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



Semiconductor Manufacturing International Corporation

中芯國際集成電路製造有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 981)

OVERSEAS REGULATORY ANNOUNCEMENT

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

Reference is made to the announcement of the Company dated 19 November 2019 in relation to, among others, the proposed issue of the Placed Bonds (the “**Announcement**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

The Placed Bonds were listed on the Singapore Exchange on 10 December 2019. Please refer to the attached offering circular dated 5 December 2019 in relation to the Placed Bonds (the “**Offering Circular**”), which was published on the website of the Singapore Exchange on 12 December 2019. The Singapore Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained therein.

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

The Offering Circular does not constitute a prospectus, notice, circular, brochure, advertisement or document offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

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

By order of the Board
Semiconductor Manufacturing International Corporation
Gao Yonggang
*Executive Director, Chief Financial Officer and
Joint Company Secretary*

Shanghai, PRC
12 December 2019

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

Executive Directors

ZHOU Zixue (*Chairman*)

ZHAO Haijun (*Co-Chief Executive Officer*)

LIANG Mong Song (*Co-Chief Executive Officer*)

GAO Yonggang (*Chief Financial Officer and Joint Company Secretary*)

Non-executive Directors

CHEN Shanzhi

ZHOU Jie

REN Kai

LU Jun

TONG Guohua

Independent Non-executive Directors

William Tudor BROWN

CONG Jingsheng Jason

LAU Lawrence Juen-Yee

FAN Ren Da Anthony

YOUNG Kwang Leei

* *For identification purposes only*

STRICTLY CONFIDENTIAL — DO NOT FORWARD

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE
PERSONS OUTSIDE THE UNITED STATES.**

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

Confirmation of Your Representation: By accepting the email and accessing the attached document you shall be deemed to have represented to UBS AG Hong Kong Branch (the “**Manager**”) that (1) you are not in the United States and, to the extent you purchase the securities described in the attached offering circular, you will be doing so pursuant to Regulation S under the US Securities Act of 1933, as amended (the “**Securities Act**”) AND (2) that you consent to the delivery of the attached offering circular and any amendments or supplements thereto by electronic transmission.

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

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

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES ARE BEING OFFERED IN OFFSHORE TRANSACTIONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF THE SECURITIES AND THE DISTRIBUTION OF THIS OFFERING CIRCULAR, SEE “*SUBSCRIPTION AND SALE*”.

SINGAPORE SFA PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer of the securities or the Manager to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Manager and its respective affiliates on behalf of the Issuer in such jurisdiction. You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or

otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

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

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

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



SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

中芯國際集成電路製造有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 0981)

US\$200,000,000 Zero Coupon Convertible Bonds due 2022 convertible into ordinary shares of Semiconductor Manufacturing International Corporation (to be consolidated and form a single series with the existing US\$450,000,000 Zero Coupon Convertible Bonds due 2022)

Issue Price: 116 per cent.

The US\$200,000,000 Zero Coupon Convertible Bonds due 2022 (the “**Additional Bonds**”) will be issued by Semiconductor Manufacturing International Corporation (the “**Issuer**” or the “**Company**”). The Additional Bonds shall constitute a further issuance of, and shall be consolidated and form a single series with, the existing US\$450,000,000 Zero Coupon Convertible Bonds due 2022 (the “**Original Bonds**”) issued on 7 July 2016 (the “**Original Issue Date**”). The Additional Bonds will have the same terms and conditions as the Original Bonds in all respects except for the issue date and issue price. References to “**Bonds**” in this offering circular are to the Original Bonds and the Additional Bonds. The total principal amount of the Additional Bonds to be issued is US\$200,000,000. Upon the issue of the Additional Bonds, the aggregate principal amount of outstanding Bonds will be US\$650,000,000. The issue price of the Additional Bonds shall be 116 per cent. of the aggregate principal amount of the Additional Bonds and the denomination of each Additional Bond shall be US\$250,000.

The Bonds constitute direct, unconditional, unsubordinated and subject to the Conditions (as defined in “*Terms and Conditions of the Bonds*”), unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer shall, save for such exceptions as may be provided by mandatory provisions of applicable legislation and subject to the Conditions (as defined in “*Terms and Conditions of the Bonds*”), at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

Each Bond will, at the option of the holder, be convertible (unless previously redeemed or purchased and cancelled) at any time on or after 17 August 2016 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the seventh day prior to the Maturity Date (as defined in “*Terms and Conditions of the Bonds*”) (but, except as provided in the Conditions (as defined in “*Terms and Conditions of the Bonds*”), in no event thereafter) or if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days (both days inclusive and at the place aforesaid) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by the holder of such Bond, then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice into shares of US\$0.0004 each in the issued share capital of the Company (the “**Shares**”) at an initial conversion price (as of the Original Issue Date) of HK\$0.9250 per Share (the “**Initial Conversion Price**”). The Initial Conversion Price is subject to adjustment in the circumstances described under “*Terms and Conditions of the Bonds — Conversion*”. The closing price of the Shares on The Stock Exchange of Hong Kong Limited (“**HKSE**” or the “**Hong Kong Stock Exchange**”) on 18 November 2019 was HK\$10.6 per Share. The Effective Conversion Price (as defined in the “*Terms and Conditions of the Bonds*”) as at 18 November 2019 was HK\$10.73 per Share. Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at its principal amount on the Maturity Date (as defined in “*Terms and Conditions of the Bonds*”). At any time the Issuer may, having given not less than 30 nor more than 60 days’ notice, redeem all and not some only of the Bonds at their principal amount, if the Issuer has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7 June 2016, and such obligation cannot be avoided by the Issuer taking commercially reasonable measures available to it, subject to the non-redemption option of each Bondholder after the exercise by the Issuer of its tax redemption option as described herein. At any time after 7 July 2020 the Issuer may, having given not less than 45 nor more than 60 days’ notice, redeem all and not some only of the Bonds on the Optional Redemption Date (as defined in the “*Terms and Conditions of the Bonds*”) at their principal amount if the Closing Price (as defined in the “*Terms and Conditions of the Bonds*”) of a Share (translated into US dollars at the Prevailing Rate) for any 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is given, was at least 130 per cent. of the Conversion Price (as defined in the “*Terms and Conditions of the Bonds*”) (translated into US dollars at the Fixed Exchange Rate) then in effect immediately prior to the date upon which notice of such redemption is given. If at any time the aggregate principal amount of the Bonds outstanding is less than 10 per cent. of the aggregate principal amount originally issued, the Issuer may redeem all and not some only of such outstanding Bonds at their principal amount. Each holder of the Bonds shall have the right to require the Issuer to redeem all or some only of such holder’s Bonds on the Relevant Event Redemption Date at their principal amount upon the occurrence of a Relevant Event (each as defined in “*Terms and Conditions of the Bonds*”). Each holder of the Bonds shall have the right to require the Issuer to redeem all or some only of such holder’s Bonds on 7 July 2020 at their principal amount. See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation*”.

Approval in-principle has been received for the listing and quotation of the Additional Bonds on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or any other subsidiary or associated company of the Issuer, the Bonds or the Shares. Conditional approval for the listing of the Shares to be issued on conversion of the Bonds has been granted by the Hong Kong Stock Exchange. The Bonds are not rated.

Investing in the Bonds and the Shares involves certain risks. See “*Risk Factors*” beginning on page 16 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds and the Shares to be issued upon conversion of the Bonds may only be offered outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see “*Subscription and Sale*”.

The Additional Bonds will be initially represented by a global certificate (the “**Additional Global Certificate**”) and together with the global certificate representing the Original Bonds (the “**Original Bond Certificate**”, the “**Global Certificates**” and each a “**Global Certificate**”) registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”) and together with Euroclear, the “**Clearing Systems**”). Beneficial interests in the Additional Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described therein, certificates for the Additional Bonds will not be issued in exchange for interests in the Additional Global Certificate.

Sole Global Coordinator and Bookrunner



5 December 2019

IMPORTANT NOTICE

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

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

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the Shares deliverable upon conversion of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares deliverable upon conversion of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “*Subscription and Sale*”.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Manager, The Bank of New York Mellon, London Branch as the trustee (the “**Trustee**”) or the Agents (as defined in “*Terms and Conditions of the Bonds*”). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Manager, the Trustee or the Agents or any of their respective directors, officers, employees, representatives, agents, affiliates or advisers or any person who controls any of them to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. This Offering Circular is not intended to invite offers to subscribe for or purchase Shares.

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

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

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Hong Kong Listing Rules**”) for the purposes of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the Offering, including the merits and risks involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Manager, the Trustee or the Agents or any of their respective directors, officers, employees, representatives, agents, affiliates or advisers or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision. To the fullest extent permitted by law, the Manager, the Trustee and the Agents and any of their respective directors, officers, employees, representatives, agents, affiliates and advisers and any person who controls any of them shall not accept any responsibility for the contents of this Offering Circular. Each of the Manager, the Trustee and the Agents and each of their respective directors, officers, employees, representatives, agents, affiliates and advisers and any person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Manager, the Trustee and the Agents and any of their respective directors, officers, employees, representatives, agents, affiliates and advisers and any person who controls any of them undertake to review the financial condition or affairs of the Issuer or the Group after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Manager, the Trustee or the Agents or any of their respective directors, officers, employees, representatives, agents, affiliates or advisers or any person who controls any of them. Except as otherwise indicated in this Offering Circular, all non-company specific statistics and data relating to the industry or to the economic development of Hong Kong have been extracted or derived from publicly available information and industry publications.

The information has not been independently verified by the Issuer, the Trustee, the Agents or the Manager or by their respective directors, officers, employees, representatives, agents, affiliates or advisers or any person

who controls any of them, and none of the Issuer, the Trustee, the Agents or the Manager or their respective directors, officers, employees, representatives, agents, affiliates and advisers or any person who controls any of them make any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

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

Unless otherwise specified or the context requires, references herein to “**Hong Kong dollars**”, “**HK dollars**” and “**HKS**” are to the lawful currency of Hong Kong, references herein to “**RMB**” and “**Renminbi**” are to Renminbi, the lawful currency of the PRC and references herein to “**US dollars**” and “**US\$**” are to the lawful currency of the United States of America (the “**United States**” or the “**US**”).

References to “**Latest Practicable Date**” are to 1 December 2019.

PRESENTATION OF FINANCIAL INFORMATION AND INCORPORATION BY REFERENCE

The Issuer's audited consolidated financial statements and the independent auditor's report for the year ended 31 December 2018, along with the Issuer's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 and 2019, are incorporated by reference in, and form part of, this Offering Circular.

The Issuer's unaudited condensed consolidated financial information as at and for the three months ended 30 September 2018 is contained in the Issuer's announcement published on the HKSE dated 7 November 2018 and the unaudited condensed consolidated financial information as at and for the three months ended 30 September 2019 is contained in the Issuer's announcement published on the HKSE dated 12 November 2019, which are incorporated by reference in, and form part of, this Offering Circular.

Such unaudited condensed consolidated financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. The Manager does not make any representation or warranty, expressed or implied, regarding the sufficiency of such unaudited condensed consolidated financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, our financial condition, results of operations and results. Such unaudited condensed consolidated financial information should not be taken as an indication of the expected financial position as at 31 December 2019, expected results of financial performance and expected results of cash flows for the full financial year ending 31 December 2019.

With effect from 1 January 2018, the Group has adopted IFRS 9 where the Group is required to reclassify and adjust certain of its financial line items in its financial statements. As the Group has applied the transitional provisions set out in IFRS 9 without requiring any restatement of the corresponding figures of the prior period before 1 January 2018, the Group's consolidated financial information as at and for the year ended 31 December 2017 may not be directly comparable against the Group's consolidated financial information after 1 January 2018, including the Group's audited consolidated financial statements for the year ended 31 December 2018, unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2018 and 2019 and unaudited condensed consolidated financial information for the three months ended 30 September 2018 and 2019. Please refer to Note 2 of the Group's audited consolidated financial statements for the year ended 31 December 2018 for a discussion on the impact of the adoption of IFRS 9.

With effect from 1 January 2018, the Group has adopted IFRS 15 where the Group is required to reclassify and adjust certain of its financial line items in its financial statements. The Group has applied the fully retrospective approach set out in IFRS 15 and made restatements of the corresponding figures of the prior period before 1 January 2018. Please refer to Note 2 of the Group's audited consolidated financial statements for the year ended 31 December 2018 for a discussion on the impact of the adoption of IFRS 15.

With effect from 1 January 2019, the Group has adopted IFRS 16 where the Group is required to reclassify and adjust certain of its financial line items in its financial statements. As the Group has applied the simplified transition approach set out in IFRS 16 without requiring any restatement of the corresponding figures of the prior period before 1 January 2019, the Group's consolidated financial information as at and for the years ended 31 December 2017 and 2018, unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2018 and unaudited condensed consolidated financial information for the three months ended 30 September 2018 may not be directly comparable against the Group's consolidated financial information after 1 January 2019, including the Group's unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2019 and unaudited condensed consolidated financial information for the three months ended 30 September 2019. Please refer to Note 3 of the Group's unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2019 for a discussion on the impact of the adoption of IFRS 16.

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

The audited consolidated financial statements for the year ended 31 December 2018, the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 and 2019 and unaudited condensed consolidated financial information for the three months ended 30 September 2018 and 2019 were prepared in accordance with the International Financial Reporting Standards (“IFRS”).

FORWARD-LOOKING STATEMENTS

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

- the financial position, business strategy, prospects, capital expenditure and investment plans of the Group; and
- the plans and objectives of the Group’s management for its future operations (including development plans and objectives relating to the Group’s operations).

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

- competition in the industry in which the Group operates;
- adverse economic conditions that could negatively impact the Group’s business, financial condition and results of operations;
- broad market trends and other factors beyond the Group’s control that could harm its business, financial condition and results of operations;
- the Group’s ability to obtain adequate financing;
- failure to protect the Group’s intellectual property rights;
- the risks of increased costs and the uncertainty of technological changes, insufficient systems capacity and systems failures;
- changes in laws, regulations and taxation in the highly regulated industry in which the Group operates and, any failure to comply with such legal and regulatory obligations;
- any delay or disapproval of new rules, amendments to existing rules or fees that could have an adverse effect on the Group; and
- other factors, including those discussed in “Risk Factors”.

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

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SUMMARY

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

Business Overview

We are one of the leading dedicated semiconductor foundries in the world and Mainland China's largest foundry in scale, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services, providing integrated circuit (IC) foundry and technology services for a broad range of nodes from 0.35 micron (m) to 28 nanometer (nm), with capabilities including logic, mixed signal/RF, CMOS, high voltage, SoC, flash, EEPROM, CIS, power management IC, MEMS and others.

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

We were established in 2000 and are headquartered in Shanghai, the PRC. In 2004, we were listed on the Hong Kong Stock Exchange and the New York Stock Exchange ("NYSE"). As at the date of this Offering Circular, SMIC has voluntarily delisted from the NYSE due to a number of considerations, including the limited trading volume of the Company's American depository shares ("ADSs") relative to its worldwide trading volume, and the significant administrative burden and costs of maintaining the listing of the ADSs on the NYSE.

Our current substantial shareholders include PRC state-owned enterprises ("SOEs") such as Datang Telecom Technology & Industry Holdings Co., Ltd. ("**Datang Holdings**") and China Integrated Circuit Industry Investment Fund Co., Ltd. ("**China IC Fund**"). We have received equity investment and strategic support from our SOE shareholders, being major players in their respective fields.

Our market capitalisation as of 30 September 2019 was approximately HK\$49.563 billion. We have market leading manufacturing capacity in the PRC and operate 12-inch and 8-inch wafer fabrication facilities (fabs) in Shanghai, Beijing, Tianjin and Shenzhen. We also have majority-owned joint ventures in Beijing and Shanghai focusing on 12-inch 45-nm and finer technology wafer fabrication, and in Jiangyin focusing on 12-inch bumping and related testing for 45-nm and finer technologies. We plan to continue to advance our technology and carefully expand both our mature and advanced capacities via close cooperation with our customers in order to capture available opportunities for growth and notable prospects. We have a network of customer service and marketing offices in the United States, Europe, Japan and Taiwan, and a representative office in Hong Kong.

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

Given our position as the largest and the most advanced foundry in the PRC, we are uniquely positioned to take advantage of the long-term growth of the global and domestic semiconductor markets.

Our Key Strengths

We are Mainland China’s most advanced and largest foundry, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services, and we are ranked in the top four pure-play foundries by revenue globally.

As the first pure-play foundry in the PRC to enter into mass production with 14nm wafer process technology, we are at the forefront of the PRC’s foundry business and a beneficiary to the growth of the PRC’s semiconductor industry. We are also equipped with the most advanced mask production capacity in the PRC and have successfully established our 14nm Fin Field Effect Transistor (“**FinFET**”) technology platform. We are continuing to engage with customers and expect revenue contribution by 2019 year-end.

We have expanded steadily since our incorporation and established ourselves as one of the leading foundries in the global arena. We achieved record high annual revenue in the year of 2018, amounting to US\$3.36 billion. Our technology, scale and location in China, together with our capable team, enable us to serve our customers to meet their diverse specifications.

We have benefited and continue to benefit from the PRC government’s commitment to the development of the semiconductor industry as well as strong strategic support from our PRC SOE shareholders.

We were one of the few semiconductor companies included in the PRC central government’s 12th 5-Year Plan and 13th 5-Year Plan, which among others, proclaims commitment and increasing support of and favourable industrial policies for the domestic semiconductor industry. As such, the government recognises our cornerstone role in the development of the domestic semiconductor eco-system and establishing the PRC standard in the domestic semiconductor industry.

In addition, we have a history of strategic support from our PRC SOE shareholders. Datang Holdings became our shareholder in 2008 when it agreed to subscribe for ordinary shares of US\$172 million in the Company through its subsidiary, Datang Holdings (Hong Kong) Investment Company Limited (“**Datang HK**”), and further strengthened its commitment to us by subscribing for further ordinary shares of US\$102 million in 2010. In September 2011, Datang HK subscribed for US\$58.9 million in convertible preferred shares. In May 2014, Datang HK subscribed for pre-emptive bonds of US\$54.6 million. In February 2015, China IC Fund subscribed for ordinary shares amounting to approximately US\$399.5 million through its wholly-owned subsidiary. In 2018, our two substantial SOE shareholders continued to strengthen their commitment to us. On 29 June 2018, we allotted and issued ordinary shares to Datang HK while Datang HK subscribed for our perpetual subordinated convertible securities of US\$200.0 million. On 29 August 2018, we allotted and issued ordinary shares, to China IC Fund while China IC Fund subscribed for our perpetual subordinated convertible securities of US\$300.0 million.

As of 30 September 2019, our two substantial SOE shareholders hold approximately a combined 33 per cent. of our shares.

We are uniquely positioned to leverage our R&D leadership and capabilities in the PRC.

We focus our R&D efforts primarily on advanced logic and value-added specialty technologies, and have over the years achieved significant breakthroughs in the R&D of advanced technology and demonstrated noteworthy improvements in the efficiency of our R&D efforts.

We have completed our 14nm FinFET technology R&D and it is now in production. In addition, we have successfully developed the PRC’s first 14nm masks and now have the most advanced mask production capacity in the PRC. Meanwhile, our 12 nm technology development also achieved breakthrough. In 2018, SMIC made over 600 patent filings as a result of its technology R&D activities.

In 2013, we established a joint venture (the “**Beijing Joint Venture**”) with China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Center (Limited Partnership), Beijing

Industrial Development Investment Management Co. Ltd. (“IDIMC”), which is wholly owned by the PRC central government, and Zhongguancun Development Group (“ZDG”), which was established by the Beijing municipal government to develop the science park. The Beijing Joint Venture is expected to establish and build up significant manufacturing capacity with a focus on 45-nm and finer technologies. In addition, we have also established another joint venture in 2018 (the “Shanghai Joint Venture”) with China IC Fund and Shanghai IC Fund. The Shanghai Joint Venture is expected to establish and build up significant manufacturing capacity with a focus on 14-nm and finer technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. We also cooperate with Chinese and global industry leaders to enhance our R&D capability.

In addition, in order to encourage development of the semiconductor industry, the PRC central, provincial and local governments have extended various incentives to domestic companies in the industry, including reduced tax rates.

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

We have a global and diversified customer base that includes some of the leading international and fast growing domestic semiconductor IDMs and fabless and system companies. For the years ended 31 December 2016, 2017 and 2018, our operating revenue from customers was US\$2,914 million, US\$3,101 million and US\$3,360 million, respectively, reflecting a year-on-year increase. Geographically, customers from the North America contributed to 31.6 per cent. of the overall revenue in 2018, compared to 40.0 per cent. in 2017. Leveraging on the Group’s strategic position in China, our revenue from customers in China contributed 59.1 per cent. of the overall revenue in 2018, compared to 47.3 per cent. in 2017. Eurasia contributed 9.3 per cent. of the overall revenue in 2018, compared to 12.7 per cent. in 2017.

Our clients have consistently recognised us as a partner of choice and repeatedly rewarded us for the quality of our services, strategic support and technology contributions. We have received various awards recognising our high level of performance and service as well as technological improvements. Several of these awards came from our top ten customers. Through a formation of global alliances with our top tier international customers and the incubation of local clients, we aim to continue to be the preferred foundry source partner in the PRC for international and domestic IDMs and fabless customers. We are gaining momentum in engaging with our key customers on both differentiated and advanced technologies.

Our long-term relationships with domestic customers continue to be strengthened with our unique combination of scale, advanced technological capabilities, locality and proximity to domestic clients. Our fabs are strategically located in major cities in the PRC with strong high-tech industries and semiconductor bases, such as Beijing, Shanghai, Tianjin and Shenzhen. As a result, we are able to meet the demands resulting from the continued growth and rise of China’s electronic industry over the years by directly access our customers in the same or nearby cities and provide high-level localised services to address our customers’ demands.

We are a transparent and compliant foundry in the PRC possessing export licences to manufacture the most advanced IC.

We have received the necessary export licences to provide the most advanced IC manufacturing services in the PRC, which includes manufacturing technology down to 14nm and conducting R&D down to 12nm. These export licensing approvals allow us to provide superior manufacturing services for customers in both domestic and international markets.

We have a highly-experienced management team.

We have a highly-experienced management team. Our senior management team is recognised as a group of highly respected industry veterans.

Dr. Zhao was appointed as the Executive Director with effect from 16 October 2017 and Chief Executive Officer (now known as Co-Chief Executive Officer) of the Company since 10 May 2017. Dr. Zhao joined the Company in October 2010 and was appointed as Chief Operating Officer and Executive Vice President in April 2013. In July 2013, Dr. Zhao was appointed as General Manager of Semiconductor Manufacturing North China (Beijing) Corporation, a joint venture company established in Beijing and a subsidiary of the Company. Dr. Zhao received his Bachelor of Science and Doctor of Philosophy Degree in Electronic Engineering from Tsinghua University (Beijing) and Master's Degree in Business Administration from the University of Chicago. He has 25 years of experience in semiconductor operations and technology development. Dr. Zhao has also served as an independent director on the board of directors of Zhejiang Juhua Co., Ltd. (Stock Code: 600160), a company which is listed on the Shanghai Stock Exchange, since November 2016.

Dr. Liang Mong Song was appointed as Co-Chief Executive Officer and the Executive Director of the company on 16 October 2017. Dr. Liang graduated with a Doctor of Philosophy Degree in Electrical Engineering from the Department of Electrical Engineering and Computer Sciences at University of California, Berkeley. Dr. Liang has been engaged in the semiconductor industry for over 34 years, and was mainly involved in the memory and advanced logic process technology development. Dr. Liang has obtained a wealth of experience from his previous engagements with other top foundries and his involvement in 14nm technology. Dr. Liang owns over 450 patents and has published over 350 technical papers. He is a Fellow of the Institute of Electrical and Electronic Engineers (IEEE).

Dr. Gao Yonggang, a non-executive Director since 2009, was appointed as Executive Vice President, Strategic Planning of the Company and re-designated as an executive Director on June 17, 2013. He was appointed as the Chief Financial Officer of the Company on February 17, 2014 and was further appointed as the Joint Company Secretary on July 3, 2017. Dr. Gao is a director of certain subsidiaries of the Company. Dr. Gao has more than 30 years of experience in the area of financial management and has worked as Chief Financial Officer or person in charge of finance in various industries, including commercial, industrial, and municipal utilities, and in various types of organizations, including state-owned enterprises, private companies, joint ventures, and government agencies.

Dr. Zhou Meisheng, was appointed as Executive Vice President of Technology Research and Development on October 12, 2017. Dr. Zhou is a recruited professional from China's "National Recruitment Program of Global Experts" (the overseas high-level talent introduction plan). Before she joined the Company, she served as Lam Research China's Regional Chief Technology Officer, and prior to that, Dr. Zhou served as Vice President of SMIC, and before that, she has held various levels of management positions at Chartered Semiconductor Manufacturing, TSMC, UMC and Global Foundries.

Our management team has extensive experience in operations and technology development. We expect to capitalise on the rich experience and execution capabilities of the management team for the continued growth and development of the Company.

THE OFFERING

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

Issuer	Semiconductor Manufacturing International Corporation.
Issue	<p>US\$200,000,000 zero coupon convertible bonds due 2022 (the “Additional Bonds”) to be consolidated and form a single series with the US\$450,000,000 zero coupon convertible bonds due 2022 issued on 7 July 2016 (the “Original Bonds” and together with the Additional Bonds, the “Bonds”).</p> <p>The issue of the Additional Bonds was authorised by a resolution of the Board of Directors of the Issuer passed at a board meeting held on 12 November 2019.</p> <p>The issue of the Original Bonds was authorised by the Board of Directors of the Issuer on 12 May 2016.</p>
Pre-emptive Rights	<p>Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”) and China Integrated Circuit Industry Investment Fund Co., Ltd. (“China IC Fund”) each have a pre-emptive right to subscribe for a <i>pro rata</i> portion of new securities being issued equivalent to the percentage of the issued share capital of the Issuer owned prior to the issue of such new securities by Datang Holdings and China IC Fund, respectively (“Pre-emptive Rights”). The Pre-emptive Rights apply to the Additional Bonds, and the Bonds that may be issued pursuant to the exercise of the Preemptive Rights by Datang Holdings and China IC Fund will be the “Datang Pre-emptive Bonds” and the “China IC Fund Pre-emptive Bonds”, respectively.</p> <p>As Datang Holdings (through its wholly-owned subsidiary Datang Holdings (Hong Kong) Investment Company Limited (“Datang HK”) and China IC Fund (through its wholly-owned subsidiary Xinxin (Hongkong) Capital Co., Ltd.) are substantial Shareholders of the Issuer and thus connected persons of the Issuer, any Datang Pre-emptive Bonds issued to Datang Holdings or any China IC Fund Pre-emptive Bonds issued to China IC Fund will constitute a connected transaction of the Issuer and will be subject to independent Shareholders’ approval under the Listing Rules. As at 18 November 2019, each of Datang Holdings and China IC Fund has indicated to the Company that it does not intend to exercise its Pre-emptive Rights in relation to the issue of the Additional Bonds.</p> <p>For further details on the Pre-emptive Rights of Datang Holdings and China IC Fund, see “<i>Substantial Shareholders’ and Directors’ Interests</i>”.</p>

Issue Price	The Additional Bonds will be issued at 116 per cent. of their principal amount.
Issue Date	9 December 2019.
Maturity Date	7 July 2022.
Redemption at Maturity	Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Bond at its principal amount on the Maturity Date.
Interest	The Bonds do not bear interest unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. In such event, such unpaid amount shall bear interest at the rate of 2.0 per cent. per annum. Interest payable in relation to the Bonds will be paid as if such Bonds were issued on the Original Issue Date. See “ <i>Terms and Conditions — Interest</i> ”.
Status of the Bonds	The Bonds constitute direct, unconditional, unsubordinated, and (subject to Condition 4 of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, subject to such exceptions as may be provided by mandatory provisions of applicable legislation and subject to Condition 4 of the Terms and Conditions of the Bonds, at all times rank at least equally with all of the Issuer’s other present and future unsecured and unsubordinated obligations.
Rating of the Bonds	The Bonds are not, and are not expected to be, rated by any rating agency.
Conversion Right	The Bonds are convertible by holders into Shares, at any time on or after 17 August 2016 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date falling seven days prior to the Maturity Date (both days inclusive), except as described in the Terms and Conditions of the Bonds. If the Bonds are called for redemption by the Issuer prior to the Maturity Date, pursuant to the Terms and Conditions of the Bonds, the conversion period will end at the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the seventh day (both days inclusive) before the date fixed for redemption.
Conversion Price	The Conversion Price will initially (as of the date of issue of the Original Bonds) be HK\$0.9250 per Share but will be subject to adjustment as described in the Terms and Conditions of the Bonds. See “ <i>Terms and Conditions of the Bonds — Conversion</i> ”. <i>The Effective Conversion Price as at 18 November 2019 is HK\$10.73 per Share.</i>

“Effective Conversion Price” means the gross proceeds of the Additional Bonds divided by the number of Shares issuable upon full conversion of the Additional Bonds as at 18 November 2019.

Negative Pledge

So long as any Bond remains outstanding, the Issuer will not, and will ensure that none of its Principal Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (other than a security interest arising by operation of law or a Permitted Charge) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless at the same time or prior thereto according to the Bonds (a) the same security is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity; or (b) such other security as either (x) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (y) shall be approved by an Extraordinary Resolution of the Bondholders. See *“Terms and Conditions of the Bonds — Negative Pledge”*.

Redemption for Taxation Reasons

At any time the Issuer may, having given not less than 30 nor more than 60 days’ notice, redeem all and not some only of the Bonds at their principal amount, if the Issuer has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong. However, each Bondholder shall have the right to elect not to have such Bondholder’s Bonds redeemed, whereupon no additional amounts as a result of such changes affecting taxes in the Cayman Islands or Hong Kong will be payable and payment of all amounts shall be made subject to deduction or withholding of the taxation required to be deducted or withheld. See *“Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons”*.

Redemption at the Option of the Issuer

At any time after 7 July 2020 the Issuer may, having given not less than 45 nor more than 60 days’ notice, redeem all and not some only of the Bonds on the Optional Redemption Date (as defined in the *“Terms and Conditions of the Bonds”*) at their principal amount if the Closing Price of a Share (translated into US dollars at the Prevailing Rate) for any 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is given, was at least 130 per cent. of the Conversion Price (translated into US dollars at the Fixed Exchange Rate) then in effect immediately prior to the date upon which notice of such redemption is given.

If at any time the aggregate principal amount of the Bonds outstanding is less than 10 per cent. of the aggregate principal amount originally issued, the Issuer may redeem all and not some

Redemption for Delisting or Change of Control

only of such outstanding Bonds at their principal amount. See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer*”.

Each Bondholder shall have the right, at such Bondholder’s option, upon the occurrence of a Relevant Event to require the Issuer to redeem all or some only of such Bondholder’s Bonds on the Relevant Event Redemption Date at their principal amount.

A “**Relevant Event**” occurs:

- (i) when the Shares cease to be listed or admitted to trading or are suspended for a period equal to or exceeding 45 consecutive Trading Days; or
- (ii) when there is a Change of Control (as defined in the Terms and Conditions of the Bonds).

See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Delisting or Change of Control*”.

Redemption at the Option of the Bondholders

On 7 July 2020, each Bondholder will have the right to require the Issuer to redeem all or some only of the Bonds of such Bondholder at their principal amount. See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the option of the Bondholders*”.

Form and Denomination of the Bonds

The Bonds will be issued in registered form in the denomination of US\$250,000. The Bonds are represented by the Global Certificate which will, on the Closing Date, be registered in the name of a nominee of, and deposited with, a common depository for Euroclear and Clearstream.

Events of Default

If any of the events set out in “*Terms and Conditions of the Bonds — Events of Default*” occurs, the Trustee may, and if so requested in writing by Bondholders holding not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed referred to in the Terms and Conditions of the Bonds) shall, (subject in either case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and repayable at their principal amount. See “*Terms and Conditions of the Bonds — Events of Default*”.

Share Ranking

The Shares issued upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the

establishment of entitlement for which falls prior to the relevant Registration Date. See “*Description of the Shares — Dividends*” and “*Terms and Conditions of the Bonds — Conversion*”.

Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. See “*Terms and Conditions of the Bonds — Further Issues*”.

Clearance

The Bonds will be cleared through the Clearing Systems. The Clearing Systems each holds securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders.

Global Certificate

For as long as the Bonds are represented by the Global Certificates and the Global Certificates are held by or on behalf of a common depository, payments of principal in respect of the Bonds represented by the Global Certificates will be made without presentation or, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificates to or to the order of the Principal Agent for such purpose. The Bonds which are represented by the Global Certificates will be transferable only in accordance with the rules and procedures for the time being of the relevant Clearing System.

Selling Restrictions

There are restrictions on the offer, sale and/or transfer of the Bonds in, among others, the Cayman Islands, Hong Kong, Singapore, the United Kingdom and the United States. For a description of the selling restrictions on offers, sales and deliveries of the Bonds, see “*Subscription and Sale*”.

Listing

Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. Admission to the Official List of the SGX-ST for the listing and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer or any other subsidiary or associated company of the Issuer, the Bonds or the Shares. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$250,000 for so long as any of the Bonds remains listed on the SGX-ST.

The Issuer has received in-principle approvals for listing of the Shares issuable upon conversion of the Bonds on the Hong Kong Stock Exchange and the Issuer has undertaken to apply to have the Shares, issuable upon conversion of the Bonds, approved for listing on the Hong Kong Stock Exchange and any Alternative

	Stock Exchange (as defined in the Conditions) on which its Shares are listed from time to time.
Trustee	The Bank of New York Mellon, London Branch.
Principal Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch (previously known as The Bank of New York Mellon (Luxembourg) S.A.).
Governing Law	The Bonds and any non-contractual obligations arising out of or in connection with the Bonds will be governed by, and construed in accordance with, the laws of England.
Use of Proceeds	For a description of the use of proceeds of this offering, see “ <i>Use of Proceeds</i> ”.
Lock-up	The Issuer has agreed to not (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options entitling persons to any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into securities of the same class as the Bonds or the Shares, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, or (c) enter into any transaction with the same economic effect as, or which reasonably be expected to result in, or agreed to, any of the foregoing, whether such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of shares or other securities, or (d) announce or otherwise make public an intention to do any of the foregoing subject to certain specific exceptions, without the prior written consent of the Manager during the 90 days from the date of the Subscription Agreement (as defined in “ <i>Subscription and Sale</i> ”) except for in the circumstances provided in “ <i>Subscription and Sale</i> ”.
ISIN	XS1432320429.
Common Code	143232042.
LEI	300300522KCU7YI25841.

SUMMARY FINANCIAL INFORMATION

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

The selected financial information presented below as at and for the years ended 31 December 2017 and 31 December 2018 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer's published audited consolidated financial statements for the year ended 31 December 2018, which have been audited by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP (together, "PwC"), and incorporated by reference in this Offering Circular.

The selected financial information presented below as at and for the six months ended 30 June 2018 and 2019 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer's published unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 and 2019, which have been incorporated by reference in this Offering Circular.

The selected financial information presented below as at and for the three months ended 30 September 2018 and 2019 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with the Issuer's unaudited condensed consolidated financial information for the three months ended 30 September 2018 and 2019 (as set out in the Issuer's announcements published with the Hong Kong Stock Exchange on 7 November 2018 and 12 November 2019) which have been incorporated by reference in this Offering Circular.

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December		For the six months ended 30 June		For the three months ended 30 September	
	2017	2018	2018	2019	2018	2019
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>(in US\$ thousands, except for earnings per share)</i>					
Revenue.....	3,101,175	3,359,984	1,721,757	1,459,781	850,662	816,452
Cost of sales	(2,360,431)	(2,613,307)	(1,283,748)	(1,186,553)	(676,119)	(646,637)
Gross profit	740,744	746,677	438,009	273,228	174,543	169,815
Research and development expenses, net.....	(427,111)	(558,110)	(270,172)	(201,044)	(152,968)	(185,019)
Sales and marketing expenses.....	(35,796)	(30,455)	(16,652)	(15,663)	(6,102)	(5,900)
General and administration expenses.....	(198,036)	(199,818)	(99,478)	(107,726)	(50,337)	(70,041)
Net impairment (losses) gain on financial assets	137	(937)	(829)	(1,705)	(198)	(1,752)
Other operating income (expense), net	44,957	57,283	10,520	34,525	29,234	140,047
Profit from operations.....	124,895	14,640	61,398	(18,385)	(5,828)	47,150
Interest income	27,090	64,339	25,495	66,311	18,689	36,810
Finance costs	(18,021)	(24,278)	(24,170)	(31,465)	8,212	(15,187)
Foreign exchange gains or losses.....	(12,694)	(8,499)	6,269	5,625	(9,223)	(248)
Other gains (losses), net.....	16,499	24,282	6,699	10,312	1,781	594
Share of (loss) profit of investment using equity method	(9,500)	21,203	1,438	(26,349)	(1,616)	19,568

	For the year ended 31 December		For the six months ended 30 June		For the three months ended 30 September	
	2017	2018	2018	2019	2018	2019
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>(in US\$ thousands, except for earnings per share)</i>					
Profit before tax.....	128,269	91,687	77,129	6,049	12,015	88,687
Income tax expense	(1,846)	(14,476)	(18,384)	(7,489)	(4,424)	(4,061)
Profit for the year/period	126,423	77,211	58,745	(1,440)	7,591	84,626
Other comprehensive income (loss)						
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences on translating foreign operations	23,213	(35,919)	(126)	321	(28,192)	(20,032)
Change in value of available-for-sale financial assets	(2,381)	—	—	—	—	—
Share of other comprehensive income of joint ventures using equity method	17,646	—	—	—	—	—
Cash flow hedges	35,143	35,931	34,712	(22,480)	758	(10,617)
Others	(131)	—	—	—	—	—
<i>Items that will not be reclassified to profit or loss</i>						
Actuarial gains and losses on defined benefit plans	(436)	129	728	(1,532)	159	—
Total comprehensive income for the year/period	199,477	77,352	94,059	(25,131)	(19,684)	53,977
Profit (loss) for the year attributable to:						
Owners of the Company.....	179,679	134,055	80,976	30,811	26,559	115,135
Non-controlling interests.....	(53,256)	(56,844)	(22,231)	(32,251)	(18,968)	(30,509)
	126,423	77,211	58,745	(1,440)	7,591	84,626
Total comprehensive income (loss) for the year/period attributable to:						
Owners of the Company	251,135	133,977	115,751	5,931	(383)	84,650
Non-controlling interests	(51,658)	(56,625)	(21,692)	(31,062)	(19,301)	(30,673)
	199,477	77,352	94,059	(25,131)	(19,684)	53,977
Earnings per share						
Basic	\$0.04	\$0.03	\$0.02	\$0.00	\$0.00	\$0.02
Diluted.....	\$0.04	\$0.03	\$0.02	\$0.00	\$0.00	\$0.02
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION						
	As of 31 December		As of 30 June		As of 30 September	
	2017	2018	2018	2019	2019	
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	
	<i>(in US\$ thousands)</i>					
Assets						
<i>Non-current assets</i>						
Property, plant and equipment	6,523,403	6,777,970	6,867,740	7,610,109	7,531,408	

	As of 31 December		As of 30 June		As of 30
	2017	2018	2018	2019	September
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>(in US\$ thousands)</i>				
Right-of-use assets.....	—	—	—	230,854	206,441
Land use right.....	97,477	105,436	92,084	129,338	138,176
Intangible assets.....	219,944	122,854	159,491	110,295	101,827
Investments in associates.....	758,241	1,135,442	879,593	1,131,478	1,124,819
Investments in joint ventures.....	31,681	15,687	19,645	16,631	31,918
Deferred tax assets.....	44,875	45,426	45,612	46,326	46,647
Financial assets at fair value through profit or loss.....	—	55,472	36,788	55,591	54,096
Derivative financial instrument.....	—	5,266	14,611	2,225	1,253
Other financial assets.....	17,598	—	—	—	—
Restricted cash.....	13,438	—	8,528	—	—
Other assets.....	42,810	11,176	8,736	6,901	21,809
Total non-current assets.....	7,749,467	8,274,729	8,132,828	9,339,748	9,258,394
<i>Current Assets</i>					
Inventories.....	622,679	593,009	697,021	647,154	645,821
Prepayment and prepaid operating expenses ..	34,371	28,161	46,754	51,647	42,869
Trade and other receivables.....	616,308	837,828	919,490	904,077	1,498,375
Financial assets at fair value through profit or loss.....	—	41,685	60,412	25,161	37,850
Financial assets at amortized cost.....	—	1,996,808	1,235,633	2,205,246	2,612,702
Derivative financial instruments.....	—	2,583	8,931	5,796	28,154
Other financial assets.....	683,812	—	—	—	—
Restricted cash.....	336,043	592,290	349,974	1,157,668	833,502
Cash and cash equivalent.....	1,838,300	1,786,420	1,414,260	1,518,578	1,182,479
Assets classified as held-for-sale.....	37,471	270,807	18,546	250,670	14,229
Total current assets.....	4,168,984	6,149,591	4,751,021	6,765,997	6,895,981
Total assets.....	11,918,451	14,424,320	12,883,849	16,105,745	16,154,375
Equity and liabilities					
<i>Capital and reserves</i>					
Ordinary shares.....	19,664	20,159	19,975	20,206	20,214
Share premium.....	4,827,619	4,993,163	4,928,537	5,005,523	5,007,817
Reserves.....	134,669	109,346	143,017	80,058	50,628
Retained earnings.....	187,008	331,298	283,869	353,362	467,420
Equity attributable to owners of the Company	5,168,960	5,453,966	5,375,398	5,459,149	5,546,079
Perpetual subordinated convertible securities ..	64,073	563,848	264,073	563,848	563,848
Non-controlling interests.....	1,488,302	2,905,766	1,975,285	3,574,591	3,533,996

	As of 31 December		As of 30 June		As of 30
	2017	2018	2018	2019	September
	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>(in US\$ thousands)</i>				
Total equity.....	6,721,335	8,923,580	7,614,756	9,597,588	9,643,923
<i>Non-current liabilities</i>					
Borrowings	1,743,939	1,760,763	1,532,739	1,849,016	2,179,017
Lease liabilities	—	—	—	157,213	142,969
Convertible bonds.....	403,329	418,592	410,819	426,365	430,399
Medium-term notes.....	228,483	—	—	217,336	211,314
Bonds payable	496,689	—	497,609	—	—
Deferred tax liabilities	16,412	1,639	15,245	7,288	8,649
Deferred government funding.....	299,749	393,902	268,777	434,916	500,614
Derivative financial instruments	—	15,540	2,833	39,584	84,050
Other financial liabilities	1,919	11,948	12,393	—	—
Other liabilities	99,817	39,128	126,339	46,525	22,867
Total non-current liabilities	3,290,337	2,641,512	2,866,754	3,178,243	3,579,879
<i>Current liabilities</i>					
Trade and other payables	1,007,424	964,860	949,440	1,092,458	925,155
Contract liabilities.....	43,036	44,130	66,404	65,355	86,269
Borrowings	440,608	530,005	781,134	756,162	338,479
Lease liabilities	—	—	—	82,189	72,277
Bonds payable	—	498,551	—	499,513	500,000
Short-term notes	—	—	—	218,191	494,833
Medium-term notes.....	—	218,247	225,996	—	—
Deferred government funding.....	193,158	244,708	188,981	295,159	330,839
Accrued liabilities.....	180,912	164,604	136,677	138,086	147,455
Derivative financial instruments	—	15,806	2,541	1,834	2,296
Other financial liabilities	744	—	—	11,928	11,593
Current tax liabilities	270	2,607	6,065	1,197	3,916
Other liabilities	40,627	32,263	45,101	22,703	17,461
Liabilities directly associated with assets classified as held-for-sale.....	—	143,447	—	145,139	—
Total current liabilities.....	1,906,779	2,859,228	2,402,339	3,329,914	2,930,573
Total liabilities.....	5,197,116	5,500,740	5,269,093	6,508,157	6,510,452
Total equity and liabilities	11,918,451	14,424,320	12,883,849	16,105,745	16,154,375

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December		For the six months ended 30 June		For the three months ended 30 September	
	2017	2018	2018	2019	2018	2019
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>(in US\$ thousands)</i>					
Profit for the period.....	126,423	77,211	58,745	(1,440)	7,591	84,626
Net cash from operating activities.....	1,080,686	799,426	205,415	356,208	216,487	317,765
Payments for property, plant and equipment.....	(2,287,205)	(1,808,253)	(905,378)	(1,153,026)	(477,782)	(387,652)
Net cash used in investing activities.....	(2,662,139)	(3,197,261)	(1,611,641)	(1,806,768)	(1,086,068)	(367,320)
Net cash from financing activities.....	1,271,591	2,376,922	967,964	1,190,600	308,802	(264,235)
Net (decrease) increase in cash and cash equivalent.....	(309,862)	(20,913)	(438,262)	(259,960)	(591,641)	(336,099)

TECHNICAL GLOSSARY

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

ASIC/ASSP	Application Specific Integrated Circuit/Application Specific Standard Parts. ASICs/ASSPs are designed to provide a very specific function for a specific application in any one of the six application markets: computing, communications, consumer, automotive and industrial. ASICs include both standard catalogue products, standard and customized/application-specific logic ICs.
CCD	A charge coupled device for the movement of electrical charge.
CDMA	Code division multiple access, a channel access method used by various radio communication technologies.
Clean room	Area within a fab in which the wafer fabrication takes place. The classification of a clean room relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 clean room contains less than 100 particles of contaminants per cubic foot.
CMOS	Complementary Metal Oxide Silicon. A fabrication process that incorporates n-channel and p-channel CMOS transistors within the same silicon substrate. Currently, this is the most commonly used integrated circuit fabrication process technology and is one of the latest fabrication techniques to use metal oxide semiconductor transistors.
CMOS Image Sensors	Sensors that are used in a wide range of camera-related systems, such as digital still cameras, digital video cameras, handset cameras, personal computer cameras and surveillance cameras, which integrate image-capturing capabilities onto a chip.
CVD	Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated wafer surface to form solid film.
Die	One individual chip cut from a wafer before being packaged.
DRAM	Dynamic Random Access Memory. A device that temporarily stores digital information but requires regular refreshing to ensure data is not lost.
DSP	Digital Signal Processor. A type of integrated circuit that processes and manipulates digital information after it has been converted from an analog source.
EEPROM	Electrically Erasable Programmable Read-Only Memory. An integrated circuit that can be electrically erased and electrically programmed with user-defined information.

EPROM	Erasable Programmable Read-Only Memory. A form of PROM that is programmable electrically yet erasable using ultraviolet light.
Fab or Fabs	Semiconductor fabrication plant(s).
Fabless	A semiconductor design company that outsources fabrication and does not have its own fabs.
Fill factor	The percentage of LCOS metal surface area used for light reflection as compared to the total surface area. The higher the fill factor, the more light will be reflected from a given surface area.
Flash memory	A type of non-volatile memory where data is erased in blocks. The name “ flash ” is derived from the rapid block erase operation. Flash memory requires only one transistor per memory cell versus two transistors per memory cell for EEPROMs, making flash memory less expensive to produce. Flash memory is the most popular form of non-volatile semiconductor memory currently available.
IDM or IDMs	Integrated Device Manufacturer(s).
Integrated circuit	An electronic circuit where all the elements of the circuit are integrated together on a single semiconductor substrate.
Interconnect	Conductive materials such as aluminium, doped polysilicon or copper that form the wiring circuitry to carry electrical signals to different parts of the chip.
I/O	Inputs/Outputs.
IPD	Integrated Passive Devices. IPDs are generally fabricated using standard wafer fab technologies such as thin film and photolithography processing. IPDs can be designed as flip chip mountable or wire bondable components and the substrates for IPDs usually are thin film substrates like silicon, alumina or glass.
LCOS	Liquid Crystal On Silicon. A type of micro-display technology.
Logic device	A device that contains digital integrated circuits that perform a function rather than store information.
Mask	A glass plate with a pattern of transparent and opaque areas used to create patterns on wafers. “ Mask ” is commonly used to refer to a plate that has a pattern large enough to pattern a whole wafer at one time, as compared to a reticle, where a glass plate can contain the pattern for one or more dies but is not large enough to transfer a wafer-sized pattern all at once.
Mask ROM	A type of non-volatile memory that is programmed during fabrication (mask-defined) and the data can be read but not erased.
MCU	Microcontroller Unit. Includes a central processing unit, program memory, read/write data memory and some I/O

	capability. May include EEPROM, Flash and/or other types of memory embedded inside.
Memory	A device that can store information for later retrieval.
MEMS	Micro-Electro-Mechanical Systems
Micro-display	A small display that is of such high resolution that it is only practically viewed or projected with lenses or mirrors. A micro-display is typically magnified by optics to enlarge the image viewed by the user. For example, a miniature display smaller than one inch in size may be magnified to provide a 12-inch to 60-inch viewing area.
Micron	A term for micrometer, which is a unit of linear measure that equals one one-millionth (1/1,000,000) of a meter. There are 25.4 microns in one one-thousandth of an inch.
Mixed-signal	The combination of analog and digital circuitry in a single semiconductor.
NAND Flash	A type of flash memory commonly used for mass storage applications.
nm	A term for micrometer, which is a unit of linear measure that equals one thousandth (1/1,000) of a micron.
Non-volatile memory	Memory products that maintain their content when the power supply is switched off.
NOR Flash	A type of flash memory commonly used for mass storage applications.
OTP	One-time programmable memory used for programme and data storage, usually used in applications that require only a one-time data change.
PROM	Programmable Read-Only Memory. Memory that can be reprogrammed once after manufacturing.
Pure-play foundry	A company that focuses on producing IC for other companies.
RAM	Random Access Memory. Memory devices where any memory cell in a large memory array may be accessed in any order at random.
Reticle	See " <i>Mask</i> " above.
RF	Radio Frequency. Radio frequency semiconductors are primarily used in communications devices such as cell phones.
RF-FEM	Radio Frequency Front End Module. RF-Front End Module, a generic term for all the circuitry between the antenna and the first intermediate frequency (IF) stage. It consists of all the components in the receiver that process the signal at the original incoming radio frequency (RF), before it is converted to a lower intermediate frequency (IF). RF-FEM can consist of the combination of Tuner, Switch, PA, Filter, Transceivers related devices.

RFID	Radio Frequency Identification. Radio-frequency identification (RFID) is the use of a wireless non-contact system that uses radio-frequency electromagnetic fields to transfer data from a tag attached to an object. RFID's frequency bands ranges from (125kHz ' 135kHz) (13.56MHz), and (860MHz ' 960MHz).
ROM	Read-Only Memory. See " <i>Mask ROM</i> " above.
Scanner	An aligner that scans light through a slit across a mask to produce an image on a wafer.
Semiconductor	An element with an electrical resistivity within the range of an insulator and a conductor. A semiconductor can conduct or block the flow of electric current depending on the direction and magnitude of applied electrical biases.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and programme instructions. Unlike the more common DRAM, it does not need to be refreshed.
System-on-chip	A chip that incorporates functions usually performed by several different devices and therefore generally offers better performance and lower cost.
Systems companies	Companies that design and manufacture complete end market products or systems for sale to the market.
Transistor	An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
TSV	Through Silicon Via. Interconnects for 2.5D and 3D packaging applications that demand high performance and low power.
Volatile memory	Memory products that lose their content when the power supply is switched off.
Wafer	A thin, round, flat piece of silicon that is the base of most integrated circuits.

RISK FACTORS

An investment in the Bonds is subject to a number of risks. Investors should carefully consider all of the information in this Offering Circular and, in particular, the risks described below, before deciding to invest in the Bonds. The following describes some of the significant risks relating to the Issuer, the Group, the Group's business, the market in which the Group operates and the value of Bonds. PRC laws and regulations may differ from the laws and regulations in other countries. Some risks may be unknown to the Issuer or the Group and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations or prospects of the Issuer and the Group or the value of the Bonds. The Issuer believes that the risk factors described below represent the principal risks inherent in investing in the Bonds, but the ability of the Issuer to pay interest, principal or other amounts on or in connection with any Bonds may be affected by some factors that may not be considered as significant risks by the Issuer on information currently available to them or which they are currently unable to anticipate. All of these factors are contingencies which may or may not occur and the Issuer or the Group is not in a position to express a view on the likelihood of any such contingency occurring. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.

The Issuer or the Group does not represent that the statements below regarding the risk factors of the Issuer, the Group and the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Risk Factors Related to Our Financial Condition and Business

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

Our annual profit totalled US\$77.2 million in 2018 and US\$126.4 million in 2017 and US\$316.4 million in 2016. We have retained earnings of US\$331.3 million attributable to owners of the Company as of December 31, 2018. However, we may not be able to maintain or increase profitability on an annual or quarterly basis, primarily because our business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. We will continue to incur capital expenditures and depreciation expenses as we equip and ramp-up additional fabs and expand our capacity at our existing fabs. This may result in an increase of our fixed costs and possibly reduce our chances of maintaining or increasing profitability.

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

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

The semiconductor industry has historically been highly cyclical and has experienced significant downturns characterized by fluctuations in end-user demand, reduced demand for integrated circuits, rapid erosion of average selling prices and production overcapacity at various times. Companies in the semiconductor industry have expanded aggressively during periods of increased demand in order to have the capacity needed to meet such increased demand or expected demand in the future. If actual demand is not sustained, does not increase

or declines, or if companies in the industry expand too aggressively in light of the actual increase in demand, the industry will generally experience a period in which industry-wide capacity exceeds demand.

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

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

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

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

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

Our new accounting standard differs from our old standard, as a result of which certain historical financials may be difficult to compare.

As of 1 January 2018 and 1 January 2019, we adopted new accounting standards including IFRS 9 – Financial Instruments and IFRS 16 – Leases, which are effective from 1 January 2018 and 1 January 2019 respectively. The impact of the initial application of the new accounting standards are disclosed in Note 2 of the Issuer’s audited consolidated financial statements for the year ended 31 December 2018 for a discussion on the impact of the adoption of IFRS 9 and Note 3 of the Issuer’s unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2019 for a discussion on the impact of the adoption of IFRS 16, both of which have been incorporated by reference in this Offering Circular. Save for the restatement of comparative figures due to IFRS 15 – Revenue from Contracts with Customers, we have not restated comparable figures of the prior period resulting from the changes in accounting standards. Instead, differences caused by the adoption of the new accounting standards is adjusted to the beginning balance as of 1 January 2018 and 1 January 2019 to take account for IFRS 9 – Financial Instruments and IFRS 16 – Leases, respectively.

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

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

- pay dividends;

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

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

The impact of deteriorating economic conditions on our customers and suppliers could adversely affect our business.

Customers' financial difficulties have resulted, and could result in the future, in increases in bad debt write-offs and additions to reserves in our receivables portfolio. In particular, our exposure to certain financially troubled customers could have an adverse effect on our results of operations. In addition, we depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. Our business may be disrupted if, due to the insolvency of key suppliers, we are unable to obtain the raw materials required to sustain our operations.

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

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

We may be adversely affected by fluctuations in the global economy and financial markets.

The global financial markets have been affected by a general slowdown of economic growth globally, resulting in substantial volatility in global financial markets and tightening of liquidity in global credit markets. Since 2011, the tightening monetary policies and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas financial markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. In June 2016, the United Kingdom held a remain-or-leave referendum on its membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union, as well as whether the United Kingdom will be able to continue to benefit from the European Union's free trade and similar agreements. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the United Kingdom, the European Union and globally. This event has resulted in a downgrade of the credit ratings of the United Kingdom and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains relatively high. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow and outflow, or both. In the Middle East, Eastern Europe and Africa, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may also slow down due to weakened exports and nationwide structural reforms. Any slowdown in the PRC economy may increase our exposure to material losses from our investments, decrease the opportunities for developing our businesses, create a credit tightening environment, increase our financing costs, or reduce government subsidies given to us, any of which may result in a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the impact of the trade war on the global economy.

The economic impact on the global economy due to the rising tensions of the trade war between the U.S. and China is unknown. Starting in April 2018, the United States imposed tariffs on various categories of imports from China, and the PRC responded with similarly sized tariffs on United States' products. The rhetoric surrounding the trade war continues to escalate and neither side has been willing to significantly progress stalled trade negotiations. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the industries our clients operate in remain uncertain.

In addition, certain Chinese technology companies have been restricted from importing / exporting products into U.S., bringing a halt to their business dealings in the U.S. We may be affected by the trade war if our products are similarly banned from being imported into or exported out of the U.S., which may result in a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

Our ability to maintain or increase profitability depends, in part, on our ability to:

- maintain high capacity utilization, which is the actual number of wafers we produce in relation to our capacity;
- optimize our technology and product mix, which is the relative number of wafers fabricated utilizing higher margin technologies as compared to commodity and lower margin technologies; and
- continuously maintain and improve our yield, which is the percentage of usable fabricated devices on a wafer.

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

Our continuing expansion could present significant challenges to our management and administrative systems and resources, and as a result, we could experience difficulties managing our growth or maintaining high capacity utilization which could adversely affect our business and operating results.

Over the next several years, we plan to increase our production capacity through expanding existing and new production sites. We have added and expect to continue to add capital equipment and increase our headcount to increase our production capacity. We cannot assure you that we will fully realize the expected returns on these investments for a variety of reasons. If we fail to develop and maintain management and administrative systems and resources sufficient to keep pace with our planned growth or if we fail to increase our customer base or create sufficient demand for our products, we may experience difficulties managing our growth or maintaining high capacity utilization and our business and operating results could be adversely affected.

We may not be able to successfully execute future acquisitions or investments or manage or effectively integrate any acquired personnel, operations and technologies.

From time to time, we seek to acquire or invest in businesses that are complementary to ours. However, acquisition or investment in businesses may require a significant commitment of management time, capital investment and other management resources. We cannot assure you that we will be successful in identifying and negotiating acquisitions or investments on favorable terms. To integrate acquired businesses, we must implement our technology systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests. We may need to enter new markets, such as the automotive electronics market, in which we have no or limited experience and where competitors in such markets have stronger market positions. Failures or difficulties in integrating the operations of the businesses that we acquire, including their personnel, technology, financial systems, distribution and general business operations and procedures, and supply and other relationships, may affect our ability to increase our revenues and may result in us incurring asset impairment or restructuring charges. Furthermore, acquisitions and investments are often speculative in nature and the actual benefits we derive from them could be lower or take longer to materialize than we expect. If we are unable to execute, manage or integrate our acquisitions and investments effectively, our growth, operating results and financial condition may be materially and adversely affected.

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

Our success depends on the continued service of our key management team members, and in particular, Mr. Zhou Zixue, Chairman of our board of directors and Executive Director as well as Dr. Zhao Haijun and Dr. Liang Mong Song, both the Co-Chief Executive Officer and Executive Director. We do not carry full key person insurance. If we lose the services of any of our key executive officers, it could be very difficult to find, relocate and integrate adequate replacement personnel into our operations. As a result, our operations and the growth of our business could be materially and adversely affected.

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

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

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

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

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

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

The semiconductor industry is developing rapidly and the related technologies are constantly evolving. We must be able to anticipate the trends in technology development and rapidly develop and implement new and innovative technologies that our customers require to produce sufficiently advanced products at competitive prices and within the time window of market opportunities. To do this, we must make long-term investments,

develop or obtain appropriate intellectual property and commit significant resources based on forecasts. If there is large variation between our forecasts and the actual outcome, our long-term investments will not yield satisfactory results and our business and operations will be adversely affected.

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

Fluctuations in demand for and average selling prices of our products and services may result in a decrease in our revenue and earnings and adversely affect our results of operations.

The customer demand for and average selling prices of most of our products and services are subject to fluctuation. Intense market competition, evolving industry standards and consumer trends, rapidly changing technology, changes in raw material costs, and other factors that are beyond our control are primary causes of the fluctuations in the customer demand for and average selling prices of our products and services. To remain competitive and maintain customer demand and average selling prices, we need to continually innovate, develop and enhance our existing product and services and introduce new products and services to cater to the everchanging market. However, there is no assurance that we can ensure our market competitiveness, or that we will not continue to experience volatile or declining customer demand and average selling prices for our products and services in the future, or that customer demand and average selling prices will remain consistently at the same level. If we cannot increase our sales volume to compensate for the loss of revenue and earnings caused by volatile or declining customer demand and average selling prices for our products and services, its gross profit margin and its results of operations could be adversely affected.

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

We have been dependent on a small number of customers for a substantial portion of our business. For the years ended 31 December 2016, 2017 and 2018, our five largest customers accounted for 54.6 per cent., 51.4 per cent. and 46.2 per cent. of our total sales, respectively. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our sales. Sales generated from these customers, individually or in the aggregate, may not reach our expectations or historical levels in any future period. Our sales could be significantly reduced if any of these customers cancels or reduces its orders, significantly changes its product delivery schedule, or demands lower prices, which could have an adverse effect on our results of operations.

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

For the year ended 31 December 2018, our capital expenditures amounted to approximately US\$1,813.4 million and we currently expect our capital expenditures for foundry operations in 2019 to total approximately US\$2.1 billion, which are mainly for expansion of capacity in our majority-owned Shanghai 300mm fab and FinFET R&D line, subject to adjustment based on market conditions. In addition, we have budgeted approximately US\$105.8 million as the 2019 capital expenditures for non-foundry operations mainly for the construction of employees' living quarters as part of our employee retention program. Our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, customer requirements or interest rates. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet our growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

Our operating cash flows may not be sufficient to meet our capital expenditures requirements. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing, such as issuance of ordinary shares and perpetual subordinated convertible securities in 2019. Our ability to obtain external financing is subject to a variety of uncertainties, including:

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

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

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

We spent approximately US\$2,694.7 million, US\$2,487.9 million and US\$1,813.4 million to construct, equip and ramp up our fabs for the years ended 31 December 2016, 2017 and 2018, respectively. We plan to increase our production capacity through expansion of existing production sites, such as Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”), Semiconductor Manufacturing International (Beijing) Corporation (“SMIC Beijing”), Semiconductor Manufacturing International (Tianjin) Corporation (“SMIC Tianjin”), Semiconductor Manufacturing International (Shenzhen) Corporation, (“SMIC Shenzhen” or “SMIZ”), all of which are our wholly-owned subsidiaries, as well as Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”), our majority-owned subsidiary in Beijing, Semiconductor Manufacturing South China Corporation (“SMSC”), our majority-owned subsidiary in Shanghai and SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”), our majority-owned bumping facility in Jiangyin. There are a number of events that could delay these expansion projects or increase the costs of building and equipping these or future projects in accordance with our plans. Such potential events include, but are not limited to:

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

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

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

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

The worldwide semiconductor foundry industry is highly competitive. We compete with other foundries, such as Taiwan Semiconductor Manufacturing Company Ltd. (“TSMC”), United Microelectronics Corporation (“UMC”), and Global Foundries, as well as the foundry services offered by some IDMs, such as Samsung Electronics Co. Ltd. We also compete with smaller semiconductor foundries in China, Korea, Malaysia and other countries. While different players in the wafer foundry market may compete on factors such as technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, yields, customer service and price, we seek to compete on the basis of process technology capabilities, performance, quality, service and price. The level of competition differs according to the process technology involved. Some of our competitors have greater access to capital and substantially higher capacity, longer or more established relationships with their customers, superior research and development capability, and greater marketing and other resources than we do. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

Some of our competitors have established operations in mainland China in order to compete for the growing domestic market in China. TSMC has its own fab in Shanghai, a wholly-owned 12-inch fab and a design service center in Nanjing. UMC has its majority-owned 8-inch fab in Suzhou and a 12-inch joint venture fab in Xiamen. In these cases, we understand that the ability of these fabs to manufacture wafers using certain more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

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

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

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

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

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements to enable us to manufacture certain advanced wafers. As of 31 December 2018, we had been granted 9,076 patents worldwide, of which, 70 were in Taiwan, 1,158 were in the U.S., 7,819 were in China and 29 were in other jurisdictions. In comparison, we believe our competitors and other industry participants have been issued many more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors. We expect there is no group of important patents set to expire in 2019 or 2020.

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

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

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

Enhancing our process technologies is critical to our ability to provide high quality services for our customers. One way to enhance our process technologies is the formation of technology alliances under which we expect to leverage our technology partners to advance our portfolio of process technologies to minimize development risk and shorten development cycle. We currently have joint technology development arrangements and technology sharing arrangements with several companies and research institutes. If we are unable to continue our technology alliances with these entities or maintain mutually beneficial terms on our other joint development arrangements, research and development alliances and other similar agreements or enter into new technology alliances with other leading developers of semiconductor technology, we may not be able to continue providing our customers with leading edge process technology on time, which could adversely affect our competitive position and operating results.

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

External factors such as potential terrorist attacks, acts of war, financial crises, the global economic crisis, or political, geopolitical and social turmoil in those parts of the world that serve as markets for our products could significantly adversely affect our business and operating results in ways that cannot presently be predicted. These uncertainties could make it difficult for our customers and us to accurately plan future business activities. For example, we purchase raw materials and other services from numerous suppliers, and, even if our facilities were not directly affected by such events, we could be affected by interruptions at such suppliers. Such suppliers may be less likely to be able to quickly recover from such events and may be subject to additional risks such as financial problems that limit their ability to conduct their operations. We cannot assure you that we will have insurance to adequately compensate us for any of these events. More generally, these geopolitical, social and economic conditions could result in increased volatility in worldwide financial markets and economies that could adversely impact our sales. We are not insured for losses and interruptions caused by terrorist acts or acts of war. Therefore, any of these events or circumstances could adversely affect our business and operating results.

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

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

Exchange rate fluctuations could increase our costs, which could adversely affect our operating results.

Our financial statements are prepared in U.S. dollars. The majority of our sales are denominated in U.S. dollars and Renminbi. Our manufacturing costs and capital expenditures are generally denominated in U.S. dollars, Japanese Yen, Euros and Renminbi. Although we enter into foreign currency forward exchange contracts and cross currency swap contracts to partially hedge our exposure to exchange rate fluctuations, we are still affected by fluctuations in exchange rates between the U.S. dollar and each of the Japanese Yen, the Euros and the Renminbi. Any significant fluctuations among these currencies may lead to an increase in our costs, which could adversely affect our operating results. Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results.

If we fail to maintain an effective system of internal control, we may not be able to achieve the business objectives in operations, financial reporting integrity, and compliance with applicable laws and regulations.

We are required to comply with various PRC, Hong Kong and U.S. laws and regulations. For example, we are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring public companies to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial

reports, compliance with applicable laws and regulations, and to effectively achieve our operation objectives. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal controls, including any failure to implement required new or improved controls, or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, our operating results could be harmed, and investors could lose confidence in the reliability of our financial statements. As a result, our business could be negatively impacted.

Internet security system breaches, cyber-attacks and other disruptions could compromise our information and systems, which would cause our business and reputation to suffer.

We store sensitive data, including intellectual property and proprietary business information belonging to our company, our customers, our suppliers and our business partners. The secure maintenance of this information is critical. Despite our security measures, our information technology and infrastructure may be vulnerable to breaches by hackers, employee error, malfeasance or other disruptions such as natural disasters, power losses or telecommunication failures. Any such breach could compromise our networks and the information stored, possibly resulting in legal and regulatory actions, disruption of operations and customer services, and otherwise harming our business and future operations.

Our tangible and intangible assets may be written down when impaired, any impairment charges may adversely affect our net income.

Under IFRS, we are required to assess our assets to determine whether an asset may be impaired. An impairment loss exists and is recorded in our books when the carrying value of an asset exceeds its recoverable value. With the exception of goodwill and certain intangible assets for which an annual impairment test is required, we are required to conduct impairment tests where there is an indication of impairment of an asset.

At the end of each reporting period, we are required to assess whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the impairment loss will be reversed up to the newly estimated recoverable amount, not to exceed the original value recorded. Goodwill impairment will not be reversed. As of December 31, 2018, the carrying amount of property, plant and equipment was US\$6,778.0 million and the carrying amount of intangible assets was US\$122.9 million.

Currently we are not able to estimate the amount of impairment loss or when the loss will occur for future years. Any potential changes of the business assumptions, such as forecasted sales, selling prices and utilization, may have a material adverse effect on our net income.

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

We have incurred and may continue to incur, indebtedness to finance our developments and working capital which may adversely affect our financial health and our operating results. As of 31 December 2018, we had a total indebtedness of approximately US\$3.43 billion.

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

- we will be required to dedicate a portion of our cash flow towards repayment of our existing debt and interest, which will reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate requirements;
- our ability to obtain additional financing in the future on favourable terms may be impaired;
- our ability to take advantage of significant new business opportunities may be limited;

- it will be more difficult for us to satisfy our payment obligations if market or operational conditions deteriorate; and
- there could be an adverse effect on our business, financial condition and results of operations if we are unable to service our indebtedness.

We face the risk of litigation, regulatory investigations and other proceedings in relation to our business.

A substantial liability arising from a lawsuit judgement or a significant regulatory action against us or a disruption in our business arising from adverse adjudications in proceedings against us, our subsidiaries, directors, officers or employees could have a material adverse effect on our business, financial condition and results of operations. For example, on 2 October 2019, CIC Development Co. LTD. filed a lawsuit against SMIC (Beijing) in relation to a dispute concerning delayed payment in connection with a joint development project for some residential buildings. The claim is for approximately RMB 130,926,416.49.

In addition, even if any litigation, regulatory action or investigation is concluded in our favour, such proceedings could significantly harm our reputation, which could materially affect our business, financial condition and results of operations.

Risks Relating to Manufacturing

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

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

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

We may experience difficulty in ramping up production at new or existing facilities. This could be due to a variety of factors, including hiring and training new personnel, implementing new fabrication processes, recalibrating and re-qualifying existing processes and the inability to achieve required yield levels.

In the future, we may face construction delays or interruptions, infrastructure failure, or delays in upgrading or expanding existing facilities or changing our process technologies, which may adversely affect our ability to ramp up production in accordance with our plans. Our failure to ramp up our production on a timely basis could cause delays in product deliveries, which may result in the loss of customers and sales. It could also prevent us from recouping our investments in a timely manner or at all, and otherwise adversely affect our business and operating results.

We have formed joint ventures that, if not successful, could adversely impact our business and operating results.

In July 2004, we announced an agreement with Toppan Printing Co., Ltd., to establish Toppan SMIC Electronics (Shanghai) Co., Ltd., a joint venture in Shanghai, to manufacture color filters and micro-lenses for CMOS image sensors.

In December 2013, we lost control of Brite Semiconductor Corporation and its subsidiaries (“**Brite**”), but still have significant influence over it. We recorded our ownership interest of Brite as investment in associate. Brite is principally engaged in development and design of integrated circuits.

On December 22, 2014, (i) SilTech Semiconductor (Shanghai) Corporation Limited (“**SilTech Shanghai**”), one of our indirectly wholly-owned subsidiary;(ii) Jiangsu Changjiang Electronics Technology Co., Ltd (“**JCET**”); and (iii) China Integrated Circuit Industry Investment Fund Co. Ltd. (“**China IC Fund**”) entered into a co-investment agreement to form an investment consortium in connection with the proposed acquisition of STATS ChipPAC Ltd. (“**STATS ChipPAC**”), a leading provider of advanced semiconductor packaging and test services in the world and a company incorporated in the Republic of Singapore, shares of which were listed on the Singapore Exchange Securities Trading Limited before the acquisition. On June 18, 2015, according to the co-investment agreement, we invested US\$102 million as a capital contribution for 19.6 per cent. ownership interest in Suzhou Changjiang Electric Xinke Investment Co., Ltd. (“**Changjiang Xinke**”), a company incorporated in Jiangsu province, China, which is accounted as an associate of the Group.

On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61 per cent. ownership interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET’s issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. On May 10, 2017, the Company was notified by JCET that the China Securities Regulatory Commission has granted approval for this transaction, and the disposal agreement and the subscription agreement became effective accordingly. On June 19, 2017, the transactions were completed and SMIC became the single largest shareholder of JCET. The Group recorded its ownership interest of JCET as investment in associate due to its right to nominate directors of JCET’s board. On August 30, 2018, the Company has, through its wholly-owned subsidiary Siltech Semiconductor (Shanghai) Corporation Limited, completed a subscription for 34,696,198 shares in JCET in cash by way of private placement (the “**Subscription**”). The shares were subscribed at a price of RMB14.89 per share, with the total subscription price being RMB516.6 million. Immediately before and after completion of the Subscription, the shareholding interest of the Company in JCET is 14.28 per cent..

On March 22, 2018, NSI, SMIC Holdings Corporation (“**SMIC Holdings**”) and China IC Fund entered into the equity transfer agreement, pursuant to which SMIC Holdings has agreed to sell its equity Interests to China IC Fund. Upon the completion of the equity transfer, the shareholding of SMIC Holdings in NSI will decrease from approximately 66.76 per cent. to 38.59 per cent., and NSI will cease to be a subsidiary of the Company and its financial results will cease to be consolidated with the Group’s results. The equity transfer was completed in April 2018 and the Group recorded its ownership interest of NSI as investment in associate.

On March 23, 2018, NSI, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd, Beijing Integrated Circuit Design and Testing Fund, Ningbo Integrated Circuit Industry Fund and Infotech National Emerging Fund entered into the capital increase agreement, pursuant to which (i) SMIC Holdings has agreed to make further cash contribution of RMB565.0 million into the registered capital of NSI. Its shareholding in NSI will decrease from approximately 38.59 per cent. to approximately 38.57 per cent.; (ii) China IC Fund has agreed to make further cash contribution of RMB500.0 million into the registered capital of NSI. Its shareholding in NSI will increase from approximately 28.17 per cent. to approximately 32.97 per cent..

In March 2018, we announced an agreement with SMIC, Shaoxing Government, and Shengyang Group, to establish Semiconductor Manufacturing Electronics (Shaoxing) Corporation, a joint venture in Shaoxing, to manufacture the manufacture of MEMS and power devices.

The results of our joint ventures which we do not have control are reflected in our operating results to the extent of our ownership interest, and gains of the joint ventures could impact our operating results. As integration of assets and operations being contributed by each partner will involve complex activities that must be completed

in a short period of time, the joint ventures may face numerous challenges to successful operation, including all operational risks that customarily relate to manufacturing, sales, service, marketing, and corporate functions, which, if unsuccessful, may adversely impact our business and operating result.

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

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices and in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers, almost all of which are sourced from outside China. We currently purchase approximately 74.5 per cent. of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced from outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or disrupted; if there are significant increases in their prices; or if the lead times for the supply of raw materials and necessary spare parts are extended, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.

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

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

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

In February 2016, a temporary power supply suspension occurred at our fabs in Beijing but it did not cause any casualty or equipment damage, and there was no material adverse financial impact on the Company.

Our operations may be delayed or interrupted due to natural disasters which could adversely affect our business and operating results.

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes in addition to requiring extensive amounts of fresh water and a stable source of electricity. The occurrence of natural disasters such as the April 2016 earthquake in Japan may disrupt this required access to goods and services provided by our suppliers as well as access to fresh water and electricity. As a result of such risk, our production could be limited or delayed due to the disruption of access to required supplies, in addition to possible damage caused to our manufacturing equipment and related infrastructure, which could adversely affect our business and operating results.

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

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

Our operations may be delayed or interrupted and our business could suffer as a result of steps we may be required to take in order to comply with environmental regulations.

We are subject to a variety of Chinese and European Union environmental regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. Any failure or any claim that we have failed to comply with these regulations could cause delays in our production and capacity expansion and affect our company's public image, either of which could harm our business. In addition, any failure to comply with these regulations could subject us to substantial fines or other liabilities or require us to suspend or adversely modify our operations.

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

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

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

Furthermore, continued serious air pollution in Chinese cities where we operate could pose long-term health risks to our employees and make recruiting and retaining employees more difficult.

Risks related to New Investment Fund

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

On 27 February 2014, our wholly-owned subsidiary, SMIC Shanghai, established a wholly-owned investment fund in Shanghai which is called China IC Capital Co., Ltd. (the "**Fund**"). As of 31 December 2018, the Fund has a capital of RMB1,342.5 million, all funded by SMIC Shanghai. With an operating period of 15 years from the date of the issuance of its business license, the Fund is operated and managed by China Fortune-Tech Capital Co., Ltd ("**China Fortune-Tech**"), which was established by SMIC Shanghai and an independent third party on 27 February 2014. As of 31 December 2018, we held 19.5 per cent. ownership interest of China Fortune-Tech, which was accounted as investment in associates.

The Fund is intended to invest primarily in the integrated circuits industry but will also invest in other strategic emerging industries such as energy saving and environmental protection, information technology and new energy as well as some other traditional industries. While we generally expect China's integrated circuits industry to develop rapidly in the next decade and we believe that the other industries we will invest in also

have a promising prospect of development, uncertainties due to the slow recovery of the world economy, the global market demand and consumption behaviour may lead to weak market demand in the industries in which we may choose to invest and our investees may not be able to execute their business strategies as successfully as they expect.

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

Risks Related to Conducting Operations in the PRC

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

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

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

We face uncertainty from PRC's Circular on Strengthening the Management of Enterprise Income Tax Collection of Income Derived by Non-resident Enterprises from Equity Transfers.

The State Administration of Taxation of PRC issued the Public Notice of the State Administrative of Taxation Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises ("**Circular No.7**") on February 3, 2015, which further regulates and enhances the administration of Corporate Income Tax (the "**CIT**") on indirect transfer of the ownership interest in a China Tax Resident Enterprise (the "**TRE**"), and other properties in China by non-TREs. Circular No. 7 takes effect from its issuance date (February 3, 2015) and the unsettled tax matters before the effective date shall follow the instructions of Circular No. 7.

Under Article 1 in Circular No. 7, where a Non-TRE indirectly transfers the ownership interest in a China TRE and other properties in China through the implementation of a scheme without a reasonable commercial purpose and resulting in the avoidance of CIT liability, such indirect transfer should be re-characterized as a direct transfer of the ownership interest in the TRE and other properties in China. In addition, under Circular No. 7, the "**indirect transfer of taxable properties in China**" should refer to the Non-TRE, through the transfer of the equity and other similar rights ("**the equity**") of an overseas enterprise (not including overseas incorporated Chinese TREs) ("**Overseas Enterprise**") which directly or indirectly owns taxable properties in China, generates the same or similar substantive outcome as compared with a direct transfer of taxable properties in

China, including change in shareholder of an Overseas Enterprises resulting from restructurings of the Non-TRE. The Non-TRE who indirectly transfers taxable properties in China is referred as the “**Equity Transferor**”.

We do not believe that the transfer of our ordinary shares by our non-PRC shareholders should be treated as an indirect transfer of ownership interest in our PRC subsidiaries subject to Circular No. 7, as the share transfer is carried out for listing purpose and not carried for the main purposes of avoiding PRC taxes. However, Circular No.7 is relatively new and there is uncertainty as to the interpretation and application of Circular No.7 by the PRC tax authorities in practice. If you are required to pay PRC withholding tax on the transfer of our ordinary shares, your investment in us may be materially and adversely affected. In addition, we cannot predict how Circular No.7 will affect our financial conditions or operations. For example, we may be required to expend valuable resources on complying with Circular No. 7 or establishing that we should not be taxed under Circular No.7, any of which could have an adverse effect on our financial condition and results of operations.

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

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

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

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

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

The value of the Renminbi is subject to changes in China’s governmental policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People’s Bank of China (the “**PBOC**”), which are set daily based on the previous day’s interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to U.S. dollar exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation. On 21 July, 2005, the PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. The central parity rate of the U.S. Dollar to Renminbi was set at 6.8632 on 31 December, 2018 compared with 6.5342 on 31 December, 2017 by the PBOC. The cumulative appreciation of the Renminbi against the U.S. dollar in 2018 was approximately 5.04 per cent.. There still remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant fluctuation of exchange rate of the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile which could have an adverse effect on our business and operating results.

In the past, financial markets in many Asian countries have experienced severe volatility and, as a result, some Asian currencies have experienced significant devaluation from time to time. The devaluation of some Asian currencies may have the effect of rendering exports from China more expensive and less competitive and therefore place pressure on China's government to devalue the Renminbi. An appreciation in the value of the Renminbi could have a similar effect. Any devaluation of the Renminbi could result in an increase in volatility of Asian currency and capital markets. Future volatility of Asian financial markets could have an adverse impact on our ability to expand our product sales into Asian markets outside of China.

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. For the year ended 31 December 2018, approximately 37.1 per cent. of our sales were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these proceeds into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we may not be able to meet our foreign currency payment obligations.

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

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

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

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

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

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

Risks Relating to the PRC

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

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

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

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

The Group conducts most of its business operations in the PRC. Accordingly, its financial condition, results of operations and prospects depend to a significant extent on economic developments in the PRC.

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

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

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

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

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

The Group relies primarily on domestic demand to achieve growth in its revenue. Such demand is materially affected by industrial development, the growth of private consumption and the overall economic growth in China as well as policy support for its target industries and for its financial services. Any deterioration of these industries in China resulting from a global economic downturn or the Chinese government's macroeconomic measures affecting these industries may have a material adverse impact on its financial performance and prospects. Furthermore, any deterioration in the financial condition of its customers in these industries or any industry-specific difficulties encountered by these customers could affect its business, thereby materially and adversely affecting its business, financial condition, results of operations and prospects.

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

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

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

The Implementing Rules of PRC EIT Law currently in force defines the term “**de facto management bodies**” as “bodies that substantially carry out comprehensive management and control of the business operations, employees, accounts and assets of enterprises”. Under the PRC EIT Law, an enterprise outside of the PRC whose “**de facto management bodies**” are located in the PRC is considered a “**resident enterprise**” and will be subject to a uniform 25 per cent. enterprise income tax rate on its global income. In January 2008, the State Administration of Taxation further specified criteria for the determination of the “**de facto management bodies**” for foreign enterprises, which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “**de facto management bodies**” located in the PRC and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (iii) the enterprise's primary assets, accounting books and records, company seals, and

board and shareholders' meeting minutes are located or maintained in the PRC, and (iv) 50 per cent. or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

We are not currently treated as a PRC resident enterprise by the relevant tax authorities. Furthermore, based on the current financial and operation status of the Company, the Company's potential PRC EIT risk is fairly remote. There is no assurance that it will not be considered a "**resident enterprise**" under the PRC EIT Law and not be subject to the enterprise income tax rate of 25 per cent. on its global income in the future.

Loans in PRC Subsidiaries.

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

The Group's prospects, financial condition and results of operations may be affected by events which are outside its control.

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

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

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

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

The Group's core business is conducted in the PRC and therefore substantially all of its operations are located in the PRC. Its business operations are regulated primarily by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, including regulations such as the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (Fa Gai Wai Zi [2015] No. 2044) (the "NDRC Notice"). Unlike the common law systems, past court judgments in the PRC have limited precedential value and may be cited only for reference. Furthermore, PRC written statutes often require detailed interpretations by courts and enforcement bodies for their application and enforcement. Such laws and regulations are still evolving in view of the limited number and non-binding nature of published cases and the relatively new nature of certain of such laws and regulations, such as the NDRC Notice. As such, the interpretation of PRC laws may be subject to political and policy changes. Since 1979, the PRC Government has been committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing business and commercial matters, such as in foreign investment, company organisation and management, commercial transactions, tax and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group.

PRC Labour Contract Law may result in increased labour costs.

On 29 June 2007, the PRC Government enacted the New Labour Contract Law, which became effective on 1 January 2008 and was amended on 28 December 2012. The New Labour Contract Law establishes additional restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labour union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the New Labour Contract Law, an employer is obligated to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after two consecutive fixed term labour contracts. The employer must also pay compensation to employees if the employer terminates a labour contract without any justified reason. Unless an employee refuses to extend an expired labour contract with fixed term, compensation is also required when the labour contract expires and the employer does not extend the labour contract with the employee under the same terms or better terms than those in the original contract. Further, under the Regulations on Paid Annual Leave for Employees, which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day. As a result of these protective labour measures or any additional future measures, the Group's labour costs may increase. The Group cannot give assurance that any disputes, work stoppages or strikes will not arise in the future.

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

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

Under the PRC Anti-Monopoly Law, an entity that enters into monopolistic agreements or abuses its dominant market position may be subject to penalties, including confiscation of illegal gains and fines ranging from 1 per cent. to 10 per cent. of its revenue for the preceding year. If an entity pursues an illegal consolidation, it may be forced to terminate the consolidation, divest its shares and assets or businesses within a limited period or

otherwise unwind the consolidation. The operating flexibility of the Group's PRC subsidiaries and the Group's business expansion through a merger with or acquisition of other competitors may be subject to strict examination and approval by the State Administration for Market Regulation, which is the main authority in charge of reviewing anti-monopoly issues related to business combinations. In the event of non-compliance with the PRC Anti-Monopoly Law, the Group may be subject to substantial fines and other penalties. In the event of these circumstances, its business model and revenues may be adversely affected.

Risks Relating to the Bonds

The Bonds are unsecured obligations.

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

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

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

Holders of the Bonds are not entitled to rights with respect to the Shares, but are subject to changes made with respect to the Shares.

Holders of the Bonds are not entitled to any rights with respect to the Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on the Shares) prior to the time such Bondholders convert the Bonds for Shares and are themselves registered as holders thereof. However, such Bondholders are subject to all changes affecting the Shares. For example, in the event that an amendment is proposed to the Issuer's articles requiring shareholder approval, and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the date of conversion of the Bonds for such Shares and (as applicable) the date of registration by the relevant Bondholder as the holder thereof, that Bondholder would not be entitled to vote on the amendment but would nevertheless be subject to any resulting changes in the powers, preferences or special rights that affect the Shares after conversion.

Short selling of the Shares by purchasers of the Bonds could materially and adversely affect the market price of the Shares.

The issuance of the Bonds may result in downward pressure on the market price of the Shares. Many investors in convertible bonds seek to hedge their exposure in the underlying equity securities, often through short selling the underlying equity securities or similar transactions. Any short selling or similar hedging activity could place significant downward pressure on the market price of the Shares, thereby having a material adverse effect on the market value of the Shares as well as on the trading price of the Bonds.

Future issuances of Shares or equity-related securities may depress the trading price of the Shares.

Any issuance of the Issuer's equity securities after this Offering of the Bonds could dilute the interest of the existing shareholders and could substantially decrease the trading price of the Shares. The Issuer may issue equity securities in the future for a number of reasons, including to finance its operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust its ratio of debt to equity, to satisfy its obligations upon the exercise of outstanding warrants, options or other convertible bonds or for other reasons. Sales of a substantial number of Shares or other equity-related securities in the

public market (or the perception that such sales may occur) could depress the market price of the Shares, and impair the Issuer's ability to raise capital through the sale of additional equity securities. There is no restriction on the Issuer's ability to issue bonds or the ability of any of the Issuer's shareholders to dispose of, encumber or pledge the Shares, and there can be no assurance that the Issuer will not issue bonds or that the Issuer's shareholders will not dispose of, encumber or pledge the Shares. The Issuer cannot predict the effect that future sales of the Shares or other equity-related securities would have on the market price of the Shares. In addition, the price of the Shares could be affected by possible sales of the Shares by investors who view the Bonds as a more attractive means of obtaining equity participation in the Issuer and by hedging or engaging in arbitrage trading activity involving the Bonds.

Bondholders will bear the risk of fluctuations in the price of the Shares.

The market price of the Bonds at any time will be affected by fluctuations in the price of the Shares. The Shares are currently listed on the Hong Kong Stock Exchange. There can be no certainty as to the effect, if any, that future issues or sales of Shares, or the availability of Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the price of the Bonds. Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds.

The Issuer's results of operations, financial condition, future prospects and business strategy could also affect the value of the Shares.

The trading price of the Shares will be influenced by the Issuer's operational results (which in turn are subject to the various risks to which its businesses and operations are subject) and by other factors such as changes in the regulatory environment that may affect the markets in which the Issuer operates and capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the value of the Shares. Any decline in the price of the Shares would adversely affect the market price of the Bonds.

Conversion of the Bonds would dilute the ownership interest of existing shareholders and could also adversely affect the market price of the Shares.

The conversion of some or all of the Bonds would dilute the ownership interests of existing shareholders. Any sales in the public market of the Shares issuable upon such conversion could adversely affect prevailing market prices for the Shares. In addition, the conversion of the Bonds might encourage short selling of the Shares by market participants.

Holders have limited anti-dilution protection.

The Conversion Price (as defined in the "Terms and Conditions of the Bonds") will be adjusted in the event that there is a subdivision, consolidation or reclassification of Shares, rights issue, capital distribution, capitalisation of profits or reserves or other events. See "Terms and Conditions of the Bonds — Conversion". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

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

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

The Issuer has not registered the Bonds or the ordinary shares issuable upon conversion of the Bonds under the Securities Act or other securities laws. Unless and until the Bonds have been registered, they may not be offered

or sold except in transactions that are exempt from the registration requirements of the Securities Act and hedging transactions may not be conducted unless in compliance with the Securities Act. The Bonds and the Shares issuable upon conversion thereof will not be freely tradable absent registration or an exemption from registration.

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

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

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds and the merits and risks of investing in the Bonds and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- understand thoroughly the terms of the Bonds; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Exchange Rate Risks.

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

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

In certain circumstances (including without limitation the giving of a notice pursuant to Condition 10 of the Terms and Conditions of the Bonds and the taking of any steps and/or actions and/or institute any proceedings pursuant to Condition 15 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes any steps and/or actions and/or institute any proceedings on behalf of Bondholders. The Trustee shall not be

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

Bondholders will be reliant on Euroclear and/or Clearstream procedures to exercise certain rights under the Bonds.

The Bonds will be represented on issue by a Global Certificate that will be registered in the name of a common depository on behalf of Euroclear and Clearstream. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Bonds in definitive form. Euroclear and Clearstream will maintain records of the beneficial interests in the Global Certificate. While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream.

While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Bonds by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificate will not have a direct right thereunder to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Trust Deed.

Payments on certain Bonds may be subject to US withholding under FATCA,

Whilst the Bonds are in global form and held within Euroclear Bank SA/NV and Clearstream Banking S.A. (together, the “ICSDs”), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax advisors to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer’s obligations under the Bonds are discharged once it has paid the common depository for the ICSDs (as registered holder of the Bonds) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

Lack of a public market for the Bonds.

The Bonds are a new issue of securities for which there is currently no established trading market when issued, and one may never develop. Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. However, there can be no assurance that the Issuer will be able to maintain such a listing or

that, if listed, a trading market will develop for the Bonds on the SGX-ST. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of Bonds.

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

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

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

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

USE OF PROCEEDS

We estimate that the net proceeds (net of fees, commissions and expenses) from the sale of the Bonds will be approximately US\$229.5 million.

We intend to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds for capital expenditure for capacity expansion and other general corporate purposes.

MARKET PRICE INFORMATION

The Shares have been listed on the Hong Kong Stock Exchange since 18 March 2004. The table below sets forth the closing prices and the quarterly trading volume of the Shares on the Hong Kong Stock Exchange for the periods indicated:

Period	Closing Share Price			Average daily trading volume
	High	Low	Average	
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>	
2004				
Second Quarter	24.50	15.90	19.27	3,682,887
Third Quarter	16.80	14.80	15.86	4,460,101
Fourth Quarter	19.40	15.90	17.52	11,132,336
2005				
First Quarter.....	17.50	14.80	15.97	6,280,801
Second Quarter	17.10	14.80	15.67	6,897,735
Third Quarter	17.60	12.10	15.92	6,835,202
Fourth Quarter	13.30	10.00	11.42	4,429,019
2006				
First Quarter.....	12.90	10.30	11.78	7,376,614
Second Quarter	12.10	10.00	11.12	5,516,353
Third Quarter	10.70	9.70	10.19	4,627,776
Fourth Quarter	10.30	8.70	9.58	5,252,427
2007				
First Quarter.....	12.90	9.00	11.03	10,171,330
Second Quarter	11.70	10.50	11.03	5,432,712
Third Quarter	11.70	8.50	9.70	6,325,786
Fourth Quarter	10.20	7.20	8.41	7,922,586
2008				
First Quarter.....	7.90	4.35	6.29	3,422,434
Second Quarter	6.90	4.45	5.38	9,213,762
Third Quarter	4.55	2.20	3.65	3,894,601
Fourth Quarter	3.35	1.17	1.86	9,241,025
2009				
First Quarter.....	3.55	2.39	2.76	7,366,791
Second Quarter	4.65	2.65	3.56	11,461,550
Third Quarter	4.50	3.65	3.94	5,105,668
Fourth Quarter	6.60	3.55	4.42	16,871,958
2010				
First Quarter.....	10.50	5.40	7.23	19,665,284
Second Quarter	10.30	5.40	7.49	11,881,414
Third Quarter	6.20	4.90	5.30	11,375,837

Period	Closing Share Price			Average daily trading volume
	High	Low	Average	
	(HK\$)	(HK\$)	(HK\$)	
Fourth Quarter	6.90	5.50	6.02	10,624,927
2011				
First Quarter.....	7.20	5.80	6.22	9,350,410
Second Quarter	9.10	5.90	6.68	26,647,693
Third Quarter	6.30	3.55	4.62	9,270,918
Fourth Quarter	4.50	3.60	3.96	4,861,986
2012				
First Quarter.....	4.45	3.70	4.07	4,391,094
Second Quarter	4.15	2.45	3.29	8,049,954
Third Quarter	3.15	2.39	2.81	5,315,560
Fourth Quarter	3.90	2.90	3.47	6,981,819
2013				
First Quarter.....	5.20	4.00	4.63	13,340,921
Second Quarter	7.20	4.55	5.88	19,144,649
Third Quarter	6.60	5.20	5.81	13,216,633
Fourth Quarter	6.50	5.40	5.90	15,312,146
2014				
First Quarter.....	8.40	5.80	6.87	31,563,312
Second Quarter	6.80	5.80	6.30	20,061,786
Third Quarter	8.20	6.70	7.43	21,536,264
Fourth Quarter	8.60	7.10	7.85	24,572,945
2015				
First Quarter.....	7.50	6.70	7.01	13,833,814
Second Quarter	9.50	7.80	8.56	46,046,302
Third Quarter	8.30	6.00	7.14	22,646,925
Fourth Quarter	8.80	7.10	7.82	17,318,487
2016				
First Quarter.....	7.80	6.40	6.87	16,103,138
Second Quarter	7.00	5.90	6.46	11,385,322
Third Quarter	9.00	6.20	7.60	23,783,662
Fourth Quarter	12.18	8.80	10.15	38,296,316
2017				
First Quarter.....	11.62	9.62	10.62	24,377,560
Second Quarter	9.86	7.74	8.79	25,234,384
Third Quarter	9.31	7.03	8.22	31,358,414
Fourth Quarter	14.36	8.80	11.41	90,470,633
2018				
First Quarter.....	12.76	8.86	10.96	42,435,600

Period	Closing Share Price			Average daily trading volume
	High	Low	Average	
	(HK\$)	(HK\$)	(HK\$)	
Second Quarter	11.48	9.49	10.42	46,442,751
Third Quarter	10.18	8.35	9.10	24,817,734
Fourth Quarter	8.41	5.99	7.03	27,775,850
2019				
First Quarter.....	8.50	6.31	7.58	27,130,672
Second Quarter	9.43	7.78	8.45	30,172,593
Third Quarter	10.72	8.26	9.07	24,360,727

Note: Share price and trading volume are adjusted due to share consolidation on 7 December 2016.

CAPITALISATION

The following table sets forth the Issuer's consolidated capitalisation as at 30 September 2019 and as adjusted to give effect to the principal amount of the Bonds before deducting the issue discount and Manager's commissions and other estimated expenses payable by the Issuer in connection with this offering. This table should be read in conjunction with the Issuer's consolidated financial statements and the accompanying notes, which are incorporated by reference in this Offering Circular.

	As at 30 September 2019	
	Actual	As adjusted
	<i>US\$'000</i>	<i>US\$'000</i>
Short-term borrowings	338,479	338,479
Long-term borrowings	2,179,017	2,179,017
Medium-term notes	211,314	211,314
Short-term notes.....	494,833	494,833
Bonds payable.....	500,000	500,000
Convertible Bonds	430,399	430,399
Convertible Bonds to be issued ⁽¹⁾	—	200,000
Total	4,154,042	4,354,042
Equity		
Ordinary shares	20,214	20,214
Share Premium.....	5,007,817	5,007,817
Reserves.....	50,628	50,628
Retained earnings.....	467,420	467,420
Perpetual subordinated convertible securities	563,848	563,848
Non-controlling interests.....	3,533,996	3,533,996
Total equity	9,643,923	9,643,923
Total capitalisation ⁽²⁾	13,797,965	13,997,965

Notes:

- (1) In accordance with International Accounting Standard 32 "Financial Instruments: Presentation", the Bonds shall be split into an equity and a liability component. For illustrative purposes only, the aggregate principal amount of Bonds to be issued has been presented as a liability in the above table.
- (2) Total capitalisation is defined to be the sum of Total equity and Long term borrowings.

There has been no material change in the consolidated capitalisation of the Issuer since 30 September 2019.

EXCHANGE RATE INFORMATION

The PRC

The PBOC, the central bank of the PRC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against the U.S. dollar by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the U.S. dollar. In January and February 2016, Renminbi experienced further fluctuations in value against the U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods prior to 18 November 2019:

Period	Noon Buying Rate			
	Low	Average ⁽¹⁾	High	Period end
	<i>(CNY per US\$1.00)</i>			
2011	6.294	6.462	6.636	6.294
2012	6.222	6.309	6.388	6.230
2013	6.060	6.148	6.245	6.062
2014	6.040	6.259	6.162	6.205
2015	6.187	6.490	6.283	6.478
2016	6.448	6.640	6.958	6.943
2017	6.477	6.757	6.958	6.506
2018	6.265	6.609	6.974	6.876
2019	6.682	6.896	7.719	7.025
January	6.696	6.786	6.871	6.696
February	6.682	6.737	6.791	6.691
March	6.692	6.712	6.738	6.711

Noon Buying Rate

	Low	Average⁽¹⁾	High	Period end
	<i>(CNY per US\$1.00)</i>			
April.....	6.687	6.716	6.742	6.735
May.....	6.732	6.852	6.918	6.903
June.....	6.851	6.898	6.930	6.865
July.....	6.849	6.878	6.893	6.883
August.....	6.897	7.063	7.163	7.154
September.....	7.066	7.114	7.179	7.148
October.....	7.038	7.096	7.147	7.038
November (up to 18 November).....	6.977	7.011	7.037	7.025

Note:

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

Hong Kong

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

The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods prior to 18 November 2019:

	Noon Buying Rate			
	Low	Average⁽¹⁾	High	Period end
	<i>(CNY per US\$1.00)</i>			
Period				
2011.....	7.763	7.784	7.809	7.766
2012.....	7.749	7.757	7.770	7.751
2013.....	7.750	7.757	7.765	7.754
2014.....	7.750	7.755	7.767	7.753
2015.....	7.750	7.752	7.769	7.751

Noon Buying Rate

	Low	Average⁽¹⁾	High	Period end
	<i>(CNY per US\$1.00)</i>			
2016	7.751	7.762	7.827	7.753
2017	7.754	7.793	7.827	7.813
2018	7.804	7.838	7.850	7.831
2019	7.796	7.838	7.850	7.827
January	7.831	7.841	7.846	7.846
February	7.846	7.848	7.850	7.850
March	7.847	7.849	7.850	7.850
April	7.837	7.845	7.850	7.845
May	7.839	7.848	7.850	7.839
June	7.808	7.826	7.843	7.810
July	7.796	7.813	7.828	7.828
August	7.827	7.842	7.847	7.840
September	7.818	7.835	7.843	7.840
October	7.837	7.842	7.845	7.838
November (up to 18 November)	7.826	7.829	7.837	7.827

Note:

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

GROUP STRUCTURE

Our Subsidiaries

We operate primarily through five wholly-owned subsidiaries (SMIC Shanghai, SMIC Beijing, SMIC Tianjin, ATD and SMIC Shenzhen) and three majority-owned subsidiaries (SMNC, SMSC and SJ Jiangyin) in the PRC. The table below sets forth our group structure, as at the date of this Offering Circular.

Name of company	Place of establishment and operation	Class of Shares held	Paid up registered capital	Proportion of ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
Better Way Enterprises Limited ...	Samoa	Ordinary	US\$1	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation#	PRC	Ordinary	US\$1,770,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America	Ordinary	US\$500,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation#	PRC	Ordinary	US\$1,000,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Japan Corporation	Japan	Ordinary	JPY10,000,000	Directly	100%	100%	Provision of marketing related activities
SMIC Europe S.r.l.	Italy	Ordinary	Euro\$100,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Cayman Islands	Ordinary	US\$11,000	Directly	100%	100%	Investment holding
SMIC Investment (Shanghai) Company #	PRC	Ordinary	US\$465,800,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation#	PRC	Ordinary	US\$770,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Development (Chengdu) Corporation#	PRC	Ordinary	US\$5,000,000	Directly	100%	100%	Construction, operation, and management of living quarters, schools, and supermarket
Semiconductor Manufacturing International (BVI) Corporation ...	British Virgin Islands	Ordinary	US\$10	Directly	100%	100%	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands	Ordinary	US\$10	Directly	100%	100%	Investment holding
SMIC Shanghai (Cayman) Corporation	Cayman Islands	Ordinary	US\$50,000	Directly	100%	100%	Investment holding
SMIC Beijing (Cayman) Corporation	Cayman Islands	Ordinary	US\$50,000	Directly	100%	100%	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands	Ordinary	US\$50,000	Directly	100%	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	Ordinary	US\$10,000	Directly	100%	100%	Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands	Ordinary	US\$50,000	Directly	100%	100%	Investment holding
SMIC New Technology Research & Development (Shanghai) Corporation#	PRC	Ordinary	US\$400,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Holdings Corporation#	PRC	Ordinary	US\$50,000,000	Directly	100%	100%	Investment holding

Name of company	Place of establishment and operation	Class of Shares held	Paid up registered capital	Proportion of ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
SJ Semiconductor Corporation	Cayman Islands	Ordinary and preferred	US\$5,668	Directly	56.045%	56.045%	Investment holding
Magnificent Tower Limited	British Virgin Islands	Ordinary	US\$50,000	Indirectly	100%	100%	Investment holding
SMIC Beijing (HK) Company Limited	Hong Kong	Ordinary	HK\$1	Indirectly	100%	100%	Investment holding
SMIC Tianjin (HK) Company Limited	Hong Kong	Ordinary	HK\$1	Indirectly	100%	100%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong	Ordinary	HK\$1	Indirectly	100%	100%	Investment holding
SMIC ShenZhen (HK) Company Limited	Hong Kong	Ordinary	HK\$1	Indirectly	100%	100%	Investment holding
SiTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	Ordinary	HK\$1,000	Indirectly	100%	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation#	PRC	Ordinary	US\$700,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SiTech Semiconductor Shanghai Corporation Limited#	PRC	Ordinary	US\$12,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation#	PRC	Ordinary	US\$3,900,000,000	Indirectly	51%	51%	Manufacturing and trading of semiconductor product
China IC Capital Co., Ltd#	PRC	Ordinary	RMB1,342,500,000	Indirectly	100%	100%	Investment holding
China IC Capital (Ningbo) Co., Ltd##	PRC	Ordinary	RMB269,500,000	Indirectly	100%	100%	Investment holding
Shanghai Hexin Investment Management Limited Partnership#	PRC	Ordinary	RMB17,775,918	Indirectly	99%	99%	Investment holding
SJ Semiconductor (HK) Limited ...	Hong Kong	Ordinary	HK\$1,000	Indirectly	56.045%	56.045%	Investment holding
SJ Semiconductor (Jiangyin) Corporation#	PRC	Ordinary	US\$330,000,000	Indirectly	56.045%	56.045%	Bumping and circuit probe testing activities
Semiconductor Manufacturing South China International Corporation#	PRC	Ordinary	US\$3,500,000,000	Indirectly	50.1%	50.1%	Manufacturing and trading of semiconductor products
SJ Semiconductor USA Co	United States of America	Ordinary and Preferred	US\$500,000	Indirectly	56.045%	56.045%	Provision of marketing related activities
SMIC Innovation Design Service Centre (Ningbo) Corporation#	PRC	Ordinary	—	Indirectly	100%	100%	Design activities
North China IC Innovation Center (Beijing) Co., Ltd#	PRC	Ordinary	RMB1,000,000	Indirectly	51%	51%	Design activities

Note:

For identification purposes only

BUSINESS

Business Overview

We are one of the leading dedicated semiconductor foundries in the world and Mainland China's largest foundry in scale, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services, providing integrated circuit (IC) foundry and technology services for a broad range of nodes from 0.35 micron (m) to 28 nanometer (nm), with capabilities including logic, mixed signal/RF, CMOS, high voltage, SoC, flash, EEPROM, CIS, power management IC, MEMS and others.

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

We were established in 2000 and are headquartered in Shanghai, the PRC. In 2004, we were listed on the Hong Kong Stock Exchange and the NYSE. As at the date of this Offering Circular, SMIC has voluntarily delisted from the NYSE due to a number of considerations, including the limited trading volume of the Company's ADSs relative to its worldwide trading volume, and the significant administrative burden and costs of maintaining the listing of the ADSs on the NYSE.

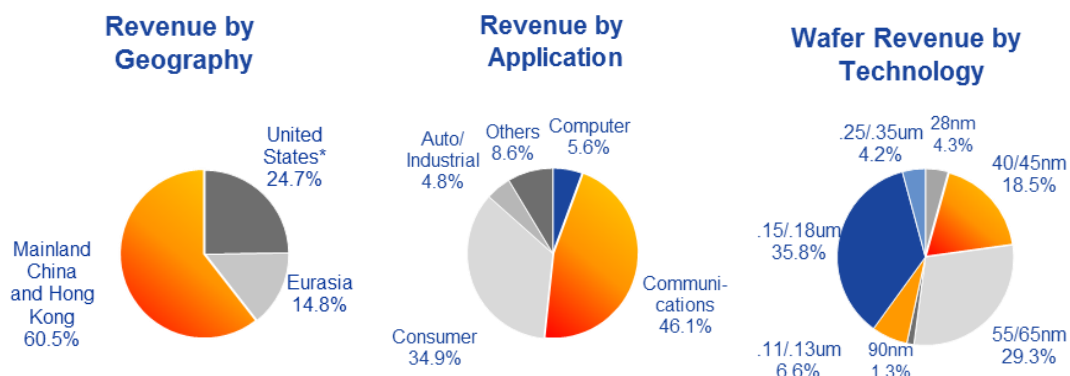
Our current substantial shareholders include PRC SOEs such as Datang Holdings and China IC Fund. We have received equity investment and strategic support from our SOE shareholders, being major players in their respective fields.

Our market capitalisation as of 30 September 2019 was approximately HK\$49.563 billion. We have market leading manufacturing capacity in the PRC and operate 12-inch and 8-inch wafer fabrication facilities (fabs) in Shanghai, Beijing, Tianjin and Shenzhen. We also have majority-owned joint ventures in Beijing and Shanghai focusing on 12-inch 45-nm and finer technology wafer fabrication, and in Jiangyin focusing on 12-inch bumping and related testing for 45-nm and finer technologies. We plan to continue to advance our technology and carefully expand both our mature and advanced capacities via close cooperation with our customers in order to capture available opportunities for growth and notable prospects. We have a network of customer service and marketing offices in the United States, Europe, Japan and Taiwan, and a representative office in Hong Kong.

In the last two years, we continued to successfully execute our long-term strategy with sustained profitability and at the same time advance our technology capabilities on leading edge and value-added differentiated processes. Our technology portfolio and proximity to the China market, coupled with our management team's proven track record in operations, technology development and customer service, has positioned us well for long term growth. In 2019, SMIC has delivered its technology development roadmap, is guided to deliver record core business revenue from manufacturing services in its China-based fabs, and has established mature node technology platforms, which are addressing a broad range of market opportunities. We successfully commenced production of 14nm FinFET and have been developing the next generations of advanced node technology. Our FinFET technology targets to address mobile, wireless, computing, AI, internet-of-things ("IoT") and automotive applications, as we expand our product and service offerings. In addition, our 28nm platforms continue to experience customer appeal and continued demand. Both PolySiON and High-K Metal Gate platforms continue to experience demand and we plan to transition our mix that is heavier on HKC and HKC+. The Company, together with China IC Fund and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd ("**Shanghai IC Fund**"), built up a

majority-owned subsidiary, SMSC, to speed up the introduction of advanced FinFET technology and products.

The following charts set forth our unaudited sales breakdown by application, geography and technology for the three months ended 30 September 2019:



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

Given our position as the largest and the most advanced foundry in the PRC, we are uniquely positioned to take advantage of the long-term growth of the global and domestic semiconductor markets.

Our Key Strengths

We are Mainland China’s most advanced and largest foundry, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services, and we are ranked in the top four pure-play foundries by revenue globally.

As the first pure-play foundry in the PRC to enter into mass production with 14nm wafer process technology, we are at the forefront of the PRC’s foundry business and a beneficiary to the growth of the PRC’s semiconductor industry. We are also equipped with the most advanced mask production capacity in the PRC and have successfully established our 14nm FinFET technology platform. We are continuing to engage with customers and expect revenue contribution by 2019 year-end.

We have expanded steadily since our incorporation and established ourselves as one of the leading foundries in the global arena. We achieved record high annual revenue in the year of 2018, amounting to US\$3.36 billion. Our technology, scale and location in China, together with our capable team, enable us to serve our customers to meet their diverse specifications.

We have established strong liquidity, stable financial position and diversified funding channels

We have a strong liquidity and stable financial position firmly grounded in and supported by our operating cash flow generation, prudent financial and risk management policies and access to multiple funding sources. Our diversified sources of funding include both debt and equity capital markets, as well as bank loans and credit lines. We also have long-standing and close relationships with domestic and international banks, including PRC commercial banks, PRC policy banks and large international banks. Capitalising on the above, coupled with our experienced management team, we believe that we are well positioned to continue to benefit from our strong

liquidity, stable financial position and enhanced access to capital to further expand our business operations and capture future potential growth opportunities.

We have benefited and continue to benefit from the PRC government’s commitment to the development of the semiconductor industry as well as strong strategic support from our PRC SOE shareholders.

We were one of the few semiconductor companies included in the PRC central government’s 12th 5-Year Plan and 13th 5-Year Plan, which among others, proclaims commitment and increasing support of and favourable industrial policies for the domestic semiconductor industry. As such, the government recognises our cornerstone role in the development of the domestic semiconductor eco-system and establishing the PRC standard in the domestic semiconductor industry.

In addition, we have a history of strategic support from our PRC SOE shareholders. Datang Holdings became our shareholder in 2008 when it agreed to subscribe for ordinary shares of US\$172 million in the Company through its subsidiary, Datang HK, and further strengthened its commitment to us by subscribing for further ordinary shares of US\$102 million in 2010. In September 2011, Datang HK subscribed for US\$58.9 million in convertible preferred shares. In May 2014, Datang HK subscribed for pre-emptive bonds of US\$54.6 million. In February 2015, China IC Fund subscribed for ordinary shares amounting to approximately US\$399.5 million through its wholly-owned subsidiary. In 2018, our two substantial SOE shareholders continued to strengthen their commitment to us. On 29 June 2018, we allotted and issued ordinary shares to Datang HK while Datang HK subscribed for our perpetual subordinated convertible securities of US\$200.0 million. On 29 August 2018, we allotted and issued ordinary shares, to China IC Fund while China IC Fund subscribed for our perpetual subordinated convertible securities of US\$300.0 million.

As of 30 September 2019, our two substantial SOE shareholders hold approximately a combined 33 per cent. of our shares.

We are uniquely positioned to leverage our research and development (“R&D”) leadership and capabilities in the PRC.

We focus our R&D efforts primarily on advanced logic and value-added specialty technologies, and have over the years achieved significant breakthroughs in the R&D of advanced technology and demonstrated noteworthy improvements in the efficiency of our R&D efforts.

We have completed our 14nm FinFET technology R&D and it is now in production. In addition, we have successfully developed the PRC’s first 14nm masks and now have the most advanced mask production capacity in the PRC. Meanwhile, our 12 nm technology development also achieved breakthrough. In 2018, SMIC made over 600 patent filings as a result of its technology R&D activities.

In 2013, we established the Beijing Joint Venture with China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Center (Limited Partnership), IDIMC, which is wholly owned by the PRC central government, and ZDG, which was established by the Beijing municipal government to develop the science park. The Beijing Joint Venture is expected to establish and build up significant manufacturing capacity with a focus on 45-nm and finer technologies. In addition, we have also established the Shanghai Joint Venture with China IC Fund and Shanghai IC Fund. The Shanghai Joint Venture is expected to establish and build up significant manufacturing capacity with a focus on 14-nm and finer technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. We also cooperate with Chinese and global industry leaders to enhance our R&D capability.

In addition, in order to encourage development of the semiconductor industry, the PRC central, provincial and local governments have extended various incentives to domestic companies in the industry, including reduced tax rates.

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

We have a global and diversified customer base that includes some of the leading international and fast growing domestic semiconductor IDMs and fabless and system companies. For the years ended 31 December 2016, 2017 and 2018, our operating revenue from customers was US\$2,914 million, US\$3,101 million and US\$3,360 million, respectively, reflecting a year-on-year increase. Geographically, customers from the North America contributed to 31.6 per cent. of the overall revenue in 2018, compared to 40.0 per cent. in 2017. Leveraging on the Group's strategic position in China, our revenue from customers in China contributed 59.1 per cent. of the overall revenue in 2018, compared to 47.3 per cent. in 2017. Eurasia contributed 9.3 per cent. of the overall revenue in 2018, compared to 12.7 per cent. in 2017.

Our clients have consistently recognised us as a partner of choice and repeatedly rewarded us for the quality of our services, strategic support and technology contributions. We have received various awards recognising our high level of performance and service as well as technological improvements. Several of these awards came from our top ten customers. Through a formation of global alliances with our top tier international customers and the incubation of local clients, we aim to continue to be the preferred foundry source partner in the PRC for international and domestic IDMs and fabless customers. We are gaining momentum in engaging with our key customers on both differentiated and advanced technologies.

Our long-term relationships with domestic customers continue to be strengthened with our unique combination of scale, advanced technological capabilities, locality and proximity to domestic clients. Our fabs are strategically located in major cities in the PRC with strong high-tech industries and semiconductor bases, such as Beijing, Shanghai, Tianjin and Shenzhen. As a result, we are able to meet the demands resulting from the continued growth and rise of China's electronic industry over the years by directly access our customers in the same or nearby cities and provide high-level localised services to address our customers' demands.

We are a transparent and compliant foundry in the PRC possessing export licences to manufacture the most advanced IC.

We have received the necessary export licences to provide the most advanced IC manufacturing services in the PRC, which includes manufacturing technology down to 14nm and conducting R&D down to 12nm. These export licensing approvals allow us to provide superior manufacturing services for customers in both domestic and international markets.

We have a highly-experienced management team.

We have a highly-experienced management team. Our senior management team is recognised as a group of highly respected industry veterans.

Dr. Zhao was appointed as the Executive Director with effect from 16 October 2017 and Chief Executive Officer (now known as Co-Chief Executive Officer) of the Company since 10 May 2017. Dr. Zhao joined the Company in October 2010 and was appointed as Chief Operating Officer and Executive Vice President in April 2013. In July 2013, Dr. Zhao was appointed as General Manager of Semiconductor Manufacturing North China (Beijing) Corporation, a joint venture company established in Beijing and a subsidiary of the Company. Dr. Zhao received his Bachelor of Science and Doctor of Philosophy Degree in Electronic Engineering from Tsinghua University (Beijing) and Master's Degree in Business Administration from the University of Chicago. He has 25 years of experience in semiconductor operations and technology development. Dr. Zhao has also served as an independent director on the board of directors of Zhejiang Juhua Co., Ltd. (Stock Code: 600160), a company which is listed on the Shanghai Stock Exchange, since November 2016.

Dr. Liang Mong Song was appointed as Co-Chief Executive Officer and the Executive Director of the company on 16 October 2017. Dr. Liang graduated with a Doctor of Philosophy Degree in Electrical Engineering from the Department of Electrical Engineering and Computer Sciences at University of California, Berkeley. Dr. Liang has been engaged in the semiconductor industry for over 34 years, and was mainly involved in the

memory and advanced logic process technology development. Dr. Liang has obtained a wealth of experience from his previous engagements with other top foundries and his involvement in 14nm technology. Dr. Liang owns over 450 patents and has published over 350 technical papers. He is a Fellow of the Institute of Electrical and Electronic Engineers (IEEE).

Dr. Gao Yonggang, a non-executive Director since 2009, was appointed as Executive Vice President, Strategic Planning of the Company and re-designated as an executive Director on June 17, 2013. He was appointed as the Chief Financial Officer of the Company on February 17, 2014 and was further appointed as the Joint Company Secretary on July 3, 2017. Dr. Gao is a director of certain subsidiaries of the Company. Dr. Gao has more than 30 years of experience in the area of financial management and has worked as Chief Financial Officer or person in charge of finance in various industries, including commercial, industrial, and municipal utilities, and in various types of organizations, including state-owned enterprises, private companies, joint ventures, and government agencies.

Dr. Zhou Meisheng, was appointed as Executive Vice President of Technology Research and Development on October 12, 2017. Dr. Zhou is a recruited professional from China's "National Recruitment Program of Global Experts" (the overseas high-level talent introduction plan). Before she joined the Company, she served as Lam Research China's Regional Chief Technology Officer, and prior to that, Dr. Zhou served as Vice President of SMIC, and before that, she has held various levels of management positions at Chartered Semiconductor Manufacturing, TSMC, UMC and Global Foundries.

Our management team has extensive experience in operations and technology development. We expect to capitalise on the rich experience and execution capabilities of the management team for the continued growth and development of the Company.

Our Development Strategies

Our long-term goal is to continue to focus on generating value for the benefit of all stakeholders. Our long-term business model is to function as the foundry service provider of choice in mainland China, while targeting to be a world-class service provider. Our strategy to generate sustainable growth and long-term profitability is three-fold. First, we aim to accelerate advanced technology development and expand product portfolios with various applications, in order to capture the market opportunities. Second, we are dedicated to offering our customers a one-stop shop solution with a full product portfolio including masks, intellectual property manufacturing, testing and packaging, to enable long-term commitment and customer relations. Third, we aim to capture advanced technology node demand and increased semiconductor market share, through strategic partnerships with key customers. We continue to evaluate the potential long-term value-addition of opportunities in our decision-making processes, and our management team is committed to building value in the long-term for the benefit of our employees and shareholders.

Methodology:

1 Invest in R&D and expand product portfolios.

Profitability is our priority. We continue to invest in advancing our technology through research and development on advanced nodes and on mature nodes for our differentiated technology. By continuing to invest in R&D, we aim to secure the future and prepare the baseline for which our differentiated technologies will migrate to in the future. We seek to accelerate our R&D activities, with an emphasis on FinFET technology, and work on precise execution to best serve our customers and capture the opportunities stemming from our position in China.

We leverage our location in the PRC to advance our technology by working closely with domestic customers and international customers with design centers in the PRC. We continue to increase and accelerate IP investment and R&D, to further enhance our technologies and facilitate collaboration with and enhance the

level of support provided to our customers. A strengthened IP portfolio will continue to enable us to help fast-growing fabless customers to migrate to more advanced technologies, and allow them to satisfy market demand in a timely manner.

In 2018, we invested over US\$0.6 billion in R&D activities, far exceeding the industry average of R&D expenses in terms of revenue. We completed the development of the second generation 28HKMG platform, 28HKC+, for both Base Band and RF applications, with 15 per cent. performance improvement and 25 per cent. power reduction as compared with the first generation 28HKMG technology 28HKC. We also established our 14nm FinFET technology and it is now in production. In addition, we have successfully developed the PRC's first 14nm masks and now have the most advanced mask production capacity in the PRC. Meanwhile, our 12 nm technology also achieved breakthrough.

2 Capitalise on our location and leading market position in the PRC, optimize product mix, and enhance customer relationships by delivering service and intellectual property support that are of high quality and increased efficiency.

Situated in one of the largest and fastest growing semiconductor markets in the world, we leverage our leading capacity and technology as well as locality and flexibility to win business from fast-growing domestic fabless companies, as well as international customers that are seeking to increase their presence in the PRC.

Through systematic analysis and planning, we selectively expand some of our capacity with minimal investment by adding bottleneck equipment, adjusting product mix and increasing efficiency. We continue to further optimize our product mix to capture demand to maximize utilization of existing and future capacity.

Customer relationships are also a crucial component of utilizing our capacity. As a manufacturing service provider, quality is of utmost importance to our customers. We position ourselves as the preferred foundry partner in the PRC, driven not only by capability and capacity, but also by customer service and quality.

Providing intellectual property (“IP”) is another critical element of building our customer relationships. We continue to increase and accelerate IP investment and R&D, to further facilitate collaboration with and enhance the level of support provided to our customers. A strengthened IP portfolio will continue to enable us to help fast growing fabless customers to migrate to more advanced technologies, and allow them to satisfy market demand in a timely manner.

3 Provide customers with added value and innovation, seize market opportunities in China, pursue leadership in selected differentiated technology applications platforms and develop close customer partnerships.

Our mature technology node platform strategy is to develop leadership and comprehensive services in selected specialty technologies, which have large end-market demand, especially strong growth in China. These technology platforms include value-added wafer manufacturing process technologies for specialty applications, such as power management IC, CMOS image sensors (“CIS”), Flash, embedded microprocessor (“MCU”), radio frequency IC (“RF”) and wireless connectivity, and fingerprint sensors. These applications are the essential building blocks for both mobile computing market and the growing IoT market in the near future. We are well positioned in China to serve both domestic and worldwide customers, providing one-stop solutions for our customers using our proprietary technologies, IP and strong manufacturing capabilities.

As we focus on building up our technology offerings, we invest resources to develop technology that will allow us to seize large market opportunities especially those with strong growth in China. By focusing on comprehensive platforms, we aim to serve and capture an increasing number of products and customers.

In 2018, revenue contribution from communication applications represented 41.2 per cent. to overall revenue in as compared to 44.3 per cent. in 2017. Consumer applications contributed 34.4 per cent. to the Group's

overall revenue in 2018 as compared to 37.4 per cent. in 2017. While the Group has very limited exposure to the PC market, it has grown its business in the computer applications from US\$192.3 million in 2017 to US\$221.0 million in 2018, representing a 14.9 per cent. increase on annual growth in computer segment. The Group has also increased its revenue in automotive and industrial applications from US\$244.8 million in 2017 to US\$263.0 million in 2018, representing a 7.4 per cent. increase on annual growth. Furthermore, other related applications revenue increase from US\$132.5 million in 2017 to US\$171.7 million (excluding the recognized technology licensing revenue of US\$163.8 million authorized to an associate of Group) in 2018, representing a 29.6 per cent. increase on annual growth.

In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below represented 49.9 per cent. in 2018 as compare to 50.7 per cent. in 2017. In particular, the revenue contribution percentage from 65/55nm technology increased from 20.4 per cent. in 2017 to 22.3 per cent. in 2018. In addition, the Group continued to have steady revenue growth from 90nm and 0.15/0.18 micron related business in 2018.

Our Corporate History and Recent Developments

We were established as an exempted company under the laws of the Cayman Islands on 3 April 2000. Our principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. Our registered office is located at PO Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, Cayman Islands. We are listed on the Hong Kong Stock Exchange under the stock code of “00981”. As at the date of this Offering Circular, SMIC has voluntarily delisted from the NYSE due to a number of considerations, including the limited trading volume of its American depositary shares (“ADSs”) relative to its worldwide trading volume, and the significant administrative burden and costs of maintaining the listing of the ADSs on the NYSE.

We are now the largest and most advanced semiconductor foundry in mainland China. We operate wafer fabrication facilities in China, including facilities at Beijing, Shanghai, Tianjin and Shenzhen, with an aggregate capacity of up to 443,850 8-inch wafer equivalents per month by the end of September 2019.

Our Products and Services

Manufacturing of Wafers and Our Manufacturing Capacity

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

The following table sets forth the historical capacity and utilization rate of our wafer fabrication and facilities (all output and capacity data is provided as 8-inch wafer equivalents per month at the end of each month) for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019.

Wafer fabrication capacity ⁽¹⁾ by Fab	For the years ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
Shanghai 200mm Fab	108,000	109,000	109,000	112,000
Shanghai 300mm Fab	45,000	38,250	38,250	18,000
Beijing 300mm Fab	96,750	103,500	94,500	112,500
Tianjin 200mm Fab	45,000	50,000	60,000	58,000
Shenzhen 200mm Fab	31,000	30,000	42,000	52,000
Shenzhen 300mm Fab	—	6,750	6,750	6,750
Majority-Owned Beijing 300mm Fab	40,500	65,250	74,250	84,600
Majority-Owned Avezzano 200mm Fab	40,000	40,000	42,325	—

Wafer fabrication capacity ⁽¹⁾ by Fab	For the years ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
Total monthly wafer fabrication capacity as of year-end ⁽²⁾	406,250	442,750	451,325	443,850

Notes:

- (1) Conversion of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25.
- (2) The majority-owned Avezano 200mm fab was disposed of by the Company in the three months ended 30 September 2019.

Our factories manufacture the following types of semiconductors:

- Logic, (including baseband, Application Processor, Audio IC, System on Chip, Microcontroller Unit (“MCU”), Display Driver IC, Application Specific Integrated Circuit/Application Specific Standard Parts, Flash Controller, Image Processor, USB Controller, Interface Controller and Timing Controller);
- Mixed-Signal and Radio Frequency (“RF”) (including RF Combo, WiFi, Bluetooth, Radio Frequency Identification, Global Positioning System (“GPS”), Radio Frequency Power Amplifier, Radio Frequency Front End Module, Radio Frequency Transceiver, Fingerprint Sensor, Demodulator, Switch, and Tuner IC);
- Power IC (including Power Management, Discretes, IGBT, Power MOSFETs, Quick Charging, Analog IC, Switch Regulators, LED Driver and High Voltage IC);
- Micro Processor (including MCU64/32/16/8bits, Touch Controller IC, and Digital Signal Processor);
- Memory related (including Static Random Access Memory, Electrically Erasable Programmable Read-Only Memory (“EEPROM”), NAND Flash, NOR Flash, embedded EEPROM and embedded Flash);
- Optoelectronics (including Front-Side Illumination, Back-Side Illumination CMOS Image Sensor, LED, Ambient Light Sensor, Optical Fingerprint Sensor);

The following table sets forth a percentage breakdown of wafer sales by process technology nodes for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019:

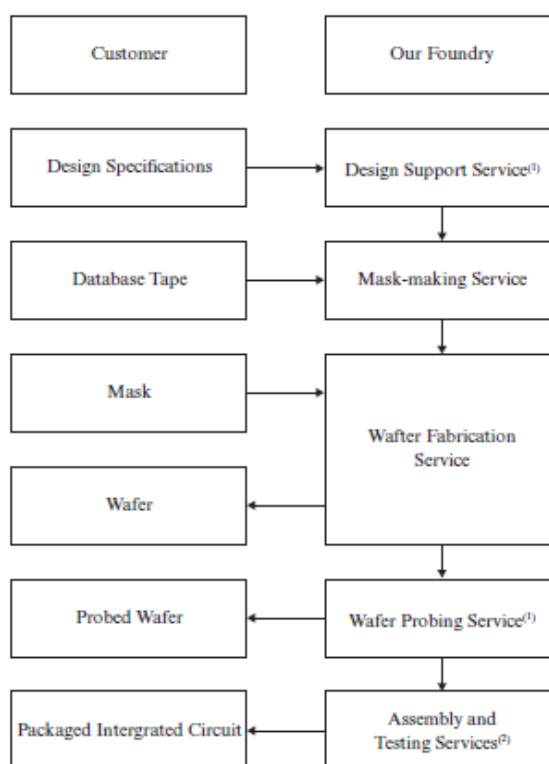
Technology nodes	For the years ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
	<i>(based on sales in US\$)</i>			
0.028 micron	1.59%	7.97%	6.2%	3.7%
0.045 micron	22.38%	20.85%	19.5%	17.8%
0.065 micron	20.60%	20.38%	22.3%	26.0%
0.09 micron	2.28%	1.48%	2.0%	1.7%
0.13 micron	12.04%	11.64%	7.8%	6.8%
0.15 micron	0.29%	3.32%	6.7%	9.7%
0.18 micron	37.82%	31.45%	31.8%	30.2%
0.25 micron	0.21%	0.24%	0.2%	0.2%

Technology nodes	For the years ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
	<i>(based on sales in US\$)</i>			
0.35 micron and above	2.79%	2.67%	3.6%	3.9%
Total	100.00%	100.00%	100.00%	100.00%

Our Integrated Solutions

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

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



Notes:

- (1) A portion of this work is outsourced to our service partners.
- (2) A portion of these services are outsourced to our service partners.

Our Design Support Services

Our design support services provide our customers with access to the fundamental technology files and libraries that facilitate customers' own integrated circuit design. We also offer design reference flows and access to our

design center alliance, as well as layout services to our customers. In addition, we collaborate with industry leaders in electronic design automation, library and IP services to create a worldwide network of expertise, resources and services that are available to our customers.

Our Libraries and Intellectual Property

As part of the fundamental building blocks for our customers' integrated circuit designs, we have a dedicated team of engineers who work with our research and development department to develop, license or acquire selected key libraries and intellectual property from third parties so that our customers can quickly design sophisticated integrated circuits that utilize our new process technologies. These include standard cell, I/O, memory compilers, embedded memory, high-speed interface, peripheral controllers, and embedded processors, among others, using 0.35 micron down to 14 nm process technologies. They have been developed primarily through our third-party alliances, as well as by our internal research and development team, to facilitate easy design and fast integration into the overall design system. Our library partners include ARM Ltd. (“ARM”), Synopsys, Inc. (“Synopsys”), VeriSilicon Holdings Co., Ltd (“VeriSilicon”) and M31.

Our Mask-making Services

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

Our mask-making facility, which is located in Shanghai, includes a 4,400 square meters clean room with up to class I specifications. At present, our mask shop offers both five-inch by five-inch, six-inch by six-inch and seven-inch circular reticles. Our facility is capable of producing binary masks, optical proximity correction masks and phase shift masks. Our mask facility also offers mask repair services.

Our Wafer Probing, Bumping, Assembly and Testing Services

We have our own probing facility in Shanghai that provides test program development, probe card fabrication, wafer probing, failure analysis and failure testing. We also outsource these services to our partners. Our probing facility in Shanghai occupies a clean room space of 3,000 square meters, which is rated at Class 1000 cleanliness and equipped with advanced testers, probers and laser repair machines. We have experienced engineers to provide test solution development, probe card fabrication, wafer probing, characterization and failure analysis services for most of eMemory, Logics, SoC, Mix-Signal, CIS and MEMS applications.

In addition, we have a majority-owned 300mm bumping factory in Jiangyin, which commenced mass production of high-end bumping and circuit probing in 2016.

We have established a network of partners that provide additional probing and bumping services, as well as assembly and testing services, to serve our customers. These partners, including worldwide and leading domestic assembly and testing companies, have helped to enhance the range of services that we are able to offer our customers.

Our Customers and Markets

We categorize our sales geographically based on the headquarters of customer operations and not the shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019:

Region	For the year ended 31 December						For the nine months ended 30 September	
	2016		2017		2018		2019	
	Sales	Percentage	Sales	Percentage	Sales	Percentage	Sales	Percentage
	<i>(in US\$ thousands, except percentages)</i>							
United States ⁽¹⁾	858,858	29.47%	1,240,906	40.01%	1,062,134	31.61%	635,161	27.9%
Mainland China and Hong Kong.....	1,447,427	49.67%	1,465,553	47.26%	1,985,292	59.09%	1,304,316	57.3%
Eurasia ⁽²⁾	607,895	20.86%	394,716	12.73%	312,558	9.30%	336,756	14.8%
Total	2,914,180	100.00%	3,101,175	100.00%	3,359,984	100.00%	2,276,233	100.00%

Notes:

- (1) Presenting the revenue to those companies whose headquarters are in the United States, but ultimately selling and shipping the products to their global customers.
- (2) Excluding Mainland China and Hong Kong.

We have a global and diversified customer base that includes IDMs and fabless semiconductor companies and systems companies. A significant portion of our sales is attributable to a relatively small number of our customers. For the year ended 31 December 2018, our five largest customers accounted for 46 per cent. of our total sales.

The following table sets forth a breakdown of our sales by application type for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019:

Application type	For the year ended 31 December						For the nine months ended 30 September	
	2016		2017		2018		2019	
	Sales	Percentage	Sales	Percentage	Sales	Percentage	Sales	Percentage
	<i>(in US\$ thousands, except percentages)</i>							
Computing ⁽¹⁾	122,451	4.2%	192,294	6.2%	221,011	6.6%	116,291	5.1%
Communications ⁽²⁾	1,390,716	47.7%	1,373,251	44.3%	1,383,976	41.2%	1,051,025	46.2%
Consumer ⁽³⁾	1,112,821	38.2%	1,158,313	37.3%	1,156,438	34.4%	748,123	32.9%
Auto/Industrial.....	112,713	3.9%	244,818	7.9%	263,016	7.8%	157,975	6.9%
Others	175,479	6.0%	132,499	4.3%	335,544	10.0%	202,818	8.9%
Total	2,914,180	100.00%	3,101,175	100.00%	3,359,984	100.00%	2,276,233	100.00%

Notes:

- (1) "Computing" consists of integrated circuits such as hard disk drive controllers, DVD-ROM/CD-ROM driver, USB and other components that are commonly used in desktop and notebook computers and peripherals.
- (2) "Communications" consists of integrated circuits used in both wired and wireless data communications and telecommunications applications.
- (3) "Consumer" consists of integrated circuits used for stand-alone DVD players, TV, set top box, game consoles, digital cameras, smart cards and toys.

Our Research and Development

Our research and development activities are principally directed towards the development and implementation of new process technology. We spent US\$318.2 million, US\$427.1 million and US\$558.1 million in 2016, 2017 and 2018 respectively on research and development expenses, which represented 10.9 per cent., 13.8 per cent. and 16.6 per cent. of our sales in the respective years. Our research and development costs were partially offset by related government funding of US\$52.5 million, US\$82.2 million and US\$105.3 million in 2016, 2017 and

2018 respectively, and included the costs associated with the ramp-up of a new wafer facility. We plan to continue to invest significant amounts in research and development in 2019.

We have completed the development of 28nm HKC+ and 14nm FinFET technology. In 2018, we qualified our 14nm FinFET process, and delivered our version 1.0 process design kit for customer circuit evaluations. Our 14nm FinFET successfully entered risk production in the first half of 2019 and is now in production. We are continuing to engage with customers and expect revenue contribution by 2019 year-end. In addition, our 12nm process, which is an enhanced shrink of our 14nm, has been qualified and our process design kit is ready, while IP verifications are ongoing.

We continuously invest in various new specialty technologies with ultra-low power for future areas of IoT, Cloud Computing, and Smart devices; e.g. 55nm embedded flash memory, back-side illuminated CMOS image sensors, 95nm ultra-low power SPOCULL (SMIC-Poly-Contact-Ultra-Low-Leakage) technology, CMOS integrated MEMS devices, and TSV-based wafer level packaging technologies.

We continuously enhance our R&D organization, and have improved our organizational structure, capability, efficiency, and resource allocation for achieving faster development on advanced platform technologies as well as new specialty technologies.

In 2018, we filed over 600 patents as a result of its technology R&D activities.

As of 31 December 2018, we had been granted 9,076 patents worldwide, of which, 70 were in Taiwan, 1,158 were in the U.S., 7,819 were in China and 29 were in other jurisdictions.

Our Competition and Marketing Channels

We compete internationally and domestically in the PRC with dedicated foundry service providers, as well as with semiconductor companies that allocate a portion of their fabrication capacity to foundry operations. While different players in the wafer foundry market may compete on factors such as technical competence, production speed and cycle time, time-to-market, research and development quality, available capacity, yields, customer service and price, we seek to compete on the basis of process technology capabilities, performance, quality, service and price. The level of competition differs depending on the process technology involved.

Our competitors are other pure-play foundries such as TSMC, UMC and Global Foundries. Another group of potential competitors consists of IDMs that have established their own foundry capabilities including Fujitsu Limited and Samsung Electronics Co., Ltd.

We have customer service and marketing offices located in the United States, Europe, Japan, Mainland China and Taiwan and a representative office in Hong Kong. Our mainland China offices serve mainland China, Hong Kong and other non-Japan, non-Taiwan Asian markets, our U.S. office serves the North American market and our Taiwan, Europe and Japan offices serve the Taiwanese, European and Japanese markets, respectively. We also sell some products through sales agents in selected markets.

Some of our competitors have established operations in mainland China in order to compete for the growing domestic market in China. TSMC has its own fab in Shanghai and a new 12-inch wafer manufacturing facility and a design service center in Nanjing. UMC has its majority-owned 8-inch fab in Suzhou and has a 12-inch joint venture fab in Xiamen. In these cases, we understand that the ability of these fabs to manufacture wafers using more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

Our Equipment

The quality and level of technology of the equipment used in the semiconductor fabrication process are important because they dictate the limits of the process technology that we use. Advances in process technology

cannot be achieved without corresponding advances in equipment technology. The principal equipment used by us to fabricate semiconductors are scanners, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputterers, CVD equipment, testers and probers. We obtain substantially all of our equipment from vendors located in the United States, Europe and Japan.

In implementing our capacity expansion and technology advancement plans, we expect to make significant purchases of equipment required for semiconductor fabrication. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and in some cases has only recently become commercially available. Our ability to obtain certain kinds of equipment from outside of China may be subject to restrictions. See “*Risk Factors — Risks Related to Conducting Operations in the PRC- Limits placed on exports into China could harm our business and operating results.*”

We maintain our equipment through a combination of in-house maintenance and external contracting with our equipment vendors. We decide whether to maintain ourselves, or sub-contract the maintenance of, a particular piece of equipment based on a variety of factors, including cost, complexity and regularity of the required periodic maintenance and the availability of maintenance personnel in China. Most of our equipment vendors offer maintenance services through technicians based in China.

Our Raw Materials

Our fabrication processes use many raw materials, primarily silicon wafers, chemicals, gases, and various types of precious and other metals. Raw material costs constituted 30 per cent., 27 per cent., 27 per cent. and 27 per cent. of our manufacturing costs in 2016, 2017, 2018 and for nine months ended 30 September 2019, respectively.

The three largest components of raw material costs, being raw wafers, chemicals and gases, accounted for approximately 31 per cent., 30 per cent. and 10 per cent. respectively, of our raw material costs in 2016, approximately 31 per cent., 31 per cent. and 9 per cent. respectively, of our raw material costs in 2017, and approximately 35 per cent., 29 per cent. and 9 per cent. respectively, of our raw material costs in 2018, and approximately 40 per cent., 27 per cent. and 8 per cent. respectively, of our raw material costs for the nine months ended 30 September 2019. Although most of our raw materials are generally available from several suppliers, substantially all of our principal materials requirements must currently be sourced from outside China.

The most important raw material used in our production is silicon in the form of raw wafers. For nine months ended 30 September 2019, we purchased approximately 76.03 per cent. of our overall raw wafer requirements from our three major raw wafer suppliers. The prices of our principal raw material are not considered to be volatile.

For nine months ended 30 September 2019, our largest and five largest raw material suppliers accounted for approximately 15.32 per cent. and 48.97 per cent. respectively, of our overall raw material purchases. For 2018, our largest and five largest raw material suppliers accounted for approximately 13.8 per cent. and 43.3 per cent. respectively, of our overall raw material purchases. For 2017, our largest and five largest raw material suppliers accounted for approximately 13.8 per cent. and 38.3 per cent. respectively, of our overall raw material purchases. For 2016, our largest and five largest raw material suppliers accounted for approximately 12.4 per cent. and 38.3 per cent. respectively, of our overall raw material purchases. Most of our materials are imported free of value-added tax and import duties due to concessions granted to our industry in China.

Our Environmental Matters

The semiconductor production process generates gaseous chemical wastes, liquid waste, waste water, and other industrial wastes in various stages of the fabrication process. We have installed various types of pollution control equipment for the treatment of gaseous chemical waste and liquid waste and equipment for the recycling of

treated water in our fabs. Our operations are subject to regulation and periodic monitoring by the PRC's State Ecology and Environment Ministry, as well as local environmental protection authorities, including those under the Shanghai Pudong Municipal Government, the Beijing Municipal Government, the Tianjin Municipal Government, the Shenzhen Municipal Government and the Jiangyin Municipal Government which may in some cases, establish stricter standards than those imposed by the Ecology and Environment Ministry.

We believe our pollution control measures are effective and comply with all material requirements applicable to the semiconductor industry in China and are comparable to other countries. Waste generated from our operations, including acid waste, alkaline waste, flammable waste, toxic waste, oxidizing waste and self-igniting waste, are collected and sorted for proper disposal. Furthermore, we have in many cases implemented waste reduction steps beyond the scope of current regulatory requirements. In addition, we continuously investigate methods to lower our energy consumption, including making existing processes more efficient and reclaiming waste heat.

SMIC first received ISO 14001 certification in August 2002. The ISO 14001 standard is a voluntary standard and part of a comprehensive series of standards for environmental management published by the International Standards Organization. The ISO 14001 standard covers environmental management principles, systems and supporting techniques.

For many years, we have held QC 080000 certification, demonstrating our products and processes are free of environmentally hazardous substances, fulfilling customer requirements, the European Union's Restriction of Hazardous Substances (RoHS) Directive and regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH).

We also established ISO 14064 carbon verification certification at all sites. We maintain systems to monitor greenhouse gas emissions, and are prepared for increasingly stringent carbon emission controls and regulations

Our Employees

The following table sets forth, as of the dates indicated, the number of our employees serving in the capacities indicated:

Function	As of 31 December	
	2017	2018
Managers.....	1,380	1,058
Professionals ⁽¹⁾	8,230	8,735
Technicians.....	7,549	7,468
Clerical staff.....	667	754
Total	<u>17,826</u>	<u>18,015</u>

Note:

- (1) Professionals include engineers, lawyers, accountants and other personnel with specialised qualifications, excluding managers.

Our Property

The following table sets forth the location, size and primary use of our real properties and whether such real properties are owned or leased.

<u>Location</u>	<u>Size (Land/Building) (in square meters)</u>	<u>Primary Use</u>	<u>Owned⁽¹⁾ or Leased (Land/ Building)</u>
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	45,840/26,870	Headquarter	owned/owned
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	361,805/201,772	Wafer fabrication	owned/owned
Beijing Economic and Technological Development Area ⁽²⁾	240,140/428,958	Wafer fabrication	owned/owned
Xiqing Economic Development Area, Tianjin	215,733/70,578	Wafer fabrication	owned/owned
Shenzhen Export Processing Zone, Shenzhen Pingshan New Area, Guangdong .	200,060/225,236	Wafer fabrication	owned/owned
Jiangyin National High-Tech, Industrial Development Zone, Jiangsu Province	182,082/59,891	Bumping and circuit probe testing	owned/leased and owned
Japan	na/103	Marketing activities	na/leased
USA	na/2,092	Marketing activities	na/leased
Taiwan	na/500	Marketing activities	na/leased
Hong Kong ⁽³⁾	na/300	Representative Office	na/owned

Notes:

- (1) With respect to land located in China, “**ownership**” refers to holding a valid land use right certificate. All land within municipal zones in China is owned by the Chinese government. Limited liability companies, joint stock companies, foreign-invested enterprises, privately held companies and individual natural persons must pay fees to be granted right to use land within municipal zones. Legal use of land is evidenced and sanctioned by land use certificates issued by the local municipal administration of land resources. Land use rights granted for industrial purposes are limited to a term of no more than 50 years.
- (2) As at the date of this Offering Circular, the land use right certificate for Beijing Economic and Technological Development Area has not been obtained.
- (3) In February 2006, we purchased approximately 300 square meters of property in Hong Kong through our indirect wholly-owned subsidiary, Magnificent Tower Limited, a company incorporated in the British Virgin Islands.

Our right to continued use of the land is subject to our continued compliance with the land use agreement that each of our Chinese subsidiaries has executed. The Chinese government has reserved the right to revoke our land use rights for special eminent domain purposes, in which case the government will compensate us.

Our Capacity Expansion Plans

We have expanded our production capacity in the past years, and plan to continue to expand through organic growth, and joint ventures. An increase in capacity may have a significant effect on our results of operations,

both by allowing us to produce and sell more wafers and achieve higher sales, and by functioning as a cost component in the form of acquisition costs and depreciation expenses. For 2019, we have planned approximately US\$2.1 billion in capital expenditures for foundry operations, which are mainly for the expansion of capacity in our majority-owned Shanghai 300mm fab and our FinFET R&D Line, and have also planned approximately US\$105.8 million in capital expenditures for non-foundry operations, mainly for the construction of employees' living quarters. Our actual expenditures may differ from our planned expenditures for a variety of reasons, including changes in our business plans, market conditions, equipment prices or customer requirements. We will continue to monitor the global economy, the semiconductor industry, the demands of our customers and our cash flow from operations and we will adjust our capacity expansion plans as necessary.

THE BOARD OF DIRECTORS

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

As at the Latest Practicable Date, the Board consisted of 14 Directors. Our Board comprises:

Name of Director	Age	Position	Class	Directorship Appointment Commencement Date
Zhou Zixue	63	Chairman and Executive Director	I	6 March 2015
Zhao Haijun	56	Co-Chief Executive Officer and Executive Director	II	16 October 2017
Liang Mong Song	67	Co-Chief Executive Officer and Executive Director	III	16 October 2017
Gao Yonggang	54	Chief Financial Officer, Executive Vice President, Joint Company Secretary and Executive Director	I	23 June 2009
Chen Shanzhi	50	Non-Executive Director	II	23 June 2009
Zhou Jie	51	Non-Executive Director	III	23 January 2009
Ren Kai	47	Non-Executive Director	III	11 August 2015
Lu Jun	51	Non-Executive Director	II	18 February 2016
Tong Guohua	62	Non-Executive Director	I	14 February 2017
William Tudor Brown	61	Independent Non-Executive Director	I	8 August 2013
Cong Jingsheng Jason.....	56	Independent Non-Executive Director	III	14 February 2017
Lau Lawrence Juen-Yee	74	Independent Non-Executive Director	II	22 June 2018
Fan Ren Da Anthony	58	Independent Non-Executive Director	II	22 June 2018
Young Kwang Leei	60	Independent Non-Executive Director	III	7 August 2019

Directors

Zhou Zixue

Chairman of the Board, Executive Director

Dr. Zhou Zixue joined the Company on 6 March 2015 as an Executive Director and Chairman of the Board. Dr. Zhou received a master of management degree from the University of Science and Technology of China, and a Doctor of Economics degree from Central China Normal University. Dr. Zhou has more than 30 years of experience in the economic operation, regulation and management of industry and information technology.

Prior to his current employment, Dr. Zhou served as Chief Economist and the Director of Finance of the Ministry of Industry and Information Technology of China (“MIIT”). Prior to that, he worked in several divisions in the Ministry of Information Industry, the Ministry of Electronics Industry, the Ministry of Machinery and Electronics Industry and the state-owned DongGuangDian Factory. Dr. Zhou is currently the vice chairman and Secretary General of the China Information Technology Industry Federation, the Chairman of the China Semiconductor Industry Association, the independent director of Nantian Electronics Information Co., Ltd (a company listed on Shenzhen Stock Exchange: 000948) and the independent director of Hisense Electric Co., Ltd (a company listed on Shanghai Stock Exchange: 600060). Dr. Zhou also serves as a director of certain subsidiaries of the Company.

Zhao Haijun

Co-Chief Executive Officer, Executive Director

Dr. Zhao Haijun became the Executive Director of the Company on 16 October 2017 and the Chief Executive Officer (now known as Co-Chief Executive Officer) of the Company since 10 May 2017. Dr. Zhao joined the Company in October 2010 and was appointed as Chief Operating Officer and Executive Vice President in April 2013. In July 2013, Dr. Zhao was appointed as General Manager of Semiconductor Manufacturing North China (Beijing) Corporation, a joint venture company established in Beijing and a subsidiary of the Company. Dr. Zhao received his Bachelor of Science and Doctor of Philosophy Degree in Electronic Engineering from Tsinghua University (Beijing) and master degree in business administration from the University of Chicago. He has 26 years of experience in semiconductor operations and technology development. Dr. Zhao has also served as an independent director on the board of directors of Zhejiang Juhua Co., Ltd. (Stock Code: 600160), a company which is listed on the Shanghai Stock Exchange, since November 2016. Dr. Zhao also serves as a director of certain subsidiaries of the Company.

Liang Mong Song

Co-Chief Executive Officer, Executive Director

Dr. Liang Mong Song became the Executive Director and Co-Chief Executive Officer of the Company on 16 October 2017. Dr. Liang graduated with a doctor of philosophy degree in electrical engineering from the Department of Electrical Engineering and Computer Sciences at University of California, Berkeley. Dr. Liang has been engaged in the semiconductor industry for over 33 years. Dr. Liang was involved in the memories and advanced logic process technology developments. Dr. Liang owns over 450 patents and has published over 350 technical papers. He is a Fellow of Institute of Electrical and Electronics Engineers (IEEE).

Gao Yonggang

Chief Financial Officer, Executive Vice President, Joint Company Secretary & Executive Director

Dr. Gao Yonggang, a non-executive Director since 2009, has been appointed as Executive Vice President, Strategic Planning of the Company and has been re-designated as an executive Director since 17 June 2013. He has been appointed as the Chief Financial Officer of the Company since 17 February 2014 and was further appointed as the Joint Company Secretary on 3 July 2017. Dr. Gao is a director of certain subsidiaries of the Company. Dr. Gao has more than 30 years of experience in the area of financial management and has worked as Chief Financial Officer or person in charge of finance in various industries, including commercial, industrial, and municipal utilities, and in various types of organizations, including state-owned enterprises, private companies, joint ventures, and government agencies. Dr. Gao was the Chief Financial Officer of Datang Telecom Technology & Industry Group (China Academy of Telecommunications Technology) and the Chairman of Datang Telecom Group Finance Co., Ltd. Dr. Gao is a standing committee member of Accounting Society of China and a standing director of Enterprise Financial Management Association of China. Dr. Gao graduated from Nankai University with a Ph.D. in management. He has conducted studies in the field of financial investment, and has been involved in a number of key research projects and publications in this area. Dr. Gao is also a Fellow of the Institute of Chartered Accountants in Australia. Founding Member, director of The Hong Kong Independent Non-Executive Director Association.

Chen Shanzhi

Non-executive Director

Dr. Chen Shanzhi has been a non-executive Director since 2009. Dr. Chen is the vice president of China Information Communication Technologies Group Corporation (“**CICT**”) and the head of specialist committee. Dr. Chen received his bachelor’s degree from Xidian University, his master’s degree from China Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications, and his Ph.D. from Beijing University of Posts and Telecommunications. Dr. Chen has 20 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 has made major contributions to the core technologies breakthroughs, international standards formulation and industrialization of China’s leading TD-LTE-Advanced 4G technology. Currently he is leading 5G technologies, Internet of vehicles and standards research, as well as industrialization. In addition, Dr. Chen is also the director of State Key Laboratory of Wireless Mobile Communication, the chairman and director of State Engineering Laboratory of New Generation Mobile Communication Wireless Network and Chip Technology, a member of Expert Advisory Group for National Science and Technology Platform, the chairman of Chinese High-tech Industrialization Association for Information Technology Committee, 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 senior member of IEEE. Dr. Chen was a member of the IT Experts Panel of the National 863 Program and a member of the Programming Group of the major project of “The New generation Broadband Wireless Mobile Communications Network”. Dr. Chen has published six academic monographs, in which four of them were published by the Springer in English. He published more than 60 SCI papers in top journals such as IEEE. He has applied for and has been authorized more than 50 invention patents, among these more than 30 are written to 3GPP and ITU international standards which have become the standard necessary for 4G and 5G mobile communication systems. The application of the patents to the 4G network and China's high-speed train mobile coverage has helped to promote the 4G and 5G industries, which produces remarkable economic and social value. Dr. Chen received the Grand Prize for National Science and Technology Progress Award China in 2016, the second prize for the State Award for Technological Invention China in 2015, the first prize for the 2012 National Science and Technology Progress Award, the second prize for the 2001 National Science and Technology Progress Award, the Ninth Guanghua Engineering Science and Technology Award, the first prize for the 2012 China Institute of Communications Science and Technology Award and the first prize for 2009 National Enterprise Management Modernization Innovation Achievement Award and other honors.

Zhou Jie

Non-Executive Director

Mr. Zhou Jie has been a Director since 2009. Mr. Zhou is the Chairman of the Board and the secretary of CPC party committee of Haitong Securities Co., Ltd. (listed on the Shanghai Stock Exchange under the code of 600837 and listed on the Hong Kong Stock Exchange under the stock code of 6837) since October 2016. From February 1992 to June 1996, Mr. Zhou served in the investment banking department of Wanguo Holdings Ltd. From June 1996 to December 2001, Mr. Zhou served, successively, as the manager of the investment department, the vice general manager, and the chairman of the board of directors and the general manager of Shanghai SIIC Asset Management Co., Ltd. From December 2001 to April 2003, he was the director and general manager of SIIC Medical Science and Technology (Group) Limited. From January 2002 to July 2016, he acted, successively, as the executive director and the vice executive officer, the executive director and the executive vice president, the vice chairman and chief executive officer of Shanghai Industrial Holdings Limited (listed on the Hong Kong Stock Exchange under the stock code of 0363). From August 2004 to July 2016, he was the chief planning officer, the executive director and vice president, the executive director and executive vice president, and the president and secretary of the CPC committee of SIIC Shanghai (Holding) Co., Ltd. From March 2010 to May 2012, he was the chairman of the supervisory committee of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on the Shanghai Stock Exchange under the stock code of 601607 and listed on the

Hong Kong Stock Exchange under the stock code of 2607), of which he was the chairman of the board of directors and the secretary of the CPC committee from June 2012 to June 2013 and from May 2016 to July 2016. Mr. Zhou has been the supervisor and the chairman of the remuneration committee of Shanghai Stock Exchange, the president of Shanghai Securities Association and the representative of members of National Internet Finance Association of China since 2016. He has also been the vice chairman of Shanghai Financial Association, the president of Shanghai Association of Financial Planners and an arbitrator of Shanghai Arbitration Commission since 2017. Mr. Zhou graduated from Shanghai Jiaotong University majoring in management engineering with a master's degree in engineering in February 1992.

Ren Kai

Non-Executive Director

Mr. Ren Kai has been a director since 2015. Mr. Ren currently also serves as a director of SJ Semiconductor (Jiangyin) Corporation since April 2016. Since September 2014, Mr. Ren has been serving as the Vice President of Sino IC Capital. From October 2007 to August 2014, he had served as the Director of the Review Board 4 of the Review Bureau 2 of China Development Bank. From October 2004 to December 2007, Mr. Ren served as a Deputy Director of each of the Review Board 3 and the Review Board 4 of the Review Bureau 2 of China Development Bank. From July 1995 to October 2004, Mr. Ren had worked in the Electromechanical Textile Credit Bureau, Chengdu representative office, the Review Bureau 4, the Review Bureau 3 and the Review Bureau 2 of China Development Bank. Mr. Ren received a bachelor degree in industry and international trade from Harbin Engineering University. Mr. Ren has been engaged in loan review programs and investment operations in the fields of equipment and electronics; he is familiar with industrial policies and has in-depth understanding in integrated circuit and related industries. Mr. Ren had gained extensive experience in investment management while he was working in the Review Board 2 of China Development Bank as he led the team to complete the review of hundreds of major projects with annual review commitments of over RMB100 billion and accumulative review commitments of over RMB30 billion in the field of integrated circuit.

Lu Jun

Non-Executive Director

Mr. Lu Jun has been a Non-Executive Director since 18 February 2016. Since August 2014, in addition to serving as President of Sino IC Capital Co., Ltd, he is also the Chairman of Sino IC Leasing Co., Ltd. Since May 2010, Mr. Lu has been serving as Executive Vice President of China Development Bank Capital Co., Ltd (which is a wholly owned subsidiary of China Development Bank Co., Ltd, and has so far been the only large scale agency in China's banking industry for RMB equity investment, and has formed an integrated platform for strategic investments domestically and internationally). Previously, Mr. Lu worked for China Development Bank for more than 20 years and accumulated a wealth of experience in credit, industry investment and fund investment. As Mr. Lu has been engaged in loan review programs and investment operations in the fields of equipment and electronics, he is familiar with industrial policies and has in-depth understanding of integrated circuit and related industries. From July 2007 to May 2010, Mr. Lu had served as the Deputy Director of China Development Bank Shanghai Branch. From April 2006 to July 2007, Mr. Lu served as the Director of industrial integration innovation of Investment business bureau of China Development Bank. From April 2003 to April 2006, Mr. Lu served as the Director of each of the Review Board of China Development Bank Jiangsu Branch and Nanjing Branch. From September 2002 to April 2003, Mr. Lu served as the Director of the Review Board of China Development Bank Nanjing Branch. From March 1994 to September 2002, Mr. Lu had worked in the Traffic credit bureau, East China credit bureau, finance department of Nanjing Branch, and the Review Bureau 2 of Nanjing Branch of China Development Bank. Mr. Lu obtained a Master of Business Administration from Nanjing University and holds a bachelor degree in Shipping and Marine engineering from Hohai University.

Tong Guohua

Non-Executive Director

Dr. Tong Guohua became a Non-Executive Director on 14 February 2017. Dr. Tong is also a professorate senior engineer and doctoral tutor of the School of Public Administration of Huazhong University of Science and Technology. Dr. Tong became President and Secretary of Party of China Academy of Telecommunications Technology as well as President and Executive Director of Datang Telecom Technology & Industry Holdings Co., Ltd. in June 2016. Since December 2017, he served as the Chairman, General Manager and Secretary of Party of China Academy of Telecommunications Technology Co., Ltd as well as Executive Director and President of Datang Telecom Technology & Industry Holdings Co., Ltd. On 26 June 2018, he became Chairman and Secretary of the Party Committee of China Information and Communication Technology Group Co., Ltd. He began working in August 1974 and was President and Secretary of Party of Wuhan Institute of Posts and Telecommunications from November 2004. Dr. Tong has been elected as a “National Model Worker” and he was the representative of the eleventh and twelfth National People’s Congress, and a member of the thirteenth CPPCC National Committee. Dr. Tong has been elected as a “National Model Worker” and he was the representative of the eleventh, twelfth National People's Congress, and a member of the thirteenth CPPCC National Committee. Dr. Tong was awarded the title “Young Experts with Outstanding Contributions of Hubei Province” in 2004. In 2006, he was awarded as one of the “Top Ten Outstanding Entrepreneurs in the Brand Building of China”, “Outstanding Employee Representative of Hubei Province” and “Entrepreneur with Outstanding Contribution of Wuhan City”. In 2007, Dr. Tong was named “China’s Information Industry Person of the Year” and awarded as a “Person with Outstanding Contribution in Brand Building of Wuhan Region”. In 2008, he was awarded “Innovative Economic Contribution Prize of Hubei Province” and he was named one of the “Top 10 Most Important People in the 30 Years’ Reform and Development of State-owned Enterprises of Hubei Province”. In 2009, he was named as an “Outstanding Entrepreneur of Wuhan City.” Dr. Tong graduated from Wuhan University in 1982 with a bachelor’s degree in chemistry. He received a master’s degree in science and technology management from Fudan University in 1990. In 2002, he received his doctoral degree in management from Huazhong University of Science and Technology.

William Tudor Brown

Independent Non-Executive Director

Mr. William Tudor Brown has been a Director since 2013. He is a Chartered Engineer, a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He holds a MA (Cantab) Degree in Electrical Sciences from Cambridge University. Mr. Brown was one of the founders of ARM Holdings plc, a British multinational semiconductor IP company listed on London Stock Exchange and NASDAQ. Until May 2012, he held many roles in these entities, such as the President, Chief Operating Officer, EVP Global Development, Chief Technology Officer and Engineering Director. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. He served as a director at ARM Holdings plc from 2001 to 2012. Before joining ARM, Mr. Brown was Principal Engineer at Acorn Computers and worked exclusively on the ARM R&D programme since 1984. Mr. Brown served on the UK Government Asia Task Force until May 2012. He sat on the advisory board of Annapurna Labs until 2015, he has previously been an independent non-executive director of ANT Software PLC (a company listed on AIM of London Stock Exchange) from 2005 to 2012 and Xperi (a company listed on NASDAQ) where he sat on the Compensation Committee and chaired the Nomination Committee from 2013 to May 2018. He is currently an independent non-executive director and a member of the Audit Committee and the Chairman of the Compensation Committee of Lenovo Group Limited (a company listed on Main Board of the HKSE) and an independent non-executive director and a member of the Compensation Committee of Marvell Technology Group (a company listed on NASDAQ).

Cong Jingsheng Jason*Independent Non-Executive Director*

Dr. Cong Jingsheng Jason became a Director on 14 February 2017. Dr. Cong received his B.S. degree in computer science from Peking University in 1985, his M.S. and Ph.D. degrees in computer science from the University of Illinois at Urbana-Champaign in 1987 and 1990, respectively. He is currently serving as a Distinguished Chancellor's Professor at the Computer Science Department of University of California, Los Angeles, the Director of Center for Domain-Specific Computing, and the Director of VLSI Architecture, Synthesis and Technology (VAST) Laboratory. He served as the chair of the UCLA Computer Science Department from 2005 to 2008. He is a co-director of the Peking University-UCLA Joint Research Institute since 2009 and also a distinguished visiting professor at Peking University. Dr. Cong is the Co-founder and the Chief Scientific Advisor of Falcon Computing Solutions Inc., and he is currently serving as its Chairman of the Board of Directors. He is currently also a director of Inspirit, Inc. Dr. Cong's research interests include electronic design automation and energy-efficient computing. He has published over 400 research papers in these areas. He received 12 Best Paper Awards and three 10-Year Retrospective Most Influential Paper Awards. He received the 2011 ACM/IEEE A. Richard Newton Technical Impact Award in Electric Design Automation "for pioneering work on technology mapping for FPGA that has made significant impact on the FPGA research community and industry". He was elected IEEE Fellow in 2000 and ACM Fellow in 2008. He received the 2010 IEEE Circuits and System (CAS) Society Technical Achievement Award and the 2016 IEEE Computer Society Technical Achievement Award. Dr. Cong was elected as a member of the US National Academy of Engineering in 2017.

Lau Lawrence Juen-Yee*Independent Non-Executive Director*

Dr. Lau Lawrence Juen Yee was appointed as an Independent Non-Executive Director on 22 June 2018. He received his B.S. degree (with Great Distinction) in Physics from Stanford University in 1964 and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, was appointed Professor of Economics in 1976 and the first Kwoh-Ting Li Professor in Economic Development at Stanford University in 1992. From 1992 to 1996, he served as a Co-Director of the Asia-Pacific Research Center at Stanford University, and from 1997 to 1999, as the Director of the Stanford Institute for Economic Policy Research. He became Kwoh-Ting Li Professor in Economic Development, Emeritus, upon his retirement from Stanford University in 2006. From 2004 to 2010, Dr. Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, he served as Chairman of CIC International (Hong Kong) Co., Limited. Since 2007, Dr. Lau has also been serving as the Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong.

Dr. Lau was a member of the 11th and 12th National Committees of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Subcommittee of Economics. In addition, he currently serves as a Vice-Chairman of the China Center for International Economic Exchanges, a Vice-President of the China Science Center of the International Eurasian Academy of Sciences, an Adviser to the National Bureau of Statistics of the PRC, a member of the International Advisory Council of the China Development Bank and Chairman of the Board of Directors of The Chinese University of Hong Kong (Shenzhen) Finance Institute. In addition, he also serves as a member of the Exchange Fund Advisory Committee of Hong Kong and the Chairman of its Governance Sub-Committee, a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road Committee, a Vice-Chairman of Our Hong Kong Foundation, a Member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company, as well as a member of the Board of Directors of the Chiang Ching-kuo Foundation for International Scholarly Exchange, Taipei. He also serves as an Independent Non-executive Director of AIA Group Limited (Stock Code: 04457), CNOOC Limited (Stock Code: 00883), and Hysan Development Company Limited (Stock Code: 00014), all listed on the Hong Kong

Stock Exchange, and an Independent Non-executive Director of Far EasTone Telecommunications Company Limited (Taiwan: 4904), Taipei, listed on the Taiwan Stock Exchange.

Fan Ren Da Anthony

Independent Non-Executive Director

Mr. Fan was appointed as an Independent Non-Executive Director on 22 June 2018. He holds a Master's Degree in Business Administration from the United States of America. He is the chairman and managing director of AsiaLink Capital Limited. He is also an independent non-executive director of CITIC Resources Holdings Limited (Stock Code: 1205), Uni-President China Holdings Ltd. (Stock Code: 220), Raymond Industrial Limited (Stock Code: 229), Shanghai Industrial Urban Development Group Limited (Stock Code: 563), China Development Bank International Investment Limited (Stock Code: 1062), Technovator International Limited (Stock Code: 1206), China Dili Group (Stock Code: 1387), Neo-Neon Holdings Limited (Stock Code: 1868), Hong Kong Resources Holdings Company Limited (Stock Code: 2882) and Tenfu (Cayman) Holdings Company Limited (Stock Code: 6868), all listed on the Main Board of the Hong Kong Stock Exchange. Mr. Fan is the Founding President of The Hong Kong Independent Non-Executive Director Association, and held senior positions with various international financial institutions.

Kwang Leei Young

Independent Non-Executive Director

Dr. Kwang Leei Young, became a Director on 7 August 2019. Dr. Young graduated from the Department of Electrical Engineering at the National Taiwan University and received his Bachelor's degree in 1981 and received his Ph.D. degrees in Electrical Engineering and Computer Science at the University of California, Berkeley in 1986. He worked as a research staff at the Massachusetts Institute of Technology (MIT) Lincoln Laboratory, the United States of America from 1986 to 1989 and a senior technical staff at Hewlett Packard Company, USA from 1989 to 1994. From 1994 to 1995, he served as a senior manager at Chartered Semiconductor Manufacturing Ltd., Singapore. From 1995 to 1997 he served as the Deputy Director of Research and Development at Winbond Electronics Corporation, Taiwan. He joined Worldwide Semiconductor Manufacturing Corporation in 1997 and served as the Director of Engineering until March 1998. From April 1998 to June 2018, Dr. Young successively served in different positions including the Director of Research and Development in Taiwan Semiconductor Manufacturing Company in Taiwan and in the USA. Dr. Young then retired in June 2018.

Dr. Young is a columnist of Digitimes Taiwan since 2017, a non-executive co-founder of Yi-Yi Network Taiwan since 2018. He is also an independent director of GlobalWafers Co., Ltd. (Taiwan Stock Code: 6488), Taiwan since June 2019. Dr. Young has published over 80 international academic and technical papers. He received the 14th National Industrial Innovation Award with "Research and Development Management Innovation Award" in 2006 and Outstanding Science and Technology Talent Award issued by Executive Yuan in 2003.

Board Committees

Compensation Committee

As of the date of this Offering Circular, the members of our Compensation Committee ("**Compensation Committee**") are Mr. William Tudor Brown (Chairman of the Compensation Committee), Mr. Zhou Jie, Mr. Tong Guohua, Dr. Lau Lawrence Juen-Yee and Dr. Young Kwang Leei. None of these members has been an executive officer or employee of the Group.

The Compensation Committee reports its work, findings and recommendations to the Board periodically but not less than four times per year.

The responsibilities of the compensation committee include, among other things:

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

The Compensation Committee has the delegated authority to determine the remuneration packages of individual executive Directors and the Company's executive officers/senior management, and make recommendations to the Board on the remuneration of non-executive Directors.

The Compensation Committee meets in person on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting our compensation policy.

Audit Committee

As of the date of this Offering Circular, our Audit Committee ("**Audit Committee**") consists of three members, namely Mr. Fan Ren Da Anthony (Chairman of the Audit Committee), Mr. Zhou Jie and Mr. William Tudor Brown. None of these members has been an executive officer or employee of the Group.

Mr. Fan Ren Da Anthony is holding eleven listed company directorships as independent non-executive directors. All of them are not involved in the day-to-day operations of the businesses. Mr. Fan had disclosed to the Company the number and nature of offices held in public companies or organizations and other significant commitments each year with time involved. Mr. Fan is a competent professional and good at time management who has sound knowledge and skills to effectively handle seven or more positions. The Board considers that Mr. Fan devotes sufficient time to the Board.

The responsibilities of the audit committee include, among other things:

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;
- 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;
- approving the remuneration and terms of engagement of the Company's independent auditor;
- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, 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, 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 programmes and budget of the Company's accounting and financial reporting function;
- reviewing the Company's 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.

The Audit Committee reports its work, findings and recommendations to the Board regularly. In addition, the Audit Committee meets in person with the Company's external auditor at least twice a year.

The Audit Committee meets in person at least four times a year on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues.

Nomination Committee

As of the date of this Offering Circular, our Nomination Committee ("**Nomination Committee**") comprises Dr. Zhou Zixue (Chairman of Nomination Committee), Mr. Lu Jun, Mr. William Tudor Brown, Dr. Lau Lawrence Juen-Yee and Mr. Fan Ren Da Anthony.

According to the Nomination Committee Charter, as amended and adopted by the Board on 8 August 2013, the responsibilities of the Nomination Committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- monitor the implementation of Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensure 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 and making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of the 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 Chief Executive Officer.

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

Strategic Advisory Committee

As of the date of this Offering Circular, our Strategic Advisory Committee (“**Strategic Committee**”) comprises Dr. Chen Shanzhi (Chairman of the Strategic Committee), Mr. Ren Kai, Mr. William Tudor Brown and Dr. Lau Lawrence Juen-Yee.

The responsibilities of the Strategic Committee are to assist the Board and our management to evaluate and consider various strategic alternatives. The Board shall re-evaluate at an appropriate time any changes in scope and authority of the Strategic Committee.

The Strategic Committee shall consist of members of the Board who will be appointed by, and will serve at the discretion of, the Board. The Strategic Committee shall consist of such number of members as is determined by the Board. The Board may designate one member of the Strategic Committee as its chairperson.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the US\$200,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2022 (the “**Additional Bonds**”) issued on or about 9 December 2019 to be consolidated and form a single series with the Issuer’s existing US\$450,000,000 Zero Coupon Convertible Bonds due 2022 issued on 7 July 2016 (the “**Issue Date**”) (the “**Original Bonds**” and, together with the Additional Bonds, the “**Bonds**”, which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 17 and consolidated and forming a single series therewith) of Semiconductor Manufacturing International Corporation (the “**Issuer**”) and the right of conversion into Shares (as defined in Condition 6(A)(iv)) was authorised by the Board of Directors of the Issuer on 12 November 2019. The issue of the Original Bonds and the right of conversion into Shares was authorised by the Board of Directors of the Issuer on 12 May 2016. The Original Bonds are constituted by the trust deed (as amended or supplemented from time to time, the “**Original Trust Deed**”) dated 7 July 2016 and pursuant to Condition 17, the Additional Bonds are constituted by a trust deed supplemental to the Original Trust Deed dated on or about 9 December 2019 (the “**Supplemental Trust Deed**”) and, together with the Original Trust Deed, the “**Trust Deed**”), each between the Issuer and The Bank of New York Mellon, London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the agency agreement dated 7 July 2016 (as amended or supplemented from time to time, the “**Original Agency Agreement**”) and a supplemental agency agreement dated on or about 9 December 2019 (the “**Supplemental Agency Agreement**” and, together with the Original Agency Agreement, the “**Agency Agreement**”) relating to the Bonds, each between the Issuer, the Trustee, The Bank of New York Mellon, London Branch, as principal paying agent and principal conversion agent (collectively, the “**Principal Agent**”), The Bank of New York Mellon SA/NV, Luxembourg Branch (previously known as The Bank of New York Mellon (Luxembourg) S.A.) as registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**”) and the other paying agents, conversion agents and transfer agents appointed under it (each a “**Paying Agent**”, a “**Conversion Agent**”, a “**Transfer Agent**” and, together with the Registrar, the Transfer Agent and the Principal Agent, the “**Agents**” and which shall, where applicable, include the Singapore Agent (as defined in Condition 7)) relating to the Bonds. References to the “**Principal Agent**”, the “**Registrar**”, the “**Transfer Agent**” and “**Agents**” below are references to the principal agent, the registrar, the transfer agent and the agents for the time being for the Bonds.

Copies of the Trust Deed and of the Agency Agreement are available for inspection by Bondholders upon prior written request and on proof of holding during usual business hours (being between 9.00 a.m. and 3.00 p.m.) at the principal office for the time being of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices for the time being of each of the Agents.

Unless otherwise defined, terms used in these Conditions have the meanings specified in the Trust Deed. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” mean the person in whose name a Bond is registered.

1 Form, Denomination and Title

(A) Form and Denomination

The Bonds are in registered form in the denomination of US\$250,000 (an “**Authorised Denomination**”). A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

Upon issue, the Bonds will be represented by a Global Certificate registered in the name of a nominee of, and deposited with a common depositary for Euroclear Bank SA/NV and Clearstream Banking S.A.. The Conditions are modified by certain provisions contained in the Global Certificate. See “The Global Certificate”.

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

(B) Title

Title to the Bonds will pass only by transfer and registration in the Register as described in Condition 3. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

2 Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable legislation and subject to Condition 4, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

3 Transfers of Bonds; Issue of Certificates

(A) Register

The Issuer will cause the Register to be kept at the specified office of the Registrar outside the United Kingdom and Hong Kong and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(B) Transfer

Bonds may, subject to Conditions 3(E) and 3(F) and the terms of the Agency Agreement, be transferred in whole or in part in an Authorised Denomination by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of either the Registrar or any of the Transfer Agents, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transfer and the authority of the individuals who have executed the form of transfer. In the case of a transfer of part only of a holding of Bonds (being that of one or more Bonds) represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate

representing the existing holding. No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems. No transfer of title to a Bond will be valid unless and until entered on the Register.

(C) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within three business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Issuer's expense) to the address specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, converted, redeemed or repurchased, a new Certificate in respect of the Bonds not so transferred, converted, redeemed or repurchased will, within five business days of delivery of the original Certificate to the Registrar or, as the case may be, any other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted, redeemed or repurchased (but free of charge to the holder and at the Issuer's expense) to the address of such holder appearing on the Register.

For the purposes of this Condition 3 and Condition 6, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the relevant Transfer Agent, with whom a Certificate is deposited in connection with a transfer or conversion, is located.

(D) Formalities Free of Charge

Subject to Conditions 3(E) and 3(F), registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Transfer Agent may require).

(E) Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (a) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to the Conditions; (b) after a Conversion Notice (as defined in Condition 6(B)(i)) has been delivered with respect to a Bond; or (c) after a Relevant Event Put Exercise Notice (as defined in Condition 8(D)) has been deposited in respect of such Bond pursuant to Condition 8(D). Each such period is a "**Restricted Transfer Period**".

(F) Regulations

All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed with agreement between the Issuer, the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

4 Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Principal Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a “**Charge**”) (other than a security interest arising by operation of law or a Permitted Charge) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless at the same time or prior thereto according to the Bonds:

- (a) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity; or
- (b) such other security as either (x) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (y) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions:

“**Excluded Listed Subsidiary**” means a Subsidiary (a) which is listed on any stock exchange, and (b) in which the Issuer or any of its Subsidiaries holds less than 50 per cent. of the issued share capital of such entity;

“**Permitted Charge**” means:

- (i) any Charge over any assets (or related documents of title) purchased by the Issuer or any of its Subsidiaries as security for all or part of the purchase price of such assets and any substitute security created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets; or
- (ii) any Charge over any assets (or related documents of title) purchased by the Issuer or any of its Subsidiaries subject to such Charge and any substitute security created on those assets in connection with the refinancing (together with the interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets;

“**Principal Subsidiary**” means any Subsidiary of the Issuer (excluding any Excluded Listed Subsidiary):

- (a) whose gross revenues (consolidated in the case of a Subsidiary which has Subsidiaries) attributable to the Issuer, as shown by its latest audited profit and loss account are at least 10 per cent. of the consolidated gross revenues as shown by the latest published audited profit and loss account of the Issuer and its consolidated Subsidiaries, including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries’ share of revenues of Subsidiaries not consolidated and of associated entities and after adjustments for minority interests; or
- (b) whose gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Issuer, as shown by its latest audited balance sheet, are at least 10 per cent. of the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries, including the investment of the Issuer and its consolidated Subsidiaries in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and of associated companies and after adjustment for minority interests;

provided that, in relation to paragraphs (a) and (b) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer

relate, the reference to the then latest consolidated audited accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Subsidiaries adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

- (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, gross revenue or gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Trustee;
 - (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its gross revenue or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Trustee; and
 - (iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or
- (c) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Principal Subsidiary, whereupon (A) in the case of a transfer by a Principal Subsidiary, the transferor Principal Subsidiary shall immediately cease to be a Principal Subsidiary and (B) the transferee Subsidiary shall immediately become a Principal Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined pursuant to the provisions of the sub-paragraphs above.

A certificate prepared by a director or an authorised representative of the Issuer, stating that in his or her opinion, a Subsidiary is or is not, or was or was not, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Relevant Indebtedness” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market but shall not include any financing of the acquisition of assets if (i) by the terms of such financing it is expressly provided that the holders of the resulting indebtedness shall look to the assets financed and the revenues to be generated by the operation of, or loss of or damage to, such assets as the sole source of repayment for the moneys advanced and payment of interest thereon and (ii) such financing is not guaranteed by the Issuer or any of its Subsidiaries. For the avoidance of doubt, any loans raised by the Issuer or any of its Subsidiaries under a bilateral or syndicated loan agreement are not included in this definition of **“Relevant Indebtedness”**; and

a **“Subsidiary”** of any person means either (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the

issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

5 Interest

The Bonds do not bear interest unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. In such event, such unpaid amount shall bear interest at the rate of 2.0 per cent. per annum (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the day seven days after the Trustee or the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

6 Conversion

(A) Conversion Right

- (i) **Conversion Period:** Subject as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into Shares (as defined in Condition 6(A)(iv)) credited as fully paid at any time during the Conversion Period referred to below (the “**Conversion Right**”).

Subject to and upon compliance with the Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) on or after 17 August 2016 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date falling seven days prior to the Maturity Date (as defined in Condition 8(A)) (both days inclusive) (but, except as provided in Condition 6(A)(iii), in no event thereafter) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof, or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(D) or Condition 8(E) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice (the “**Conversion Period**”).

The price at which Shares will be issued upon exercise of a Conversion Right (the “**Conversion Price**”) will initially (which for the avoidance of doubt shall be as of the Issue Date) be HK\$0.9250 per Share, but will be subject to adjustment in the manner described in Condition 6(C).

Given (a) a share consolidation as described in “Description of the Shares” of this Offering Circular and (b) the premium at which the Additional Bonds are issued, the Effective Conversion Price (calculated by determining the number of Shares issuable upon conversion of the Additional Bonds and dividing the gross proceeds of the Additional Bonds by such number) is HK\$10.73 per Share as at 18 November 2019.

The number of Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HK\$7.7677 = US\$1.00) (the “**Fixed Exchange Rate**”) by the Conversion Price

in effect on the relevant Conversion Date (as defined in Condition 6(B)(i)). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

- (ii) **Fractions of Shares:** Fractions of Shares will not be issued on conversion and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 7 June 2016 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash (in US dollars) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i), as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds US\$10. Any such sum shall be paid not later than five Stock Exchange Business Days (as defined in Condition 6(B)(i)) after the relevant Conversion Date by a US dollar denominated cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.
- (iii) **Revival and/or survival after Default:** Notwithstanding the provisions of Condition 6(A)(i), if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof; (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10; or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders in accordance with Condition 11 and notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice (as defined in Condition 6(B)(i)) are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined in Condition 6(B)(i)) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- (iv) **Meaning of “Shares”:** As used in these Conditions, the expression “Shares” means ordinary shares of par value US\$0.004 each of the Issuer or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Issuer.

(B) Conversion Procedure

- (i) **Conversion Notice:** To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during the Conversion Period at the specified office of any Conversion Agent during its usual business hours (being between 9.00

a.m. and 3.00 p.m.) a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and confirmation that any amounts required to be paid by the Bondholder under Condition 6(B)(ii) have been so paid. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If such deposit is made after the end of normal business hours (being after 3:00 p.m.) or on a day which is not a business day in the place of the specified office of the relevant Conversion Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such business day. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents in writing to such withdrawal.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee, the Conversion Agents and the relevant Bondholder.

Conversion Rights may only be exercised in respect of an Authorised Denomination.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice to the Conversion Agent and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right.

“**Stock Exchange Business Day**” means any day (other than a Saturday or Sunday) on which Relevant Stock Exchange (as defined in Condition 6(F) below), as the case may be, is open for the business of dealing in securities.

- (ii) **Stamp Duty etc.:** A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any taxes or capital, stamp, issue and registration and transfer taxes and duties (“**Duties**”) arising on such exercise (other than any Duties payable in Cayman Islands and Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on the Relevant Stock Exchange on conversion) (the “**Taxes**”). The Issuer will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if different, the person to whom the Shares are to be issued) must declare in the relevant Conversion Notice that any amounts payable to the relevant tax authorities in settlement of Taxes payable pursuant to this Condition 6(B)(ii) have been paid.

If the Issuer shall fail to pay any Duties and/or Taxes payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with the exercise of Conversion Rights by it.

Neither the Trustee nor any of the Agents shall be responsible to Bondholders or any other person or paying any Duties, Taxes, expenses or other amounts referred to in this Condition 6(B)(ii) or for determining whether such Duties are payable or the amount thereof, and neither the Trustee

nor any of the Agents shall be responsible or liable for any failure by the Issuer or any Bondholder to pay such Duties, Taxes, expenses or other amounts.

- (iii) **Registration:** Upon exercise by a Bondholder of its Conversion Right and compliance with Conditions 6(B)(i) and 6(B)(ii), the Issuer will, as soon as practicable, and in any event not later than five days after the Conversion Date, register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Issuer's share register in Hong Kong and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under applicable law and the rules and procedures of the Central Clearing and Settlement System of Hong Kong ("CCASS") effective from time to time, take all necessary action to procure that Shares are delivered through CCASS for so long as the Shares are listed on the HKSE; or will make such certificate or certificates available for collection at the office of the Issuer's share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) notified to Bondholders in accordance with Condition 11 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion of the Bonds and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single share certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

The crediting of the Shares to the relevant securities account of the converting Bondholder will be deemed to satisfy the Issuer's obligation to pay the principal on such converted Bonds.

If the Conversion Date in relation to the conversion of any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C), but before the relevant adjustment becomes effective under the relevant Condition (a "**Retroactive Adjustment**"), upon the relevant adjustment becoming effective the Issuer shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares ("**Additional Shares**") as is, together with Shares to be issued on conversion of the Bond(s), equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date and in such event and in respect of such Additional Shares references in this Condition 6(B)(iii) to the Conversion Date shall be deemed to refer to the date upon which the Retroactive Adjustment becomes effective (notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period).

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Issuer's register of members (the "**Registration Date**").

The Shares issued upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any Retroactive Adjustment of the Conversion Price referred to in this Condition 6(B)(iii) prior to the time such Retroactive Adjustment shall have become effective), the Issuer will calculate and pay to the converting Bondholder or his designee an amount in US dollars (the “**Equivalent Amount**”) converted at the Prevailing Rate (as defined below) equal to the Fair Market Value (as defined below) of such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by a US dollar denominated cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iv) **No Issue of Shares if in breach of the rules of a Relevant Stock Exchange:** The Issuer is not obliged to issue Shares in satisfaction of the Conversion Right if by doing so it will be in breach of its obligations under any rules of a Relevant Stock Exchange.

(C) Adjustments to Conversion Price

The Conversion Price will be subject to adjustment as follows:

(1) Consolidation, Reclassification or Subdivision:

Adjustment: If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, reclassification or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share in issue immediately before such alteration.

Effective Date of Adjustment: Such adjustment shall become effective on the date the alteration takes effect.

(2) Capitalisation of Profits or Reserves:

- (i) **Adjustment:** If and whenever the Issuer shall issue any Shares credited as fully paid to the holders of Shares (the “**Shareholders**”) by way of capitalisation of profits or reserves (including, Shares paid up out of distributable profits or reserves and/or share premium account) (except any Scrip Dividend) and which would not have constituted a Distribution (as defined in Condition 6(F)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares, or if a record date is fixed therefor, immediately after such record date.

- (ii) **Adjustment:** In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price (as defined in Condition 6(F)) on the date of announcement of the terms of the issue of such Shares multiplied by the number of such Shares issued exceeds the amount of the Relevant Cash Dividend (as defined in Condition 6(F)) or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate number of Shares in issue immediately before such Scrip Dividend;

B is the aggregate number of Shares which the Relevant Cash Dividend would purchase at such Current Market Price; and

C is the aggregate number of Shares issued pursuant to such Scrip Dividend;

or by making such other adjustment to the Conversion Price to give effect to the foregoing as an Independent Investment Bank shall certify to the Bondholders is fair and reasonable.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) Distributions:

Adjustment: If and whenever the Issuer shall pay or make any Distribution to Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution in Hong Kong dollars attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

(4) Rights Issues of Shares or Options over Shares:

Adjustment: If and whenever the Issuer shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing securities so issued), in each case at less than 90 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of the issue or grant of such Shares, options, warrants or other rights (and notwithstanding that the relevant issue may be or be expressed to be subject to Shareholder or other approvals or consents or other contingency or event occurring or not occurring), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Shares deliverable on the exercise thereof would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares to be issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be on the Relevant Stock Exchange.

(5) Rights Issues of Other Securities:

Adjustment: If and whenever the Issuer shall issue securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of the securities, or issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be on the Relevant Stock Exchange.

(6) Issues at less than Current Market Price:

Adjustment: If and whenever the Issuer shall issue (otherwise than as mentioned in Condition 6(C)(4)) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, or purchase of Shares) or issue or grant (otherwise than as mentioned in Condition 6(C)(4)) any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares (other than the Bonds), in each case at less than 90 per cent. of the Current Market Price on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;

B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or, as the case may be, for the Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and

C is the number of Shares to be issued pursuant to such issue of Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

References to additional Shares in the above formula shall, in the case of an issue by the Issuer of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

(7) Other Issues at less than Current Market Price:

Adjustment: If and whenever the Issuer or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries), any other company, person or entity shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 17) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Shares (or shall grant any such rights in respect of existing securities so issued) or securities which by their terms might be re-designated as Shares, and the consideration per Share receivable

upon conversion, exchange, subscription or re-designation is less than 90 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of issue of such securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such issue or grant;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or up on exercise of the right of subscription attached to such securities or, as the case may be, for the Shares to be issued or to arise from any such re-designation would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued or otherwise made available on conversion or exchange of such securities up or on the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares which may be issued or arise from any such re-designation.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such securities or, as the case may be, the grant of such rights.

(8) Modification of Rights of Conversion etc.:

Adjustment: If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities (other than the Bonds) as are mentioned in Condition 6(C)(7) (other than in accordance with the terms (including terms as to adjustment) applicable to such securities upon issue) so that following such modification the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 90 per cent. of the Current Market Price per Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued, purchased or acquired by the Issuer or any of its Subsidiaries (or at the direction or request or pursuant to any arrangements with the Issuer or any of its Subsidiaries) for the purposes of or in connection with such Securities, less the number of such Shares so issued, purchased or acquired);
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing

conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and

C is the maximum number of Shares which may be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Investment Bank shall consider appropriate (if at all) for any previous adjustment under this Condition 6(C)(8) or Condition 6(C)(7).

Effective Date of Adjustment: Such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such securities.

(9) Other Offers to Shareholders:

Adjustment: If and whenever the Issuer or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity shall offer any securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Conditions 6(C)(2), 6(C)(3), 6(C)(4), 6(C)(5), 6(C)(6) or 6(C)(7)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such issue is first publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue, sale or delivery of the securities.

(10) Other Events:

Adjustment: If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to in this Condition 6(C) (even if the relevant circumstance is specifically excluded from the operation of Conditions 6(C)(1) to 6(C)(9) (both inclusive)), the Issuer shall, at its own expense and acting reasonably, request an Independent Investment Bank to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 6(C)(10) if such Independent Investment Bank is so requested to make such a determination.

(11) Exclusion:

No adjustment shall be made to the Conversion Price if (a) any Bonds are offered, issued or granted to Datang Telecom Technology & Industry Holdings Co., Ltd., Xinxin (Hongkong) Capital Co., Ltd. 國家集成電路產業投資基金股份有限公司 (China Integrated Circuit Industry

Investment Fund Co., Ltd.), Country Hill Limited, Shanghai Industrial Investment (Holdings) Corporation or any of their respective affiliates or any other connected persons (as defined in under the Rules Governing the Listing of Securities of the HKSE) of the Issuer and (b) such offer, issue or grant is made on substantially the same terms and conditions as the issue of the Bonds.

(D) Undertakings

The Issuer has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

- (i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the HKSE, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the HKSE, and (c) if the Issuer is unable to obtain or maintain such listing, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as the Issuer may from time to time determine (and notify in writing to the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Shares (as a class) by any of such stock exchange;
- (ii) it will use its best endeavours to maintain the listing of the Bonds on the SGX-ST and if the Issuer is unable to maintain such listing or such listing is unduly onerous, to use its best endeavours to obtain and maintain a listing on another internationally recognised stock exchange as the Issuer may from time to time determine (with the prior written consent of the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Bonds by any such stock exchange;
- (iii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds (save for any Taxes specified in Condition 6(B)(ii));
- (iv) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof except:
 - (a) in the event of a reduction in the share premium account, capital redemption reserve fund or any other part of its share capital for the purposes of offsetting any accumulated loss or any deficit in retained earnings, where such reduction is permitted by applicable law so long as there is no change to the number of Shares in issue as a result of such reduction; or
 - (b) in all other capital reductions, where the reduction is permitted by applicable law and results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made.

In the Trust Deed, the Issuer has also undertaken with the Trustee that so long as any Bond remains outstanding:

- (i) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid; and

- (ii) it will not make any offer, issue, grant or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares, provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law.

The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

(E) Provisions Relating to Changes in Conversion Price

- (i) **Minor adjustments:** On any adjustment, the resultant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price if such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made. Notice of any adjustment shall be given by the Issuer to Bondholders in accordance with Condition 11 and to the Trustee in writing promptly after the determination thereof.
- (ii) **Decision of an Independent Investment Bank:** If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Investment Bank, a written opinion of such Independent Investment Bank in respect thereof shall be conclusive and binding on the Issuer, the Bondholders and the Trustee, save in the case of manifest error.
- (iii) **Minimum Conversion Price:** Notwithstanding the provisions of this Condition 6 the Conversion Price shall not in any event be reduced to below the nominal or par value of the Shares as a result of any adjustment hereunder unless under applicable law then in effect the Bonds may be converted at such reduced Conversion Price into legally issued, fully paid and non assessable Shares.
- (iv) **Reference to “fixed”:** Any references herein to the date on which a consideration is “fixed” shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in its opinion appropriate in order to give such intended result.

- (v) **Share Option Schemes:** No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees (including directors) of the Issuer or any of its Subsidiaries pursuant to any employee share scheme or plan (and which employee share scheme or plan is in compliance with the listing rules of the Relevant Stock Exchange).

- (vi) **Upward/downward adjustment:** No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation or reclassification of the Shares as referred to in Condition 6(C)(1) above. The Issuer may at any time and for a specified period of time only, following notice being given to the Trustee in writing and to the Bondholders in accordance with Condition 11, reduce the Conversion Price, subject to Condition 6(E)(iii).
- (vii) **Trustee not obliged to Monitor:** Neither the Trustee nor any Agent shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or to make any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so or for any delay by the Issuer in making a determination or any erroneous determination in connection with the Conversion Price, without prejudice to its duties owed to the Issuer.
- (viii) **Notice of Change in Conversion Price:** The Issuer shall give notice to the Bondholders in accordance with Condition 11 and, for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall also give notice to the SGX-ST of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

(F) Definitions

For the purposes of these Conditions:

“**Alternative Stock Exchange**” means at any time, in the case of the Shares, if they are not at that time listed and traded on the HKSE, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

“**Closing Price**” for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the HKSE or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

“**Current Market Price**” means, in respect of a Share on a particular date, the average of the daily Closing Prices of one Share on each of the 10 consecutive Trading Days ending on and including (i) the Trading Day immediately preceding such date or (ii) if the relevant announcement was made after the close of trading on such date (being a Trading Date), such date of announcement; provided that if at any time during such 10 Trading Day period the Shares shall have been quoted ex-dividend (or ex-any other entitlement) and during some other part of that period the Shares shall have been quoted cum-dividend (or cum- any other entitlement) then:

- (a) if the Shares to be issued or transferred and delivered do not rank for the dividend (or entitlement) in question, the Closing Price on the dates on which the Shares shall have been based on a price cum-dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share; or
- (b) if the Shares to be issued or transferred and delivered rank for the dividend or entitlement in question, the Closing Price on the dates on which the Shares shall have been based on a price ex dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by the Fair Market Value of any such dividend or entitlement per Share;

and provided that:

- (i) if on each of the said 10 Trading Days the Shares have been quoted a price cum-dividend (or cum- any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that dividend (or other entitlement), the Closing Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share in any such case determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;
- (ii) if the Closing Price of a Share is not available on one or more of the said 10 Trading Days (disregarding for this purpose the proviso to the definition of Closing Price), then the average of such Closing Prices which are available in that 10 Trading Day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Closing Price is available in the relevant period the Current Market Price shall be determined by an Independent Investment Bank; and
- (iii) in making any calculation or determination of Current Market Price in relation to an issue of Shares, other securities or options, rights or warrants for shares or other securities which are issued offered, allotted, appropriated, modified or granted in connection (partly or fully) with any merger or acquisition, each reference above to 10 consecutive Trading Days shall be to 30 consecutive Trading Days.

In making any calculation or determination of Current Market Price, such adjustments (if any) shall be made as an Independent Investment Bank considers appropriate to reflect any consolidation or sub-division of the Shares or any issue of Shares by way of capitalisation of profits or reserves, or any like or similar event.

“Determination Business Day” means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong and in New York City.

“Determination Date” means the day which is two Determination Business Days before the relevant date of announcement of dividends or other distribution by the Issuer.

“Distribution” means (i) any distribution of assets in specie by the Issuer for any financial period whenever paid or made and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalisation of reserves, but excludes a Scrip Dividend adjusted for under Condition 6(C)(2)(ii)); and (ii) any cash dividend or distribution (including, without limitation, the relevant cash amount of a Scrip Dividend) of any kind by the Issuer for any financial period (whenever paid and however described) translated into Hong Kong dollars at the Prevailing Rate as at the date such distribution under (i) and/or (ii) of this definition is announced. In making any such calculation, such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (c) the modification of any rights to dividends of Shares.

“Fair Market Value” means, with respect to any asset, security, option, warrant or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the Fair Market Value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend (in which case no determination by an Independent Investment Bank would be required); (ii) the Fair Market Value of any other cash amount shall be equal to such cash amount (in which case no determination by an Independent Investment Bank would be required); and (iii) where Securities are publicly traded in a market of adequate liquidity (as

determined by such Independent Investment Bank) the Fair Market Value of such Securities shall equal the arithmetic mean of the daily Closing Prices of such Securities during the period of ten Trading Days commencing on the first such Trading Day (or, if later, the first such Trading Day such Securities are publicly traded) or such shorter period as such Securities are publicly traded.

“**HKSE**” means The Stock Exchange of Hong Kong Limited.

“**Independent Investment Bank**” means an independent investment bank of international repute (acting as an expert) selected by the Issuer and notified in writing to the Trustee. If the Issuer fails to select an Independent Investment Bank when required by the Conditions, the Trustee may in its absolute discretion (but shall not be obliged to) select the Independent Investment Bank.

“**Prevailing Rate**” means, in respect of any currency on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon (Hong Kong time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon (Hong Kong time) on the immediately preceding day on which such rate can be so determined.

“**Relevant Cash Dividend**” means the aggregate cash dividend or distribution declared by the Issuer, including any cash dividend in respect of which there is any Scrip Dividend (which, for the avoidance of doubt, shall exclude a purchase or redemption of Shares, but include the Relevant Cash Dividend component of a Scrip Dividend).

“**Relevant Currency**” means Hong Kong dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, Hong Kong dollars is not the Relevant Currency of the Relevant Stock Exchange, the currency in which the Shares are quoted or dealt in on the Relevant Stock Exchange at such time.

“**Relevant Page**” means the relevant page on Bloomberg or, if there is no such page, on Reuters or such other information service provider that displays the relevant information.

“**Relevant Stock Exchange**” means at any time, in respect of the Shares, the HKSE or the Alternative Stock Exchange.

“**Securities**” means any securities including, without limitation, shares, options, warrants or other rights to subscribe for or purchase or acquire securities.

“**Scrip Dividend**” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt, no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or the relevant part thereof) but without prejudice to any adjustment required in such circumstances to be made under Condition 6(C)(2)(ii).

“**SGX-ST**” means the Singapore Exchange Securities Trading Limited.

“**Trading Day**” means a day on which the Relevant Stock Exchange is open for business and on which Shares or other securities may be dealt in (other than a day on which the Relevant Stock Exchange is scheduled to or does close prior to its regular weekday closing time).

References to any issue or offer or grant to Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

7 Payments

(A) Method of Payment

Payment of principal, premium and default interest (if any) will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in Hong Kong or New York City mailed to the registered address of the Bondholder if it does not have a registered account. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, such payments will be made to the holder appearing in the register of holders of the Bonds maintained by the Registrar at the close of the business day (being for this purpose a day on which Euroclear Bank SA/NV and Clearstream Banking S.A. are open for business) before the relevant due date.

(B) Registered Accounts

For the purposes of this Condition 7, a Bondholder's registered account means the US dollar account maintained by or on behalf of it with a bank in Hong Kong or New York City, details of which appear on the Register at the close of business on the second business day (as defined below in Condition 7(F)) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

(C) Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(D) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined below in Condition 7(F)), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

(E) Delay In Payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 7 arrives after the due date for payment.

(F) Business Day

In this Condition 7, "**business day**" means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong, New York City and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

(G) Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and appoint additional or replacement Agents provided that they will maintain (i) a Principal Agent, (ii) an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption, so long as the Bonds are listed on the SGX-ST and the rules of that exchange so require (and such agent in Singapore shall be a Paying, Transfer and Conversion Agent and shall be referred to in these terms and conditions as the “**Singapore Agent**”) and (iii) a Registrar with a specified office outside Hong Kong and the United Kingdom. Notice of any changes in any Agent or their specified offices will promptly be given by the Issuer to the Bondholders.

So long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

8 Redemption, Purchase and Cancellation

(A) Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at its principal amount on 7 July 2022 (the “**Maturity Date**”). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Conditions 8(B) or 8(C) (but without prejudice to Condition 10).

(B) Redemption for Taxation Reasons

- (i) The Issuer may redeem all and not some only of the Bonds, at its option, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Bondholders in accordance with Condition 11 (which notice shall be irrevocable), on the date specified in the Tax Redemption Notice for redemption (the “**Tax Redemption Date**”) at their principal amount, if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7 June 2016, and (b) such obligation cannot be avoided by the Issuer taking commercially reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the publication of any Tax Redemption Notice pursuant to this Condition 8(B), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the obligation referred to in (a) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (b) above of this Condition 8(B)(i), in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date, the Issuer (subject to Condition 8(B)(ii)) shall redeem the Bonds at their principal amount.

- (ii) If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(B)(i), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal, premium or default interest (if any) to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable by the Issuer in respect thereof pursuant to Condition 9 and payment of all amounts by the Issuer to such holder in respect of such Bond(s) shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(B)(ii), the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the relevant Bond(s) on or before the day falling 10 days prior to the Tax Redemption Date.

(C) Redemption at the Option of the Issuer

On giving not less than 45 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee in writing and to the Bondholders in accordance with Condition 11, the Issuer shall redeem all and not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount:

- (i) at any time after 7 July 2020, provided that the Closing Price of a Share (translated into US dollars at the Prevailing Rate), for each of 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date of the Optional Redemption Notice was at least 130 per cent. of the Conversion Price (translated into US dollars at the Fixed Exchange Rate) then in effect immediately prior to the date upon which notice of such redemption is given; or
- (ii) at any time if, prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any further Bonds issued pursuant to Condition 17).

If there shall occur an event giving rise to a change in the Conversion Price during any such 20 consecutive Trading Day period as mentioned in Condition 8(C)(i) above, appropriate adjustments for the relevant days shall be made, as determined by an Independent Investment Bank, for the purpose of calculating the Closing Price for such days.

(D) Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Bonds on the Relevant Event Redemption Date at their principal amount. To exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Relevant Event Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 11. The "**Relevant Event Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer's consent. The Issuer shall redeem the Bonds the subject of the Relevant Event Put Exercise Notice (subject to delivery of the relevant Certificate as aforesaid) on the Relevant Event Put Date.

Within 14 days after it becomes aware of the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 11. The notice regarding the Relevant Event shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to this Condition 8(D). Such Notice shall also specify: (a) the date of such Relevant Event and, all information material to Bondholders concerning the Relevant Event; (b) the Relevant Event Put Date; (c) the last date by which a Relevant Event Put Exercise Notice must be given; (d) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Relevant Event Put Right or Conversion Right; and (e) the information required by Condition 8(H).

Neither the Agents nor the Trustee shall be required to monitor or to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur.

For the purposes of this Condition 8(D):

“**Control**” means (a) the beneficial ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Issuer, or (b) the right to appoint and/or remove all or the majority of the members of the Issuer’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise.

a “**Change of Control**” occurs when:

- (i) any person or persons acting together acquires Control of the Issuer provided that such person or persons does not or do not have, and would not be deemed to have, Control of the Issuer on the Issue Date; or
- (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the assets of the Issuer to any other person or persons acting together unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Issuer or successor entity.

For the avoidance of doubt, any person Controlled (as defined by this Condition 8(D)) by the State-Owned Assets Supervision and Administration Commission (“SASAC”), the State Council of the PRC and/or the PRC Government shall not be deemed to be acting together with any other person so Controlled by virtue of that fact alone (and absent any other factors which may result in such persons being treated as acting together under this definition).

“**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer’s Board of Directors or any other governing board and does not include the Issuer’s wholly-owned direct or indirect Subsidiaries.

“**PRC**” means the People’s Republic of China.

“**PRC Government**” means the government of the PRC, including all governmental subdivisions and its organs or, as the context requires, any of them.

“**Relevant Event**” occurs:

- (i) when the Shares cease to be listed or admitted to trading or is suspended for a period equal to or exceeding 45 consecutive Trading Days; or
- (ii) when there is a Change of Control.

“**Voting Rights**” means the right generally to vote at a general meeting of shareholders of the Issuer (including, at the time, stock of any other class or classes which shall have, or might have, voting power by reason of the happening of any contingency).

(E) Redemption at the option of the Bondholders

On 7 July 2020 (the “**Optional Put Date**”), the holder of each Bond will have the right at such holder’s option, to require the Issuer to redeem all or some only of the Bonds of such holder on the Optional Put Date at their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent (“**Optional Put Exercise Notice**”) together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Optional Put Date.

An Optional Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of Optional Put Exercise Notices delivered as aforesaid on the Optional Put Date.

(F) Purchase

The Issuer or any of its Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase Bonds at any price in the open market or otherwise.

(G) Cancellation

All Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

(H) Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition 8(H) will be irrevocable and will be given in accordance with Condition 11 specifying: (a) the Conversion Price as at the date of the relevant notice; (b) the last day on which Conversion Rights may be exercised; (c) the Closing Price of the Shares on the latest practicable date prior to the publication of the notice; (d) the date for redemption; (e) the manner in which redemption will be effected; (f) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice; and (g) such other information as the Trustee may require.

No notice of redemption given under Condition 8(B) or Condition 8(C) shall be effective if it specifies a date for redemption which falls during a Restricted Transfer Period or within 15 days following the last day of a Restricted Transfer Period.

If more than one notice of redemption is given (being a notice given by either the Issuer or a Bondholder pursuant to this Condition 8(H)), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

9 Taxation

All payments made by or on behalf of the Issuer in respect of the Bonds shall be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands, Hong Kong or any authority thereof or therein having power

to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.

In such event, the Issuer shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in the receipt by the Bondholders of such amounts as would have been received by them had no such deduction or withholding been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

- (i) **Other connection:** to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Cayman Islands or Hong Kong, other than the mere holding of the Bond or by the receipt of amounts in respect of the Bond;
- (ii) **Presentation more than 30 days after the relevant date:** (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or
- (iii) **Payment by another Paying and Conversion Agent:** presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

“**Relevant Date**” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal, premium and default interest shall be deemed also to refer to any additional amounts which may be payable under this Condition 9 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

If any of the following events (each an “**Event of Default**”) occurs the Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in either case to being indemnified and/or secured and/or prefunded by the holders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and repayable at their principal amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

- (i) **Non-Payment:** the Issuer fails to pay the principal, premium or default interest (if any) on any of the Bonds when due and the default continues for a period of 10 days; or
- (ii) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (iii) **Failure to deliver Shares:** any failure by the Issuer to deliver any Shares as and when the Shares are required to be delivered following Conversion of Bonds; or
- (iv) **Cross-Default:** (a) any other present or future indebtedness of the Issuer or any of its Subsidiaries (excluding any Excluded Listed Subsidiary) for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is

not paid when due or, as the case may be, within any applicable grace period, or (c) the Issuer or any of its Subsidiaries (excluding any Excluded Listed Subsidiary) fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(iv) have occurred equals or exceeds US\$50,000,000 or its equivalent (as determined on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity); or

- (v) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any of its Principal Subsidiaries and is not discharged or stayed within 30 days; or
- (vi) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Principal Subsidiaries on material property or assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 30 days, except where any such event will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bonds; or
- (vii) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or any of its Principal Subsidiaries (except for a members' voluntary solvent winding up of a Subsidiary), or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by the Trustee in its discretion or by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Principal Subsidiaries, or (c) where such event will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bonds; or
- (viii) **Insolvency:** the Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Principal Subsidiaries; an administrator or liquidator of the Issuer or any of its Principal Subsidiaries of the whole or any material part of the assets and turnover of the Issuer or any of its Principal Subsidiaries is appointed (or application for any such appointment is made), except where any such events will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bond; or
- (ix) **Nationalisation:** any step is taken by a competent governmental authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries, except where any such events will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bond; or
- (x) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Issuer lawfully to enter into,

exercise their respective rights and perform and comply with its obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of the Cayman Islands or Hong Kong is not taken, fulfilled or done; or

- (xi) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed, except where such event will not have a material effect on the ability of the Issuer to fulfil its obligations under the Bond; or
- (xii) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(i) to 10(xi) (both inclusive).

11 Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register or published in a leading newspaper having general circulation in Hong Kong or, if such publication is not practicable, in an English language newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*) and so long as the Bonds are listed on SGX-ST and if the rules of the SGX-ST so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

12 Prescription

Claims in respect of amounts due in respect of the Bonds shall be prescribed and become void unless made as required by Condition 7 within 10 years (in the case of principal) and five years (in the case of default interest) from the appropriate Relevant Date.

13 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or any Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity and/or security as the Issuer and the Registrar or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 Meetings of Bondholders, Modification, Waiver and Substitution

(A) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if it receives a written request from Bondholders holding not less than 10 per cent in the aggregate principal amount of the Bonds for the time being outstanding and is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more

persons holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (a) to modify the maturity of the Bonds, the Optional Redemption Date or the Optional Put Date, (b) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Conditions 8(B), 8(C), 8(D) or 8(E), (c) to reduce or cancel the principal amount, any premium payable, any default interest payable or Equivalent Amount payable in respect of the Bonds or changing the method of calculation of interest, (d) to change the currency of denomination or payment of the Bonds, (e) to modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights, or (f) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 33 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds for the time being outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(B) Modification and Waiver

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (a) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (together the “**Documentation**”) which in the Trustee’s opinion is of a formal, minor or technical nature, or is made to correct a manifest error, or to comply with mandatory provisions of law, and (b) any other modification to the Documentation (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Documentation which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee agrees otherwise, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders promptly in accordance with Condition 11.

(C) Substitution

The Trustee may (but shall not be obliged to), without the consent of the Bondholders, agree to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition 14(C)) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Issuer subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer, and (b) the Bonds continuing to be convertible or exchangeable into Shares as provided in these Conditions *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate subject to in any such case, (x) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust

Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified by the Issuer to the Bondholders promptly in accordance with Condition 11.

(D) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 14(D)) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim from the Issuer, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 14(A), a modification, waiver or authorisation in accordance with Condition 14(B) or a substitution in accordance with Condition 14(C), the Issuer will procure that the Bondholders be notified in accordance with Condition 11.

15 Enforcement

At any time after the Bonds become due and repayable, the Trustee may, at its discretion and without further notice to the Issuer, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it needs not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

16 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including from taking proceedings unless indemnified and/or secured and/or pre-funded of its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any opinion or advice of any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, opinion or advice and such report, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Trustee and the Bondholders.

17 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 17 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the

Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law and Submission to Jurisdiction

(A) Governing Law

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(B) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds (“**Proceedings**”) may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds.

THE GLOBAL CERTIFICATES

References in this section to the “Global Certificate” shall be deemed to be references to the Global Certificates as defined above in this Offering Circular.

The Global Certificates contain provisions which apply to the Bonds in respect of which the Global Certificates are issued, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. Terms defined in the Terms and Conditions of the Bonds have the same meaning in the paragraphs below. The following is a summary of those provisions:

Each Global Certificate will be registered in the name of a nominee (the “**Registered Holder**”) for a common depository for Euroclear and Clearstream (the “**Common Depository**”) and may be delivered on or prior to the original issue date of the Original Bonds or, as the case may be, the Additional Bonds.

Upon the registration of each Global Certificate in the name of any nominee for Euroclear and Clearstream and delivery of such Global Certificate to the Common Depository, Euroclear or Clearstream will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Euroclear, Clearstream or any Alternative Clearing System (as defined below) as the holder of a Bond represented by the Global Certificates must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificates and in relation to all other rights arising under the Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificates and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificates in respect of each amount so paid.

Owners of interests in the Bonds in respect of which the Global Certificates are issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates (“**Definitive Certificates**”) if either Euroclear or Clearstream (or any other clearing system (an “**Alternative Clearing System**”) as shall have been selected by the Issuer and approved in writing by the Trustee and the Principal Agent and, as applicable, the Registrar on behalf of which the Bonds evidenced by the Global Certificates may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

The Global Certificates contain provisions that apply to the Bonds that it represents, some of which modify the effect of the terms and conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions:

Meetings

The registered holder of each Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US\$250,000 in principal amount of Bonds for which the relevant Global Certificate is issued. The Trustee may (but is not obliged to) allow a person with an interest in the Bonds in respect of which the Global Certificates have been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bonds by the Issuer following its redemption or purchase will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificates are held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificates and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Certificates.

Payments

Payments of principal and interest in respect of Bonds represented by the Global Certificates will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificates to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Notices

So long as the Bonds are represented by the Global Certificates and the Global Certificates are held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Redemption at the option of the Issuer

The options of the Issuer provided for in Conditions 8(B) and 8(C) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by Conditions 8(B) and 8(C).

Bondholder's Redemption

The Bondholder's redemption options in Conditions 8(D) and 8(E) may be exercised by the holder of the Global Certificates giving notice to the Principal Agent or any other Paying Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificates for endorsement or exercise (if required) within the time limits specified in the Conditions.

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificates are issued, except if either Euroclear or Clearstream (or any alternative clearing system on behalf of which the Bonds evidenced by the Global Certificates may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Transfers

Transfers of interests in the Bonds with respect to which the Global Certificates are issued shall be made in accordance with the Agency Agreement.

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Enforcement

The Global Certificates shall not be valid for any purpose until authenticated by or on behalf of the Registrar.

The Global Certificates and any non-contractual obligations arising out of or in connection with them is governed by, and shall be construed in accordance with, English law.

Electronic Consent and Written Resolution

While the Global Certificates are registered in the name of any nominee for a clearing system, then:

- (a) where the terms of the proposed resolution have been notified to the Bondholders through the relevant clearing system(s), each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Bonds outstanding (“**Electronic Consent**”). Neither the Issuer nor the Trustee shall be liable or responsible to anyone for such reliance; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the relevant clearing system(s) with entitlements to such Global Certificates and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by such accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, the relevant clearing system and, in the case of (b) above, the relevant clearing system and the person identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal amount of the Bonds is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS

Directors' Interests in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests or short positions of our Directors in our ordinary Shares, underlying shares and debentures (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were notified to us and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they are taken or deemed to have under such provision of the SFO), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers) were as follows:

Interests in our shares and underlying shares

Name of Director	Long/Short Position	Nature of Interests	Number of Ordinary Shares held ⁽²²⁾	Derivatives Share Options ⁽²²⁾	Other ⁽²²⁾	Total Interests ⁽²²⁾	Percentage of aggregate interests to total issued share capital of the Company ⁽¹⁾
Executive Directors							
Zhou Zixue.....	Long Position	Beneficial Owner	—	2,521,163 ⁽²⁾	1,080,498 ⁽³⁾	3,601,661	0.071%
Zhao Haijun.....	Long Position	Beneficial Owner	163	1,875,733 ⁽⁴⁾	— ⁽⁵⁾	1,875,896	0.037%
Liang Mong Song.....	—	—	—	—	—	—	—
Gao Yonggang.....	Long Position	Beneficial Owner	—	1,649,472 ⁽⁶⁾	85,505 ⁽⁷⁾	1,734,977	0.034%
Non-executive Directors							
Chen Shanzhi.....	Long Position	Beneficial Owner	—	664,687 ⁽⁸⁾	350,156 ⁽⁹⁾	1,014,843	0.020%
Zhou Jie.....	—	—	—	—	—	—	—
Ren Kai	—	—	—	—	—	—	—
Lu Jun.....	—	—	—	—	—	—	—
Tong Guo Hua.....	Long Position	Beneficial Owner	—	187,500 ⁽¹⁰⁾	187,500 ⁽¹¹⁾	375,000	0.007%
Independent Non-executive Directors							
William Tudor Brown	Long Position	Beneficial Owner	—	150,000 ⁽¹²⁾	150,000 ⁽¹³⁾	300,000	0.006%
Cong Jingsheng Jason.....	Long Position	Beneficial Owner	123,750	187,500 ⁽¹⁴⁾	63,750 ⁽¹⁵⁾	375,000	0.007%
Lau Lawrence Juen-Yee ..	—	—	—	187,500 ⁽¹⁶⁾	187,500 ⁽¹⁷⁾	375,000	0.007%
Fan Ren Da Anthony.....	—	—	—	187,500 ⁽¹⁸⁾	187,500 ⁽¹⁹⁾	375,000	0.007%
Young Kwang Leei	—	—	—	187,500 ⁽²⁰⁾	187,500 ⁽²¹⁾	375,000	0.007%

Notes:

(1) Based on 5,055,091,822 Shares in issue as at the Latest Practicable Date.

Notes:

- (2) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Shares at a price of HK\$8.30 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (3) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, 25 per cent. of which will vest on each anniversary of March 6, 2015, shall fully vest on March 6, 2019. As of the Latest Practicable Date, 1,080,498 Restricted Share Units were vested.
- (4) These options comprise: (a) options which were granted to Dr. Zhao on June 11, 2013 to purchase 1,505,854 Shares at a price of HK\$6.40 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 10, 2023 or 90 days after termination of his service, (b) options which were granted to Dr. Zhao on September 7, 2017 to purchase 1,687,500 Shares at a price of HK\$7.9 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of September 6, 2027 or 90 days after termination of his service as Co-Chief Executive Officer. As of the Latest Practicable Date, 1,317,621 of these options have been exercised.
- (5) On September 7, 2017, Dr. Zhao was granted an award of 1,687,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs will vest over one year commencing on the date on which Dr. Zhao commenced his term of office as Chief Executive Officer. As of the Latest Practicable Date, 1,687,500 of these RSUs have been exercised.
- (6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 314,531 Shares at a price of HK\$6.4 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 1,360,824 Shares at a price of HK\$6.24 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 288,648 Shares at a price of HK\$6.4 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, 314,531 options have been exercised.
- (7) On November 17, 2014, Dr. Gao was granted an award of 291,083 Restricted Share Units pursuant to the 2014 Equity Incentive Plan, consisting of (a) 240,145 Restricted Share Units, 25 per cent. of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017; and (b) 50,938 Restricted Share Units, 25 per cent. of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. As of the Latest Practicable Date, a total of 291,083 Restricted Share Units were vested, among which, 205,578 were settled in cash.
- (8) These options comprise: (a) On May 24, 2010, Dr. Chen was granted options to purchase 314,531 Shares at a price of HK\$6.4 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2016, options to purchase 98,958 Shares at a price of HK\$6.42 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (c) On September 12, 2016, options to purchase 1,198 Shares at a price of HK\$8.72 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. (d) On April 5, 2017, options to purchase 62,500 Shares at a price of HK\$9.834 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. (e) On May 23, 2018, options to purchase 125,000 Shares at a price of HK\$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (f) On May 21, 2019, options to purchase 62,500 Shares at a price of HK\$8.580 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will vest on 1 January 2020 and will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (9) These Restricted Share Units comprise: (a) On May 25, 2016, 98,958 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (b) On September 12, 2016, 1,198 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (c) On April 5, 2017, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (d) On May 23, 2018, 125,000 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Among the 125,000 Restricted Share Units, 62,500 Restricted Share Units are vested immediately and 62,500 Restricted Share Units will vest on January 1, 2019. (e) On May 21, 2019, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. These Restricted Share Units will vest on January 1, 2020. As of the Latest Practicable Date, none of these RSUs has been exercised.
- (10) On April 5, 2017, Dr. Tong was granted options to purchase 187,500 Shares at a price of HK\$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (11) On April 5, 2017, Dr. Tong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33 per cent., 33 per cent. and 34 per cent. of which will vest on each anniversary of February 14, 2017, shall fully vest on February 14, 2020. As of the Latest Practicable Date, none of these RSUs has been exercised.
- (12) These options comprise: (a) On May 23, 2018, options to purchase 87,500 Shares at a price of HK\$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. (b) On May 21, 2019, options to purchase 62,500 Shares at a price of HK\$8.580 per Share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will vest on 1 January 2020 and will expire on the earlier of May 20, 2029 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (13) (a) On May 23, 2018, 87,500 Restricted Share Units were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. Among the 87,500 Restricted Share Units, 25,000 Restricted Share Units are vested immediately and 62,500 Restricted Share Units will vest on January 1, 2019. (b) On May 21, 2019, 62,500 Restricted Share Units were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. These Restricted Share Units will vest on January 1, 2020. As of the Latest Practicable Date, none of these RSUs has been exercised.

Notes:

- (14) On April 5, 2017, Dr. Cong was granted options to purchase 187,500 Shares at a price of HK\$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (15) On April 5, 2017, Dr. Cong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33 per cent., 33 per cent. and 34 per cent. of which will vest on each anniversary of February 14, 2017, shall fully vest on February 14, 2020. As of the Latest Practicable Date, 123,750 of these Restricted Share Units were exercised.
- (16) On September 13, 2018, Professor Lau was granted options to purchase 187,500 Shares at a price of HK\$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (17) On September 13, 2018, Professor Lau was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33 per cent., 33 per cent. and 34 per cent. of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of the Latest Practicable Date, none of these Restricted Share Units was exercised.
- (18) On September 13, 2018, Mr. Fan was granted options to purchase 187,500 Shares at a price of HK\$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (19) On September 13, 2018, Mr. Fan was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33 per cent., 33 per cent. and 34 per cent. of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of the Latest Practicable Date, none of these Restricted Share Units was exercised.
- (20) On September 12, 2019, Dr. Young was granted options to purchase 187,500 Shares at a price of HK\$9.820 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 11, 2029 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options has been exercised.
- (21) On September 12, 2019, Dr. Young was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of August 7, 2019, shall fully vest on August 7, 2022. As of the Latest Practicable Date, none of these Restricted Share Units was exercised.
- (22) These interests have been adjusted upon the Share Consolidation taking effect from December 7, 2016 on the basis of consolidating every ten ordinary shares of US\$0.0004 each into one ordinary share of US\$0.004 each.

All interests stated above represented long positions.

Interests of Substantial Shareholders and Other Persons in Shares and Underlying Shares

Set out below are the names of the parties (not being one of our directors or chief executive) which were interested in 5 per cent. or more of the nominal value of our share capital and the respective numbers of shares in which they were interested as of the Latest Practicable Date.

Name of Shareholder	Nature of interest	Long/Short Position	Number of Ordinary Shares Held ⁽⁸⁾	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company ⁽¹⁾	Derivatives ⁽⁸⁾	Total Interests ⁽⁸⁾	Percentage of Total Interest to Total Issued Share Capital of the Company ⁽¹⁾
Datang Telecom Technology & Industry Holdings Co., Ltd.....	Interest of corporation controlled	Long Position	859,522,595 ⁽²⁾	17.00%	122,118,935 ⁽³⁾	981,641,530	19.42%
Pagoda Tree Investment Company Limited	A concert party to an agreement to buy shares described in s.317(1)(a)	Long Position	859,522,595 ⁽⁴⁾	17.00%	122,118,935 ⁽⁴⁾	981,641,530	19.42%

Name of Shareholder	Nature of interest	Long/Short Position	Number of Ordinary Shares Held ⁽⁸⁾	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company ⁽¹⁾	Derivatives ⁽⁸⁾	Total Interests ⁽⁸⁾	Percentage of Total Interest to Total Issued Share Capital of the Company ⁽¹⁾
China Integrated Circuit Industry Investment Fund Co., Ltd.....	Interest of corporation controlled	Long Position	797,054,901 ⁽⁵⁾	15.77%	183,178,403 ⁽⁶⁾	980,233,304	19.39%
Tsinghua University.....	Interest of corporation controlled	Long Position	374,665,110 ⁽⁷⁾	7.41%	—	374,665,110	7.41%
Zhao Weiguo	Interest of corporation controlled	Long Position	350,301,600 ⁽⁸⁾	6.93%	—	350,301,600	6.93%

Notes:

- (1) Based on 5,055,091,822 Ordinary Shares in issue as at the Latest Practicable Date.
- (2) 859,522,595 Shares are held by Datang Holdings (Hong Kong) Investment Company Limited (“**Datang HK**”) which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd. (“**Datang**”).
- (3) On April 23, 2018, the Company entered into the Datang PSCS Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang PSCS Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang PSCS which are convertible into 122,118,935 Shares (assuming full conversion of the Datang PSCS at the initial Conversion Price of HK\$12.78 per Share). In this regard, Datang and Datang HK are deemed to be interested in these 122,118,935 Shares under the SFO. Completion of the Datang PSCS Subscription Agreement has occurred on June 29, 2018.
- (4) Lightmane Holdings Company Limited, a wholly-owned subsidiary of CNIC Corporation Limited, of which Compass Investment Company Limited, a wholly owned subsidiary of Pagoda Tree Investment Company Limited, has a 90 per cent. control, signed an agreement with Datang HK with terms falling under the Section 317(1)(a) or (b) of the SFO. Lightmane Holdings Company Limited, CNIC Corporation Limited, Compass Investment Company Limited, Pagoda Tree Investment Company Limited are therefore deemed to be interested in 981,641,530 Shares of the Company.
- (5) 797,054,901 Shares are held by Xinxin (Hongkong) Capital Co., Ltd (“**Xinxin HK**”), a wholly-owned subsidiary of Xunxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.

As of the Latest Practicable Date, 5,055,091,822 ordinary shares (including 11,297,270 ADSs representing 56,486,350 shares) of the Company were outstanding. J.P. Morgan Chase Bank, the depositary under the deposit agreement, has advised us that, as of Latest Practicable Date, these 11,297,270 ADSs, representing 56,486,350 ordinary shares, were held of record by eighteen US registered shareholders. We have no further information as to shares held or beneficially owned by US persons. Each ADS represents 5 ordinary shares.

Save as disclosed above, no other persons had any interests or short positions in our shares or underlying shares as at the Latest Practicable Date.

China Integrated Circuit Industry Investment Fund Co., Ltd. (“China IC Fund”)

China IC Fund was established in September 2014 which is a professional investment company focused on the integrated circuit industry.

Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”)

Datang Holdings is a wholly-owned subsidiary of Datang Telecom Technology and Industry Group (“**Datang Telecom Group**”). Datang Telecom Group, headquartered in Beijing, the PRC, has entered wireless mobile communications, integrated circuit, strategic emerging industries and other industrial sectors. As the main force for independent innovation of China’s wireless mobile communications and a model of practicing innovative national strategies, Datang Telecom Group has initiated international standards of 3G TD-SCDMA and 4G TD-LTE-Advanced mobile communications, promoted the successful industrialization, scale commercial use and

major breakthroughs in international market of TD and led the development of 5G core technical standards. At the same time, it has also linked up the mobile communications and the IC industry chains, facilitated the interactive development mode of mobile communications and integrated circuit, realized the key changes of China's communications chips and significantly enhanced the international competitiveness of China's information and communication industry.

Pre-emptive rights of Datang Holdings

Pursuant to the share purchase agreement dated 6 November 2008 between the Company and Datang Holdings (the “**Datang Subscription Agreement**”) and the supplemental agreement dated 22 August 2014 between Datang Holdings, Datang HK and the Company to amend the pre-emptive rights provision in the Datang Subscription Agreement, Datang Holdings has a pre-emptive right to subscribe for a *pro rata* portion of new securities of the Company being issued equivalent to the percentage of the issued share capital of the Company then owned by Datang Holdings immediately prior to the Company's entry into the agreement or agreements for the transaction involving the issuance of such new securities, which includes the issue of the Bonds, any potential subscription by Country Hill pursuant to any exercise of its pre-emptive right under the share purchase agreement dated 18 April 2011 between the Company and Country Hill, and any potential subscription by China IC Fund pursuant to any exercise of its Pre-emptive Right under the China IC Fund Subscription Agreement (defined below). The completion of any such issue of securities to Datang Holdings upon exercise of its pre-emptive right will be further subject to the receipt of any required regulatory approvals. Pursuant to the Datang Subscription Agreement, Datang Holdings is deemed to have elected that it will not exercise its Pre-emptive Right to subscribe for the Bonds.

Pre-emptive rights of China IC Fund

Pursuant to the share purchase agreement dated 12 February 2015 between the Company and China IC Fund (the “**China IC Fund Agreement**”), China IC Fund has a pre-emptive right to purchase (or to purchase through its wholly-owned subsidiary incorporated in Hong Kong (the “**HKCo**”)) a *pro rata* portion of such new securities being issued by the Company equivalent to the percentage of the issued share capital of the Company then beneficially owned by the Investor (together with the HKCo and its permitted transferee) prior to the issue of such new securities, provided that the Investor (together with the HKCo and its permitted transferee) maintains an ownership interest equal to not less than five per cent. (5%) of the Company's issued share capital from time to time. The Company has been informed by China IC Fund that it will not be exercising its Pre-emptive Right to subscribe for Bonds.

Based on the Effective Conversion Price of HK\$10.73 per Share as at 18 November 2019 and assuming full conversion of the Bonds at such Effective Conversion Price, the Bonds will be convertible into approximately 167,950,270 Shares, representing (i) approximately 3.32 per cent. of the issued share capital of the Company on 18 November 2019 and (ii) approximately 3.22 per cent. of the issued share capital of the Company as enlarged assuming the full conversion of the Bonds at the Effective Conversion Price as at 18 November 2019 (assuming that there is no change in the issued share capital of the Company, save for the issue of the Shares).

The following table illustrates (i) the existing shareholding structure of the Company; (ii) the shareholding structure immediately after the issue of the Bonds and assuming no conversion of the Bonds into Shares; and (iii) the shareholding structure immediately after the issue of the Bonds and full conversion of the Bonds.

Immediately after the Bonds

Shareholder	As at 18 November 2019		Assuming no conversion of the Bonds⁽¹⁾		Assuming full conversion of the Bonds at the Effective Conversion Price as at 18 November 2019⁽²⁾	
	<i>No. of Shares</i>	<i>% of issued share capital of the Company</i>	<i>No. of Shares</i>	<i>% of issued share capital of the Company</i>	<i>No. of Shares</i>	<i>% of issued share capital of the Company</i>
Datang ⁽³⁾	859,522,595	17.00%	859,522,595	17.00%	859,522,595	16.46%
China IC Fund ⁽⁴⁾	797,054,901	15.77%	797,054,901	15.77%	797,054,901	15.26%
Holders of Bonds	—	—%	—	—%	167,950,270	3.22%
Other Shareholders	3,398,043,967	67.23%	3,398,043,967	67.23%	3,398,043,967	65.06%
Total	5,054,621,463	100.00%	5,054,621,463	100.00%	5,222,571,733	100.00%

Notes:

- (1) Assuming that other than the Bonds, no Shares are issued or repurchased by the Company, no issuance of Pre-emptive Bonds, no share options are exercised, no Restricted Share Units are granted and no conversion into Shares of any securities. As at 31 October 2019, the Company has 21,223,764 outstanding share options.
- (2) Assuming that other than the Bonds, no Shares are issued or repurchased by the Company, no issuance of Pre-emptive Bonds, no share options are exercised, no Restricted Share Units are granted and no conversion into Shares of any securities other than the Bonds. As at 31 October 2019, the Company has 21,223,764 outstanding share options.
- (3) All such Shares are held by Datang HK, a wholly-owned subsidiary of Datang.
- (4) All such Shares are held by Xinxin HK, a wholly-owned subsidiary of China IC Fund.

DESCRIPTION OF THE SHARES

Set out below is certain selected information concerning our share capital and certain provisions of our Memorandum and its Articles. This summary does not purport to be complete and is qualified in its entirety by reference to the Memorandum and the Articles.

The table below sets out our authorised and issued share capital in issue as at the Latest Practicable Date:

Number of shares	Aggregate amount of nominal share capital (US\$)
Authorised:	
Ordinary Shares	
10,000,000,000.....	40,000,000
Preference Shares	
500,000,000.....	2,000,000
Issued:	
Ordinary Shares	
5,054,953,077 ordinary Shares in issue	20,219,812
Preference Shares	
Nil preference Shares in issue.....	0

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

Summary of the Constitution of the Company

1. Memorandum of Association

The ninth amended and restated memorandum of association of the Company (the “**Memorandum**”) was adopted on 28 January 2004 and states, that the liability of the members of the Company (the “**Member(s)**”) is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”) or any other law of the Cayman Islands.

2. Articles of Association

The eleventh amended and restated Articles of Association of the Company (the “**Articles**”) were adopted on 2 June 2008, and include provisions to the following effect:

(A) Classes of shares

The authorised share capital of the Company consists of ordinary shares and preferred shares.

(B) Alteration to constitutional documents

Other than an alteration in share capital of the Company as stated in paragraph (E) below, no alteration or amendment to the Memorandum or Articles may be made except by special resolution.

(C) Directors

(a) Power to allot, issue and dispose of shares

Subject to the provisions, if any, in the Memorandum and the Articles and to any direction that may be given by the Company in general meeting and without prejudice to any rights attached to any existing shares, the Board may allot, issue, grant options, rights or warrants over or otherwise dispose of any shares in the Company with or without preferred, deferred, qualified or other rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and on such terms as the Board may think proper. Subject to the Companies Law any share may be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

Notwithstanding and without prejudice to the generality of the foregoing, the Directors are expressly authorised and empowered to implement or effect at their sole discretion the issuance of a preferred share purchase right to be issued on a *pro rata* basis to each holder of an ordinary share with such terms and for such purposes, including the influencing of takeovers, as may be described in a rights agreement between the Company and a rights agent.

(b) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of assets of the Company or any of its subsidiaries. Subject to the provisions of the Companies Law, the Memorandum and Articles and to any directions given by special resolution, the management of the business of the Company shall be vested in the Directors who may exercise all such powers of the Company, provided that no alteration of the Memorandum or Articles and such direction shall invalidate any prior act of the Directors which would have been valid if such direction had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Transaction with Directors (including loans to Directors)

Any contract or transaction between the Company or any of its subsidiaries and one or more of the Company's Directors or any of their associates (as defined in the Exchange Rules defined below), officers or Members (or the affiliates of any Member), or between the Company or any of its subsidiaries and any other corporation, partnership, limited liability company, joint venture, trust, association or other organization or other entity in which one or more of the Company's Directors or any of their associates, officers or Members (or the affiliates of any Member) serve as directors, officers, trustees or in a similar capacity or have a financial interest, shall be approved in accordance with applicable law, rules or regulations and relevant code, rules and regulations, as amended from time to time, applicable as a result of the original and continued listing of any shares of the Company on any stock exchange (the "**Exchange Rules**"). The making of any loans to any of the Company's Directors and their associates shall be subject to the requirements of Hong Kong law and any other applicable law, rules or regulations and the Exchange Rules.

For the purpose of the preceding sentences, if any such contract, transaction or loan is to be approved by the Board, the quorum necessary for the Board to vote on such contract, transaction or loan shall be a majority of the disinterested Directors in such contract, transaction or loan (such "**disinterested Directors**" shall not include a Director whose

associate(s) has a material interest in any such contract, transaction or loan). Further, Directors shall declare their material interests in any contracts with the Company at the earliest meeting of the Board at which it is practicable to do so either specifically or by way of a general notice stating that, by reason of facts specified in the notice, they are to be regarded as interested in any contracts of a specified description which may subsequently be made by the Company.

(e) Directors' Interests

A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Board may determine.

A Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.

A Director or alternate Director of the Company may be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of such other company.

Further, Directors shall declare their material interests in any contracts with the Company at the earliest meeting of the Board at which it is practicable to do so either specifically or by way of a general notice stating that, by reason of facts specified in the notice, they are to be regarded as interested in any contracts of a specified description which may subsequently be made by the Company. A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

(f) Remuneration

The remuneration to be paid to the Directors shall be such remuneration as the Board shall determine. Such remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be paid their travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Board, or any committee of the Board, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Board from time to time, or a combination partly of one such method and partly the other.

The Board may by resolution approve additional remuneration to any Director of the Company undertaking any special work or services for, or undertaking any special mission on behalf of, the Company other than his ordinary routine work as a Director.

Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves the Company in a professional capacity shall be in addition to his remuneration as a Director.

(g) Retirement, appointment, removal and vacation

The Company may by ordinary resolution appoint any person to be a Director and may by ordinary resolution remove any Director and may by ordinary resolution appoint another person in his stead. Any Director appointed upon the removal of another Director in accordance with the preceding sentence shall hold office for the remainder of the full term of the removed Director and until such appointed Director's successor shall have been elected and qualified.

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors but so that the total amount of Directors (exclusive of alternate Directors) shall not at any time exceed the number fixed in accordance with the Articles. Any Director appointed in accordance with the preceding sentence shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Any Director appointed by the Company at such annual general meeting to fill the vacancy that was created or occurred shall hold office for the remainder of the full term of the Director for which the vacancy was created or occurred and until such appointed Director's successor shall have been elected and qualified.

There is no shareholding qualification for Directors nor is there any specified age limit for retirement for Directors.

The office of a Director shall be vacated:

- (i) if he gives notice in writing to the Company that he resigns the office of Director;
- (ii) if all of the Directors (other than the one to be removed) pass a resolution or sign a notice effecting the removal of such one Director from his office as such, provided that the Board shall, immediately prior to such notice being delivered, comprise at least four persons (including, for the avoidance of doubt, the one Director to be removed);
- (iii) if he is prohibited from being a Director under any applicable law, rules or regulations and the Exchange Rules;
- (iv) if he absents himself (without being represented by proxy or an alternate Director appointed by him) from three consecutive meetings of the Board without special leave of absence from the Board, and the Board passes a resolution that he has by reason of such absence vacated office;
- (v) if he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (vi) if he is found a lunatic or becomes of unsound mind.

The number of Directors shall be nine or such other number as shall be fixed from time to time by the Board, provided, however, that so long as shares of the Company are listed on any exchange, the Board shall include such number of Independent Directors (as defined in the Articles) as applicable law, rules or regulations or the Exchange Rules require.

Subject to the rights of the holders of any series of preferred shares to elect additional Directors under specified circumstances, the Directors shall be divided into three classes designated as Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board. At the first annual general meeting of Members following the initial meeting after the adoption of the Articles, the term of office of the Class I Directors shall expire and Class I Directors shall be elected for a full term of three years. At the second annual general meeting of Members following the initial meeting, the term of office of the Class II Directors shall expire and Class II Directors shall be elected for a full term of three years. At the third annual general meeting of Members following the initial meeting, the term of office of the Class III Directors shall expire and Class III Directors shall be elected for a full term of three years. At each succeeding annual general meeting of Members, Directors shall be elected for a full term of three years to succeed the Directors of the class whose terms expire at such annual general meeting.

Notwithstanding the preceding sentences, each Director shall serve until his successor is duly elected and qualified or until his death, resignation or removal. No decrease in the number of Directors constituting the Board shall shorten the term of any incumbent Director.

The Board may from time to time appoint one or more Chairman of the Board, President, Chief Executive Officer, Chief Financial Officer and such other officers as it considers necessary in the management of the business of the Company and as it may decide for such period and upon such terms as it thinks fit and upon such terms as to remuneration as it may decide in accordance with the Articles. Such officers need not also be a Director.

(h) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

(i) Proceedings of the Board

Except as otherwise provided by the Articles, the Directors may meet together for the dispatch of business, convening, adjourning and otherwise regulating their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes of the Directors and alternate Directors present at a meeting at which there is a quorum, the vote of an alternate Director not being counted if his appoint or be present at such meeting.

The quorum necessary for the transaction of the business of the Board shall be established if two Directors, of whom at least one shall be executive Director, are present in person or by proxy provided always that if there shall at any time be only a sole Director in office, the quorum shall be one.

The Board may delegate any of their powers to any committee consisting of one or more Directors. They may also delegate to any Director holding any executive office such of their powers as they consider desirable to be exercised by him.

(D) *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, be varied either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting shall be two holders of shares who own at least one-third in nominal value of the issued shares of the class present in person or by proxy, and of any adjournment thereof shall be one person holding shares of that class (or representing by proxy) at the date of the relevant meeting.

The rights conferred upon the holders of shares of any class with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith. The rights of holders of ordinary shares shall not be deemed to be varied by the creation or issue of shares with preferred or other rights which may be effected by the Board as provided in the Articles without any vote or consent of the holders of ordinary shares.

(E) *Alteration of capital*

The Company may from time to time by ordinary resolution:

- (i) increase the share capital by such sum as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto as the Company in general meeting may determine;
- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum or into shares without par value;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

Subject to the Companies Law, the Company may by special resolution reduce its share capital and any capital redemption reserve fund.

(F) *Special resolution — majority required*

Pursuant to the Articles, a “**special resolution**” of the Company must be passed by at least three-fourths of the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy, or in the case of corporations, by their duly authorised representatives, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, or approved in writing by all the Members entitled to vote at a general meeting of the Company. In computing such three-fourths requirement when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.

In contrast, an “**ordinary resolution**” means a resolution passed by a simple majority of the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy, or, in the case of corporations, by their duly authorised representatives, at a general meeting. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.

(G) *Voting rights*

Subject to any rights or restrictions as to voting for the time being attached to any class or classes of shares, every Member who is present in person (or by proxy) shall have one vote for each share registered in his name in the register of Members. The ability of the Members to engage in cumulative voting is hereby specifically denied. Where the Company has knowledge that any Member is, under the rules of the Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

In the case of joint holders of record the vote of senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

No Member shall be entitled to vote at any general meeting unless he is registered as a Member of the Company on the record date for such meeting.

At any general meeting a resolution put to the vote of the meeting may be decided on a poll.

Votes may be given either personally or by proxy. A member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting and may appoint one proxy to vote in favour of or against the same resolution in such proportion as specified in the instrument appointing the proxy.

If a recognised clearing house (or its nominee) is a Member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of Members of the Company, provided that, if more than one person is so authorised, the proxy form or authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise as if such person were an individual Member of the Company holding the number and class of shares specified in such proxy form or authorisation, including the right to vote individually on a show of hands, notwithstanding any contrary provision contained in the Articles.

(H) *Requirements for annual general meetings*

The Company shall, if required by the Companies Law, other applicable law, rules or regulations or the Exchange Rules, hold a general meeting as its annual general meeting each year, and shall specify the meeting as such in the notice calling it; and the period between the date of one annual general meeting of the Company and that of the next shall not be longer than such periods applicable law, rules or regulations or the Exchange Rules permit.

(I) *Notice of meetings and business to be conducted thereat*

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice (but not more than 60 days' notice) in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing (but not more than 60 days' notice). Each notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given, and shall specify such details as are required by applicable law, rules or regulations and the Exchange Rules. The notice convening an annual general meeting shall specify the meeting as such, and the

notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to all Members (other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

A general meeting of the Company shall, whether or not the notice specified has been given and whether or not the provisions of the Articles of the Company regarding general meetings have been complied with, be deemed to have been duly convened if applicable law, rules or regulations and the Exchange Rules so permit and it is so agreed:

- (a) in the case of a general meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other general meeting, by such number of the Members having a right to attend and vote at the meeting, being a majority together holding not less than three-fourths (3/4) of the shares in issue that carry a right to vote or their proxies.

No business may be transacted at any general meeting, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Director (or any duly authorized committee thereof), (b) otherwise properly brought before the annual general meeting by or at the direction of the Board (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual general meeting by any Member who (i) is a Member of record on both (x) the date of the giving of the notice provided for in the Articles and (y) the record date for the determination of Members entitled to vote at such annual meeting and (ii) complies with the notice procedures set forth in the Articles.

In addition to any other applicable requirements, for business to be properly brought before an annual general meeting by a Member, such Member must have given timely notice thereof in proper written form to the Secretary of the Company in accordance with the Articles.

(J) *Transfer of shares*

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor and by or on behalf of the transferee and, unless the Directors otherwise determine, the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of Members in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as any stock exchange on which the Company's shares are listed may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given in accordance with applicable law, rules or regulations and the Exchange Rules, be suspended and the register of Members closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the Members may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

(K) Power of the Company to purchase its own shares

Subject to the provisions of the Companies Law, the Company may purchase its own shares (including any redeemable shares) provided that the Members shall have approved the manner of purchase by ordinary resolution or the manner of purchase is in accordance with the Articles and such repurchase is in accordance with applicable law, rules or regulations and the Exchange Rules.

(L) Power of any subsidiary of the Company to own shares

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(M) Dividends and other methods of distributions

Subject to the Companies Law, the Board may from time to time declare dividends (including interim dividends) and distributions on shares outstanding and authorise payment of the same out of the funds of the Company lawfully available therefor.

The Directors may, before declaring any dividends or distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the Directors' discretion, be employed in the business of the Company.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividends or distributions, if dividends or distributions are to be declared on a class of shares they shall be declared and paid according to the amounts paid or credited as paid on the shares of such class outstanding on the record date for such dividend or distribution as determined in accordance with the Articles but no amount paid or credited as paid on a Share in advance of calls shall be treated for such purpose as paid on the Share.

The Directors may deduct from any dividend or distribution payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

The Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof. The Directors may determine that cash payments shall be made to any

Members upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.

No dividend or distribution shall carry interest against the Company.

Any dividend, distribution, interest or other monies payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder, or in the case of joint holders, to the registered address of the holder who is first named on the register of Members in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant so sent shall be made payable to the order of the person to whom it is sent. The Company may cease sending such cheques for dividend entitlements or dividend warrants to post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable in respect of the shares held by them as joint holders.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the exclusive benefit of the Company until claimed, and the Company shall not be constituted a trustee in respect thereof or be required to account for any money earned thereon. Any dividends or bonuses unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company and after such forfeiture no Member or other person shall have any right to or claim in respect of such dividends or bonuses.

(N) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present. One or more Members present in person or by proxy holding not less than 33 per cent. of the issued and outstanding shares in the Company entitled to vote at the meeting in question shall be a quorum.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D above.

(O) *Procedure on liquidation*

If the Company shall be wound up, and the assets available for distribution amongst the Members shall be insufficient to repay the whole of the share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the shares held by them. And if in a winding up the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the shares held by them at the commencement of the winding up subject to a deduction from those shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the Members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, value any assets and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in

trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no Member shall be compelled to accept any assets upon which there is a liability.

(P) *Untraceable Members*

The Company shall be entitled to sell any shares of a Member or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if and provided that: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the Member or person entitled to such shares by death, bankruptcy or operation of law; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the Member; and (iv) upon expiry of the 12 year period, the Company has caused a notice to be given in accordance with applicable law, rules or regulations and the Exchange Rules, if its intention to sell such shares and a period of three months has elapsed since such notice and the relevant stock exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. To give effect to any such sale, the Company may appoint any person to execute as transferor an instrument of transfer of the shares and such other documents as are necessary to effect the transfer, and such documents shall be as effective as if they had been executed by the registered holder of or person entitled by transmission to such shares, and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings.

CONNECTED AND RELATED PARTY TRANSACTIONS

The following disclosure is for the purpose of fulfilling disclosure requirements pursuant to the rules and regulations and may contain disclosure of related party transactions not required to be disclosed in our financial statements under IFRS.

Connected Transactions

1. Capital Contribution in Semiconductor Manufacturing South China Corporation (“SMSC”) and Deemed Disposal of Equity Interest

On January 30, 2018, SMIC Holdings, Semiconductor Manufacturing International (Shanghai) Corporation (“SMIC Shanghai”), China IC Fund and Shanghai IC Fund entered into the Joint Venture Agreement and the Capital Contribution Agreement pursuant to which SMIC Holdings, China IC Fund and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd (“Shanghai IC Fund”) agreed to make cash contribution to the Registered Capital of Semiconductor Manufacturing South China Corporation (“SMSC”) in the amount of US\$1.5435 billion, US\$946.5 million and US\$800 million, respectively. As a result of the Capital Contribution:

- (i) the Registered Capital of SMSC would increase from US\$210 million to US\$3.5 billion;
- (ii) the Company’s equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, would decrease from 100 per cent. to 50.1 per cent.; and
- (iii) SMSC would be owned as to 27.04 per cent. and 22.86 per cent. by China IC Fund and Shanghai IC Fund, respectively.

Summary of principal terms of the joint venture agreement

Date: January 30, 2018

Parties:

- (a) SMIC Holdings
- (b) SMIC Shanghai
- (c) China IC Fund
- (d) Shanghai IC Fund

Total Investment and Registered Capital

The total investment in SMSC by the parties was estimated to be US\$10.24 billion. The parties would contribute in aggregate US\$3.5 billion of the total investment as Capital Contribution in the following manner:

- (a) SMIC Holdings had committed to contribute US\$1.5985 billion, representing 45.67 per cent. of the enlarged Registered Capital after the Capital Contribution. US\$55 million has been contributed prior to entering into the Joint Venture Agreement and US\$1.5435 billion is outstanding;
- (b) SMIC Shanghai had committed to contribute US\$155 million, which has been fully contributed prior to entering into the Joint Venture Agreement, representing 4.43 per cent. of the enlarged Registered Capital after the Capital Contribution;
- (c) China IC Fund had committed to contribute US\$946.5 million, which is outstanding, representing 27.04 per cent. of the enlarged Registered Capital after the Capital Contribution; and
- (d) Shanghai IC Fund had committed to contribute US\$800 million, which is outstanding, representing 22.86 per cent. of the enlarged Registered Capital after the Capital Contribution.

The consideration was arrived at after arm's length negotiation among the parties with reference to the net asset value, future business prospects and development potential of SMSC. The difference between the total investment of US\$10.24 billion and enlarged Registered Capital after the Capital Contribution of US\$3.5 billion was intended to be funded through debt financing.

Each party shall complete 30 per cent. of its outstanding contributions prior to June 30, 2018, complete 30 per cent. of its outstanding contributions prior to December 31, 2018, and complete the remaining 40 per cent. of the contributions prior to June 30, 2019 (the "**Time Frame**").

Notwithstanding the above, the capital contribution by China IC Fund is subject to the following conditions ("**Condition Precedent**"):

- (i) receipt of the written approval from the competent government authority(ies) in Shanghai, pursuant to which a government subsidy lasting for not less than five years with an amount each year not less than 4 per cent. of the total capital contribution of China IC Fund shall be granted to SMSC; and
- (ii) the validity of the investment period of China IC Fund (after which China IC fund cannot make capital contribution to SMSC).

The parties had further agreed that if China IC Fund fails to make Capital Contribution in accordance with the Time Frame, due to (i) the Condition Precedent is not satisfied or only satisfied within one month prior to the any deadline of the Time Frame; or (ii) the expiry of the investment period of China IC Fund, the failure by China IC Fund to make its Capital Contribution will not constitute a breach of the Joint Venture Agreement. However, if the Condition Precedent is satisfied within one month prior to any deadline of the Time Frame, or beyond any such deadline (but within the investment period of China IC Fund), China IC Fund shall make the relevant capital contribution in accordance with the Joint Venture Agreement within one month after the satisfaction of the Condition Precedent. If China IC Fund fails to make capital contribution due to the Condition Precedent cannot be met on or before August 25, 2019, and/or if China IC Fund is unable to make capital contribution due to the expiry of its investment period, such failure to make capital contribution will not constitute a breach by China IC Fund, and the parties will further negotiate and amend the Joint Venture Agreement and the articles of association of SMSC as well as other relevant legal documents.

The cash capital contribution by SMIC Holdings would be funded by the internal cash flow. The proceeds of the Capital Contribution would be used by SMSC as capital expenditure and working capital.

Summary of principal terms of the capital contribution agreement

Date: January 30, 2018

Parties:

- (a) SMIC Holdings
- (b) SMIC Shanghai
- (c) China IC Fund
- (d) Shanghai IC Fund

Subscription of Registered Capital

The Registered Capital of SMSC would increase from US\$210 million to US\$3.5 billion. In respect of the increase of US\$3.29 billion, the parties had agreed that SMIC Holdings would contribute the amount of US\$1.5435 billion in cash while China IC Fund and Shanghai IC Fund would contribute the RMB equivalent of US\$946.5 million and US\$800 million in cash (calculated at the middle exchange rate of RMB to US\$ as announced by the People's Bank of China on the date of the contribution), respectively.

Reasons for and Benefits of the Capital Contribution

SMSC is a 12-inch wafer fab with advanced process capability built in line with the schedule of the Company's 14 nanometre and below advanced technology node research and development and mass production. China IC Fund and Shanghai IC Fund mainly invest in the value chain of integrated circuit industry via various approaches, primarily in integrated circuit chip manufacturing as well as chip designing, packaging test and equipment and materials. The 12-inch wafer fab will be built by joint venture partnership with China IC Fund and Shanghai IC Fund and the Company could speed up the introduction of advanced manufacturing process and products with the support of the government industry funds. This will also relieve the Company from spending large amount of cash investment and depreciation cost caused by the expansion of advanced production capacity.

The Company believes that such partnership with China IC Fund and Shanghai IC Fund through the Joint Venture Agreement and the Capital Contribution Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and beneficial to the sustainable development of the Company. The Directors (excluding independent non-executive Directors whose view will be given after taking into account the advice from the independent financial adviser) consider that it is in the best interests of the Company and the Shareholders as a whole to enter into the Joint Venture Agreement and the Capital Contribution Agreement and the transactions contemplated thereunder; the terms of the Joint Venture Agreement and the Capital Contribution Agreement are fair and reasonable; and the entering into of the Joint Venture Agreement and the Capital Contribution Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implications of the Listing Rules

As China IC Fund holds approximately 15.05 per cent. of the issued share capital of the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, as at the date of this announcement, it is a connected person of the Company under the Listing Rules. The transactions contemplated under the Joint Venture Agreement and the Capital Contribution Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Joint Venture Agreement and the Capital Contribution Agreement, as a result of the Capital Contribution, the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, will decrease from 100 per cent. to 50.1 per cent., which constitutes a deemed disposal for the Company under Chapter 14 of the Listing Rules.

As certain applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Joint Venture Agreement and the Capital Contribution Agreement exceed 5 per cent. but are less than 25 per cent., the transactions contemplated under the Joint Venture Agreement and the Capital Contribution Agreement constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules, and a non-exempt connected transaction subject to reporting, announcement and the Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Joint Venture Agreement, Capital Contribution Agreement and all transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on March 27, 2018 as required under Chapter 14 of the Listing Rules.

2. Equity Transfer in Ningbo Semiconductor International Corporation and Capital Contribution in Ningbo Semiconductor International Corporation On March 22, 2018, Ningbo Semiconductor International Corporation ("**the Joint Venture Company**"), SMIC Holdings Corporation ("**SMIC Holdings**") and China Integrated Circuit Industry Investment Fund Co., Ltd ("**China IC Fund**") entered into the Equity Transfer Agreement, pursuant to which SMIC Holdings had agreed to sell 28.17 per cent. equity interest in Ningbo Semiconductor International Corporation held by SMIC Holdings prior to the equity transfer

(the “**Equity Interest**”) to China IC Fund. Upon the completion of the Equity Transfer, the shareholding of SMIC Holdings in the Joint Venture Company would decrease from approximately 66.76 per cent. to 38.59 per cent., and the Joint Venture Company would cease to be a subsidiary of the Company and its financial results would cease to be consolidated with the Group’s results.

On March 22, 2018, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd (“**Ningbo Senson**”) and Beijing Integrated Circuit Design and Testing Fund (“**Beijing Fund**”) had agreed to amend the previous joint venture agreement through the First Amended Joint Venture Agreement for the Equity Transfer.

Capital Contribution in Ningbo Semiconductor International Corporation

On March 23, 2018, the Joint Venture Company, SMIC Holdings, China IC Fund, Ningbo Senson, Beijing Fund, Ningbo Integrated Circuit Industry Fund Management Co., Ltd (“**IC Spaces**”) and Infotech National Emerging Industry Venture Capital Guiding Fund (“**Infotech**”) entered into the Capital Increase Agreement, pursuant to which (i) SMIC Holdings had agreed to make further cash contribution of RMB565 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will decrease from approximately 38.59 per cent. to approximately 38.57 per cent.; (ii) China IC Fund had agreed to make further cash contribution of RMB500 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will increase from approximately 28.17 per cent. to approximately 32.97 per cent.; (iii) Ningbo Senson had agreed to make further cash contribution of RMB200 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will decrease from approximately 24.79 per cent. to approximately 15.82 per cent.; (iv) Beijing Fund would make no further cash contribution and its shareholding in the Joint Venture Company will decrease from approximately 8.45 per cent. to approximately 1.65 per cent.; (v) IC Spaces had agreed to make cash contribution of RMB100 million into the registered capital of the Joint Venture Company, representing approximately 5.50 per cent. of the enlarged registered capital of the Joint Venture Company; and (vi) Infotech had agreed to make cash contribution of RMB100 million into the registered capital of the Joint Venture Company, representing approximately 5.50 per cent. of the enlarged registered capital of the Joint Venture Company. The above parties’ performance of the Capital Contribution obligations would lead to an increase in the registered capital from RMB355 million to RMB1.82 billion.

On March 23, 2018, SMIC Holdings, China IC Fund, Ningbo Senson, Beijing Fund, IC Spaces and Infotech agreed to amend the First Amended Joint Venture Agreement through the Second Amended Joint Venture Agreement for the Capital Contribution.

Reasons for and Benefits of the Equity Transfer and the Capital Contribution

The Joint Venture Company is positioned as a new research and manufacturing base for specialised analog semiconductor industry in China. It adopts a new business model by combining professional foundry and customized ODM, while providing a platform for the design service of related products. The Joint Venture Company focuses on the segments of high-voltage analog, radio frequency front-end and the integrated technology of silicon semiconductor for new optoelectronics and magnetic materials. Its products, working together with the Company’s products with advanced logic technology, will provide related systems with a comprehensive solution, and effectively support the currently rapid development of 4G/5G mobile communication and handheld devices, smart home appliances, industrial smart control and robots, automobiles with advanced energy sources, which will successfully complete the integration of upstream and downstream resources in the relevant semiconductor industry chain. The Joint Venture Company will provide a strong support to the expansion of the Company’s current product mix and has an important strategic position for achieving the grand strategic goal of the Company, where important impact will be made on the development of the Company from now on. The Company is of the view that the Equity Transfer, Capital Contribution and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole, and are beneficial to the sustainable development of the Company.

The Directors (including independent non-executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole for SMIC Holdings to enter into the Equity Transfer Agreement, the First Amended Joint Venture Agreement, the Capital Increase Agreement and the Second Amended Joint Venture Agreement and the transactions contemplated thereunder; the terms of the Equity Transfer Agreement, the First Amended Joint Venture Agreement, the Capital Increase Agreement and the Second Amended Joint Venture Agreement are fair and reasonable; and the entering into of the Equity Transfer Agreement, the First Amended Joint Venture Agreement, the Capital Increase Agreement and the Second Amended Joint Venture Agreement and transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implication of Listing Rules

As China IC Fund holds approximately 15.04 per cent. equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company under the Listing Rules. As Ningbo Senson holds 24.79 per cent. equity interest in the Joint Venture Company, a subsidiary of the Company prior to the Equity Transfer, Ningbo Senson is a connected person at the subsidiary level of the Company prior to the Equity Transfer under the Listing Rules. SMIC Holdings' entering into the Equity Transfer Agreement with the Joint Venture Company and China IC Fund, and the First Amended Joint Venture Agreement with, amongst others, China IC Fund and Ningbo Senson, constitutes a connected transaction under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Equity Transfer Agreement and the First Amended Joint Venture Agreement exceed 0.1 per cent. but are less than 5 per cent., the transaction contemplated under the Equity Transfer Agreement and the First Amended Joint Venture Agreement constitutes a connected transaction of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

As the shareholding of SMIC Holdings in the Joint Venture Company will decrease from approximately 66.76 per cent. to approximately 38.59 per cent. upon the completion of the Equity Transfer, the Joint Venture Company will cease to be the subsidiary of the Company after the Equity Transfer and Ningbo Senson will cease to be a connected person at the subsidiary level of the Company after the Equity Transfer under the Listing Rules. As China IC Fund is a connected person of the Company, SMIC Holdings' entering into the Capital Increase Agreement and the Second Amended Joint Venture Agreement with, amongst others, China IC Fund constitutes a connected transaction under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Capital Increase Agreement and the Second Amended Joint Venture Agreement exceed 0.1 per cent. but are less than 5 per cent., the transactions contemplated under the Capital Increase Agreement and the Second Amended Joint Venture Agreement constitutes a connected transaction of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

3. Subscription of Shares and Perpetual Subordinated Convertible Securities by China IC Fund and Datang Background

On November 29, 2017, the Company entered into a placing agreement (the "**Placing Agreement**") with J.P. Morgan Securities Plc and Deutsche Bank AG, Hong Kong Branch (the "**Joint Placing Agents**") pursuant to which the Company conditionally agreed to place, through the Joint Placing Agents, 241,418,625 Shares (the "**Placing Shares**") to not less than six independent places at a price of HK\$10.65 per Placing Share. The Placing Shares will be allotted and issued pursuant to the general and unconditional mandate granted to the Directors by passing a resolution of the Shareholders at the annual general meeting of the Company held on June 23, 2017 to exercise the power of the Company to allot

and issue up to 20 per cent. of the issued share capital of the Company as at the date of passing such resolution. The issue of the Placing Shares is not subject to the approval of the Shareholders. The placing shares will rank *pari passu* in all aspects with the ordinary shares of the Company.

On November 29, 2017, the Company and the Barclays Bank PLC, Deutsche Bank AG, Hong Kong Branch and J.P. Morgan Securities Plc (the “**Joint Managers**”) entered into a subscription agreement (the “**Placed PSCS Subscription Agreement**”), pursuant to which each of the Joint Managers has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for the perpetual subordinated convertible securities of an aggregate principal amount of US\$65 million issued by the Company (the “**Placed PSCS**”).

On December 6, 2017, all the conditions set out in the Placing Agreement had been fulfilled and completion of the Placing took place. Pursuant to the terms and conditions of the Placing Agreement, the Company allotted and issued 241,418,625 Placing Shares, representing approximately 4.92 per cent. of the issued share capital of the Company as enlarged by the issue of the Placing Shares, to not less than six independent Placees at the price of HK\$10.65 per Placing Share.

On December 14, 2017, all the conditions set out in the Placed PSCS Subscription Agreement had been fulfilled and completion of the issue of the Placed PSCS in the principal amount of US\$65 million took place.

On December 14, 2017, pursuant to the share purchase agreement dated November 6, 2008 between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd., a company established under PRC laws (“**Datang**”) (the “**Datang Purchase Agreement**”), Datang has delivered a notice to the Company that it will exercise its pre-emptive right in relation to the issue of the Placing Shares, the Placed PSCS, the potential subscription of securities by China IC Fund pursuant to the exercise of its pre-emptive right under the share purchase agreement dated February 12, 2015 between the Company and China IC Fund (the “**China IC Fund Agreement**”) and the potential subscription of perpetual subordinated convertible securities by China IC Fund. Details can be found on the announcement of the Company dated December 14, 2017.

On December 14, 2017, pursuant to the China IC Fund Agreement, China IC Fund has delivered a notice to the Company that it will exercise its pre-emptive right in relation to the issue of the Placing Shares, the Placed PSCS, the potential subscription of securities by Datang pursuant to the exercise of its pre-emptive right under the Datang Purchase Agreement and the potential subscription of perpetual subordinated convertible securities by Datang. Details can be found on the announcement of the Company dated December 14, 2017.

As each of Datang and China IC Fund is a substantial shareholder of the Company and thus a connected person of the Company, the potential subscription by Datang as indicated above and the potential subscription by China IC Fund as indicated above will constitute connected transactions of the Company and will be subject to independent shareholders’ approval under the Listing Rules. The Company will make such further announcement(s) as necessary if any agreement(s) is/are entered into by the Company with Datang or China IC Fund regarding the above matters.

The Datang Pre-emptive Share Subscription Agreement

On April 23, 2018, the Company entered into the Datang Pre-emptive Share Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang Pre-emptive Shares. The subscription by Datang through Datang HK of the Datang Pre-emptive Shares will be at a price equivalent to the Placing Price, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The Datang PSCS Subscription Agreement

On April 23, 2018, the Company entered into the Datang PSCS Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang PSCS Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang PSCS in an aggregate principal amount of US\$200,000,000 for a total cash consideration of US\$200,000,000 which is 100 per cent. of the aggregate principal amount of the Placed PSCS, based on terms and conditions that are substantially the same as the issue of the Placed PSCS, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The Conversion Price would initially be HK\$12.78 per Share, but would be subject to adjustment. Based on the initial Conversion Price of HK\$12.78 per Share and assuming full conversion of the Datang PSCS at the initial Conversion Price, the Datang PSCS will be convertible into 122,118,935 Shares, representing approximately 2.48 per cent. of the issued share capital of the Company on the last full Trading Day immediately before execution of the Datang PSCS Subscription Agreement and approximately 2.42 per cent. of the issued share capital of the Company as enlarged by and assuming full conversion of the Datang PSCS.

The China IC Fund Pre-emptive share Subscription Agreement

On April 23, 2018, the Company entered into the China IC Fund Pre-emptive Share Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the China IC Fund Pre-emptive Shares. The subscription by China IC Fund through Xinxin HK of the China IC Fund Pre-emptive Shares will be at a price equivalent to the Placing Price, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The China IC Fund PSCS Subscription Agreement

On April 23, 2018, the Company entered into the China IC Fund PSCS Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund PSCS Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the China IC Fund PSCS in an aggregate principal amount of US\$300,000,000 for a total cash consideration of US\$300,000,000 which is 100 per cent. of the aggregate principal amount of the Placed PSCS, based on terms and conditions that are substantially the same as the issue of the Placed PSCS, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The Conversion Price would initially be HK\$12.78 per Share, but would be subject to adjustment. Based on the initial Conversion Price of HK\$12.78 per Share and assuming full conversion of the China IC Fund PSCS at the initial Conversion Price, the China IC Fund PSCS will be convertible into 183,178,403 Shares, representing approximately 3.71 per cent. of the issued share capital of the Company on the last full Trading Day immediately before execution of the China IC Fund PSCS Subscription Agreement and approximately 3.58 per cent. of the issued share capital of the Company as enlarged by and assuming full conversion of the China IC Fund PSCS.

Reasons for and Benefits of the Datang Subscription and the China IC Fund Subscription

The Company is of the view that the Datang Subscription and the China IC Fund Subscription will strengthen the relationship between Datang, China IC Fund and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the Placing and the issued of the Placed PSCS.

Implication of Listing Rules

Datang currently holds 16.18 per cent. of the entire existing issued share capital of the Company. China IC Fund currently holds 15.01 per cent. of the entire existing issued share capital of the Company. As each of Datang and China IC Fund is a substantial Shareholder of the Company by virtue of their respective shareholding

interest, each of them is a connected person of the Company and the entering into of the Datang Preemptive Share Subscription Agreement, the Datang PSCS Subscription Agreement, the China IC Fund Pre-emptive Share Subscription Agreement and China IC Fund PSCS Subscription Agreement as well as the transactions contemplated thereunder (including the allotment and issue of the Datang Pre-emptive Shares and the China IC Fund Pre-emptive Shares, the issue of the Datang PSCS and the China IC Fund PSCS and any Datang Conversion Shares and/or China IC Fund Conversion Shares) will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Datang Preemptive Share Subscription Agreement, the Datang PSCS Subscription Agreement, the China IC Fund Pre-emptive Share Subscription Agreement and China IC Fund PSCS Subscription Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under the Chapter 14A of the Listing Rules. Such agreements and all transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on June 22, 2018 as required under Chapter 14A of the Listing Rules.

4. Entering into Partnership Agreement for the Establishment of IPV Capital Global Technology Fund (the “**Fund**”)

On May 2, 2018, IPV Global Technology Management Limited (“**IPV Global**”) as the General Partner and China IC Fund, China IC Capital Co., Ltd (“**China IC Capital**”) and L&L Capital as the Limited Partners entered into the Partnership Agreement in relation to the establishment and management of the Fund. The Fund would be established in the PRC as a limited partnership for the purpose of equity investments, investment management and other activities, in order to maximize the profit of all Partners. Pursuant to the Partnership Agreement, the total capital commitment to the Fund is RMB1,616,160,000, of which RMB16.16 million is to be contributed by IPV Global, RMB800 million is to be contributed by China IC Fund, RMB165 million is to be contributed by China IC Capital and RMB635 million is to be contributed by L&L Capital. The Fund will be managed by Infotech Venture Investment Company Ltd. (“**Infotech Venture Investment**”).

The purpose of the fund is to carry out equity investments, investment management and other activities within the business scope of the Fund, in order to maximize the profit of all Partners.

Reasons for and Benefits of the Partnership Agreement

The Partnership will invest in selected companies operating in the semiconductor and semiconductor-related industries. Such investments are intended to help accelerate the development of the integrated circuit industry eco-system in the PRC and to excavate the potential opportunities for the exploitation and integration of resources in the industry. As a result, the Company's customers and partners will benefit from such development, while the Company may also enjoy the financial benefits from such investments. Therefore, there are advantageous reasons from both strategic and financial perspectives for China IC Capital to enter into the Partnership Agreement for the establishment of the Fund.

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

Implication of Listing Rules

As China IC Fund holds approximately 15.01 per cent. equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Capital is an indirect wholly-owned subsidiary of the Company.

Accordingly, the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Partnership Agreement exceed 0.1 per cent. but are less than 5 per cent., the transactions

contemplated under the Partnership Agreement constitute connected transaction of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

5. RSUs Grant to Dr. Chen, Mr. Tan and Mr. Brown

At the meeting of the Board held on February 7, 2018, the Board resolved to grant 337,500 RSUs (the “**RSU Grants**”) under the 2014 Equity Incentive Plan. Among the 337,500 RSUs, 125,000 RSUs were granted to Dr. Chen, 125,000 RSUs were granted to Mr. Tan and 87,500 RSUs were granted to Mr. Brown. Each of the RSUs granted to Dr. Chen, Mr. Tan and Mr. Brown represents the right to receive an Ordinary Share on the date it vests. It is intended that 62,500, 62,500, and 25,000 RSUs granted to Dr. Chen, Mr. Tan and Mr. Brown respectively will vest immediately upon their grant. It is intended that 62,500, 62,500, and 62,500 RSUs granted to Dr. Chen, Mr. Tan and Mr. Brown respectively will vest on January 1, 2019.

In accordance with the terms of the 2014 Equity Incentive Plan, the RSU Grants are intended to 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 grant of 337,500 RSUs and any transactions contemplated thereunder constitutes non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and thus subject to reporting, announcement and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules. The RSU Grant and the transactions were approved by the independent shareholders at the extraordinary general meeting of the Company held on November 7, 2018.

6. The Subscription of the Oriented Debt Financing Instrument

On May 18, 2018, Semiconductor Manufacturing International (Beijing) Corporation (“**SMIC Beijing**”), Shanghai Guotai Junan Securities Asset Management Co., Ltd. (the “**Subscriber**”) (as manager) and China Merchants Bank Co., Ltd. (Shanghai Branch) (the “**Custodian Bank**”) (as custodian trustee) entered into the Asset Management Agreement, pursuant to which, among others, the Subscriber shall provide SMIC Beijing with asset management and investment services in respect of the Entrusted Assets in accordance with the terms under the Asset Management Agreement, which include investment in Oriented Debt Financing Instrument.

On July 6, 2018, pursuant to the terms of the Asset Management Agreement, Sino IC Leasing Co., Ltd. (the “**Issuer**”) had issued and the Subscriber had subscribed for, an amount of RMB200 million out of the total issue of an aggregate principal amount of RMB500 million of Oriented Debt Financing Instrument, using funds from the Entrusted Assets (the assets of SMIC Beijing deposited in designated custodian accounts, which are managed by the Subscriber and under the custody of the Custodian Bank pursuant to the terms of the Asset Management Agreement).

On August 10, 2018, pursuant to the terms of the Asset Management Agreement, the Issuer had issued and the Subscriber had subscribed for, an amount of RMB100 million out of the total issue of an aggregate principal amount of RMB500 million of Oriented Debt Financing Instrument, using funds from the Entrusted Assets.

Reasons for and Benefits of the Subscription

The Group had not participated in the negotiation of the subscription amount of the Subscription or the terms of the Oriented Debt Financing Instrument. To the best knowledge of the Company, the terms of the Oriented Debt Financing Instrument are the same as those generally applicable to other Oriented Debt Financing Instrument issued by the Issuer.

The subscription of the Oriented Debt Financing Instrument is considered to be beneficial to the Company through the interest earnings to the Entrusted Assets under the Asset Management Agreement, of which SMIC Beijing is the ultimate beneficiary.

The Directors (including independent non-executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole for the Subscriber to enter into the Subscription pursuant to the terms of the Asset Management Agreement and the Subscription are fair and reasonable; and the Subscription is on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implication of Listing Rules

As China IC Fund holds approximately 14.82 per cent. equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a substantial shareholder and a connected person of the Company under the Listing Rules. China IC Fund also holds approximately 32.31 per cent. of equity interest in the Issuer. The Issuer is therefore an associate of China IC Fund and is a connected person of the Company under the Listing Rules. Accordingly, the Subscription pursuant to the terms of the Asset Management Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

On July 6, 2018, as the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Subscription exceed 0.1 per cent. but are less than 5 per cent., the Subscription constitute connected transactions of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

On August 10, 2018, as announced by the Company on July 6, 2018, the Subscriber had subscribed for an amount of RMB200 million out of the total issue of an aggregate principal amount of RMB500 million of oriented debt financing instrument issued on July 6, 2018 in cash. Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under Subscription are required to be aggregated with the Previous Subscription. As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Two Subscriptions (after aggregation) exceed 0.1 per cent. but are less than 5 per cent., the Two Subscriptions constitute connected transactions of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

7. Capital Contribution and Deemed Disposal of Equity Interest in Semiconductor GlobalSolutions Co., Ltd. ("SGS")

On March 1, 2018, SMIC Holdings Corporation ("**SMIC Holdings**"), Triplecores Korea Co., Ltd. ("**Triplecores**") and IC SPACES Holdings Co., Ltd ("**IC SPACES**") entered into a joint venture agreement in relation to the establishment of SGS in the PRC, pursuant to which the registered capital of SGS is US\$10 million. SMIC Holdings and Triplecores agreed to make cash contributions in US Dollars and IC SPACES agreed to make cash contribution in Renminbi to the registered capital of SGS in the sum of US\$6 million, US\$3 million and US\$1 million, respectively. As a result, the Company holds, through SMIC Holdings, 60.00 per cent. of the equity interest of SGS.

On August 10, 2018, SMIC Holdings, Triplecores, IC SPACES and Sino IC Leasing Co., Ltd. (“**Sino IC Leasing**”) had agreed to amend the joint venture agreement dated March 1, 2018 through the Amended JV Agreements, pursuant to which: (i) SMIC Holdings will not make additional capital contribution in the registered capital of SGS and Triplecores, IC SPACES and Sino IC Leasing will make additional capital contributions in the registered capital of SGS in the sum of US\$2 million, US\$3 million and US\$5 million, respectively; (ii) the registered capital of SGS will increase from US\$10 million to US\$20 million; (iii) the Company’s equity interest in SGS, through SMIC Holdings, will decrease from 60.00 per cent. to 30.00 per cent.; and (iv) SGS will be owned by China IC Fund, though Sino IC Leasing, as to approximately 8.08 per cent..

As China IC Fund mainly invests in the value chain of integrated circuit industry via various approaches, primarily in IC chip manufacturing as well as chip designing, packaging test and equipment and materials, the Company believes that such joint venture will build up SGS at a faster pace and capture more business opportunities.

The Company believes that such joint venture with Triplecores, IC SPACES and Sino IC Leasing through the Amended JV Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and beneficial to the sustainable development of the Company. The Directors (including the independent non- executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole to enter into the Amended JV Agreement and the transactions contemplated thereunder; the terms of the Amended JV Agreement are fair and reasonable; and the entering into of the Amended JV Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

(a) Implication of Listing Rules

As China IC Fund holds approximately 14.82 per cent. of the issued share capital of the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, as at the date of this announcement, it is a connected person of the Company under the Listing Rules. As China IC Fund holds approximately 32.31 per cent. of the issued share capital of Sino IC Leasing, as at the date of this announcement, Sino IC Leasing is an associate of a connected person of the Company under the Listing Rules. The transactions contemplated under the Amended JV Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Amended JV Agreement, the Company’s equity interest in SGS, through SMIC Holdings, would decrease from 60.00 per cent. to 30.00 per cent., which constitutes a deemed disposal for the Company under Chapter 14 of the Listing Rules.

As certain applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Amended JV Agreement exceed 0.10 per cent. but are less than 5.00 per cent., the transactions contemplated under the Amended JV Agreement constitute a connected transaction of the Company subject to the reporting and announcement requirements of Chapter 14A of the Listing Rules and is exempted from the independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

1. Restrictive Share Units (RSU) Grant to Professor Lau and Mr. Fan

At the meeting of the Board held on June 22, 2018, the Board resolved to grant 375,000 RSUs (the “**Proposed RSU Grants**”) under the 2014 Equity Incentive Plan. Among the 375,000 RSUs, 187,500 RSUs were granted to Professor Lau and 187,500 RSUs were granted to Mr. Fan. Each of the RSUs granted to Professor Lau and Mr. Fan represents the right to receive an Ordinary Share on the date it vests. It is intended that such Restricted

Share Units will vest over a period of three years at the rate of 33 per cent., 33 per cent. and 34 per cent. for each 12-month period commencing on the date on which the relevant Director commenced his term of office as an independent non-executive Director.

In accordance with the terms of the 2014 Equity Incentive Plan, the RSU Grants are intended to 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 grant of 375,000 RSUs and any transactions contemplated thereunder constitutes non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and thus subject to reporting, announcement and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules. The RSU Grant and the transactions were approved by the independent shareholders at the extraordinary general meeting of the Company held on January 11, 2019.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Financial Services Agreement with Datang Finance — 2016 to 2018

On December 18, 2015, the Company and Datang Telecom Group Finance Co., Ltd. ("**Datang Finance**") entered into the financial services agreement with a three year term commencing on January 1, 2016 and ending on December 31, 2018 ("**Financial Services Agreement**"), pursuant to which Datang Finance has agreed to provide the Company and its subsidiaries, including its associated companies and companies under its management ("**Group**") with a range of financial services (including deposit services, loan services, foreign exchange services and other financial services) subject to the terms and conditions provided therein.

Datang Finance would provide to the Group a range of financial services as the Group may request from time to time. Such financial services include deposit services, loan services, foreign exchange services and other financial services.

The financial services of Datang Finance are provided based on the following pricing principles:

1. *Deposit services*

The terms (including interest rates) in respect of deposit services offered to the Group by Datang Finance shall be no less favourable than those offered to the Group by third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

2. *Loan services*

The terms (including interest rates) in respect of loans services offered to the Group by Datang Finance shall be no less favourable than those offered to the Group by third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

3. *Foreign exchange services*

The terms (including exchange rates) in respect of foreign exchange services offered to the Group by Datang Finance shall be no less favourable than those offered to the Group by third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

4. *Other financial services*

The terms (including fees charged by Datang Finance) for the provision of financial services other than deposits services, loan services and foreign exchange services shall be no less favourable

than the terms (including fees charged to the Group) applicable to third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

The Annual Caps under the Financial Services Agreement are set out below:

	For the year ended 31 December		
	2018	2017	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps			
Deposit Cap (the maximum daily outstanding balances including accrued interests which is not cumulative in nature and inclusive of foreign currency and RMB deposits).....	100	100	100
Spot FX Trading Cap (the maximum daily transaction amount for foreign exchange settlement and sales)	50	50	50
Other Financial Services Cap (the maximum annual fee for other financial services).....	5	5	5

There are no historical caps for the deposit services, the foreign exchange services and other financial services with Datang Finance. The Annual Caps are determined based on the Group's actual financial needs and reasonable forecast.

The actual transaction amounts for the range of financial services which Datang Finance has provided to the Company pursuant to the Financial Services Agreement during the year ended December 31, 2018 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31,		
	2018	2017	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Deposit Services.....	2.21	11.8	12.3
Spot FX Trading Services	—	—	—
Other Financial Services	—	—	0.01

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

The reasons for the Company to enter into the Financial Services Agreement are as follows:

- (1) The entering into of the Financial Services Agreement does not preclude the Group from using the financial services of other PRC commercial banks. The Group has the discretion in selecting other PRC commercial banks as its financial services provider as it thinks fit and appropriate for the benefits of the Group;
- (2) The entering into of the Financial Services Agreement enables the Group to broaden its existing financing channels; and

- (3) The terms in respect of the deposit services, the loan services and the foreign exchange services offered by Datang Finance to the Group will be no less favourable than those offered to the Group by third parties and the commercial banks in the PRC in respect of comparable services, which enables the Group to lower its finance costs.

Each of Datang Finance and Datang Telecom Technology & Industry Holdings Co., Ltd. (“**Datang Holdings**”) is a wholly-owned subsidiary of China Academy of Telecommunications Technology and Datang Holdings in turn wholly owns Datang Holdings (Hongkong) Investment Company Limited (“**Datang Hongkong**”), a substantial shareholder of the Company which held approximately 18.30 per cent. of the total issued share capital of the Company as at the date of entering into the Financial Services Agreement. Datang Finance is a fellow subsidiary of Datang Holdings and an associate of Datang Hongkong, and thus a connected person of the Company under Chapter 14A of the Listing Rules. The Financial Services Agreement and the transactions contemplated thereunder are exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Other than Dr. Gao Yonggang and Dr. Chen Shanzhi, both of whom are nominated as Directors by Datang Hongkong and its associates, none of the Directors has a material interest in the Financial Services Agreement or the transactions contemplated thereunder. Dr. Gao and Dr. Chen abstained from voting at the meeting of the Board on the resolutions approving the Financial Services Agreement and the transactions contemplated thereunder.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Financial Services Agreement that took place between Datang Finance and the Group during the period ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Financial Services Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company’s external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Financial Services Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

2. Renewed Framework Agreement with Datang — 2016 to 2018

On December 28, 2015, the Company entered into a renewed framework agreement with Datang Telecom Technology & Industry Holding Co., Ltd. (“**Datang Holdings**”) (“**Renewed Framework Agreement**”), pursuant to which the Group and Datang Holdings (including its associates) agree to engage in business collaboration including but not limited to foundry service. The term of the Renewed Framework Agreement is three years commencing from January 1, 2016. The pricing for the transactions contemplated under the Renewed Framework Agreement is determined by reference to reasonable market price available from or to independent third parties in the ordinary and usual course of business based on normal commercial terms and on an arm’s length negotiation, or the price based on the actual production cost incurred plus a reasonable profit margin with reference to the general range of profit margins in the industry, and will be determined on terms not less favorable than those applicable to sales by independent third parties to the Company or its subsidiaries and not more favourable than those applicable to sales by the Company or its subsidiaries to independent third parties (if any). In relation to the provision of foundry services by the Company to Datang Holdings, the Company will have reference

to the terms (including pricing) which it offers to independent third party customers for services of a comparable nature and quantity, as well as the reasonable market prices which are applicable.

The expected caps, being the maximum revenue on an aggregated basis expected to be generated by the Group from the transactions contemplated under the Renewed Framework Agreement (“**Non-Exempt Continuing Connected Transactions**”), are:

- US\$50 million for the year ended December 31, 2016;
- US\$66 million for the year ended December 31, 2017; and
- US\$82 million for the year ending December 31, 2018

In arriving at the expected caps, the Company has considered the potential level of Non-Exempt Continuing Connected Transactions it may potentially provide in light of current market conditions of the semiconductor industry and the technological capability of the Company, having regard to the historical transaction volume of Datang Holdings and its associates with the Company and the historical revenues generated by the Company from the transactions under the framework agreement dated February 18, 2014 (the “**2014 Framework Agreement**”) entered into between the Company and Datang Holdings.

The Company considers that Datang Holdings plays a key role in China’s semiconductor industry. By entering into the Renewed Framework Agreement and the Non-Exempt Continuing Connected Transactions with Datang Holdings, the Company believes that this will bring the Company sustainable business opportunities and also drive the Company’s technological achievement.

The aggregate revenues generated by the Group from the transactions entered into pursuant to the Renewed Framework Agreement were US\$17.9 million, US\$20.2 million and US\$11.9 million for the year ended December 31, 2016, 2017 and 2018 respectively.

As Datang Holdings is the holding company of Datang Holdings (Hongkong) Investment Company Limited, a substantial shareholder of the Company holding approximately 18.30 per cent. of the total issued share capital of the Company as at time of entering into the Renewed Framework Agreement, Datang Holdings is an associate of Datang (Hongkong) and hence a connected person of the Company under Chapter 14A of the Listing Rules. The Non-Exempt Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules subject to the reporting and announcement requirements and exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

The Company confirms that Dr. Chen Shanzhi and Dr. Gao Yonggang, both being Directors nominated by Datang Holdings, have abstained from voting on all relevant board resolutions relating to the Renewed Framework Agreement and the Non-Exempt Continuing Connected Transactions.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Renewed Framework Agreement that took place between Datang Holdings (or any of its associates) and the Company (or any of its subsidiaries) for the year ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Renewed Framework Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company’s external auditor performed certain agreed upon procedures in respect of the non-exempt continuing connected transactions of the Company under

the Renewed Framework Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

3. Continuing Connected Transactions in relations to Centralised Fund Management Agreement — 2016 to 2018

On March 21, 2016, the Company, SMIC Beijing and SJ Semiconductor (Jiangyin) Corporation (“**SJ Jiangyin**”), entered into centralised fund management agreement (“**Centralised Fund Management Agreement**”) in relation to: (i) the Company authorising its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Group’s RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SJ Jiangyin participating in the Group’s centralised fund management system. SMIC Beijing will provide internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SJ Jiangyin pursuant to the Centralised Fund Management Agreement, ending on December 31, 2018.

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

The price of the services provided by SMIC Beijing to SJ Jiangyin contemplated under the Centralised Fund Management Agreement will be fair and reasonable under the Listing Rules, determined according to the market principle on an arm’s length basis, subject to compliance with requirements for connected transactions of the Hong Kong Stock Exchange:

1. Internal Deposit Services

The terms (including interest rates) in respect of the internal deposit services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to SJ Jiangyin’s deposits with SMIC Beijing will be determined based on arm’s length negotiations by the parties. The Company will make reference to the interest rate (if any) prescribed by the PBOC applicable to RMB deposits from time to time and published on the PBOC’s website for the same type of deposits.

2. Collection and Payment Services and Foreign Exchange Services

The terms (including fees charged by SMIC Beijing and exchange rates) in respect of the collection and payment services and foreign exchange services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Jiangyin for providing such services will be determined based on arm’s length negotiations by the parties.

3. Internal Loan Services

The terms (including interest rates) in respect of the internal loan services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SJ Jiangyin by SMIC Beijing will be based on arm’s length negotiation by the parties. The Company will make reference to the benchmark interest rate (if any) prescribed by

the PBOC applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

4. Provision of Letter of Credit Services

The terms (including fees charged by the Company) in respect of the letters of credit provided by the Company to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by the Company to SJ Jiangyin for providing such services will be determined based on arm's length negotiations by the parties.

5. Other Financial Services

The terms (including fees charged by SMIC Beijing) in respect of other financial services provided by SJ Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Jiangyin for providing such services will be determined based on arm's length negotiations by the parties.

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

	For the year ending 31 December		
	2018	2017	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps			
Internal Deposit Cap (the maximum daily outstanding balances including accrued interests).....	500	500	500
Collection and Payment and Foreign Exchange Cap (the maximum daily transaction amount for collection and payment services and foreign exchange services).....	500	500	500
Internal Loan Cap (the maximum borrowing limit per calendar year).....	500	500	500
Letter of Credit Cap (the maximum aggregate amount under the letter(s) of credit issued on SJ Jiangyin's behalf per calendar year).....	500	500	500
Other Financial Services Cap (the maximum fees charged for provision of other financial services per calendar year).....	50	50	50

The Company considers that the entry into of the Centralized Fund Management Agreement and the transactions contemplated thereunder will open up the domestic and foreign funding channels of the Group, increase efficient fund usage and reduce the Group's overall debt levels and interest expense. The centralized management of foreign exchange risk exposure will also reduce the risks of exchange loss of the Group.

As China IC Fund holds approximately 17.55 per cent. equity interest in the Company through its wholly-owned subsidiary at the time of entering into the Centralized Fund Management

Agreement, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund holds approximately 25.0 per cent. equity interest at the date of entering into the Centralized Fund Management Agreement in SJ Semiconductor Corporation (“**SJ Cayman**”), a majority owned subsidiary of the Company, through its wholly-owned subsidiary, Xun Xin (Shanghai) Investment Co. Ltd. (“**Xun Xin**”). SJ Cayman and its wholly-owned subsidiary SJ Jiangyin are therefore connected subsidiaries of the Company as defined under Rule 14A.16 of the Listing Rules. SJ Jiangyin is thus a connected person of the Company under the Listing Rules. The transactions contemplated under the Centralized Fund Management Agreement are subject to reporting, announcement and independent shareholders’ approval under Chapter 14A of the Listing Rules.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the Nomination Committee of the Company, holds the position of President in China IC Fund’s sole manager Sino IC Capital Co., Ltd., Mr. Ren Kai, who is a Class III non-executive Director and a member of the Strategic Advisory Committee of the Company, holds the position of Vice President in China IC Fund’s sole manager Sino IC Capital Co., Ltd and the position of legal representative in Xun Xin. Both Mr. Lu Jun and Mr. Ren Kai have abstained from voting on the relevant board resolution in respect of the Centralized Fund Management Agreement.

The Centralized Fund Management Agreement and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting (“**EGM**”) of the Company held on June 24, 2016 as required under Chapter 14A of the Listing Rules.

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement during the year ended December 31, 2018 are set out below.

	Actual Transaction Amounts for the year ended December 31,		
	2018	2017	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Transactions			
Internal Deposit Services	137.9	147.2	93.2
Collection and Payment Services and Foreign			
Exchange Services	—	—	—
Internal Loan Services.....	—	—	—
Letter of Credit Services	19.5	4.7	—
Other Financial Services	—	—	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non- exempt continuing connected transactions and confirmed that the transactions under the Centralized Fund Management Agreement that that took place between the Company and SJ Jiangyin for the year ended December 31, 2018 had been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in

accordance with the Centralized Fund Management Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

On September 20, 2017 that the Company, SMIC Beijing, SJ Jiangyin and SJ Cayman (on behalf of itself and SJ Semiconductor (HK) Limited (“**SJ Hong Kong**”)) entered into the Supplemental Agreement to amend the Centralized Fund Management Agreement. Pursuant to the Supplemental Agreement, the parties agreed that (1) the Centralized Fund Management Agreement should apply not only to SJ Jiangyin but also to its indirect 100 per cent. holding company SJ Cayman and its direct 100 per cent. holding company SJ Hong Kong; and (2) references in the Centralized Fund Management Agreement to SJ Jiangyin should include references to SJ Cayman and SJ Hong Kong.

4. Centralized Fund Management Contract with Semiconductor Manufacturing North China (Beijing) Corporation — 2016 to 2018

On March 31, 2016, the Company and its subsidiaries, SMIC Beijing and SMNC entered into a Centralized fund management contract (“**Centralized Fund Management Contract**”) providing the terms under which: (i) the Company would procure its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMNC would participate in the Group's Centralized fund management system. SMIC Beijing provides internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SMNC within the scope permitted by the relevant PRC policies ending on December 31, 2018.

The Centralized Fund Management Contract was entered into by the parties on March 31, 2016, at the time when SMNC was not a connected person. Due to the completion of the investment by China IC Fund (which indirectly held approximately 17.54 per cent. equity interest in the Company at the relevant time and is therefore a connected person of the Company at the issuer level) in approximately 26.5 per cent. equity interest in SMNC on June 30, 2016, SMNC became a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules, and thus a connected person of the Company. The Centralized Fund Management Contract and the transactions contemplated thereunder constitute continuing transactions subsequently became continuing connected transactions.

The expected Annual Caps were:

1. The Internal Deposit Cap (representing the proposed maximum daily outstanding balances including accrued interests placed by SMNC with SMIC Beijing) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.
2. The Collection and Payment and Foreign Exchange Cap (representing the proposed maximum daily transaction amount for collection and payment services and foreign exchange services provided by SMIC Beijing to SMNC) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.
3. The Internal Loan Cap (representing the proposed maximum daily outstanding balance of loans including accrued interest provided by SMIC Beijing to SMNC) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

4. The Letter of Credit Cap (representing the proposed maximum aggregate principal amount of the letter(s) of credit issued on SMNC's behalf per calendar year) is US\$2 billion for each of the three years ending in December 31, 2016, 2017 and 2018 respectively.
5. The Other Financial Services Cap (representing the proposed maximum fees charged by SMIC Beijing for providing other financial services to SMNC per calendar year) is US\$50 million for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

The price of the services provided by SMIC Beijing to SMNC contemplated under the Centralized Fund Management Contract would be fair and reasonable under the Listing Rules, determined according to the market principle on an arm's length basis subject to compliance with requirements of the Hong Kong Stock Exchange and relevant requirements in the PRC.

The Company considers that the entry into of the Centralized Fund Management Contract and the transactions contemplated thereunder will have the following benefits:

1. open up the domestic and foreign funding channels of the Group;
2. reduce the Group's overall debt levels and increase efficient fund usage;
3. reduce the Group's interest expense; and
4. obtain favorable exchange rate for the Group.

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Contract during the year ended December 31, 2018 are set out below.

	Actual Transaction Amounts for the year ended December 31,		
	2018	2017	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Transactions			
Internal Deposit Services	1,962.6	1,182.3	719.7
Collection and Payment Services and Foreign Exchange Services	—	—	—
Internal Loan Services.....	—	—	120.5
Letter of Credit Services	—	—	—
Other Financial Services	—	—	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Centralized Fund Management Contract that that took place between the Company and its subsidiaries, SMIC Beijing and SMNC for the year ended December 31, 2018 had been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Centralized Fund Management Contract on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company’s external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Contract and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

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

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

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

1. Finance related Services

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

2. Other related Services

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

The Annual Caps under the Framework Agreement with Sino IC Leasing are set out below.

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

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

The reasons for the Company to enter into the Framework Agreement with Sino IC Leasing are as follows:

1. the entering into of the Framework Agreement with Sino IC Leasing will enable the Group to broaden its existing financing channels; and
2. optimise the existing machinery of the Company and increase operating cash flow.

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

Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, holds the position of President in China IC Fund's sole manager, namely Sino IC Capital Co., Ltd. Mr. Ren Kai, who is a Class III non-executive Director, also holds the position of Vice President in Sino IC Capital Co., Ltd. As such, both Mr. Lu and Mr. Ren have abstained from voting on the relevant board resolutions in respect of the Framework Agreement with Sino IC Leasing.

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

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

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

The reason for entering into the Supplemental Agreement was that the Company had been informed by Sino IC Leasing that, in order to take advantage of benefits which may be available to its subsidiaries which are established in certain areas in the PRC, it wished to have the ability to perform its services under the Framework Agreement with Sino IC Leasing through its subsidiaries.

The actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with Sino IC Leasing during the year ended December 31, 2018 are set out below.

**Actual Transaction Amounts for the year
ended December 31,**

	2018	2017	2016
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Transactions			
Financial Services	87.1	45.6	—
Other Related Services	—	—	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement with Sino IC Leasing that took place between the Company and Sino IC Leasing for the year ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Framework Agreement with Sino IC Leasing on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company’s external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with Sino IC Leasing and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

6. Framework Agreement with SJ Semiconductor Corporation — 2017 to 2019 — and Amendment Agreement to Framework Agreement

On December 27, 2016, the Company and its majority owned subsidiary SJ Semiconductor Corporation (“**SJ Cayman**”) entered into a framework agreement in relation to supply of goods and services, transfer of equipment and provision of technical authorization or licensing with a term commencing on January 1, 2017 and ending on December 31, 2019 and subject to the terms and conditions provided therein (“**Framework Agreement with SJ Cayman**”).

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

1. Purchase and sale of spare parts and raw materials;
2. Rendering of or receiving services including, without limitation, (a) processing and testing service; (b) procurement service; (c) research, development and experiment support service; and (d) comprehensive administration, logistics, production management and IT service;
3. Transfer of equipment; and
4. Provision of technical authorization or licensing by the Company to SJ Cayman.

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

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

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

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

	For the year ending December 31,		
	2019	2018	2017
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps			
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company	11	11	11
Supply of goods and services and transfer of equipment by SJ Cayman	100	100	100

In arriving at the annual caps, the Company considered the historical transaction amounts between the Company and SJ Cayman, as well as reasonable factors such as the expected occurrences of non-exempt continuing transactions in light of current market conditions of the semiconductor industry and the technological capability of the Company. The Company has also considered the fact that SJ Cayman has

only been established recently in August 2014 and is expected to steadily progress towards establishing full operations in 2019.

On July 25, 2018, the Company and SJ Cayman entered into the Amendment Agreement to revise the Existing Annual Caps.

Pursuant to the Amendment Agreement, the parties have agreed to revise the Existing Annual Caps such that the maximum annual transaction value for the supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company to SJ Cayman contemplated under the Framework Agreement with SJ Cayman shall be adjusted from US\$11 million (or its equivalent in other currencies) and US\$11 million (or its equivalent in other currencies) for the years ending December 31, 2018 and 2019, respectively, to US\$25 million (or its equivalent in other currencies) and US\$25 million (or its equivalent in other currencies) for the years ending December 31, 2018 and 2019, respectively.

The reason for entering into the Amendment Agreement was that the continuous growth and expansion of the business operations of SJ Cayman. The Company expects that the Existing Annual Caps will not be sufficient.

The revised annual caps are set out below:

	For the year ending December 31,		
	2019	2018	2017
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps			
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company	25 (Revised)	25 (Revised)	11
Supply of goods and services and transfer of equipment by SJ Cayman	100	100	100

The actual transaction amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SJ Cayman for the year ended December 31, 2018 are set out below.

	Actual Transaction Amounts for the year ended December 31,	
	2018	2017
	<i>US\$ million</i>	<i>US\$ million</i>
Transactions		
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing generated by the Company	6.5	0.9
Supply of goods and services and transfer of equipment generated by SJ Cayman	45.7	20.8

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

The Company considers that the entry into the Framework Agreement with SJ Cayman and the Continuing Connected Transactions with SJ Cayman will continue to bring the Company an effective and complete wafer turn-key solution.

As China IC Fund holds approximately 17.404 per cent. equity interest in the Company at the date of entering into the Framework Agreement with SJ Cayman through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund holds approximately 29.405 per cent. equity interest in SJ Cayman at the date of entering into the Framework Agreement with SJ Cayman through its wholly-owned subsidiary, Xun Xin. SJ Cayman is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules. The Framework Agreement with SJ Cayman and the transactions contemplated thereunder are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No Director is considered to have a material interest in the Framework Agreement with SJ Cayman which would have required the Director to abstain from voting at the Board Meeting authorizing the Framework Agreement with SJ Cayman.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement with SJ Cayman that took place between the Company and its majority owned subsidiary SJ Cayman for the year ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Framework Agreement with SJ Cayman on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with SJ Cayman and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

7. Framework Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2018 to 2020

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

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

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

4. Transfer of assets;
5. Provision of technical authorization or licensing by the Company and/or its subsidiaries (other than SMNC and its subsidiaries) (“**Group A**”) to SMNC and/or its subsidiaries (“**Group B**”), as well as the sharing of research and development costs in relation to 28-nanometer technologies; and
6. Provision of guarantee by Group A for SMNC’s financing activities.

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

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

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

As to the price prescribed by the state or local price control department, state-prescribed fees apply to water and electricity, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority. Under the Pricing Law of the PRC, the PRC government may implement a state- prescribed or guidance price for specific goods and services if necessary, and such price will be promulgated in accordance with the requirements of relevant laws, regulations or administrative rules from time to time. If any state- prescribed price or guidance price becomes available to the Continuing CTs in the future, the parties will execute such price first in accordance with pricing principle (1) above.

The breakdown for the proposed Annual Caps for the Continuing Connected Transactions is set out below:

	For the year ending December 31,		
	2020	2019	2018
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps			
Purchase and sale of goods	1,500	1,110	900
Rendering of or receiving services	200	150	100

For the year ending December 31,

	2020	2019	2018
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps			
Leasing of assets	200	200	200
Transfer of equipment	200	200	200
Provision of technical authorization or licensing (including the sharing of research and development costs)	100	100	100
Provision of guarantee.....	1,000	1,000	1,000
Total	3.20 billion	2.75 billion	2.50 billion

The Company believes that advancement in technology is one of the key growth factors. With respect to advanced nodes of 28nm and 40nm, which is one of the development focuses of the Group, the Group recorded a revenue growth of more than 90 per cent. in 2016 as compared to the year of 2015, and more than 30 per cent. during the first three quarters of 2017 as compared to the corresponding period in 2016. The continuous cooperation with SMNC, throughout the various steps in production as reflected in the Continuing CTs, helps the Company to meet demand from its customers and to attain higher profitability, especially for the advanced nodes.

The business partnership between the Company and SMNC has helped to eliminate some duplicated efforts on introducing and manufacturing advanced nodes for IC design houses, therefore reducing the time to market and some overhead expenses for both parties. With the expansion of its capacity and continuous innovation, the Company believes that it will be able to enhance its position in the industry and benefit from the increase in its economies of scale.

As SMNC had been continuously expanding its manufacturing capacity, the Company can therefore leverage SMNC's manufacturing capacity to expand the Company capacity based on its advanced technology in a capital-efficient manner.

As China IC Fund holds approximately 15.06 per cent. equity interest in the Company at the time of entering into the Framework Agreement with SMNC 2018 – 2020 through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As China IC Fund holds 32 per cent. equity interest in the registered capital of SMNC at the date of entering into the Framework Agreement with SMNC 2018 – 2020, SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules. The Framework Agreement with SMNC 2018 – 2020 and the transactions contemplated thereunder constitute non-exempt continuing connected transactions subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

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

The actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SMNC during the year ended December 31, 2018 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31, 2018
	<i>US\$ million</i>
Purchase and sale of goods	561.8
Rendering of or receiving services	84.5
Leasing of assets	0.3
Transfer of equipment	—
Provision of technical authorization or licensing (including the sharing of research and development costs).....	—
Provision of guarantee.....	7.4
Total	654.0

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Framework Agreement with SMNC 2018 – 2020 that took place between the Company and its majority owned subsidiary SMNC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Framework Agreement with SMNC 2018 – 2020 on terms that were fair and reasonable and in the interests of the Company’s shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company’s external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with SMNC 2018 – 2020 and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

8. Centralized Fund Management Agreement with Semiconductor Manufacturing South China Corporation — 2017 to 2020

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

The price of the services provided by SMIC Beijing to SMSC contemplated under the Centralized Fund Management Agreement will be fair in the context of connected transactions and determined according to the market principle on an arm’s length basis, and will be subject to compliance with regulatory

requirements of the Stock Exchange and relevant requirements for connected transactions that are applicable to the parties.

1. Internal Deposit Services

The terms in respect of the Internal Deposit Services provided by SMIC Beijing to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

2. Collection and Payment Services and Foreign Exchange Services

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

3. Internal Loan Services

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

4. Provision of Letter of Credit Services

The terms in respect of the Letters of Credit Services provided by the Company to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

5. Other Financial Services

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

The Annual Caps under the Centralized Fund Management Agreement are set out below.

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

The Company considers that the entry into of the Centralized Fund Management Agreement and the transactions contemplated thereunder will have the following benefits:

1. Open up the domestic and foreign funding channels of the Group;
2. Reduce the Group's overall debt levels and increase efficient fund usage;
3. Reduce the Group's interest expense; and
4. Obtain favorable exchange rate for the Group

China IC Fund holds approximately 24.71 per cent. of the equity interest in SMSC, SMSC is a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and is thus a connected person of the Company under the Listing Rules.

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

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement during the year ended December 31, 2018 are set out below.

	Actual Transaction Amounts for the year ended December 31,	
	2018	2017
	<i>US\$ million</i>	<i>US\$ million</i>
Transactions		
Internal Deposit Services	1,956.8	53
Collection and Payment Services and Foreign Exchange Services	—	—
Internal Loan Services.....	—	0
Letter of Credit Services	—	—
Other Financial Services	—	—

No Director is considered to have a material interest in the Centralized Fund Management Agreement with SMSC which would have required the Director to abstain from voting at the board meeting authorising the Centralized Fund Management Agreement with SMSC.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Centralized Fund Management Agreement with SMSC that took place between the Company and its majority owned subsidiary SMNC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Centralized Fund Management Agreement on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

9. Framework Agreement with Semiconductor Manufacturing South China Corporation — 2018 to 2019

On June 11, 2018, the Company and its subsidiaries, SMSC entered into the Framework Agreement in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee. The Framework Agreement is with a term commenced on April 26, 2018 and ending on December 31, 2019 (“**Framework Agreement with SMSC**”).

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

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

The price of the Continuing Connected Transactions will be determined in accordance with the following general principles in ascending order:

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

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

The breakdown for the Annual Caps for the Continuing Connected Transactions is set out below:

	For the year ending December 31,	
	2019	2018
	<i>US\$ million</i>	<i>US\$ million</i>
Annual Caps		
Purchase and sale of goods	61	1
Rendering of or receiving services.....	31	11
Leasing of assets	65	7
Transfer of equipment	316	—
Provision of technical authorization or licensing (including the sharing of research and development costs).....	—	300
Provision of guarantee.....	500	500
Total	1.273 billion	619 million

The Company considers that the entry into the Framework Agreement with SMSC and the transactions contemplated thereunder will bring the Company an effective and complete wafer production needs.

The business partnership between the Company and SMSC will help to eliminate some duplicated efforts in introducing and manufacturing advanced nodes for IC design houses, thereby reducing the time to market and some overhead expenses for both parties. With the expansion of its capacity and continuous innovation, the Company believes that it will be able to enhance its position in the industry and benefit from the increase in its economies of scale.

China IC Fund holds approximately 24.71 per cent. of the equity interest in SMSC, SMSC is a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and is thus a connected person of the Company under the Listing Rules.

The Framework Agreement with SMSC and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with SMSC were approved by the independent shareholders of the Company at the EGM of the Company held on November 7, 2018 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

The actual transaction amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SMSC during the year ended December 31, 2018 are set out below.

	Actual Transaction Amounts for the year ended December 31,	
	2018	2017
	<i>US\$ million</i>	<i>US\$ million</i>
Transactions		
Purchase and sale of goods	—	—
Rendering of or receiving services.....	2.2	5.88

	Actual Transaction Amounts for the year ended December 31,	
	2018	2017
	<i>US\$ million</i>	<i>US\$ million</i>
Transactions		
Leasing of assets	—	—
Transfer of equipment	—	—
Provision of technical authorization or licensing	—	—
Provision of guarantee.....	—	—
Total	2.2	5.88

No Director is considered to have a material interest in the Framework Agreement with SMSC which would have required the Director to abstain from voting at the board meeting authorising the Framework Agreement with SMSC.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Framework Agreement with SMSC that took place between the Company and its majority owned subsidiary SMSC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Framework Agreement with SMSC on terms that were fair and reasonable and in the interests of the Company’s shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company’s external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with SMSC and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

10. Centralized Fund Management Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2019 to 2021

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

The Company will authorise its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group’s RMB fund and foreign exchange in accordance with the relevant PRC laws

and regulations. Based on such authorization, SMIC Beijing will provide the following fund management services to SMNC within the scope permitted by the relevant PRC policies.

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

1. Internal Deposit Services

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

2. Collection and Payment Services and Foreign Exchange Services

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

3. Internal Loan Services

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

4. Provision of Letter of Credit Services

The terms (including fees charged by the Company) in respect of the letters of credit provided by the Company to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by the Company to SMNC for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees

charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third party-commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

5. Other Financial Services

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

The Annual Caps under the Centralized Fund Management Agreement with SMNC are set out below.

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

The Company considers that the entry into of the Centralized Fund Management Agreement with SMNC and the transactions contemplated thereunder will open up the domestic and foreign funding channels of the Group, increase efficient fund usage and reduce the Group's overall debt levels and interest expense. The centralized management of foreign exchange risk exposure will also reduce the risks of exchange loss of the Group.

As China IC Fund holds approximately 15.82 per cent. equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As at the date of this announcement, the registered capital of SMNC is held as to approximately 51 per cent. and 32 per cent. by the Group and China IC Fund, respectively. SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, holds the position of president in China IC Fund's sole manager Sino IC Capital Co., Ltd. and Mr. Ren Kai, who is a Class III non-executive Director and a member of the strategic advisory committee of the Company, holds the position of vice president in China IC Fund's sole manager Sino IC Capital Co., Ltd. Both Mr. Lu Jun and Mr. Ren Kai have abstained from voting

on the relevant Board resolution in respect of the Centralized Fund Management Agreement with SMNC.

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

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Centralized Fund Management Agreement with SMNC that took place between the Company and its majority owned subsidiary SMNC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Centralized Fund Management Agreement with SMNC on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Agreement with SMNC and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

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

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

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

1. Internal Deposit Services

In relation to the transactions contemplated under the Centralized Fund Management Agreement with SJ Cayman, the Internal Deposit Services to be provided by SMIC Beijing to SJ Cayman will constitute continuing connected transactions by way of financial assistance received by SMIC Beijing from a connected person. Pursuant to Rule 14A.90 of the Listing Rules, as the

Internal Deposit Services are conducted on normal commercial terms and not secured by the assets of the Group, the provision of the Internal Deposit Services is fully exempt from the reporting, announcement and/or the Independent Shareholders' approval requirements under the Listing Rules.

2. Collection and Payment Services and Foreign Exchange Services

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

3. Internal Loan Services

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

4. Provision of Letter of Credit Services

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

5. Other Financial Services

The terms (including fees charged by SMIC Beijing) in respect of Other Financial Services provided by SMIC Beijing to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Cayman for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third party commercial banks

or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

The Annual Caps under the Centralized Fund Management Agreement with SJ Cayman are set out below.

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

The Company considers that the entry into of the Centralized Fund Management Agreement with SJ Cayman and the transactions contemplated thereunder will open up the domestic and foreign funding channels of the Group, increase efficient fund usage and reduce the Group's overall debt levels and interest expense. The centralized management of foreign exchange risk exposure will also reduce the risks of exchange loss of the Group.

As China IC Fund holds approximately 15.82 per cent. equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As at the date of this announcement, the registered capital of SMNC is held as to approximately 51 per cent. and 32 per cent. by the Group and China IC Fund, respectively. SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules.

On November 29, 2018, the Company and SMIC Beijing entered into a centralized fund management agreement with SMNC, another connected subsidiary of the Company (as defined under Rule 14A.16 of the Listing Rules), which is owned as to approximately 51 per cent. and 32 per cent. by the Group and China IC Fund, respectively, details of which are set out in the announcement of the Company dated November 29, 2018. Pursuant to Rule 14A.81 of the Listing Rules, as the nature of the transactions entered into by the Company and SMIC Beijing are similar, the transactions contemplated under the Centralized Fund Management Agreement with SJ Cayman shall be aggregated.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, holds the position of president in China IC Fund's sole manager Sino IC Capital Co., Ltd. and Mr. Ren Kai, who is a Class III non-executive Director and a member of the strategic advisory committee of the Company, holds the position of vice president in China IC Fund's sole manager Sino IC Capital Co., Ltd. Both Mr. Lu Jun and Mr. Ren Kai have abstained from voting on the relevant Board resolution in respect of the Centralized Fund Management Agreement with SJ Cayman.

The Centralized Fund Management Agreement with SJ Cayman and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of

the Company at the EGM of the Company held on January 11, 2019 as required under Chapter 14A of the Listing Rules.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Centralized Fund Management Agreement with SJ Cayman that took place between the Company and its majority owned subsidiary SJ Cayman for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Centralized Fund Management Agreement with SJ Cayman on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Contract and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid 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 Listing Rules and confirming that nothing has come to their attention that causes them to believe the continuing connected transactions:

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

Director Service Contracts

We have entered into service contracts with indemnification provisions with each of our current directors. Except for the indemnification provisions, the service contracts as stated in the preceding sentence do not provide for benefits upon termination of service or employment.

PRC REGULATIONS

This section is a high-level overview of the PRC legal system and a summary of the principal PRC laws and regulations relevant to the issue of the Bonds by the Issuer. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations.

Regulation

The integrated circuit industry in China is subject to substantial regulation by the Chinese government. This section sets forth a summary of the most significant Chinese regulations that affect our business in China.

Scope of Regulation

The Several Policies to Encourage the Development of Software and Integrated Circuit Industry and the Several Policies to Further Encourage the Development of Software and Integrated Circuit Industry, or the Integrated Circuit Policies, promulgated by the State Council of the PRC on 24 June 2000 and on 28 January 2011, respectively, together with other ancillary laws and regulations, regulates integrated circuit production enterprises, or ICPEs. The State Council issued the Integrated Circuit Policies in order to encourage the development of the software and integrated circuits industry in China. The Integrated Circuit Policies form the basis for a series of laws and regulations that set out in detail the preferential policies relating to ICPEs. Such laws and regulations include:

- the Notice of the Ministry of Finance on Taxation Policies Concerning the Import of Self-used Raw Materials and Consumables by Part of Integrated Circuit Production Enterprises, or the Raw Materials Taxation Notice, issued by the Ministry of Finance on 24 August 2002;
- the Notice on Taxation Policies Concerning the Import of Construction Materials Specially used for Clean Rooms by Part of the Integrated Circuit Production Enterprises, or the Construction Materials Taxation Notice, issued by the Ministry of Finance on 26 September 2002;
- the Notice by the Ministry of Finance and the State Administration of Taxation on Increasing Tax Refund Rate for Export of Certain Information Technology (IT) Products, or the Export Notice, issued by the Ministry of Finance and the State Administration of Taxation on 10 December 2004;
- the Measures for the Accreditation of the Integrated Circuit Enterprise Encouraged by the State (For Trial Implementation), or the Accreditation Measures jointly issued by the National Development and Reform Commission, the Ministry of Information Industry, the State Administration of Taxation and the General Administration of Customs on 21 October 2005;
- the Notice of the Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Policies for Further Encouraging the Development of the Software Industry and the Integrated Circuit Industry on 20 April 2012;
- the Notice of the Ministry of Finance, National Development and Reform Commission and Ministry of Industry and Information Technology on Adjusting the List of Duty-free Commodities Concerning the Import of Self-used Raw Materials and Consumables by Integrated Circuit Production Enterprises on 11 November 2015;
- the Notice of the Ministry of Finance and State Administration of Taxation Regarding the Refund of Remaining Amount of Value-Added Tax at the End of the Period on Equipment Purchased by Integrated Circuit Enterprises on 14 November 2011;

- the Notice of the Ministry of Finance, State Administration of Taxation, National Development and Reform Commission and Ministry of Industry and Information Technology on the Preferential Policies for Enterprise Income Tax in Software and Integrated Circuits Industry on 4 May 2016; and
- the Notice on Issues Concerning Corporate Income Tax Policies for Integrated Circuit Manufacturers issued by the Ministry of Finance on 28 March 2018.

Preferential Industrial Policies Relating to ICPEs

ICPEs which are duly accredited in accordance with relevant laws and regulations may qualify for preferential industrial policies. Under the Integrated Circuit Policies, accreditation of ICPEs is determined by the competent examination and approval authorities responsible for integrated circuit projects after consultation with relevant taxation authorities. Under the Accreditation Measures, an integrated circuit enterprise refers to an independent legal entity duly established in the PRC (except for Hong Kong, Macao, and Taiwan) engaging in the fabrication, package, or testing of integrated circuit chips and the production of mono-crystalline silicon of six inches or above, excluding the integrated circuit design enterprise. The accreditation of ICPEs is included in the accreditation of the integrated circuit enterprises. Such accreditation is determined by the competent authorities consisting of the National Development and Reform Commission, the Ministry of Information Industry (now Ministry of Industry and Information Technology), the State Administration of Taxation and the General Administration of Customs, which jointly designate the China Semiconductor Industrial Association as the accreditation institution. Any enterprise qualified under the requirements set forth in the Accreditation Measures is entitled to apply to the China Semiconductor Association for the Accreditation of the ICPEs. The accreditation of ICPEs is annually reviewed. If the enterprise fails to apply for the annual review in time, it shall be deemed as giving up such accreditation and if the enterprise fails in the annual review, the accreditation will also be canceled.

SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC and SJ Jiangyin have been accredited as ICPEs and are entitled to the preferential industrial policies described below.

Encouragement of Domestic Investment in ICPEs

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on 2 December 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and the relevant State Council Institutions on 27 March 2011 and amended on 16 February 2013, the Chinese government encourages (i) the design of integrated circuits, (ii) the fabrication of integrated circuits with a line width of less than 0.8 micron (including 0.8 micron) and (iii) the advanced packaging and testing of BGA, PGA, CSP and MCM. Under the Interim Provisions, imported equipment that is used for a qualifying domestic investment project and that falls within such project's approved total investment amount is exempt from custom duties, import tax and value-added tax except for such equipment listed in the Catalogue of Import Commodities for Domestic Investment Projects Not Entitled to Tax Exemptions, as stipulated by the Ministry of Finance and amended in 2006, 2008 and 2012, as well as in the General Administration of Customs' announcement on the relevant matters arising from the implementation of the Industrial Restructuring Guidance Catalogue (2011) by the customs (Announcement No. 36 [2011] of the General Administration of Custom) and the Notice of the State Council on Adjusting the Taxation Policies for Imported Equipment (Guo Fa [1997] No.37).

Encouragement of Foreign Investment in ICPEs

Pursuant to the Integrated Circuit Policies and the Guideline Catalogue of Foreign Investment Industries promulgated jointly by the National Development and Reform Commission and the Ministry of Commerce on 28 June 2017, the following foreign investment categories are encouraged:

- design of integrated circuits;

- fabrication of large scale integrated circuits with a line width of less than 28 nanometers (including 28 nanometers);
- fabrication of analog and analog digital integrated circuits with a line width of less than 0.11 micron (including 0.11 micron);
- advanced packaging and testing of BGA, PGA, FPGA, CSP, MCM; and
- fabrication of MEMS and compound semiconductor integrated circuits.

Foreign investment in such encouraged projects may enjoy preferential treatment as stipulated by the laws and regulations.

Preferential Taxation Policies

We are incorporated in the Cayman Islands and not currently subject to taxation in the Cayman Island.

The Law of the PRC on Enterprise Income Tax (“**EIT Law**”) was promulgated on 16 March 2007, which became effective 1 January 2008 and was respectively amended on 24 February 2017 and 29 December 2018. Under the EIT Law, domestically-owned enterprises and foreign-invested enterprises (“**FIEs**”) are subject to a uniform tax rate of 25 per cent.. The EIT Law provides a five-year transition period starting from its effective date for those companies which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. In accordance with regulations issued by the State Council, the tax rate of such companies may gradually transit to the uniform tax rate within the transition period. For those companies which are enjoying tax holidays, such tax holidays may continue until their expiration in accordance with the regulations issued by the State Council, but where the tax holiday has not yet started because of losses, such tax holiday shall be deemed to commence from the first effective year of the EIT Law. As a result, the applicable tax rates during the five-year transitional period are as follows: 18 per cent. in 2008, 20 per cent. in 2009, 22 per cent. in 2010, 24 per cent. in 2011 and 25 per cent. in 2012 and thereafter.

Pursuant to Caishui Circular [2008] No. 1 (“**Circular No. 1**”) promulgated on 22 February 2008 and Caishui Circular [2012] No. 27 promulgated on 20 April, 2012, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15 per cent.. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years’ tax losses and 50 per cent. reduction of the tax for the following five years. Pursuant to Caishui Circular [2009] No. 69 (“**Circular No. 69**”), the 50 per cent. reduction should be based on the statutory tax rate of 25 per cent. unless the income tax rate is reduced by the tax incentives granted by Circular No. 39. The above provisions in Circular No. 1 have been abolished by Cai Shui [2012] No. 27 since 1 January 2011. Nonetheless, pursuant to Cai Shui [2012] No. 27, if the integrated circuit production enterprise has been certified by tax authority to enjoy the above preferential tax rate under the Circular No. 1, it may continue to enjoy such preferential rate till the expiry of such preferential treatment even after the implementation of Cai Shui [2012] No. 27.

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

On 20 April 2012, State Tax Bureau issued Cai Shui [2012] No. 27 (“**Circular [2012] No. 27**”), stipulating the income tax policies for the development of integrated circuit industry.

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

On 4 May 2016, the Ministry of Finance, the State Tax Bureau, the National Development and Reform Commission and the Ministry of Industry and Information Technology issued Cai Shui [2016] No. 49 (“**Circular No. 49**”), the Notice on Issues concerning Preferential Enterprise Income Tax Policies for the Software and Integrated Circuit Industries, setting forth the scope and conditions for the assertion of integrated circuit enterprise that enjoys the preferential tax policy under Circular [2012] No. 27.

On 28 March 2018, the Ministry of Finance, the State Tax Bureau, the National Development and Reform Commission and the Ministry of Industry and Information Technology issued Cai Shui [2018] No. 27 (“**Circular [2018] No. 27**”), the Notice on Issues Concerning the Enterprise Income Tax of Integrated Circuit Production Enterprise, providing that if the integrated circuit production enterprise that has been certified by tax authority to enjoy the preferential tax rate under the Circular [2012] No. 27 makes no profit before 31 December, 2017, it may enjoy such preferential rate from the first profitable year till the expiry of such preferential treatment. Besides, integrated circuit production enterprises established after 1 January 2018 with an operation period of more than 10 years whose integrated circuits have a line width of less than 130 nanometers are entitled to a full exemption from income tax for the first two years after the first profitable year, and 50 per cent. reduction of the tax for the following third to fifth years; integrated circuit production enterprises established after 1 January 2018 with an operation period of more than 15 years whose integrated circuits have a line width of less than 65 nanometers or whose total investment exceeds RMB15 billion (approximately US\$2.2166 billion) are entitled to a full exemption from income tax for the first five years after the first profitable year, and 50 per cent. reduction of the tax for the following sixth to tenth year.

Preferential Policies Encouraging Research and Development

The EIT Law and the Implementation Regulations of the EIT Law have provided tax incentives in relation to technologies as a means to encourage advancement and adoption of new technologies. The EIT Law provides an additional 50 per cent. deduction of the R&D expenses incurred from the R&D of new technologies, new products, and new techniques on the basis of the actual deductions when relevant enterprise has no intangible asset to be formed and calculated into the current gains and losses. If intangible assets have been formed, they shall be amortized at 150 per cent. of the cost of the intangible assets. During the period from 1 January 2018 to 31 December 2020, the Notice on the Increase in the Proportion of Additional Pre-tax Deduction of Research and Development Expenses will instead provide an additional 75 per cent. deduction of the R&D expenses incurred from the R&D activities on the basis of the actual deductions when the relevant enterprise has no intangible asset to be formed and calculated into the current gains and losses; if intangible assets have been formed, they shall be amortized at 175 per cent. of the cost of the intangible assets during the aforementioned period.

Legal Framework Concerning the Protection of Intellectual Property Relating to Integrated Circuits

China has formulated various laws and regulations on intellectual property protection in respect of integrated circuits including:

- the Patent Law of the PRC, adopted at the fourth meeting of the Standing Committee of the Sixth National People’s Congress on 12 March 1984, effective 1 April 1985 and amended by the Seventh National People’s Congress on 4 September 1992 and second amended by the Ninth National People’s Congress on 25 August 2000 and third amended by the Eleventh People’s Congress on 27 December 2008, effective 1 October 2009;
- the Paris Convention for the Protection of Industrial Property of the World Intellectual Property Organization, in which China became a member state as of 19 March 1985;
- the General Principles of the Civil Law of the PRC adopted at the fourth session of the Sixth National People’s Congress on 12 April 1986, effective 1 January 1987 and revised at the tenth meeting of the Standing Committee of the Eleventh National People’s Congress on 27 August 2009; the General Provisions of the Civil Law of the PRC adopted at the fifth session of the Twelfth National People’s

Congress on 15 March 2017, effective 1 October 2017. In this legislation, intellectual property rights were defined in China's basic civil law for the first time as the civil rights of citizens and legal persons;

- the Copyright Law of the PRC, adopted by the 15th meeting of the Seventh National People's Congress Standing Committee on 7 September 1990, effective 1 June 1991, first amended by the Ninth National People's Congress on 27 October 2001 and subsequently amended by the Eleventh National People's Congress on 26 February 2010;
- the Regulations for the Protection of the Layout Design of Integrated Circuits, or the Layout Design Regulations, adopted 2 April 2001 at the thirty-sixth session of the executive meeting of the State Council, effective 1 October 2001; and
- the World Intellectual Property Organization's Washington Treaty on Intellectual Property in Respect of Integrated Circuits, for which China was among the first signatory states in 1990.

Protection of the Layout Design of Integrated Circuits

Under the Layout Design Regulations, layout design of an integrated circuit refers to a three dimensional configuration in an integrated circuit that has two or more components, with at least one of these being an active component, and part or all of the interconnected circuitry or the three-dimensional configuration prepared for the production of integrated circuits.

Chinese natural persons, legal persons or other organizations that create layout designs are entitled to the proprietary rights in the layout designs in accordance with the Layout Design Regulations. Foreign persons or enterprises that create layout designs and have them first put into commercial use in China are entitled to the proprietary rights in the layout designs in accordance with the Layout Design Regulations. Foreign persons or enterprises that create layout designs and that are from a country that has signed agreements with China regarding the protection of layout designs, or is a party to an international treaty concerning the protection of layout designs to which China is also a party, are entitled to the proprietary rights of the layout designs in accordance with the Layout Design Regulations.

Proprietary Rights in Layout Design of Integrated Circuits

Holders of proprietary rights in a layout design are entitled to the following proprietary rights:

- to duplicate the whole protected layout design or any part of the design that is original; and
- to make commercial use of the protected layout design, the integrated circuit containing the layout design, or commodities containing the integrated circuit.

Proprietary rights in layout designs become valid after being registered with the administrative department of the State Council responsible for intellectual property. Unregistered layout designs are not protected by the Layout Design Regulations.

The protection period of the proprietary rights in a layout design is ten years, commencing from the date of the application for registration of the layout design or the date that it is first put into commercial use anywhere in the world, whichever is earlier. However, regardless of whether or not a layout design is registered, or whether or not it is put into commercial use, it is not protected after 15 years from the time of its creation.

Registration of a Layout Design

The administrative departments of the State Council responsible for intellectual property are responsible for the registration of layout designs and accepting applications for the registration of layout designs. If an application for a layout design registration is not made with the administrative department of the State Council responsible for intellectual property within two years after it has been first put into commercial use anywhere in the world, the administrative department of the State Council responsible for intellectual property will not register the

application. A holder of proprietary rights in a layout design may transfer the proprietary rights or give permission for other parties to use the layout design.

Compulsory Licenses for Exploitation of Patents in Respect of Semiconductor Technology

Under the Patent Law and the Implementing Regulations of the Patent Law, three years after a patent rights is granted and four years after a patent application is filed, any person or enterprise that has made reasonable proposals in good faith to the holder of proprietary rights seeking a license to such right, but has been unable to obtain such license after an extended period of time, may request the administrative department responsible for patents under the State Council to grant a compulsory license for the relevant patent, provided that the patent owner fails to exploit or fails to adequately exploit the patent without justified reasons. However, where a compulsory license involves semiconductor technology, the implementation of a compulsory license is restricted to public and non-commercial uses, or to uses that counteract anti-competitive actions, as determined by judicial or administrative procedures.

PRC Tax for “Resident Enterprises”

Under China’s EIT Law, we may be classified as a “**resident enterprise**” of China. This classification could result in unfavorable tax consequences to us and our non-PRC shareholders. The implementing rules of the EIT Law define de facto management bodies as “management bodies that exercises substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. In April 2009, the State Administration of Taxation further specified criteria for the determination of the “**de facto management bodies**” for foreign enterprises, which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in the PRC and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise’s day-to-day operational management is primarily exercised in the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC and (iv) 50 per cent. or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

If the PRC tax authorities determine that our Cayman Islands holding company is a “**resident enterprise**” for PRC enterprise income tax purposes, a number of unfavourable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25 per cent. on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules dividends income between qualified resident enterprises is tax exempted income, it is not clear how a qualified resident enterprise which is incorporated overseas would be treated under the EIT Law. Finally, it is possible that future guidance issued with respect to the “**resident enterprise**” classification could result in a situation in which a 10 per cent. withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares. Similarly, these unfavorable consequences could apply to our other overseas intermediary holding companies if they are classified as PRC resident enterprises.

Environmental Regulation

Our PRC subsidiaries are subject to a variety of PRC environmental laws and regulations promulgated by the central and local governments, for example, the Environmental Protection Law, effective on 26 December 1989, amended on 24 April 2014, and the amended rules become effective on 1 January 2015, regulations concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project’s construction and operation phases.

A key document that must be submitted for the approval of a project's construction is an environmental impact assessment report that is reviewed by the relevant environmental protection authorities. Upon completion of construction, and prior to commencement of operations, an additional examination and acceptance by the relevant environmental authority of such projects is also required. Any entity that engages in the electronics industry discharging pollution shall be granted with a pollution discharge permit by local environmental authority by the end of 2019. Without such a permit after the statutory deadline, any entity located in PRC is not permitted to discharge pollution generated in its production. SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC, SMSC, ATD and SJ Jianguyin have all received approval with respect to their relevant environmental impact assessment reports and SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC, SMSC, ATD and SJ Jianguyin have all received approval with respect to their relevant environmental impact assessment reports and SMIC Shenzhen have obtained the pollution discharge permit.

From time to time during the operation of our PRC subsidiaries, the relevant environmental protection authority will monitor and audit the level of environmental protection compliance of these subsidiaries. Discharge of liquid, solid or gaseous waste over permitted levels may result in imposition of fines, imposition of a time period within which rectification must occur or even suspension of operations.

Enforceability of Civil Liabilities

We are a Cayman Islands exempted company. We are incorporated in the Cayman Islands because of the following benefits associated with being a Cayman Islands corporation:

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

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

Conyers Dill & Pearman, our counsel as to Cayman Islands law, DLA Piper Hong Kong, our counsel as to Hong Kong law, and Llinks Law Offices, our counsel as to Chinese law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands, Hong Kong and China, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or
- be competent to hear original actions brought in each respective jurisdiction, against us or our directors or officers predicated upon the securities laws of the United States or any state thereof.

Conyers Dill & Pearman has further advised us that the courts of the Cayman Islands would recognise as a valid judgment, a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, and would give a judgment other than a sum payable in respect of multiple damages, taxes,

finer, penalties or similar charges, or, in certain circumstances, an in personam judgment for non-monetary relief based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the Cayman Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular; all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisors concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

Cayman Islands

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest, additional amounts, if any, principal and premium on the Bonds will not be subject to taxation and no withholding will be required on the payment of principal and premium to any holder of the Bonds, nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duty is payable in respect of the issue of the Bonds. An instrument of transfer in respect of a Bonds or certificates representing the Bonds would be subject to Cayman Islands stamp duty if executed in or brought into the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income or gains or appreciation shall apply to us or our operations; and
- in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by us:
 - (iv) on or in respect of the shares, debentures or other obligations of us; or
 - (v) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

Our undertaking is for a period of twenty years from April 2000.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this "Taxation-PRC" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the EIT Law, the IIT Law and the implementation regulations in relation to both the EIT Law and the IIT Law, PRC income tax at a rate of 10 per cent. or 20 per cent. is normally applicable to PRC-source income derived by non-resident enterprises or individuals, respectively, subject to adjustment by applicable treaty. As the Issuer is a PRC resident enterprise for tax purposes, interest paid to non-resident Bondholders may be regarded as PRC-sourced, and therefore be subject to PRC income tax at a rate of 10 per cent. for non-resident enterprise Bondholders and at a rate of 20 per cent. for non-resident individual Bondholders (or a lower treaty rate, if any).

Such income tax shall be withheld by the Issuer that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment or payment due. To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. Under the EIT Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a “**non-resident enterprise**” means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In addition, under the IIT Law, any individual who has no domicile and does not live within the territory of the PRC or who has no domicile but has lived within the territory of China for less than 183 days shall pay individual income tax for any income obtained within the PRC. There is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to the Arrangement, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued Circular 36, which introduced a new VAT from 1 May 2016. Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The operating income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Accordingly, the interest and other interest like earnings received by a non-PRC resident Bondholder from the Issuer will be subject to PRC VAT at the rate of 6 per cent. The Issuer will be obligated to withhold VAT of 6 per cent. and certain surcharges on VAT for payments of interest and certain other amounts on the Bonds paid by the Issuer to Bondholders that are non-resident enterprises or individuals. And as the withholding agent, the Issuer shall calculate the withholding tax according to the following formula: $\text{withholding tax} = \text{price paid by the purchaser} \div (1 + \text{tax rate}) \times \text{tax rate}$. In terms of the surcharges, pursuant to Interim Regulation of the PRC on City Maintenance and Construction Tax(中華人民共和國城市維護建設稅暫行條例(2011 修訂), Interim

Provisions on the Collection of Educational Surcharges(徵收教育費附加的暫行規定(2011 修訂), and Notice of the Ministry of Finance on the Relevant Matters regarding Unifying the Policies on Local Education Surcharges (財政部關於統一地方教育附加政策有關問題的通知), a city maintenance and construction tax, an educational surcharge and a local educational surcharge will be applicable when entities and individuals are obliged to pay VAT. However, there is uncertainty as to whether gains derived from a sale or exchange of Bonds consummated outside of the PRC between non-PRC resident Bondholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

However, despite the withholding of the PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in “*Terms and Conditions*”.

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Bonds is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

HONG KONG

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal, premium (if any) or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, professional or business carried on in Hong Kong in the following circumstances:

- interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**IRO**”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong;
- interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- interest on the Bonds is derived from Hong Kong and is received by or accrues to a person (other than a corporation) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business; or
- interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the

corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of the Bonds.

FATCA

Sections 1471 through 1474 of the US Internal Revenue Code of 1986 (“**FATCA**”) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-US financial institution (a foreign financial institution or FFI (as defined by FATCA)) that does not become a “Participating FFI” by entering into an agreement with the US Internal Revenue Service (IRS) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a US person or should otherwise be treated as holding a “United States Account” (a Recalcitrant Holder).

Whilst the Bonds are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Bonds by us, any paying agent and the common depository, given that each of the entities in the payment chain between us and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Bonds. The documentation expressly contemplates the possibility that the Bonds may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. Prospective investors should consult their tax advisers on how these rules may apply to us and to payments they may receive in connection with the Bonds.

SUBSCRIPTION AND SALE

We entered into a bond subscription agreement with the Manager dated 18 November 2019 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, we have agreed to sell to the Manager, and the Manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds.

We have agreed to indemnify the Manager against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Manager are subject to certain conditions precedent, and entitles the Manager to terminate the Subscription Agreement in certain circumstances at any time up to the time when subscription moneys have been received and the Bonds issued.

We have agreed in the Subscription Agreement with the Manager that neither the Issuer nor any person acting on its or their behalf will (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Manager between the date of the Subscription Agreement (18 November 2019) and the date which is 90 days after 18 November 2019 (both dates inclusive); except for (i) the issue of any Bonds or Shares to be issued upon conversion of Bonds under the Subscription Agreement; (ii) the issue of any Shares to be issued upon conversion of the 2016 Bonds, the 2017 Securities, the Datang PSCS or the China IC Fund PSCS (each as defined in the Subscription Agreement); (iii) the issue of any share options and restricted share units pursuant to any share option schemes adopted in compliance with the Listing Rules and any publicly disclosed equity incentive plans of the Issuer and (iv) the issue of any Shares which are issued as consideration for any merger or acquisition provided that (1) the aggregate value of the Shares issued (as calculated by the Current Market Price (as defined in the Terms and Conditions of the Bonds) is less than U.S.\$100,000,000 and (2) the Issuer procures that the person receiving such Shares executes a shareholder lock-up undertaking on substantially the same terms as provided in this paragraph prior to any such issue.

The Manager and certain of its affiliates have, from time to time, performed, and may in the future perform, certain commercial banking, investment banking and advisory services for us, the Group and/or our affiliates for which they have received or will receive customary fees and expenses. In addition to the transaction services for us or the Group, the Manager may, from time to time, engage in other transactions with and perform services for us or the Group in the ordinary course of our or the Group’s business. In addition, the Manager and certain of its subsidiaries and affiliates may hold Shares as beneficial owners, on behalf of clients or in the capacity of investment advisers. The Manager and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Manager and its affiliates may make or hold a broad array of investments and actively trade debt and its equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve our securities and instruments.

The Manager or its affiliates may purchase the Bonds for its or their own account and enter into transactions, including (i) credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities or (ii) equity derivatives and stock loan transactions relating to our or our subsidiaries' or our associates' Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been or will be taken in any jurisdiction by the Manager or us that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by us or the Manager, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on us or the Manager.

United States

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

United Kingdom

The Manager has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

European Economic Area

The Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Hong Kong

The Manager has represented and agreed that:

- (iii) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “**professional investors**” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “**prospectus**” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (the “**CO**”) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (iv) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “**professional investors**” as defined in the SFO and any rules made under that ordinance.

Singapore

The Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “**MAS**”). Accordingly, the Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”), (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or

- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Japan

The Manager represents and agrees that the Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, the Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Cayman Islands

The Manager has represented, warranted and agreed that the offer to sell the Bonds is private and not intended for the public and, further that the Manager has not made and will not make any invitation to the public in the Cayman Islands or to residents of the Cayman Islands, whether directly or indirectly, to offer or sell the Bonds.

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 143232042 and the International Securities Identification Number for the Bonds (including the Bonds) is XS1432320429.
2. The conditional approval has been received from the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds subject to fulfillment of all other conditions of the Subscription Agreement.
3. Approval in-principle has been received for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST for the listing and quotation of the Bonds on the SGX-ST is not to be taken as indication of the merits of the Issuer or any other subsidiary or associated company of the Issuer, the Bonds or the Shares. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$250,000 for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificates are exchanged for definitive Certificates. In addition, in the event that the Global Certificates are exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.
4. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Bonds and Shares upon the conversion of the Bonds. The issue of the Bonds and the Shares upon the conversion of the Bonds were authorised and approved by resolutions of the board of directors of the Issuer passed on 12 November 2019. PRC counsels to the Issuer and PRC counsels to the Manager have advised that no other approvals or consents are required from any regulatory authorities or other relevant authorities in the PRC for the Issuer to issue the Bonds.
5. Except as disclosed in this Offering Circular, there has been no change, or any development reasonably likely to involve prospective change, in the financial condition, business operations or results of operations in the general affairs of the Issuer since 31 December 2018, the date of the Issuer's most recent audited financial statements, that is material and adverse in the context of the issue of the Bonds.
6. There are no litigation or arbitration proceedings against or affecting the Issuer or of the Group or any of the Issuer's assets, nor is the Issuer aware of any pending or threatened such proceedings, in each case which, to the Issuer's best knowledge and belief, are or might be material in the context of the issue of the Bonds.
7. The consolidated financial statements of the Issuer for the year ended 31 December 2018, which are incorporated by reference in this Offering Circular, have been audited by PwC.
8. Copies of the Issuer's Audited Consolidated Financial Statements, the Trust Deed and the Agency Agreement relating to the Bonds will be available for inspection from the Issue Date (subject in the case of the Issuer's Audited Consolidated Financial Statements to the same being provided to the Trustee and the Principal Paying Agent by the Issuer and subject in the case of the Trust Deed to the same being provided to the Principal Paying Agent by the Issuer) following prior written request and satisfactory proof of holding and identity at the principal place of business of the Trustee, being at the date of this Offering Circular at One Canada Square, London E14 5AL, United Kingdom and at the specified office

of the Principal Paying Agent from time to time, at all reasonable times during normal business hours, so long as any Bond is outstanding.

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PRINCIPAL AGENT

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