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For the year ended December 31, 2022

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

Financial assets	2022 USD'000	2021 USD'000
Non-current portion		
<i>Financial assets at fair value through profit or loss</i>		
Listed equity securities	649	2,335
Restricted listed equity securities	37,172	16,133
Unlisted equity securities	170,486	204,556
<i>Financial assets at amortised cost</i>		
Bank deposits with more than 1 year	5,553,445	3,725,962
<i>Other financial assets at amortised cost</i>		
Restricted cash	—	117,787
Other assets ⁽¹⁾	—	991
<i>Derivative financial instruments</i>		
Cross currency swap contracts — cash flow hedges	9,028	46,547
Interest rate swap contracts — cash flow hedges	23,930	4,526
Current portion		
<i>Financial assets at fair value through profit or loss</i>		
Structural deposits	290,523	—
Monetary funds	85,253	78,184
<i>Financial assets at amortised cost</i>		
Bank deposits with more than 3 months	5,122,706	3,838,129
<i>Other financial assets at amortised cost</i>		
Cash and cash equivalents	6,932,587	8,581,746
Restricted cash	676,937	214,191
Trade and other receivables ⁽²⁾ (Note 25)	905,037	806,487
<i>Derivative financial instruments</i>		
Cross currency swap contracts — cash flow hedges	146,669	31,371
	19,954,422	17,668,945

⁽¹⁾ Other assets included the security deposits for derivative financial instruments, which were classified 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, 2022

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial liabilities	2022 USD'000	2021 USD'000
Non-current portion		
Financial liabilities at amortised cost		
Borrowings (Note 30)	6,718,304	4,937,671
Lease liabilities (Note 17)	57,682	109,461
Bonds payable (Note 32)	598,379	597,663
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	15,286	2,065
Interest rate swap contracts — cash flow hedges	—	1,138
Current portion		
Financial liabilities at amortised cost		
Financial liabilities included in trade and other payables and accrual liabilities	3,059,683	1,856,814
Borrowings (Note 30)	1,268,218	789,316
Lease liabilities (Note 17)	51,849	100,763
Convertible bonds (Note 31)	—	1,978
Medium-term notes (Note 33)	—	235,515
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	45,217	8,848
	11,814,618	8,641,232

The Group's exposure to various risks associated with the financial instruments is discussed in Note 38.

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 risk exposure generated. The Group also enters into forward foreign exchange contracts to manage the foreign currency risk 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. No changes in the fair value were charged to profit or loss during the year (2021: US\$0.1 million).

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			
	2022	2021	2022 RMB'000	2021 RMB'000	2022 USD'000	2021 USD'000
Buy RMB						
Within 1 year	6.5624	6.7632	4,110,929	3,360,000	590,261	527,688
1-5 years	6.5542	6.5170	9,162,300	12,418,329	1,315,553	1,950,298
Sell RMB						
Within 1 year	6.7135	6.3724	30,932,517	17,148,400	4,441,392	2,693,156

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

CROSS CURRENCY SWAP CONTRACTS – CASH FLOW HEDGE (continued)

The impacts of the cross currency swap contracts on the statement of financial position are as follows:

	Notional amount RMB'000	Carrying 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		
Buy RMB	13,273,229	10,877	(38,898)	Derivative financial instrument	(44,621)
Sell RMB	30,932,517	144,820	(21,605)	Derivative financial instrument	269,169

The effects of the cross currency swap contracts on the statement of profit or loss and other comprehensive income are as follows:

	Total hedging gain/(loss) recognised in other comprehensive income USD'000	Hedge ineffectiveness recognised in profit or loss USD'000	Line item in the statement of profit or comprehensive income	Amount reclassified from other comprehensive income to profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income
Sell RMB	269,169	–	N/A	(285,849)	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	
	2022	2021	2022 USD'000	2021 USD'000
Receive floating pay fixed rates 1-5 years	2.03%	2.03%	340,000	369,000

The impacts of the interest rate swap contracts on the statement of financial position are as follows:

	Notional amount USD'000	Carrying 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		
Receive floating pay fixed rates	340,000	23,930	–	Derivative financial instrument	24,341

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For the year ended December 31, 2022

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

INTEREST RATE SWAP CONTRACTS – CASH FLOW HEDGE (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 gain recognised in other comprehensive income USD'000	Hedge ineffectiveness recognised in profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income	Amount reclassified from other comprehensive income to profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income
Receive floating pay fixed rates	24,341	–	N/A	(4,875)	Finance costs

The interest rate swaps are settled on a quarterly basis. The floating rate on the interest rate swaps is based on LIBOR with a tenor of three months. The difference between the fixed and floating interest rates will be settled on a net basis.

23. RESTRICTED CASH

	2022 USD'000	2021 USD'000
Non-current portion	–	117,787
Current portion	676,937	214,191
	676,937	331,978

As of December 31, 2022, the restricted cash consisted of bank deposits pledged against letters of credit and letters of guarantee of US\$23.5 million (December 31, 2021: US\$57.8 million), and bank deposits pledged against secure borrowings of US\$653.4 million (December 31, 2021: US\$117.8 million)

24. INVENTORIES

	2022 USD'000	2021 USD'000
Raw materials	764,026	455,071
Work in progress	945,529	664,362
Finished goods	201,932	74,378
	1,911,487	1,193,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

25. TRADE AND OTHER RECEIVABLES

	2022 USD'000	2021 USD'000
Trade receivables	691,783	691,314
Allowance on doubtful trade receivables (Note 38)	(1,560)	(751)
	690,223	690,563
Other receivables	29,885	49,667
Allowance on doubtful other receivables (Note 38)	(866)	(1,070)
	29,019	48,597
Notes receivables	74,894	4,367
Value-added tax to be deducted	325,027	349,137
Tax recoverables	72,578	59,849
Investment receivables	8,502	3,761
Interest receivables	77,247	27,998
Refundable deposits and surety	25,152	31,201
	1,302,642	1,215,473

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

Age of trade receivables	2022 USD'000	2021 USD'000
Within 1 year	690,995	671,658
1-2 years	553	19,207
2-3 years	36	58
Over 3 years	199	391
	691,783	691,314

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business, which are generally due for settlement within 30-90 days. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 38.

The following is an aging analysis of other receivables at the end of the reporting period.

Age of other receivables	2022 USD'000	2021 USD'000
Within 1 year	29,050	22,998
1-2 years	538	12,194
2-3 years	92	7,281
Over 3 years	205	7,194
	29,885	49,667

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, 2022

26. ASSETS CLASSIFIED AS HELD-FOR-SALE

	2022 USD'000	2021 USD'000
Assets related to employee's living quarters	22,030	21,592

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, 2022, the expected disposal expense is US\$5.3 million (December 31, 2021: US\$6.7 million).

27. SHARES AND ISSUED CAPITAL ISSUED AND FULLY PAID ORDINARY SHARES

	Number of shares	Ordinary shares USD'000	Share premium USD'000
As at January 1, 2021	7,703,507,527	30,814	13,512,397
Issue of shares under stock incentive plans (Note 37)	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
As at December 31, 2021	7,903,856,555	31,615	13,836,614
Issue of shares under stock incentive plans (Note 37)	25,968,139	104	162,765
Conversion options of convertible bonds exercised	1,679,502	7	2,325
Shares repurchased ⁽¹⁾	(18,839,500)	(75)	(38,239)
As at December 31, 2022	7,912,664,696	31,651	13,963,465

⁽¹⁾ The shares were cancelled during the reporting period and the total amount was paid for the repurchases of HK\$300.0 million (approximately US\$38.3 million).

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 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

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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.

	2022 USD'000	2021 USD'000
Other comprehensive income on cash flow hedges recognised		
Fair value gain	248,889	179,123
Offset foreign exchange loss	(186,116)	(158,462)
Added/(deducted) finance cost	32,143	(9,435)
Reclassified into profit or loss due to disposal of a subsidiary	-	154
	94,916	11,380
As at January 1,	17	(11,363)
As at December 31,	94,933	17

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 the PRC regulations.

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For the year ended December 31, 2022

30. BORROWINGS

	2022 USD'000	2021 USD'000
At amortised cost		
Short-term bank borrowings		
– secured	140,000	–
– unsecured nor unguaranteed	508,704	170,000
Long-term bank borrowings		
– guaranteed	1,869,234	1,267,819
– secured	478,000	278,082
– unsecured nor unguaranteed	4,969,689	3,984,462
Other borrowings		
– secured	20,895	26,624
	7,986,522	5,726,987
Current portion		
Short-term bank borrowings	648,704	170,000
Current maturities of long-term bank borrowings and other borrowings	619,514	619,316
	1,268,218	789,316
Non-current portion		
Non-current maturities of long-term bank borrowings and other borrowings	6,718,304	4,937,671
	7,986,522	5,726,987
Borrowing by repayment schedule		
Within 1 year	1,268,218	789,316
1-2 years	1,399,806	657,850
2-5 years	3,744,395	3,909,968
Over 5 years	1,574,103	369,853
	7,986,522	5,726,987

The Group's bank borrowings and other borrowings amounting to US\$638.9 million were secured by the mortgage of assets and the pledge of bank deposits of the Group as follows:

	2022 USD'000	2021 USD'000
Secured by		
– Property, plant and equipment and land-use rights	184,895	202,624
– Restricted cash	454,000	102,082
	638,895	304,706

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2022 USD'000	2021 USD'000
RMB	6,630,555	4,813,787
USD	1,355,967	913,200
	7,986,522	5,726,987

The weighted average effective interest rates of borrowings are set out as follows:

	2022 USD'000	2021 USD'000
RMB	2.25%	2.27%
USD	2.79%	1.66%

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For the year ended December 31, 2022

31. 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. 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 the date of issue, the fair value of the liability component of the Convertible Bonds was disclosed as below:

	2019 Issue	2016 Issue
	USD'000	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, 2022 are set out below:

	Liability component	Equity component	Total
	USD'000	USD'000	USD'000
As at January 1, 2021	11,131	1,964	13,095
Interest charged	52	–	52
Conversion options exercised	(9,205)	(1,623)	(10,828)
As at December 31, 2021	1,978	341	2,319
Interest charged (Note 8)	13	–	13
Conversion options exercised	(1,991)	(341)	(2,332)
As at December 31, 2022	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

32. 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 transaction cost 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
As at January 1, 2021	596,966
Interest charged	16,854
Interest payable recognised	(16,157)
As at December 31, 2021	597,663
Interest charged (Note 8)	16,873
Interest payable recognised	(16,157)
As at December 31, 2022	598,379

33. MEDIUM-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 notes is set out below:

	USD'000
As at January 1, 2021	229,217
Interest charged (Note 8)	8,661
Interest payable recognised	(8,310)
Foreign exchange loss	5,947
As at December 31, 2021	235,515
Repayment	(238,042)
Interest charged (Note 8)	1,464
Interest payable recognised	(1,405)
Foreign exchange loss	2,468
As at December 31, 2022	-

34. DEFERRED GOVERNMENT FUNDING

Government funding is recorded as a liability upon receipt and recognised as other operating income over the useful life of research and development ("R&D") equipment or until the milestones specified in the terms of the funding have been reached. The Group receives government funding under specific R&D projects with primary condition that the Group should purchase, construct or otherwise acquire non-current assets. In 2022, US\$50.3 million (2021: US\$63.9 million) was received, and US\$243.1 million (2021: US\$302.9 million) was recognised as other operating income for several specific R&D projects.

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For the year ended December 31, 2022

35. TRADE AND OTHER PAYABLES

	2022 USD'000	2021 USD'000
Payables for property, plant and equipment	1,758,066	1,175,499
Trade payables	582,548	528,910
Deposits received	556,953	51,796
Others	319,434	74,210
	3,217,001	1,830,415

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

The following is an aging 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	2022 USD'000	2021 USD'000
Within 30 days	2,256,114	1,640,658
31-60 days	48,127	33,501
Over 60 days	36,373	30,250
	2,340,614	1,704,409

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

36. ACCRUED LIABILITIES

The amounts of accrued liabilities as of December 31, 2022 and 2021 were US\$309.2 million and US\$234.1 million, within which the amounts of accrued bonus were US\$185.6 million and US\$139.7 million respectively.

37. SHARE-BASED PAYMENTS

STOCK INCENTIVE PLANS

The below stock incentive plans allow the Company to offer the below incentive awards to employees of the Group.

The expense arising from equity-settled share-based payments for the year ended December 31, 2022 was US\$153.1 million (2021: US\$78.4 million).

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 and directors 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, 2022, the Company only granted RSUs under the plan.

The fair value of each unit is based on ordinary stock price on grant date.

SSE STAR Market restricted share incentive scheme

The restricted shares were granted to 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 revenue and the average EBITDA 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.

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37. SHARE-BASED PAYMENTS (continued) DESCRIPTIONS DURING THE YEAR

	2022	2021
The number of		
Granted during the year	16,810,876	82,299,957
Lapsed during the year	11,411,922	4,469,351
Exercised and vested during the year	25,968,139	9,192,989
Share options under stock option plan		
The range of exercise prices for the outstanding	US\$0.72 to US\$3.14	US\$0.37 to US\$3.14
The weighted average remaining contractual life for the outstanding	6.01 years	6.75 years
RSUs under equity incentive plan		
The purchase prices for the unvested	HKD 0.031	HKD 0.031
The weighted average remaining contractual life for the unvested	8.31 years	8.17 years
Restricted shares under SSE STAR Market restricted share incentive scheme		
The grant prices for the unvested	RMB 20	RMB 20
The weighted average remaining contractual life for the unvested	3.69 years	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:

	2022 Number	2022 WAEP	2021 Number	2021 WAEP
Outstanding at January 1	38,579,564	US\$1.94	36,738,628	US\$1.56
Granted during the year	–	–	9,805,101	US\$3.02
Lapsed during the year	(3,358,749)	US\$2.40	(2,826,363)	US\$2.05
Exercised during the year	(3,293,683)	US\$0.87	(5,137,802)	US\$1.21
Outstanding at December 31	31,927,132	US\$2.00	38,579,564	US\$1.94
Exercisable at December 31	13,061,692	US\$1.56	12,203,390	US\$1.22

The weighted average closing price of the Company's shares immediately before the dates while the share options were exercised was US\$2.13 (2021: US\$3.18).

The following table list the inputs to the Black-Scholes Option Pricing models used for the option granted during the years ended December 31, 2022 and 2021 respectively:

	2022	2021
Dividend yield (%)	–	–
Expected volatility	–	56.43%
Risk-free interest rate	–	1.03%
Expected life of share options	–	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

37. SHARE-BASED PAYMENTS (continued) MOVEMENTS DURING THE YEAR (continued) RSUs

The following table illustrates the number and purchase price of, and movements in, RSUs during the year:

	2022 Number	2022 Purchase price	2021 Number	2021 Purchase price
Unvested at January 1	10,862,268	HKD0.031	10,924,467	HKD0.031
Granted during the year	8,695,676	HKD0.031	4,959,656	HKD0.031
Lapsed during the year	(1,942,709)	HKD0.031	(966,668)	HKD0.031
Vested during the year	(3,734,736)	HKD0.031	(4,055,187)	HKD0.031
Unvested at December 31	13,880,499	HKD0.031	10,862,268	HKD0.031

The weighted average closing price of the Company's shares immediately before the dates on which the RSUs were vested was US\$2.32 (2021: US\$3.13).

RSUs were granted on April 8, May 20, September 5 and November 18, 2022 with the fair value of US\$2.18, US\$2.07, US\$1.92, US\$2.17, respectively (May 31, September 15 and November 19, 2021: US\$3.15, US\$2.93 and US\$2.85)

The valuation of the RSUs is based on ordinary stock price on grant date.

Restricted shares

The following table illustrates the number and grant price of, and movements in, the exercisable option of restricted shares during the year:

	2022 Number	2022 Grant price	2021 Number	2021 Grant price
Unvested at January 1	66,858,880	RMB20	–	–
Granted during the year	8,115,200	RMB20	67,535,200	RMB20
Lapsed during the year	(6,110,464)	RMB20	(676,320)	RMB20
Vested during the year	(18,939,720)	RMB20	–	–
Unvested at December 31	49,923,896	RMB20	66,858,880	RMB20

The following table list the inputs to the models used for the plans for the years ended December 31, 2022:

	2022	2021
Dividend yield (%)	–	–
Expected volatility	45.07%	53.43%
Risk-free interest rate	2.27%	2.69%
Expected life of restricted shares	12, 24, 36 and 48 months	12, 24, 36 and 48 months

The fair value of the exercisable option of restricted shares granted on June 21, 2022 was of US\$4.07 (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.

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38. 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 balances its overall capital structure 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.

This section sets out an analysis of net debt as below:

Net Debt	2022 USD'000	2021 USD'000
Borrowings	7,986,522	5,726,987
Lease liabilities	109,531	210,224
Bonds payable	598,379	597,663
Convertible bonds	–	1,978
Medium-term notes	–	235,515
Subtotal	8,694,432	6,772,367
Less:		
Cash and cash equivalents	6,932,587	8,581,746
Restricted cash – current	676,937	214,191
Financial assets at fair value through profit or loss – current	375,776	78,184
Financial assets at amortised cost	10,676,151	7,564,091
	(9,967,019)	(9,665,845)

The gearing ratio at end of the reporting period was as follows:

	2022 USD'000	2021 USD'000
Net debt	(9,967,019)	(9,665,845)
Equity	28,961,421	25,438,143
Net debt to equity ratio	-34.4%	-38.0%

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, 2022.

There has been no change in the Group's exposure to market risks or the manner in which these risks are managed and measured.

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For the year ended December 31, 2022

38. RISK MANAGEMENT (continued)

FOREIGN CURRENCY RISK

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	
	2022 USD'000	2021 USD'000	2022 USD'000	2021 USD'000
EUR	115,584	7,789	112,656	22,037
JPY	190,757	77,089	177,482	61,862
RMB	6,292,429	3,262,085	7,180,684	3,795,123
Others	108,205	103,013	25,202	10,380

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/(decrease) in the foreign currencies against USD, which 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	
	2022 USD'000	2021 USD'000
Loss after tax	(46,087)	(27,533)
Equity	(46,087)	(27,533)

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.

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, 2022, after taking into account the effect of the interest rate swaps, approximately 56% (2021: 36%) 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.

	RMB	
	2022 USD'000	2021 USD'000
Profit after tax	4,314	5,213
Equity	4,314	5,213

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).

On December 31, 2022, 5% increase/(decrease) in equity securities price would result in increase/(decrease) in net profit by US\$7.81 million (December 31, 2021: US\$8.36 million).

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For the year ended December 31, 2022

38. RISK MANAGEMENT (continued)

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 receivables, other receivables, other financial assets at amortised cost, including bank deposits, interest receivables, notes receivables, restricted cash, investment receivables, refundable deposits and surety, and the financial assets at fair value through profit or loss, including structural deposits, monetary funds and derivative financial instruments.

Customer credit risk is managed subject to the Group's established policy. 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 30.5% (2021: 18.8%) and 60.5% (2021: 41.0%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

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 aging.

The loss allowance as of December 31, 2022 was determined using simplified approach as follows for trade receivables:

2022	Balance	Expected loss rate	Allowance on doubtful receivables
Within 1 year	690,995	0.2%	1,232
1-2 years	553	20%	111
2-3 years	36	50%	18
Over 3 years	199	100%	199
	691,783		1,560

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

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\$0.2 million.

The closing allowance on doubtful trade receivables and other receivables as of December 31, 2022 reconcile to the opening balance as follows:

	2022 USD'000	2021 USD'000
As at January 1,	1,821	3,363
Addition/(reversal) in allowance on doubtful trade receivables	809	(481)
Reversal in allowance on doubtful other receivables	(204)	(516)
disposal of a subsidiary	–	(545)
As at December 31,	2,426	1,821

The main credit risk on bank deposits, interest receivables, notes receivables, restricted cash, structural deposits, monetary funds and derivative financial instruments is limited because the counterparties are banks and financing institutions with high credit-ratings.

The above-mentioned financial assets are considered to have low credit risk as there is no significant increase in credit risk since the initial recognition. The maximum exposure at the end of the year is the carrying amount. The credit exposure of the above-mentioned other financial assets at amortised cost are classified as stage 1, for which the loss allowance is measured at an amount equal to 12-month ECLs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

38. RISK MANAGEMENT (continued)

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds considering the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, convertible bonds, lease liabilities and other interest-bearing loans.

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.

		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
Interest-bearing bank and other borrowings	Fixed	2.22%	368,779	474,388	2,134,587	1,544,295	4,522,049
	Floating	2.47%	60,770	544,385	3,348,386	275,919	4,229,460
Lease liabilities		3.70%-5.00%	15,723	38,839	58,923	-	113,485
Bonds payable		2.69%	8,079	8,079	624,237	-	640,395
Financial liabilities included in trade and other payables and accrual liabilities			3,013,350	33,473	-	-	3,046,823
			3,466,701	1,099,164	6,166,133	1,820,214	12,552,212
		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
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

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.

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38. RISK MANAGEMENT (continued)

LIQUIDITY RISK (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
2022					
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
– inflows	2,758,449	2,366,228	1,361,679	–	6,486,356
– outflows	(2,604,472)	(2,348,083)	(1,414,285)	–	(6,366,840)
Net settled:					
– net outflows	(2,539)	(857)	–	–	(3,396)
Interest rate swap contracts					
— cash flow hedges					
Gross settled:					
– inflows	4,943	14,481	20,680	–	40,104
– outflows	(1,703)	(4,995)	(6,148)	–	(12,846)
	154,678	26,774	(38,074)	–	143,378
	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
2021					
Cross currency swap contracts					
— cash flow hedges					
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
Interest rate swap contracts					
— cash flow hedges					
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

Interest rate benchmark reform

As at 31 December 2022, the Group had certain interest-bearing bank and other borrowings and an interest rate swap denominated in United States dollars. The interest rates of these instruments are based on the LIBOR with a tenor of six months or twelve months, which will cease to be published after 30 June 2023. Replacement of the benchmark rates of these instruments from LIBOR to an interest free rates ("RFR"s) has yet to commence but it is expected that there will be renegotiations of terms in the future. During the transition, the Group is exposed to the following risks:

- Conduct risk arising from discussions with market counterparties due to the amendments required to existing contracts necessary to effect the Interbank Offered Rate ("IBOR") reform.
- Financial risk to the Group that markets are disrupted due to IBOR reform giving rise to financial losses.
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

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38. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Interest rate benchmark reform (continued)

The Group will continue to monitor the development of the reform and take proactive measures for a smooth transition. The information about financial instruments based on an interbank offered rate that has yet to transition to an alternative benchmark rate is as follows:

	Non-derivative financial liabilities carrying value USD'000	Derivatives nominal amount USD'000
Interest-bearing bank and other borrowings		
– United States dollar LIBOR	701,967	340,000

39. 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	
	2022 USD'000	2021 USD'000	2022 USD'000	2021 USD'000
Financial assets				
Bank deposits with more than 1 year	5,553,445	3,725,962	5,551,866	3,749,744
Financial liabilities				
Borrowings	7,986,522	5,726,987	7,165,724	5,725,950
Bonds payable	598,379	597,663	555,260	593,160
	8,584,901	6,324,650	7,720,984	6,319,110

Management has assessed that the fair values of cash and cash equivalents, the current portion of bank deposits, financial assets included in trade and other receivables, lease liabilities and financial liabilities included in trade and other payables and accrual liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

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.

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, 2022:

- 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, 2022

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)* **FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(continued)*

2022	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	649	–	–	649
Restricted listed equity securities	Using Asian options pricing model	–	–	37,172	37,172
Unlisted equity securities	Using valuation multiples or the latest price method of financing	–	–	170,486	170,486
Monetary funds	Using observable prices	–	85,253	–	85,253
Cross currency swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	155,697	–	155,697
Interest rate swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	23,930	–	23,930
Structural deposits	Monte Carlo simulation	–	–	290,523	290,523
		649	264,880	498,181	763,710
Financial liabilities					
Cross currency swap contracts – cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	–	60,503	–	60,503
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

39. 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
As at January 1, 2021	–	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
As at December 31, 2021	16,133	204,556	–	220,689
Additions	18,270	5,872	527,848	551,990
Disposals	(16,133)	(4,675)	(220,119)	(240,927)
Gains recognised	19,932	(18,978)	10,072	11,026
Foreign exchange gain	(1,030)	(16,289)	(27,278)	(44,597)
As at December 31, 2022	37,172	170,486	290,523	498,181

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:

2022	Fair value (USD'000)	Valuation techniques	Unobservable input
Unlisted equity securities	170,486	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	37,172	Asian options pricing model	Liquidity discounts
Structural deposits	290,523	Monte Carlo simulation	Brownian motion process
2021	Fair value (USD'000)	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

The sensitivity analysis of unobservable inputs as of December 31, 2022 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.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

39. 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:

2022	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Bank deposits with more than 1 year	–	5,551,866	–	5,551,866
Financial liabilities				
Borrowings	–	7,165,724	–	7,165,724
Bonds payable	555,260	–	–	555,260
	555,260	7,165,724	–	7,720,984
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

40. CASH FLOW INFORMATION **CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**

Liabilities from financing activities	Borrowings USD'000	Lease liabilities USD'000	Bonds payable USD'000	Convertible bonds USD'000	Medium-term notes USD'000	Total USD'000
As at January 1, 2021	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	75,747	8,829	16,854	52	8,661	110,143
Interest payable recognised	–	(8,829)	(16,157)	–	(8,310)	(33,296)
Foreign exchange loss	(24,371)	–	–	–	5,947	(18,424)
Other changes	–	(1,459)	–	–	–	(1,459)
As at December 31, 2021	5,726,987	210,224	597,663	1,978	235,515	6,772,367
Net cash flows in/(out)	2,690,505	(96,759)	–	–	(238,042)	2,355,704
Conversion options exercised	–	–	–	(1,991)	–	(1,991)
Interest charged	102,078	5,154	16,873	13	1,464	125,582
Interest payable recognised	–	(5,154)	(16,157)	–	(1,405)	(22,716)
Foreign exchange loss	(533,048)	–	–	–	2,468	(530,580)
Other changes	–	(3,934)	–	–	–	(3,934)
As at December 31, 2022	7,986,522	109,531	598,379	–	–	8,694,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

40. CASH FLOW INFORMATION (continued) NON-CASH INVESTING AND FINANCING ACTIVITIES

	2022 USD'000	2021 USD'000
Conversion options of convertible bonds exercised during the year	1,991	9,205
Conversion options of perpetual subordinated convertible securities exercised during the year	–	299,388
Increase of right-of-use assets (excluded land-use right)	–	67,435
	1,991	376,028

TOTAL CASH OUTFLOW OF LEASES

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 USD'000	2021 USD'000
Within operating activities	11,035	18,393
Within financing activities	96,759	101,022
	107,794	119,415

41. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the year ended December 31, 2022 and the relationships with the Group are disclosed below:

Related party name	Relationship
Datang Telecom Technology & Industry Holding Co., Ltd. ("Datang"), a subsidiary 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) Co., Ltd. ("Brite") and its subsidiaries	An associate of the Group
China Fortune-Tech Capital Co., Ltd. ("China Fortune-Tech")	An associate of the Group
JCET Group Co., Ltd. ("JCET") 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) Corporation ("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
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd. ("China IC Fund II")	A 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, 2022

41. RELATED PARTY TRANSACTIONS (continued)

TRADING TRANSACTIONS

During the year, the Group's transactions with related parties that are not members of the Group are as below:

		2022 USD'000	2021 USD'000
Sale of goods and services			
Datang ⁽¹⁾	Sale of goods	214,199	25,524
Brite and its subsidiaries	Sale of goods	139,238	111,830
Beijing Innovation Center	Sale of goods and services	132,150	108,394
NSI	Sale of goods and services	22,333	22,216
SMEC	Sale of goods and services	44	400
JCET and its subsidiaries	Sale of services	-	8
Purchase of goods and services			
Beijing Innovation Center	Purchase of services	3,943	-
Toppan	Purchase of goods	2,184	6,389
China Fortune-Tech	Purchase of services	598	540
JCET and its subsidiaries	Purchase of services	595	2,639
SGS	Purchase of goods and services	254	223
Transfer of assets			
Sino IC Leasing and its subsidiaries	Purchase of equipment	495,608	-
SGS	Purchase of equipment	18,986	22,715
SMEC	Sale of equipment	352	-
SGS	Sale of equipment	299	-
NSI	Sale of equipment	189	3,508
Beijing Innovation Center	Grant of licensing	122	-
SMEC	Grant of licensing	-	1,255
Group as a lessor			
Toppan	Rent income	4,561	4,582
China Fortune-Tech	Rent income	770	588
SGS	Rent income	402	42
SMEC	Rent income	239	527
Beijing Innovation Center	Rent income	220	669
NSI	Rent income	86	89
Group as a lessee			
Sino IC Leasing and its subsidiaries ⁽²⁾	Increase of right-of-use assets	-	65,336
Sino IC Leasing and its subsidiaries	Payment of lease liabilities	100,828	109,269

⁽¹⁾ The related party transactions above constituted non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules. Details are disclosed in "V.(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, 2022, lease liabilities to Sino IC leasing and its subsidiaries were US\$107.8 million (2021: US\$208.0 million) respectively.

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, 2022

41. 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	
	2022 USD'000	2021 USD'000	2022 USD'000	2021 USD'000
Brite and its subsidiaries	15,643	27,650	8,110	–
SMEC	72	20,337	24	–
SGS	10,808	11,202	1,262	5,302
Toppan	780	880	174	523
Beijing Innovation Center	127,630	48,392	28,340	752
China Fortune-Tech	–	24	56	–
Sino IC Leasing and its subsidiaries	–	–	107,751	207,964
Datang	1,470	2,650	11,933	33,671
NSI	6,071	5,422	2,202	10,117
JCET and its subsidiaries	–	–	12	29

Amounts due from related parties are normally settled on terms of 30 to 90 days. Amounts due to related parties are normally settled on terms of 30 to 60 days.

CAPITAL CONTRIBUTION

China IC Fund II injected total amount of US\$568.4 million into the capital of SMIZ, SMBC and SMOC during the year.

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 emoluments of directors and senior management personnel during the year are as follows:

	2022 USD'000	2021 USD'000
Salaries, bonus and benefits	6,854	5,377
State-managed pension	33	33
Equity-settled share-based payments expense	3,775	5,777
	10,662	11,187

The emoluments of directors and senior management personnel is determined by the Compensation Committee in regard to the Group's profitability, business achievement, individual performance and market trends.

The number of senior management whose remuneration including salaries, bonus, benefits and state-managed pension fell within the following bands for the years ended December 31, 2022 are as follows:

	2022
Approximately US\$1 to US\$133,000	1
Approximately US\$133,001 to US\$199,000	1
Approximately US\$795,001 to US\$862,000	2
Approximately US\$1,524,001 to US\$1,591,000	3
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

42. FINANCIAL INFORMATION OF THE COMPANY STATEMENT OF FINANCIAL POSITION

	2022 USD'000	2021 USD'000
Assets		
<i>Non-current assets</i>		
Property, plant and equipment	32,001	51,380
Intangible assets	521	2,788
Investment in subsidiaries	9,993,170	7,627,007
Investment in associates	217,576	226,975
Other assets	30,562	46,593
Total non-current assets	10,273,830	7,954,743
<i>Current assets</i>		
Prepayment and prepaid operating expenses	993	1,247
Trade and other receivables	46,209	31,037
Due from subsidiaries	10,375,190	8,906,506
Financial assets at amortised cost	100,000	400,000
Derivative financial instruments	110,025	31,371
Restricted cash	–	7,852
Cash and cash equivalents	208,419	1,767,708
Total current assets	10,840,836	11,145,721
Total assets	21,114,666	19,100,464
Equity and liabilities		
<i>Capital and reserves</i>		
Ordinary shares	31,651	31,615
Share premium	13,963,465	13,836,614
Reserves	377,059	321,576
Retained earnings	4,777,801	2,959,859
Total equity	19,149,976	17,149,664
<i>Non-current liabilities</i>		
Borrowings	628,154	519,450
Bonds payable	598,379	597,663
Derivative financial instruments	13,953	1,703
Total non-current liabilities	1,240,486	1,118,816
<i>Current liabilities</i>		
Trade and other payables	38,636	35,690
Due to subsidiaries	643,089	351,797
Borrowings	13,800	181,800
Convertible bonds	–	1,978
Medium-term notes	–	235,515
Accrued liabilities	11,932	17,937
Derivative financial instruments	16,747	7,267
Total current liabilities	724,204	831,984
Total liabilities	1,964,690	1,950,800
Total equity and liabilities	21,114,666	19,100,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

42. FINANCIAL INFORMATION OF THE COMPANY (continued) STATEMENT OF CHANGES IN EQUITY

(In USD'000)

	Ordinary shares	Share premium	Reserves	Retained Earnings	Perpetual subordinated convertible securities	Total equity
As at January 1, 2021	30,814	13,512,397	73,939	1,258,056	299,388	15,174,594
Profit for the year	-	-	-	1,701,803	-	1,701,803
Other comprehensive income for the year	-	-	48,015	-	-	48,015
Total comprehensive income for the year	-	-	48,015	1,701,803	-	1,749,818
Issue of shares under stock incentive plans	36	14,766	(9,047)	-	-	5,755
Share-based compensation	-	-	68,998	-	-	68,998
Conversion options of convertible bonds exercised during the year	32	10,796	(1,623)	-	-	9,205
Conversion options of perpetual subordinated convertible securities exercised during the year	733	298,655	-	-	(299,388)	-
Share of other capital reserve of associates accounted for using equity method	-	-	(929)	-	-	(929)
Transaction with non-controlling interests	-	-	142,069	-	-	142,069
Disposal of a subsidiary	-	-	154	-	-	154
Subtotal	801	324,217	199,622	-	(299,388)	225,252
As at December 31, 2021	31,615	13,836,614	321,576	2,959,859	-	17,149,664
Profit for the year	-	-	-	1,817,942	-	1,817,942
Other comprehensive income for the year	-	-	(53,967)	-	-	(53,967)
Total comprehensive income for the year	-	-	(53,967)	1,817,942	-	1,763,975
Issue of shares under stock incentive plans	104	162,765	(104,753)	-	-	58,116
Share-based compensation	-	-	135,081	-	-	135,081
Shares repurchased	(75)	(38,239)	-	-	-	(38,314)
Conversion options of convertible bonds exercised during the year	7	2,325	(341)	-	-	1,991
Share of other capital reserve of associates accounted for using equity method	-	-	4,341	-	-	4,341
Transaction with non-controlling interests	-	-	75,122	-	-	75,122
Subtotal	36	126,851	109,450	-	-	236,337
As at December 31, 2022	31,651	13,963,465	377,059	4,777,801	-	19,149,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

43. COMMITMENTS

CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022 USD'000	2021 USD'000
Commitments for building and facility construction	1,163,143	594,056
Commitments for acquisition of machinery and equipment	11,213,365	8,077,734
Commitments for acquisition of intangible assets	45,169	24,909
Commitments for capital contributions	209,690	216,342
	12,631,367	8,913,041

NON-CANCELLABLE OPERATING LEASES AS LESSEE

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. Refer to Note 17 for further information.

44. 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. The arbitration is still ongoing.

Management of the Group is of the view that the aforementioned contract dispute is still in the arbitration stage and the result of arbitration is uncertain and cannot be reasonably ascertainable. As of December 31, 2022, 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 (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.

On June 9, 2022 (Los Angeles, U.S. time), the Company received a ruling from the United States District Court for the Central District of California dismissing, in its entirety, the civil lawsuit as mentioned above, with prejudice and without leave to amend. On July 8, 2022 (Los Angeles, U.S. time), the plaintiff filed a notice appeal from the dismissal of the case. United States Court of Appeals for the Ninth Circuit confirmed receipt of the appeal with a notification on July 11, 2022 (Log Angeles, U.S. time). The litigation is still ongoing.

Management of the Group believes that it is unlikely that the lawsuit would cause the outflow of economic benefits. As of December 31, 2022, the Group did not make provision for the contingent liabilities from the contract dispute.

45. SUBSEQUENT EVENTS

There is no material subsequent event undertaken by the Group after December 31, 2022.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors of the Company on March 28, 2023.



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