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SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

中芯國際集成電路製造有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 981)

ANNOUNCEMENT OF 2023 ANNUAL RESULTS

The board of directors (the “**Board**”) of Semiconductor Manufacturing International Corporation (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2023. This announcement, containing the full text of the 2023 annual report of the Company (the “**2023 Annual Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcement of annual results. Printed version of the 2023 Annual Report will be delivered to the registered holders of shares of the Company and available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.smics.com in due course.

By order of the Board

Semiconductor Manufacturing International Corporation

Company Secretary/Board Secretary

Guo Guangli

Shanghai, PRC

28 March 2024

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

Executive Director

LIU Xunfeng

Non-executive Directors

LU Guoqing

CHEN Shanzhi

YANG Lumin

Independent Non-executive Directors

LAU Lawrence Juen-Yee

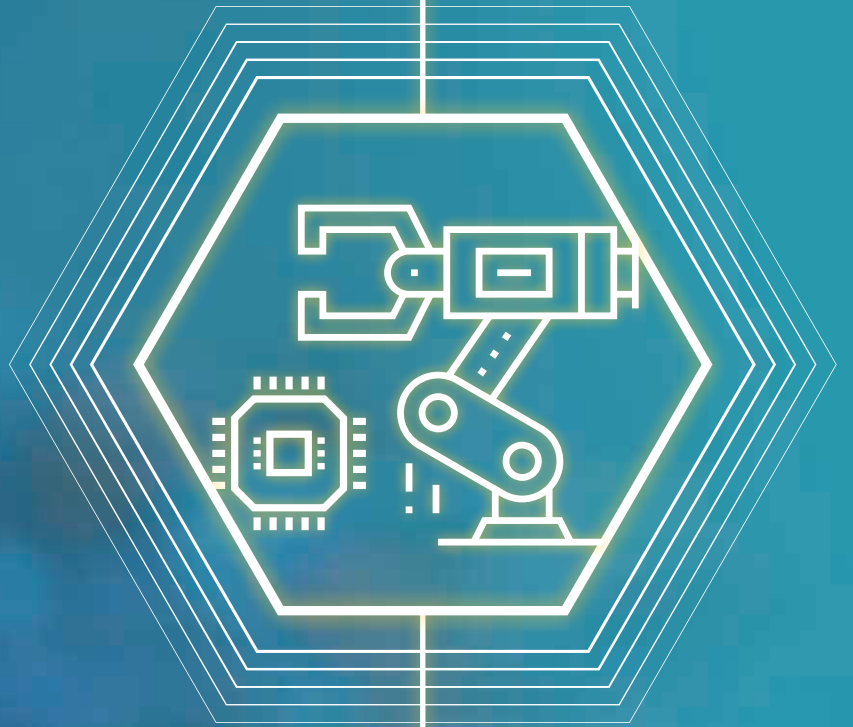
FAN Ren Da Anthony

LIU Ming

WU Hanming

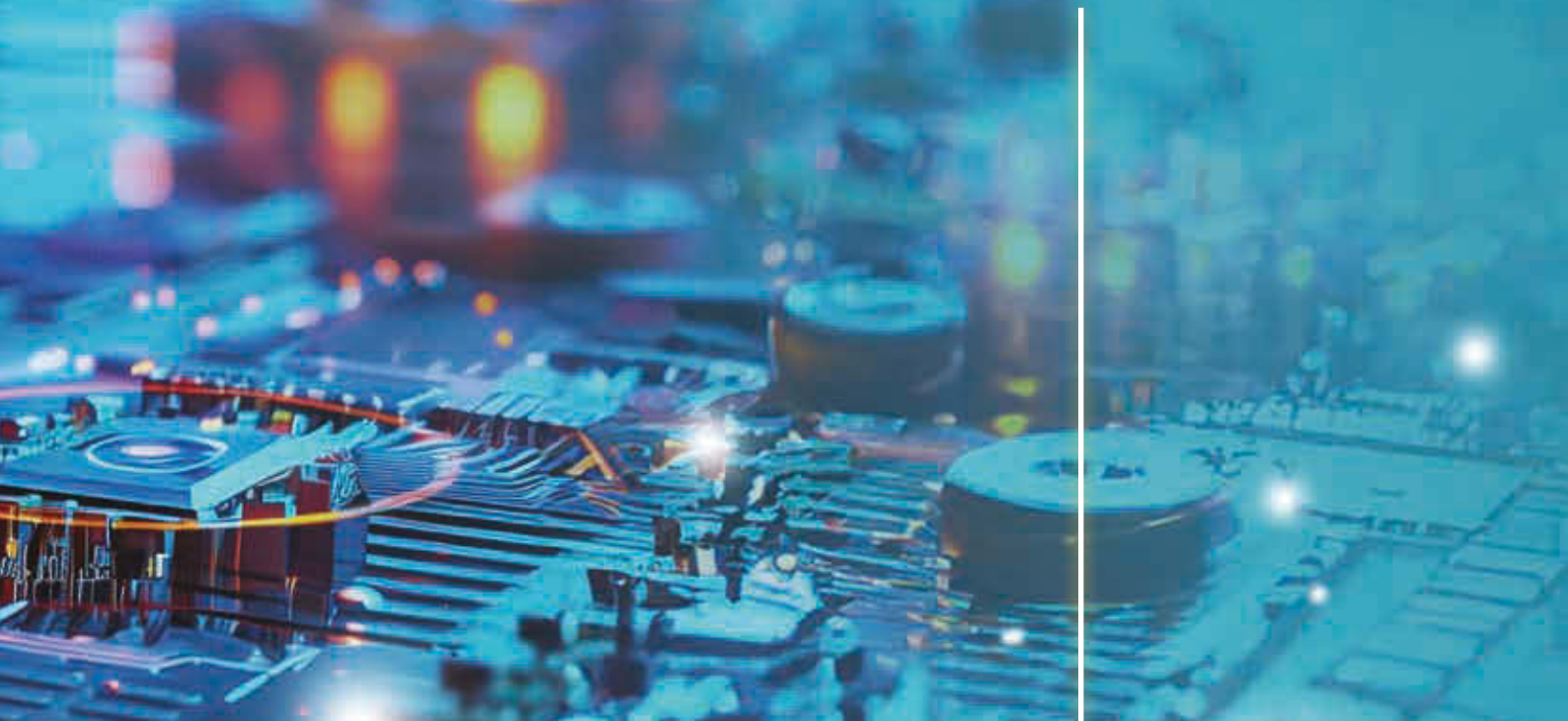
* *For identification purposes only*





LEADING FOUNDRY

IN CHINESE MAINLAND



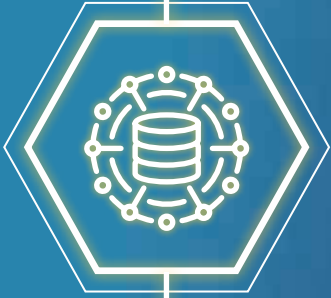
EMPOWERED
TECHNOLOGY

ENRICHED SERVICES

ENHANCED
COMPETITIVENESS





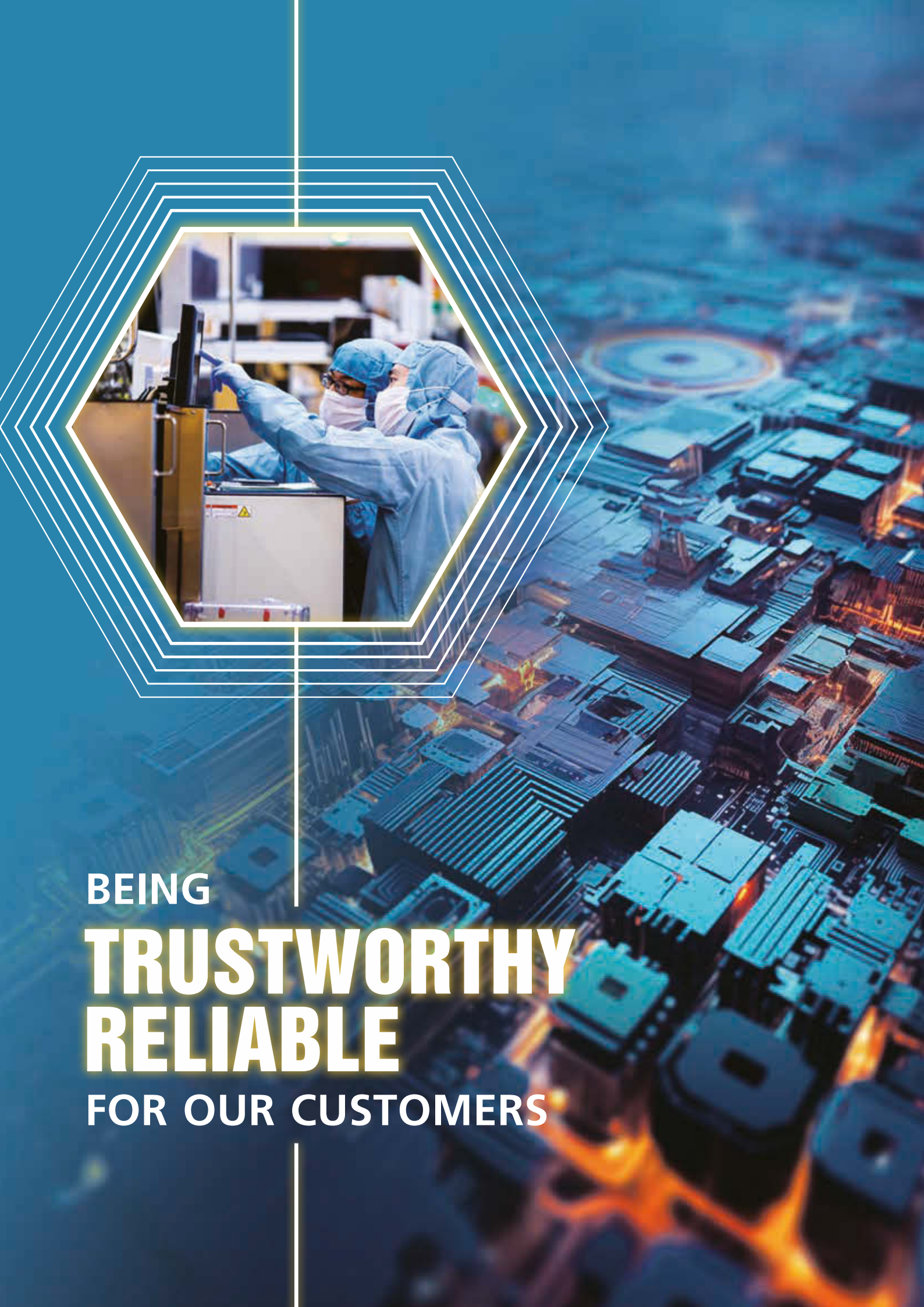


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FORWARD-LOOKING STATEMENTS

This report contains, in addition to historical information, forward-looking statements. These forward-looking statements are based on SMIC's current assumptions, expectations, beliefs, plans, objectives and projections about future events or performance. SMIC uses words including but not limited to "believe", "anticipate", "intend", "estimate", "expect", "project", "target", "going forward", "continue", "ought to", "may", "seek", "should", "plan", "could", "vision", "goal", "aim", "aspire", "objective", "schedule", "outlook" and other similar expressions to identify forward looking statements. These forward-looking statements are estimates made by SMIC's senior management based on their best judgment and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicalities and market conditions in the semiconductor industry, intense competition in the semiconductor industry, timely wafer acceptance by SMIC's customers, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, shortages in equipment, parts, raw materials, software and service supports, orders or judgments from pending litigation, intellectual property litigation in the semiconductor industry, macro-economic conditions, fluctuations in currency exchange rates and the risk of geopolitics.



BEING

**TRUSTWORTHY
RELIABLE**

FOR OUR CUSTOMERS

SECTION 1 • DEFINITIONS

I. DEFINITIONS

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

Definitions of common terms

the Company, Company or SMIC	for	Semiconductor Manufacturing International Corporation
the Group or We	for	the Company and its subsidiaries
SMIC Shanghai	for	Semiconductor Manufacturing International (Shanghai) Corporation
SMIC Beijing	for	Semiconductor Manufacturing International (Beijing) Corporation
SMIC Tianjin	for	Semiconductor Manufacturing International (Tianjin) Corporation
SMIC Shenzhen	for	Semiconductor Manufacturing International (Shenzhen) Corporation
SMNC	for	Semiconductor Manufacturing North China (Beijing) Corporation
SMSC	for	Semiconductor Manufacturing South China Corporation
SMBC	for	Semiconductor Manufacturing Beijing Corporation
SMOC	for	Semiconductor Manufacturing Oriental Corporation
SMTc	for	Semiconductor Manufacturing Tianjin-Xiqing Corporation
CICT	for	China Information and Communication Technology Group Co., Ltd.
Datang Holdings	for	Datang Telecom Technology & Industry Holdings Co., Ltd.
Datang HK	for	Datang Holdings (Hongkong) Investment Company Limited
China IC Fund	for	China Integrated Circuit Industry Investment Fund Co., Ltd.
China IC Fund II	for	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.
Xinxin HK	for	Xinxin (Hongkong) Capital Co., Ltd.
2023 AGM	for	the Company's annual general meeting held on June 28, 2023
Board	for	the board of directors of the Company
Director(s)	for	the director(s) of the Company
CSRC	for	China Securities Regulatory Commission
HKSE or Hong Kong Stock Exchange	for	The Stock Exchange of Hong Kong Limited
SSE	for	the Shanghai Stock Exchange
SSE STAR Market	for	Shanghai Stock Exchange Science and Technology Innovation Board
Hong Kong Listing Rules	for	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
SSE STAR Market Listing Rules	for	the Rules Governing the Listing of Securities on the SSE STAR Market, as amended from time to time
IFRS(s)	for	the International Financial Reporting Standards as issued by the International Accounting Standards Board
CAS(s)	for	the China Accounting Standards for Business Enterprises as issued by the PRC Ministry of Finance
Ordinary Share(s)	for	the ordinary share(s) of US\$0.004 each in the share capital of the Company
A Share(s)	for	the Ordinary Shares issued by the Company on the SSE STAR Market
Hong Kong Share(s)	for	the Ordinary Shares issued by the Company on the Hong Kong Stock Exchange
Reporting period, this period or this year	for	period from January 1, 2023 to December 31, 2023
Corresponding period, previous period or last year	for	period from January 1, 2022 to December 31, 2022

All references in this report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. The number of 8-inch equivalent wafers is equal to the number of 12-inch wafers multiplied by 2.25.

The financial information in this report has been prepared in accordance with the provisions under the IFRSs.



LETTER TO
SHAREHOLDERS

SECTION 2 • LETTER TO SHAREHOLDERS

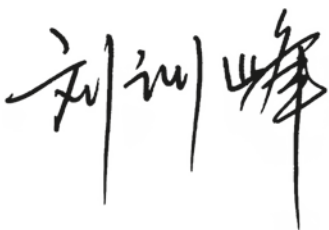
Dear shareholders and investors,

Since the establishment of SMIC, the Company has unwaveringly followed the path of independent innovation, maintained strategic resolve in wafer manufacturing and constantly pursued excellence through tackling difficulties. The Company has achieved hard-won development obvious to all, which is inseparable from the care, support and help from our shareholders and investors. Here, on behalf of the Company's Board and Management, I would like to extend my sincerest gratitude and best wishes to all!

In 2023, facing the world's big changes unseen in a century, the Company confronted the fierce competition in the global semiconductor market and profound transformation within the industry. With all employees working as one wholeheartedly, the Company has always adhered to the principle of seeking progress while maintaining stability, and responded to the uncertainty in the external environment by virtue of the certainty in its development. Thus, the Company has withstood severe test in various aspects of technology R&D, production and operation, sales, supply chain, and etc. With the efforts of all cadres and employees, the Company's revenue in 2023 was \$6.32 billion, with adjustment magnitude smaller than that of industry average. Gross margin was 19.3% and annualized capacity utilization rate was 75%, basically in line with the Company's guidance provided in the beginning of 2023. By the end of 2023, the Company's total assets were \$47.8 billion, equity attributable to owners of the Company was \$20.1 billion, the asset structure remained stable and the monthly capacity reached 806 thousand 8-inch equivalent wafers.

In the past year, the Company has accelerated the expansion of strategic cooperation, actively undertaken and given full play to the pioneering role as a chain owner enterprise, driving the collaborative development and win-win cooperation of upstream and downstream in industrial chain and supply chain; the Company has continued to optimize the deployment of projects and adhered to the orientation of "consolidating basics and strengthening foundation with solid and steady steps" to push forward the project layout and capacity building, with construction of key projects met expectations; the Company has firmly promoted management reform and steadily implemented various measures centering on the BU mechanism reform, with integration and localization of production, sales and R&D showing initial effectiveness, and operational efficiency been improved significantly; the Company has proactively fulfilled its social responsibilities, adhered to sustainable development commitments and continuously improved ESG governance capabilities. Public welfare projects such as the "SMIC Liver Transplant Program for Children" have won extensive recognition from the society.

Overall development and foundation are stabilized, while the direction and momentum are moving forward. In the new year, the Company will continue to firmly undertake the original mission of "making SMIC stronger, better and bigger, and participating in the international competition on behalf of the IC industry". Planning the current business layout from the perspective of future development, examining the existing gaps from the perspective of benchmarking leading enterprises, choosing the companions from the perspective of industrial ecosystem, the Company will continue to focus on "capacity stabilization, cost control, technology leadership and customer first" as four pivots to make the core competitiveness with leading technology, manufacturing capability and optimal cost. Facing the fierce competition in the global semiconductor market and the profound changes in China's semiconductor industry, the Company will continue to provide more value to markets and users domestically and globally, forge ahead to realize people's happy life and the sustainable development of the society, and strive unremittingly to create a new chapter in the IC development history of China!



Chairman

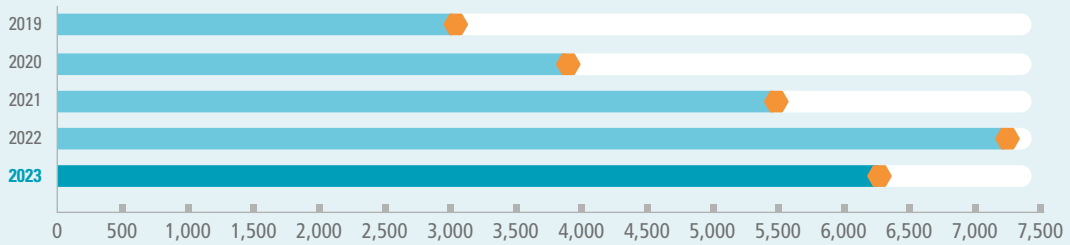
Shanghai, PRC
March 28, 2024



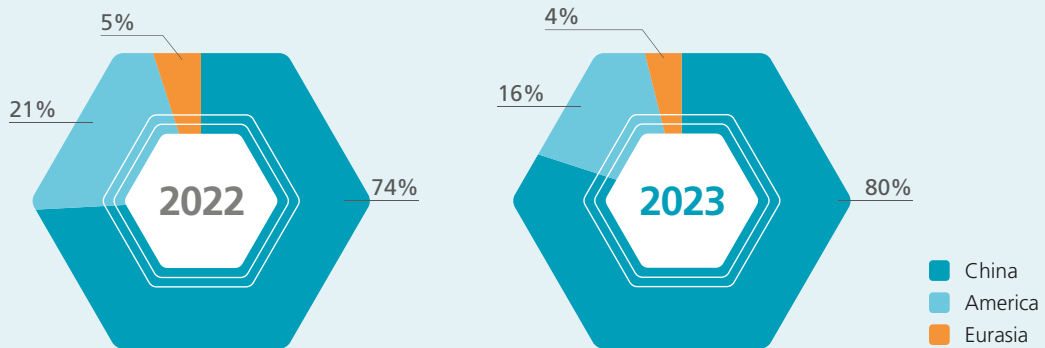
**STRIVING
FOR RETURNS**
FOR OUR SHAREHOLDERS

Total Revenue

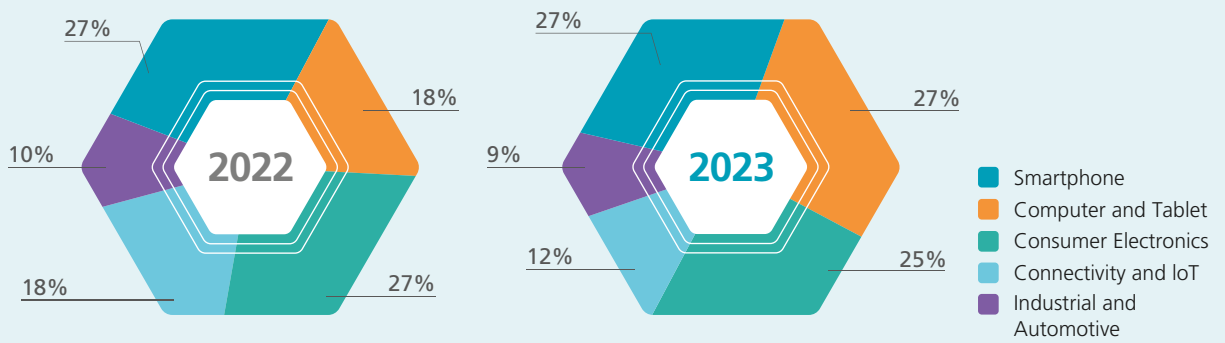
US\$ million



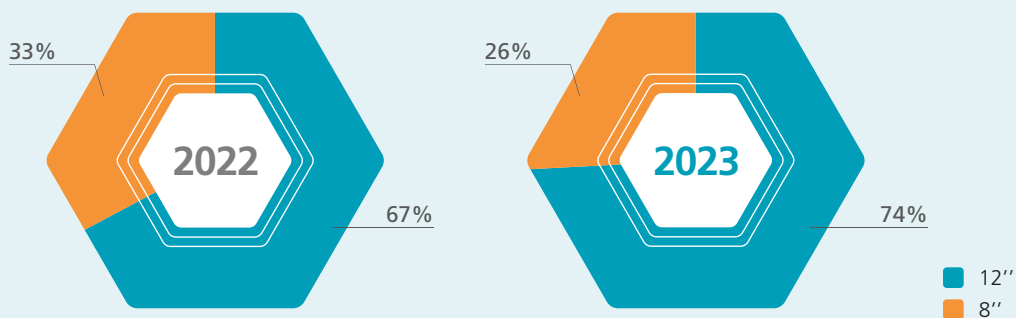
Sales by Region



Wafer Sales by Application



Wafer Sales by Size



SECTION 3 • CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

I. BASIC CORPORATE INFORMATION

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

Financial calendar

2023 annual results announcement	March 28, 2024
2024 annual general meeting	June 28, 2024
Book closure period for 2024 annual general meeting (Hong Kong Shares)	June 25, 2024 to June 28, 2024, both days inclusive
Record date for the 2024 annual general meeting (A Shares)	June 24, 2024
Financial year end date	December 31

Note: The Company is registered in the Cayman Islands, which does not have the concept of a legal representative, and the Chairman of the Company is Liu Xunfeng.

II. CONTACT PERSONS AND CONTACT METHODS

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

III. INFORMATION DISCLOSURE AND PLACE AVAILABLE FOR INSPECTION

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

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

IV. INFORMATION ON THE COMPANY'S SHARES

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

V. OTHER RELEVANT INFORMATION

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

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

(I) PRINCIPAL ACCOUNTING DATA

in USD '000

	Year ended December 31,			
	2023	2022	2023 as compared with 2022 (%)	2021
Revenue	6,321,560	7,273,284	-13.1	5,443,112
Profit for the year attributable to owners of the Company	902,526	1,817,942	-50.4	1,701,803
Profit for the year attributable to owners of the Company, net of non-recurring profit or loss ⁽¹⁾	465,963	1,525,696	-69.5	872,206
Net cash flow generated from operating activities	3,358,294	5,347,916	-37.2	3,011,895
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	4,064,164	4,611,048	-11.9	3,819,769

	As of December 31,			
	2023	2022	2023 as compared with 2022 (%)	2021
Equity attributable to owners of the Company	20,116,102	19,149,976	5.0	17,149,664
Total assets	47,787,312	43,807,784	9.1	36,110,941

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(II) PRINCIPAL FINANCIAL INDICATORS

	Year ended December 31,			
	2023	2022	2023 as compared with 2022 (%)	2021
Gross margin	19.3%	38.0%	Decreased by 18.7 percentage points	30.8%
Net margin	17.8%	30.2%	Decreased by 12.4 percentage points	32.6%
EBITDA margin	64.3%	63.4%	Increased by 0.9 percentage point	70.2%
Basic earnings per share	\$0.11	\$0.23	-52.2	\$0.22
Diluted earnings per share	\$0.11	\$0.23	-52.2	\$0.21
Basic earnings per share, net of non-recurring profit or loss ⁽¹⁾	\$0.06	\$0.19	-68.4	\$0.11
Weighted average return on equity ⁽²⁾	4.6%	10.0%	Decreased by 5.4 percentage points	10.5%
Weighted average return on equity, net of non-recurring profit or loss ⁽¹⁾⁽³⁾	2.4%	8.4%	Decreased by 6.0 percentage points	5.4%
Percentage of research and development ("R&D") investment to revenue	11.2%	10.1%	Increased by 1.1 percentage points	11.7%

Notes:

- (1) According to the latest Explanatory Announcement No. 1 on Information Disclosure of Companies Issuing Securities to the Public – Non-recurring Profit or Loss (Revised in 2023) released on December 22, 2023, the Company restated the amount of non-recurring profit or loss, profit for the year attributable to owners of the Company, net of non-recurring profit or loss, basic earnings per share, net of non-recurring profit or loss, weighted average return on equity, net of non-recurring profit or loss for previous years.
- (2) Weighted average return on equity = profit for the year attributable to owners of the Company/weighted average equity
- (3) Weighted average return on equity, net of non-recurring profit or loss = profit for the year attributable to owners of the Company, net of non-recurring profit or loss/weighted average equity

Revenue, profit for the year attributable to owners of the Company, profit for the year attributable to owners of the Company, net of non-recurring profit or loss, EBITDA, gross margin and net margin for this year decreased. The main reasons were: over the past year, the semiconductor industry was at the bottom of the cycle. Demand in the global market was weak. Industry inventories were in high level, with slowing down of de-stocking. The competition within the industry was fierce. As a result, the Group's average capacity utilization rate declined, wafer shipment decreased and product mix changed. In addition, the Group was in high investment period, and depreciation increased accordingly compared with 2022. The above factors together impacted the Group's financial performance in 2023.

Net cash flow generated from operating activities for this year decreased, primarily due to the decrease in received cash from sale of goods.

VII. DISCREPANCIES IN ACCOUNTING DATA BETWEEN DIFFERENT ACCOUNTING STANDARDS

(I) DISCREPANCIES IN PROFIT AND EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY IN THE FINANCIAL REPORT DISCLOSED UNDER IFRSs AND UNDER CASs

in USD'000

	Profit attributable to owners of the Company		Equity attributable to owners of the Company	
	Year ended 12/31/23	Year ended 12/31/22	12/31/23	12/31/22
Prepared in accordance with CASs	685,559	1,806,942	20,116,102	19,149,976
Adjustments to items and amounts prepared in accordance with IFRSs:				
Equity interest in associates being passively diluted ^(Note)	216,967	11,000	–	–
Prepared in accordance with IFRSs	902,526	1,817,942	20,116,102	19,149,976

Note: Under the CASs, gains or losses arising from passive dilution of investments in associates and joint ventures should be recorded in equity while adjusting the carrying amount of the long-term investment. Under the IFRSs, such gains or losses should be recorded in profit or loss, while adjusting the carrying amount of the long-term investment.

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

VIII. PRINCIPAL FINANCIAL DATA FOR THE YEAR OF 2023 BY QUARTER

in USD'000

	First Quarter (From January to March)	Second Quarter (From April to June)	Third Quarter (From July to September)	Fourth Quarter (From October to December)
Revenue	1,462,288	1,560,396	1,620,577	1,678,299
Profit attributable to owners of the Company	231,102	402,762	93,984	174,678
Profit attributable to owners of the Company, net of non- recurring profit or loss	135,864	119,563	96,602	113,934
Net cash flow generated from operating activities	801,520	796,185	800,701	959,888

IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

in USD'000

	Year ended December 31,		
	2023	2022	2021
(Loss)/gain on disposal of property, plant and equipment	(177)	45,774	35,996
Government funding ^(Note)	236,425	188,610	302,918
Net gain arising from the fair value through profit or loss ("FVPL")	51,265	12,257	80,155
One-off adjustments to the profit or loss under the requirements of tax, accounting and other laws and regulations	–	9,524	48,862
Other non-recurring profit or loss items	270,998	92,355	461,023
	558,511	348,520	928,954
Effects on income tax	(54,162)	(8,696)	(71,517)
Impact on non-controlling interests (after tax)	(67,786)	(47,578)	(27,840)
Total	436,563	292,246	829,597

Note: According to the latest Explanatory Announcement No. 1 on Information Disclosure of Companies Issuing Securities to the Public - Non-recurring Profit or Loss (Revised in 2023) released on December 22, 2023, the Company restated the amount of net of non-recurring profit or loss for previous years.

in USD'000

	Year ended December 31,	
	2023	2022
Other non-recurring profit or loss items		
Share of net gain arising from FVPL of associates and a joint venture		63,183
Equity interest in associates being passively diluted		216,967
Others		(9,152)

X. ITEMS MEASURED AT FAIR VALUE

in USD'000

	As of December 31,			
	2023	2022	Change in the reporting period	Impact on profit for the reporting period
Investments in equity securities	197,830	208,307	(10,477)	36,720
Structural deposits and monetary funds	498,768	375,776	122,992	14,545
Derivative financial instruments – (net liabilities)/net assets	(69,804)	119,124	(188,928)	–
Total	626,794	703,207	(76,413)	51,265

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

XI. EBITDA

in USD'000

	Year ended December 31,		
	2023	2022	2021
Profit for the year	1,124,935	2,198,082	1,775,158
Finance costs	209,424	125,582	110,143
Depreciation and amortisation	2,667,291	2,271,361	1,869,302
Income tax expense	62,514	16,023	65,166
EBITDA	4,064,164	4,611,048	3,819,769

XII. BUSINESS PERFORMANCE HIGHLIGHTS FOR THE PREVIOUS FIVE YEARS

(I) PROFIT OR LOSS DATA

in USD'000

	Year ended December 31,				
	2023	2022	2021	2020	2019
Revenue	6,321,560	7,273,284	5,443,112	3,906,975	3,115,672
Cost of sales	(5,103,816)	(4,511,636)	(3,767,342)	(2,986,062)	(2,473,213)
Gross profit	1,217,744	2,761,648	1,675,770	920,913	642,459
Research and development expenses	(707,275)	(733,096)	(638,842)	(677,413)	(687,369)
Selling and marketing expenses	(36,162)	(33,834)	(27,642)	(29,466)	(26,836)
General and administration expenses	(482,262)	(493,730)	(275,703)	(266,376)	(254,924)
Impairment losses on financial assets, net	1,255	(605)	997	(199)	(1,076)
Other operating income	364,447	335,296	657,982	364,487	376,656
Profit from operations	357,747	1,835,679	1,392,562	311,946	48,910
Interest income	736,591	349,135	223,035	170,794	138,988
Finance costs	(209,424)	(125,582)	(110,143)	(73,234)	(63,460)
Foreign exchange gain	11,155	6,586	1,407	89,818	9,495
Other gains, net	262,591	26,763	80,785	50,741	42,981
Share of profit of associates and a joint venture	28,789	121,524	252,678	187,343	5,362
Profit before tax	1,187,449	2,214,105	1,840,324	737,408	182,276
Income tax expense	(62,514)	(16,023)	(65,166)	(68,310)	(23,416)
Profit for the year	1,124,935	2,198,082	1,775,158	669,098	158,860
Profit/(loss) for the year attributable to:					
Owners of the Company	902,526	1,817,942	1,701,803	715,550	234,681
Non-controlling interests	222,409	380,140	73,355	(46,452)	(75,821)
	1,124,935	2,198,082	1,775,158	669,098	158,860

	Year ended December 31,				
	2023	2022	2021	2020	2019
Earnings per share					
Basic	\$0.11	\$0.23	\$0.22	\$0.11	\$0.04
Diluted	\$0.11	\$0.23	\$0.21	\$0.11	\$0.04
Shares issued and outstanding (share)	7,946,555,760	7,912,664,696	7,903,856,555	7,703,507,527	5,056,868,912
Financial ratio					
Gross margin	19.3%	38.0%	30.8%	23.6%	20.6%
Net margin	17.8%	30.2%	32.6%	17.1%	5.1%
Operating data					
Wafers shipped (in piece)	5,866,683	7,098,458	6,747,190	5,698,624	5,028,796

SECTION 3 CORPORATE PROFILE AND PRINCIPAL FINANCIAL INDICATORS

(II) MAJOR FINANCIAL POSITION DATA

In USD'000

	As of December 31,				
	2023	2022	2021	2020	2019
Total assets	47,787,312	43,807,784	36,110,941	31,320,575	16,437,820
Property, plant and equipment	23,944,961	18,855,532	14,260,783	12,138,021	7,757,247
Financial assets at amortised cost	9,840,224	10,676,151	7,564,091	4,445,238	2,276,370
Cash and cash equivalents	6,215,058	6,932,587	8,581,746	9,826,537	2,238,840
Total liabilities	16,941,696	14,846,363	10,672,798	9,638,837	6,239,958
Borrowings	9,550,931	7,986,522	5,726,987	5,290,833	2,566,669
Trade and other payables	3,727,922	3,217,001	1,830,415	1,648,556	1,034,079
Total equity	30,845,616	28,961,421	25,438,143	21,681,738	10,197,862
Non-controlling interests	10,729,514	9,811,445	8,288,479	6,507,144	3,964,617

(III) MAJOR CASH FLOW DATA

In USD'000

	Year ended December 31,				
	2023	2022	2021	2020	2019
Net cash generated from operating activities	3,358,294	5,347,916	3,011,895	1,660,410	1,019,057
Profit for the year	1,124,935	2,198,082	1,775,158	669,098	158,860
Depreciation and amortisation	2,667,291	2,271,361	1,869,302	1,312,694	1,127,756
Net cash used in investing activities	(6,207,572)	(10,391,505)	(6,655,435)	(7,071,383)	(1,948,507)
Acquisition of property, plant and equipment	(7,630,407)	(6,172,106)	(4,120,275)	(5,274,686)	(1,869,563)
Net cash generated from financing activities	2,466,338	3,614,290	2,357,325	12,704,215	1,376,278
Net (decrease)/increase in cash and cash equivalents	(382,940)	(1,429,299)	(1,286,215)	7,293,242	446,828

SECTION 4 • MANAGEMENT DISCUSSION AND ANALYSIS

I. DISCUSSION AND ANALYSIS ON BUSINESS

In 2023, the semiconductor industry went into a downward cycle due to global economic weakness, soft market demand and other factors. In the second half of 2023, the end market demand showed signs of recovery, while the overall supply chain inventory was at high level, the sales of end product was in the adjustment phase. The inventory digestion was still the main tone of semiconductor industry in 2023. In the medium to long term, the overall industry maintains its cyclicity and growth despite supply-demand imbalance in the short term. With the uptrend of demand driven by intelligence in the application fields of home appliance, education, scientific research, business, industry, transportation and medical, the market vitality is gradually recovering, the end market scale is improving, and every link of the industry chain is expected to revive progressively. Wafer foundry companies, as the key front-end industry in the semiconductor supply chain, are expected to realise sustained steady growth under a gradual recovery on capacity utilization in medium to long-term.

During the reporting period, the Company actively implemented various innovative measures in the aspects of management improvement, team development, cost reduction and productivity exaltation, technology research, business development, etc., devoting all efforts to firm up every mission of the year 2023. Under the overall macro cyclical downward environment, the Company seized the opportunities of the industrial chains reconstructions for the increasing indigenous manufacturing demand as well as fierce cost competitions. Through rapid identifications on customers' market share of the incremental market segments, the Company proactively responded to the changes in customer needs, timely adjusted product portfolio, and paid more focus on technical innovations and process optimizations, provided our customers with comprehensive platform support and design services. We worked with our customers side by side to overcome the hard times. In the meanwhile, the Company further consolidated the short-term business foundation, while continued to broaden the medium to long-term capacity layout and firmly capture long-term megatrend of the semiconductor industry.

During the reporting period, the Group recorded revenue of US\$6,321.6 million, representing a year-on-year decline of 13.1%. In particular, the wafer revenue amounted to US\$5,794.5 million, representing a year-on-year decline of 14.0%.

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

(I) PRINCIPAL BUSINESS, MAJOR PRODUCTS OR SERVICES

SMIC is one of the leading semiconductor foundries in the world and also the front runner in Chinese Mainland, with leading manufacturing capability, manufacturing scale and comprehensive services. SMIC Group provides semiconductor foundry and technology services to global customers on 8-inch and 12-inch wafers.

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

(II) MAJOR BUSINESS MODEL

1. Profit model

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

2. R&D model

The Company has formed a complete and efficient innovation mechanism and a complete R&D process management system, equipped with professional R&D teams. The Company promoted the application platforms' development, further solidified its technical foundation and established its technical thresholds. The R&D procedures principally include seven stages, namely selection of project, feasibility assessment, project establishment, technology development, technology verification, product validation and production, each with strict review procedure, to ensure the successful conversion of R&D projects.

3. Procurement model

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

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

4. Production model

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

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

5. Marketing and sales model

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

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

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

(III) INDUSTRY OVERVIEW

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

In 2023, the global macro economy experienced downward cycle. The global semiconductor industry trend had strong correlation with the global macro economy cycle. The semiconductor industry experienced structural supply and demand adjustment due to the demand shrinking in smartphones, personal computers and others. The speed of overall semiconductor inventory digestion was slower than that of the production and procurement on all links of the industry chains. And the IC inventory was still at the high level. In the second half of 2023, the industry gradually showed signs of recovery with the launch of new mobile phones, wearable devices, personal computers, intelligent applications and other applications as well as the expectation on the overall economy environment recovery.

The semiconductor industry owns a relatively wide range of downstream sectors. Thus, the recovery cycles for each application segment may vary. In terms of product segments, memory IC is the main segment of market downturn in 2023, while Logic, Analog, Optoelectronic, Sensor, Discrete had limited decline in demand. With some leading industry promotion in the application fields of intelligence and automation, a number of application segments demand even rose instead of decline and became favorable opportunities as countertrend growth for wafer foundry enterprises.

From the regional perspectives, the trend of semiconductor industry localisations has formed significantly over recent years. The major motivations for localised semiconductor industry development are based on the scale of local market demand and the resilience of local economic development. In Chinese Mainland, as one of the world's largest semiconductor consumption markets, our IC industry still relies on import to a certain extent at current stage. The local IC industry scale, including wafer foundry capacity scale and process technology capability, cannot meet the actual market demand. Driven by the new round of technological innovation, the constructions for domestic industrial chains are having large growth space.

According to the industry characteristics, the wafer foundry industry is still the crucial sector of front-end semiconductor supply chains with highly technology-intensive, talent-intensive and capital-intensive features. Its operation procedure requires stringent control and execution standards for the manufacturing environment, energy, raw materials, equipment and quality management system, etc. The R&D and manufacturing process involves science of material, chemistry, semiconductor physics, optics, microelectronics, quantum mechanics and other subjects, and requires professional technical teams with strong R&D ability for integration technologies and engineering capabilities for process integration. The industry is with extremely high barrier to entry.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

2. Analysis on the industry position of the Company and its changes

SMIC is one of the leading IC wafer foundries in the world and also the front runner in Chinese Mainland, with leading manufacturing capability, manufacturing scale and comprehensive services. According to the ranking of global pure-play foundries' latest published sales in 2023, SMIC ranks the fourth globally and the first among the enterprises in Chinese Mainland.

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

In recent years, the foundry manufacturers attract customers with their core advantages in the field of technological leadership, platform diversity, and device performance differentiation. Meanwhile, the market demand is becoming more diversified. The enterprises pursue not only smaller transistor structures vertically but also the derivative platforms establishment by utilizing existing technology nodes as horizontal development, in order to meet the application needs of the huge end market.

At the same time, the technologies' breakthrough in new types of packaging, design services and photomask also empower the wafer foundry technologies iterations. In the field of new packaging technologies, a variety of systematic solutions effectively exceed the limitation of transistor linewidth, and further improve the compatibility of multi-chip integration. In the design services sector, DTCO (Design Technology Co-Optimization) is utilized to evaluate and adjust the coordination between IC design and manufacturing process, to effectively reduce the cost of semiconductor process development and minimise the risk of process going for production. Photomask as a core tool in IC manufacturing industry chain, the process performance of design pattern lithography has been further improved with the evolutions on photomask types and graphic transfer materials.

With the changes in global industrial landscape, the wafer foundry companies begin to pay more attentions to the industrial constructions ecosystem layout instead of just focus on own technology capability and platform buildup. The foundries' capacity scale effect and collaboration capabilities in local industry chain have become the important factors for customers' assessment of supply chain stability and completeness.

Regarding the future development trends, the foundry companies continue to strengthen their industry barriers in the aspects of capital, technology and ecosystem through their continuous efforts on capacity scale expansion, new process developing, and industrial chain collaborations, etc. The business format dominated by a small number of companies in the market will exist in long run, and the industry's leading effect will become increasingly evident.

(IV) CORE TECHNOLOGIES AND R&D PROGRESS

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

SMIC has a comprehensive core technology system of IC wafer foundry, which can effectively help customers reduce costs and shorten the time to market. SMIC has successfully developed a variety of technology platforms and provided customers with 8-inch and 12-inch one-stop wafer foundry and technology services.

In 2023, the R&D of 28nm ULP Technology Platform, 40nm eFlash Automotive Platform, 4Xnm NOR Flash Technology Platform, 55nm High-Voltage Display Driver Automotive Platform, etc., were completed and their products entered into small-batch trial production.

In 2023, the development of multiple platforms projects are carrying out as planned. Please refer to "II. (IV) 4. R&D projects" in this section.

2. R&D achievements during the reporting period

List of intellectual property rights obtained during the reporting period:

	Addition during the year		Accumulative number	
	Number of applications	Number of rights obtained	Number of applications	Number of rights obtained
Invention patents	601	562	17,602	11,641
Utility model patents	43	19	1,841	1,809
Layout design rights	–	–	94	94
Total	644	581	19,537	13,544

3. Analysis of R&D costs

in USD'000

Year ended December 31,

	2023	2022	2023 as compared with 2022 (%)
Expensed R&D costs	707,275	733,096	-3.5
Total R&D costs	707,275	733,096	-3.5
Proportion of total R&D costs to revenue (%)	11.2	10.1	Increased by 1.1 percentage points

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

4. R&D projects

No. project	Name of Technology Platform	Progress or milestone achievements	Expected objective	Technology positioning	Specific application prospects
1	28nm ULL Technology Platform	Delivered processes and devices. PDK1.0 is preparing.	To further improve the performance of the platform, to expand more devices, to engage more customers and to reach mass production.	Chinese Mainland leadership	Mainly applied to various IoT, mobile communication and other industries to meet the needs of smartphones, digital TVs, set-top boxes, image processing and other products demand.
2	55nm HV Display Driver Gen2 Technology Platform	Based on 55nm HV Display Driver Gen1 technology platform with further shrunk devices sizes. PDK 1.0 released and products have been introduced for verification.	To further improve the yield of the platform, to expand more segmented markets, to satisfy the increasing demands of customers and to reach mass production.	Chinese Mainland leadership	Mainly applied to small and medium-sized OLED/LCD display driver chips.
3	65nm RF-SOI Technology Platform	Completed self-development of the platform. The RF performance of devices met target. Process reliability verification has been progressed successfully. PDK 1.0 released and products have been introduced for verification.	To further improve the RF performance of devices to the world leading class, to engage more customers and to reach mass production.	Chinese Mainland leadership	Mainly applied to RF chips in RF front-end modules for smartphones, Wi-Fi and etc.
4	90nm BCD Technology Platform Phase 2	Multiple customer products using 90nm BCD technology platform Phase 1 have entered mass production. The Phase 2 stage of development has been ongoing.	To further improve platform performance, to enrich device types, to complete verification for the standards of Automotive Grade, to satisfy the increasing demands of customers and to meet developing trend of intelligent power management chips.	Chinese Mainland leadership	Mainly applied to intelligent power management, audio amplifiers, intelligent motor drivers and automotive chips.
5	8" BCD Continuous Development Project	Multi-platforms development has been ongoing and some platforms introduced products.	To further improve the performance of the platform, to expand more devices and to reach mass production.	Chinese Mainland leadership	Mainly applied to power management, industrial applications and automotive chips.
6	0.18 μ m eNVM for Automotive Electronics Technology Platform	Completed key process module development. Process integration verification has been ongoing.	To complete the platform development with reliability verification and to release model and PDK.	Chinese Mainland leadership	Mainly applied to industrial applications and automotive chips.
7	0.11 μ m HV Display Driver Technology Platform	Multi-platforms development has been ongoing and some platforms introduced products.	To enrich device types, to expand more devices and to reach mass production.	Chinese Mainland leadership	Mainly used in large and medium-sized screen display driver chips and car screen display driver chips.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

5. R&D staff

Basic information

	2023	2022
Number of R&D Staff of the Group (person)	2,363	2,326
Proportion of R&D Staff to the total number of employees in the Group (%)	11.7	10.8
Total compensation of R&D staff (in USD'000)	157,171	153,516
Average compensation of R&D staff (in USD'000)	67	66

Education level

Education level	Number of persons by education
Doctorate	449
Master	1,304
Bachelor	337
Junior college and below	273

Age structure

Age group	Number of persons by age
Aged below 30 (excluding 30)	1,079
Aged 30-40 (excluding 40)	915
Aged 40-50 (excluding 50)	341
Aged 50 and above	28

III. ANALYSIS ON THE CORE COMPETITIVENESS DURING THE REPORTING PERIOD

(I) ANALYSIS ON CORE COMPETITIVENESS

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

1. Advantages in R&D platforms

According to the overall strategy and customer demand-oriented, the Company's R&D center has continuously improved its process R&D and innovation capabilities, strengthened platform construction, and upgraded product performance. The R&D project fully benchmarked the technical requirements of the product in the early stage, effectively utilized R&D resources, ensured the quality and reliability of output, actively shortened the cycle from R&D to mass production, and met the market demand for product innovation and rapid iteration, and strived to provide new business growth points for the Company.

2. Advantages in R&D team

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

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

The Company has long been focusing on the development of IC process technologies for decades, and provides semiconductor foundry and technology services to global customers on 8-inch and 12-inch wafers, which are applied in various technology platforms. The Company owns mass production capability on many technology platforms, such as logic IC, power/analog, high-voltage driver, embedded non-volatile memory, non-volatile memory, mix signal/RF, and CMOS image sensor, etc. The Company is able to provide both IC foundry services and supporting services to customers in the application fields of smartphone, computer and tablet, consumer electronics, connectivity and IoT, industrial and automotive and other areas. Through long-term cooperation with domestic and overseas renowned customers, the Company has formed prominent brand effects, and obtained sound industry recognition.

4. Well-established intellectual property systems

The Company has accumulated many core technologies in the IC field with well-established intellectual property system. As of December 31, 2023, the Company had 13,450 patents in total, including 11,641 invention patents. In addition, the Company also had 94 layout design rights of IC.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

5. Internationalised and supply chain layout

The Company is based on the concept of globalised operation and serves customers all over the world. The Company has established an internationalised management team and talent team, and set up service bases and a business network that spans the globe. Meanwhile, the Company has set up marketing offices in the United States, Europe, Japan and Taiwan, China, as well as a representative office in Hong Kong, China, further expanding the markets and quickly responding to customer needs. The Company pays great attention to the partnerships with upstream and downstream enterprises of the IC industry supply chain, actively enhances supply chain integration and layout capability, and constructs a compact IC ecosystem, in order to provide customers with comprehensive one-stop IC solutions.

6. Sound quality, safety, environment and occupational health management systems

The Company has established a comprehensive quality management system through continuously enlarging quality management scope vertically and horizontally. Currently, the Company has obtained many accreditations, such as the Information Security Management System Accreditation (ISO 27001), Quality Management System Accreditation (ISO 9001), Environmental Management System Accreditation (ISO 14001), Occupational Health and Safety Management System Accreditation (ISO 45001), Quality Management System Accreditation for Automotive Industry (IATF 16949), Quality Management System Accreditation for Telecommunication Industry (TL 9000), Hazardous Substance Process Management System Accreditation (QC 080000), Greenhouse Gas Emission Inventory Accreditation (ISO 14064), Energy Management System Accreditation (ISO 50001), and the Road Vehicles – Functional Safety Accreditation (ISO 26262).

IV. RISK FACTORS

(I) RISK OF CORE COMPETITIVENESS

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

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

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

2. The risk of shortage or loss of technical talents

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

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

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

3. *The risk of technical leakage*

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

(II) OPERATING RISKS

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

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

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

The downstream industry market of the global IC wafer foundry industry has a relatively high concentration, however, the market concentration of downstream industry in China's IC wafer foundry industry is relatively fragmented. The Company has established a relatively stable cooperative relationship with major customers by virtue of its advantages in R&D strength, product quality, capacity support and service response, however, the Company may still face the risk of too high or too low customer concentration. If there are material issues in the production and operation of major customers in the future, or if customers are scattered, weak and small, and the Company needs to invest more in sales, operation and production costs, the Company's performance stability, operating efficiency and sustained profitability will be adversely affected.

3. *The risk of supply chain*

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

(III) FINANCIAL RISKS

1. *The risk of performance fluctuations*

Fluctuations in the macro environment, change in the extent of industry prosperity of integrated circuit, domestic and foreign customers' demand not meeting expectations, price fluctuations of major raw materials and equipment etc., high capital expenditure and R&D investment resulting from the Company's continuous production capacity expansion and other situations, may cause the Company to expose to the risks of fluctuations in sales revenue, gross margin, profit, etc. within a certain period of time.

2. *The risk of impairment on assets*

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

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

In addition, if market demand changes resulting in the net realizable value of some inventories fails to cover the cost in the future, the Company will be exposed to the risk of an increase in the impairment losses on inventories.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(IV) INDUSTRY RISKS

1. *The risk of changes in industry policies*

As the foundation and core of the information industry, the IC industry is a strategic industry for national economic and social development. The state has successively issued a series of policies including the “Notice of the State Council on Launching Several Policies to Further Encourage the Development of the Software Industry and Integrated Circuit Industry” (Guo Fa [2011] No. 4) and the “Notice of the State Council regarding Certain Policies for Promoting the High-quality Development of the Integrated Circuit (IC) Industry and Software Industry in the New Era” (Guo Fa [2020] No. 8) which provide more support for IC companies in taxation, investment and financing, research and development, import and export, talents, intellectual property rights, markets application, international cooperation, etc. In the future, any material unfavorable changes in relevant national industrial policies will adversely affect the Company’s development.

2. *The risk of industry competition*

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

With the continuous emergence of various new application fields, the hot areas for the development of the chip industry are constantly enriched, and the broad market prospects and relatively favorable industrial policies have attracted many domestic and foreign IC-related companies entering the IC wafer foundry industry, which may further intensify market competition or result in the situation of structural oversupply of capacity.

In the future, if the Company fails to develop and introduce the manufacturing process technologies and platforms that fit for the market and meet customers demand or fails to expand capacity in a timely manner, the Company’s competitive advantage will be weakened and the Company’s operating results will be adversely affected.

(V) MACRO-ENVIRONMENTAL RISKS

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

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

2. *The risk of geopolitics*

As geopolitical conflicts intensify, the United States and other countries/regions continue to tighten export control policies on the semiconductor industry, the international export control policies are also showing a trend to become increasingly stringent, and economic globalization has been greatly challenged, bringing uncertain risks to the stability of the global semiconductor market and chip supply chain. In the future, if the trade friction between the United States or other countries/regions and China escalates, such as in the form of heightened import, export and investment restrictions, increased tariffs or establishment of other trade barriers, the Company may also face the risk of tight supply on production materials, such as related restricted equipment, raw material, parts, software and service supports etc, and the risk of financing restriction, etc., consequently adversely affect the Company’s R&D, production, operating and business.

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

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

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

3. *The risk of exchange rate fluctuations*

The reporting currency of the Company is U.S. dollars, and some transactions of the Group are denominated in RMB or foreign currencies such as Euro and Japanese Yen. Monetary items in foreign currencies are converted through bookkeeping at the spot exchange rate on the balance sheet date, thus affecting exchange gains or losses. The Company has adopted foreign-currency forward exchange contracts, cross currency swap contracts, and etc. to hedge against exchange rate fluctuations. However, if the exchange rate of local and foreign currency fluctuates significantly as a result of the changes in domestic and foreign economic environment, political situation, monetary policy and other factors in the future, the Company will still face the risk of exchange losses.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(VI) LEGAL RISKS

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

The Company was established under the Companies Act of the Cayman Islands. In accordance with the Circular of the General Office of the State Council on Forwarding the Several Opinions of the CSRC on Launching the Pilot Program of Domestically Issuing Stocks or Depository Receipts by Innovation-oriented Enterprises (Guo Ban Fa [2018] No. 21), the pilot red-chip companies' equity structure, corporate governance, and operation specifications may be governed by laws and regulations such as the Company Law of the place of incorporation overseas. As a red-chip company registered in the Cayman Islands, the Company is required to comply with the Companies Act of the Cayman Islands and the Articles of Association, and has enhanced the corporate governance system and operation specifications in accordance with the Hong Kong Listing Rules and SSE STAR Market Listing Rules. Our protection of investors' rights and interests are generally no less exacting than legal requirements in the PRC. However, in certain corporate governance arrangements, there will be certain differences when compared with the general A Share listed companies registered in the PRC. Please refer to "I. Introduction of Corporate Governance" in "Section 6 Corporate Governance" of this annual report for details.

2. *The risk of changes in laws and regulations*

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

3. *The risk of litigation and arbitration*

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

As of the publication date of this report, the Company's pending litigations and arbitrations which are relatively large include: On May 7, 2020, PDF SOLUTIONS, INC. initiated an arbitration on certain technical service agreement signed with SMIC New Technology Research & Development (Shanghai) Corporation ("SMIC New Technology"), the arbitration is still ongoing.

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

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

SMIC is committed to maintaining a comprehensive risk management system to protect natural resources and safeguard people and assets. For all possible emergencies and natural disasters, the Company has developed comprehensive plans and processes for risk prevention, emergency response, crisis management and business continuity. All of our operating fabs have been verified by our environmental management system (ISO 14001) and occupational safety and health management system (ISO 45001), and have established business continuity plans to minimise injuries, operational disruptions and financial impacts.

Although none of these risks have impacted our operations at our manufacturing facilities during the reporting period, these risks remain. If any of these risks occurs, it could result in some degree of property damage, injury to personnel, business interruption and damage to the Company's reputation.

(VIII) IT RISKS

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

However, due to uncontrollable factors of the cyber securities threats, including but not limited to 0day weakness, professional hacker attacks etc., the Company still faces to the potential risk of data loss, disruption of customer services or production halt. If any of the above events happens, the business and reputation of the Company may be impacted to some extent.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

V. MAIN OPERATION RESULTS DURING THE REPORTING PERIOD

During the reporting period, the Group recorded revenue of US\$6,321.6 million, representing a year-on-year decline of 13.1%. The Group recorded a profit of US\$1,124.9 million, representing a year-on-year decline of 48.8%. During the reporting period, the Group generated US\$3,358.3 million in net cash from operating activities, representing a year-on-year decline of 37.2%; payments for property, plant and equipment, intangible assets and land-use right totaled US\$7,633.4 million, representing a year-on-year increase of 21.9%.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

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

in USD'000

Year ended December 31,

	2023	2022	2023 as compared with 2022 (%)
Revenue	6,321,560	7,273,284	-13.1
Cost of sales	(5,103,816)	(4,511,636)	13.1
Gross profit	1,217,744	2,761,648	-55.9
Research and development expenses	(707,275)	(733,096)	-3.5
Selling and marketing expenses	(36,162)	(33,834)	6.9
General and administrative expenses	(482,262)	(493,730)	-2.3
Other operating income	364,447	335,296	8.7
Finance income, net	538,322	230,139	133.9
Other gains, net	262,591	26,763	881.2
Share of profit of associates and a joint venture	28,789	121,524	-76.3
Income tax expense	(62,514)	(16,023)	290.2
Net cash generated from operating activities	3,358,294	5,347,916	-37.2
Net cash used in investing activities	(6,207,572)	(10,391,505)	-40.3
Net cash generated from financing activities	2,466,338	3,614,290	-31.8

(1) Revenue

The Group's revenue decreased by 13.1% from US\$7,273.3 million for last year to US\$6,321.6 million for this year, primarily due to the decrease of wafer shipment during this year. The wafer shipment quantity (8" equivalent wafers) decreased by 17.4% from 7,098 thousand for last year to 5,867 thousand for this year. The average selling price, calculated as the wafer revenue divided by total shipments of the wafers, was US\$988 per wafer for this year, compared to US\$949 per wafer for last year.

(2) Cost of sales

Cost of sales increased by 13.1% from US\$4,511.6 million for last year to US\$5,103.8 million for this year, primarily due to the decrease of capacity utilization rate, the product mix change and the increase in depreciation.

(3) Gross profit

Gross profit decreased by 55.9% from US\$2,761.6 million for last year to US\$1,217.7 million for this year, primarily due to the decrease of capacity utilization rate, the decrease of wafer shipment and product mix change during this year. In addition, the Group was in high investment period, and depreciation increased accordingly compared with 2022.

(4) Profit from operations for the year

Profit from operations for the year decreased by 80.5% from US\$1,835.7 million for last year to US\$357.7 million for this year, primarily due to the combined effect of the changes of revenue, cost of sales and gross profit mentioned above, and the following changes:

Research and development expenses were US\$707.3 million for this year, compared to US\$733.1 million for last year.

Selling and marketing expenses were US\$36.2 million for this year, compared to US\$33.8 million for last year.

General and administrative expenses were US\$482.3 million for this year, compared to US\$493.7 million for last year.

Other operating income was US\$364.4 million for this year, compared to US\$335.3 million for last year, primarily due to the increase in income of government funding, partially offset by the decrease of gain on assets disposal during this year.

(5) Profit for the year

Finance income, net includes interest income, finance costs and foreign exchange gain. The change of finance income, net was mainly due to the increase in interest income, resulted by the increased interest rate of USD deposits during this year.

The increase in other gains, net was primarily due to the increase in the gain on passive dilution of equity interests in associates and the gain on the fair value change of the investments in equity securities during this year.

The decrease in share of profit of associates and a joint venture was mainly due to the decrease in investment income of associates and a joint venture during this year.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

The increase in income tax expense was primarily due to the increase in income tax expenses caused by disposal of some equity financial assets during this year.

The Group recorded a profit of US\$1,124.9 million for this year, compared to a profit of US\$2,198.1 million for last year, representing a decrease of 48.8%, which was mainly due to the impact of the factors described above.

(6) Cash flows

The change in net cash generated from operating activities was mainly due to the decrease of received cash from sale of goods during this year.

The change in net cash used in investing activities was mainly due to the decrease in the cash placed as bank time deposits during this year.

The change in net cash generated from financing activities was mainly due to the decrease of the net cash inflow of new and repaid borrowings and the decrease in capital injection from minority shareholders during this year.

2. Analysis of revenue and cost

Please refer to the following tables for details of revenue and cost.

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

in USD'000

Principal business by industry

By industry	Revenue	Cost of sales	Gross profit margin (%)	Change in revenue as compared with last year (%)	Change in cost of sales as compared with last year (%)	Change in gross profit margin as compared with last year (%)
IC Industry	6,321,560	5,103,816	19.3	-13.1	13.1	Decreased by 18.7 percentage points

Principal business by product

By product	Revenue	Cost of sales	Gross profit margin (%)	Change in revenue as compared with last year (%)	Change in cost of sales as compared with last year (%)	Change in gross profit margin as compared with last year (%)
IC wafer foundry	5,794,477	4,800,334	17.2	-14.0	13.2	Decreased by 19.8 percentage points
Others	527,083	303,482	42.4	-2.0	12.2	Decreased by 7.3 percentage points

Principal business by sales model

By sales model	Revenue	Cost of sales	Gross profit margin (%)	Change in revenue as compared with last year (%)	Change in cost of sales as compared with last year (%)	Change in gross profit margin as compared with last year (%)
Direct sales	6,321,560	5,103,816	19.3	-13.1	13.1	Decreased by 18.7 percentage points

Revenue of principal business by region

Year ended December 31,

By region	2023	2022
China	80.1%	74.2%
America	16.4%	20.8%
Eurasia	3.5%	5.0%

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

Analysis on revenue of IC wafer foundry

By application	Year ended December 31,	
	2023	2022
Smartphone	26.7%	27.0%
Computer and Tablet	26.7%	17.5%
Consumer Electronics	25.0%	26.7%
Connectivity and IoT	12.1%	18.0%
Industrial and Automotive	9.5%	10.8%

By Size	Year ended December 31,	
	2023	2022
8'' wafers	26.3%	33.0%
12'' wafers	73.7%	67.0%

(2) Analysis of production and sales volumes

Principal product	Unit	Production volume	Sales volume	Inventory	Change in production volume as compared with last year (%)	Change in sales volume as compared with last year (%)	Change in inventory as compared with last year (%)
Wafer	piece	6,073,980	5,866,683	724,021	-19.1	-17.4	40.1

The increase in inventory was primarily due to the pre-build of inventory.

(3) Cost analysis

in USD'000

By industry

By industry	Cost structure	Year ended 12/31/23	Accounting for total costs of 2023 (%)	Year ended 12/31/22	Accounting for total costs of 2022 (%)	Year ended 12/31/23 as compared with 12/31/22 (%)
IC industry	Cost of production	5,103,816	100.0	4,511,636	100.0	13.1

By product

By product	Cost structure	Year ended 12/31/23	Accounting for total costs of 2023 (%)	Year ended 12/31/22	Accounting for total costs of 2022 (%)	Year ended 12/31/23 as compared with 12/31/22 (%)
IC wafer foundry	Direct material	331,420	6.5	325,363	7.2	1.9
IC wafer foundry	Direct labor	110,176	2.2	145,915	3.2	-24.5
IC wafer foundry	Manufacturing expenses	4,358,738	85.4	3,769,931	83.6	15.6
Others	Cost of production	303,482	5.9	270,427	6.0	12.2

(4) Major customers and suppliers

A. Information about the major customers of the Group

During the reporting period, sales to the largest customer and the five largest customers amounted to US\$948.7 million and US\$2,346.1 million, respectively, accounting for 15.0% and 37.1% of the revenue for the year, respectively. No related-party sales were transacted to the five largest customers.

To the best of the Company's knowledge, in 2023, none of the Company's Directors or other shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Group's five largest customers.

B. Information about the major suppliers of the Group

During the reporting period, purchases from the largest and five largest raw materials suppliers amounted to US\$138.2 million and US\$466.0 million, respectively, accounting for 9.6% and 32.5% of the Group's overall raw materials purchases for the year, respectively. There were no related-party purchases among such transactions from the five largest suppliers.

To the best of the Company's knowledge, in 2023, none of the Company's Directors or other shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Group's five largest suppliers.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

3. Expenses

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

4. Liquidity and capital sources

(1) Cash flows

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

(2) Net debt

in USD'000

	As of December 31,	
	2023	2022
Borrowings	9,550,931	7,986,522
Lease liabilities	58,620	109,531
Bonds payable	599,115	598,379
Total debt	10,208,666	8,694,432
Less:		
Cash and cash equivalents	6,215,058	6,932,587
Restricted cash	435,607	676,937
Financial assets at FVPL – current portion ⁽¹⁾	214,629	375,776
Financial assets at amortised cost ⁽²⁾	9,840,224	10,676,151
Net debt	(6,496,852)	(9,967,019)

Notes:

- (1) Mainly include structural deposits and monetary funds.
- (2) Mainly include bank time deposits over three months.

At the end of the reporting period, the Group's outstanding debts amounted to US\$10,208.7 million, and primarily consisted of guaranteed or secured bank loans of US\$3,103.7 million, unguaranteed nor unsecured bank loans of US\$6,447.2 million, lease liabilities and bonds payable. Debt due within 1 year amounted to US\$1,248.6 million. For details, please refer to Note 30 to the consolidated financial statements.

(3) Capital expenditure and funding sources

Most of the capital expenditure in the reporting period are used for capacity expansion.

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

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

(4) Expenditure commitments

At the end of the reporting period, the Group had expenditure commitments of US\$503.8 million for facilities and buildings construction, US\$10,701.6 million to purchase machinery and equipment, US\$20.1 million to purchase intangible assets and US\$171.4 million for capital contributions.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(5) Exchange rate and interest rate risks

The functional currency of the Company is U.S. dollar, but the Group also enters into transactions in other currencies that results in the Group being primarily exposed to changes in exchange rates for the Euro, Japanese Yen, and RMB. Additionally, the Group entered into or issued several RMB denominated loan facility agreements and several RMB denominated financial assets at amortised cost that results in the Group being exposed to changes in the exchange rate for the RMB. The Group strives to minimise these risks by using foreign-currency forward exchange contracts and cross currency swap contracts.

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

Details of the Group's exchange rate risk and interest rate risk are set out in Note 36 to the consolidated financial statements.

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

in USD'000

Item	Amount	Percentage of profits (%)	Explanation for the cause	If there is any sustainability
Other operating income	364,447	32.4	Primarily due to the recognised income of government funding received for the year.	No
Other gains, net	262,591	23.3	Primarily due to the passive dilution of equity interests in associates for the year.	No

(III) ANALYSIS ON ASSETS AND LIABILITIES

1. Assets and liabilities

in USD'000

Item	As of 12/31/23	The closing balance to the total assets (%)	As of 12/31/22	The closing balance to the total assets (%)	12/31/23 as compared with 12/31/22 (%)	Explanations
Property, plant and equipment	23,944,961	50.1	18,855,532	43.0	27.0	Increase mainly due to the new fabs construction and expansion of investment in equipments for capacity during the year.
Financial assets at fair value through profit or loss – non-current	481,969	1.0	208,307	0.5	131.4	Increase mainly due to the increase in structural bank deposits with more than 1 year.
Derivative financial instruments – (net liabilities)/net assets	(69,804)	-0.1	119,124	0.3	-158.6	The change was mainly due to the change in fair value of cross currency swap contracts in the year.
Inventories	2,735,921	5.7	1,911,487	4.4	43.1	Increase mainly due to the pre-build of inventory.
Financial assets at fair value through profit or loss – current	214,629	0.4	375,776	0.9	-42.9	Decrease mainly due to the decrease in structural bank deposits within 1 year.
Financial assets at amortised cost – current	2,948,991	6.2	5,122,706	11.7	-42.4	Decrease mainly due to the decrease of bank deposits maturing more than 3 months and within 1 year.

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

(1) Assets pledged as security

At the end of the reporting period, no property, plant and equipment or land-use right have been mortgaged to secure borrowings of the Group.

(2) Restricted cash

At the end of this reporting period, restricted cash comprise bank time deposits of US\$435.6 million pledged for borrowings and foreign exchange trading.

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

3. Other information

(1) Capital management

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

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

in USD'000

Gearing ratio	As of December 31,	
	2023	2022
Net debt	(6,496,852)	(9,967,019)
Equity	30,845,616	28,961,421
Net debt to equity ratio	-21.1%	-34.4%

(2) Capitalised interest

Interest is capitalised when incurred on the specialised borrowings that are used for the over-one-year construction of plant and equipment. Capitalised interest is added to the cost of the underlying assets and is depreciated over as accounting policy. No interest was capitalised during the reporting period and the corresponding period. For the reporting period and the corresponding period of last year, the Group recorded depreciation expenses relating to the capitalised interest of US\$28.2 million and US\$35.9 million, respectively.

(IV) ANALYSIS ON INDUSTRY OPERATING INFORMATION

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

(V) ANALYSIS ON INVESTMENTS

1. Overall analysis on equity investment

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

in USD'000

	Year ended December 31,		
	2023	2022	Change
Capital injection in associates	110,052	100,697	9.3%

2. Financial assets at fair value

in USD'000

Assets category	As of 1/1/2023	Fair value gains during this period	Cumulative changes in fair value recognised in equity	Amount added in this period	Amount sold/redeemed in this period	Others	As of 12/31/2023
Stocks	37,821	10,871	–	–	(17,731)	(952)	30,009
Private equity funds	170,486	25,275	–	9,786	(34,450)	(3,276)	167,821
Structural deposits and monetary fund	375,776	14,545	–	1,203,442	(1,070,706)	(24,289)	498,768
Derivative financial instruments – (net liabilities)/net assets	119,124	–	16,967	–	–	(205,895)	(69,804)
Total	703,207	50,691	16,967	1,213,228	(1,122,887)	(234,412)	626,794

(1) Descriptions of securities investment

In USD'000

Security type	Stock code	Investment cost as of 12/31/2023	Source of funds	As of 1/1/2023	Fair value gains/(losses) during this period	Disposal during this period	Others	As of 12/31/2023	Account
Domestic and foreign stocks	Listed Company A	1,152		36	(35)	–	(1)	–	
Domestic and foreign stocks	Listed Company B	–		519	130	(628)	(21)	–	
Domestic and foreign stocks	Listed Company C	–	Self-owned funds	94	28	(119)	(3)	–	Financial assets at fair value through profit or loss
Domestic and foreign stocks	Listed Company D	–		14,466	3,129	(16,984)	(611)	–	
Domestic and foreign stocks	Listed Company E	11,264		22,706	7,619	–	(316)	30,009	
Total		12,416		37,821	10,871	(17,731)	(952)	30,009	

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(2) Descriptions of derivative financial instruments Derivative financial instruments for hedging purpose during the reporting period

In USD'000

Derivative financial instruments types	Amounts invested as at 12/31/2023	As of 1/1/2023	Cumulative changes in fair value recognised in equity	Others	As of 12/31/2023	The closing balance to net assets attributable to owners of the Company (%)
Cross currency swap contracts	–	95,194	(23,255)	(156,463)	(84,524)	-0.42
Interest rate swap contracts	–	23,930	17,147	(26,357)	14,720	0.07
Forward currency exchange contracts	–	–	23,075	(23,075)	–	–
Total	–	119,124	16,967	(205,895)	(69,804)	-0.35
Explanation for principles regarding accounting policies and methods of hedging transactions during the reporting period, and if any significant change occurred as compared with the previous reporting period	Hedge accounting is adopted during the reporting period. The portion of gains or losses from hedging instruments that are effective in hedging are directly recognised as other comprehensive income, while the portion that is ineffective in hedging is recognised as profit or loss for the current period. Please refer to Note 4 to the consolidated financial statements for details. There was no significant changes in the accounting policies and specific accounting principles for this period.					
Explanation for actual gains or losses during the reporting period	Transactions of derivatives entered by the Company during the reporting period were all for hedging management purposes, and changes in fair value were recognised in other comprehensive income, with no actual impact on profit or loss for the current period.					
Explanation of hedging effect	Please refer to the Announcement of Conducting Hedging Activities in 2023 on the website of SSE (https://www.sse.com.cn) dated May 12, 2023.					
Sources of funds for derivative financial instruments	Please refer to the Announcement of Conducting Hedging Activities in 2023 on the website of SSE (https://www.sse.com.cn) dated May 12, 2023.					
Explanation for risk analysis and control measures for derivatives during the reporting period (including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)	Please refer to the Announcement of Conducting Hedging Activities in 2023 on the website of SSE (https://www.sse.com.cn) dated May 12, 2023.					
Changes in the market price or product fair value of invested derivatives during the reporting period; methods assumptions and parameters used for analysing fair value of derivatives shall be disclosed	The Company followed the regulations and guidelines, namely "IFRS 7 – Financial Instruments: Disclosures", "IFRS 9 – Financial Instruments", "IFRS 13 – Fair Value Measurement", to conduct its corresponding accounting processing for the proposed foreign exchange hedging activities. This was reflected in items of statement of financial position and statement of profit or loss.					
Disclosure date for announcement on approval of the Board for investment in derivative financial instruments (if any)	On May 11, 2023, the Board of the Company approved "Proposal for Conducting Hedging Activities in 2023", allowing the Company and its subsidiaries to operate hedging activities relating to production and operation in 2023. This matter is within the scope of deliberation authority of the Board, and not subject to the approval of the Company's general meeting of shareholders.					

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

(3) Descriptions of investment in private equity funds

In USD'000

Name	Signing time of investment agreement	Investment purpose	Total proposed investment	Investment cost during the reporting period	Investment cost as of 12/31/2023	Participation role	Capital contribution ratio as at 12/31/2023 (%)	Whether control or exert significant influence over the fund	Account	Related parties or not	Fund underlying assets	Effect on profit for the reporting period	Accumulated effect on profit
A	March 2011		US\$1,000,000	-	16		1.27				Invest in integrated circuits and related industries	340	2,799
B	September 2014		RMB100,000,000	-	4,948		8.92				Invest in integrated circuits and related industries	10,901	22,766
C	September 2016		RMB13,000,000	-	151		3.61				Invest in strategic emerging industries	1,636	6,822
D	May 2017		RMB30,000,000	-	3,487		3.00				Invest in integrated circuits and related industries	1,884	9,147
E	March 2018		RMB100,000,000	-	10,387		9.05				Invest in integrated circuits and related industries	3,029	15,589
F	April 2018	Financial investment	RMB165,000,000	-	8,998	Limited partner	10.21	No	Financial assets at fair value through profit or loss	No	Invest in integrated circuits and related industries	1,012	4,460
G	June 2018		RMB50,000,000	-	2,383		16.53				Invest in strategic emerging industries	1,877	6,464
H	August 2020		RMB50,000,000	-	3,004		30.12				Invest in integrated circuits industries	2,364	16,257
I	October 2021		RMB30,000,000	-	2,829		2.96				Invest in regional strategic emerging industries	566	571
J	November 2021		RMB200,000,000	8,741	28,843		24.84				Invest in strategic emerging industries	2,006	1,911
K	December 2021		RMB100,000,000	-	14,358		17.21				Invest in strategic emerging industries	-	-
L	December 2022		RMB100,000,000	-	5,743		16.53				Invest in strategic emerging industries	-	-
M	October 2023		RMB7,500,000	1,045	1,045		15.00				Invest in regional strategic emerging industries	-	-
Total				9,786	86,192							25,615	86,786

(VI) SIGNIFICANT ASSET AND EQUITY DISPOSAL

There was no significant assets and equity disposal during the reporting period.

(VII) ANALYSIS OF PRINCIPAL CONTROLLED AND INVESTEE COMPANIES

1. Major subsidiaries

The major subsidiaries of the Company are SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMNC, SMIC Shenzhen, SMSC, SMBC, SMOC and SMTC. The followings are the consolidated accounting data of the major subsidiaries:

in USD'000

Total assets	Net assets	Revenue	Profit before tax	Profit for the year
53,944,730	30,514,644	6,311,545	849,254	841,384

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

2. Major associates

Name of company	Place of registration/ Principal place of business	Business	Percentage of voting rights	Accounting treatment
JCET Group Co., Ltd. ("JCET")	No. 78 Changshan Road, Chengjiang Town, Jiangyin	Microsystem integration packaging and testing services	12.79%	Equity method
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")	Room 3205F, 32/F, No. 707 Zhangyang Road, China (Shanghai) Pilot Free Trade Zone	Focusing on finance leases in IC industry	8.17%	Equity method
United Nova Technology Co., Ltd. (former Semiconductor Manufacturing Electronics (Shaoxing) Corporation) ("UNTC")	No.518 Linjiang Road, Yuecheng District, Shaoxing, Zhejiang	Providing foundry services of specialty process technology for wafer and module packaging	14.10%	Equity method
Ningbo Semiconductor International Corporation ("NSI")	Building 3, 4 and 5, No.335 Anju Road, Xiaogang street, Beilun District, Ningbo, Zhejiang	Focusing on the development of specialty process technologies, such as high voltage analog, optoelectronic integration, etc.	14.83%	Equity method

SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

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

(I) INDUSTRY LANDSCAPE AND TRENDS

The wafer foundry enterprises continue to distinguish themselves with more advantages on productivity improvement, product yield assurance, cost control, economies of scale, process platform development cycles, and intellectual property securities. More and more design companies and a certain amount of IDMs tend to establish close and long-term partnership with wafer foundry enterprises, in order to cope with the intensifying industry competitions.

From the perspective of applications, the smartphone and computer market are short of product functional innovations and growth momentum, demand shows fluctuations, which has significant impact on wafer foundry enterprises. The industry landscape is facing adjustments. With a new round of intelligent technology application moving towards industrialisations, the semiconductor industrial transformation trend is preliminarily established. The intelligent technology application trend, including but not limited to the fields of home appliance, education, scientific research, business, industry, transportation and medical, etc., need a large amount of Logic, Analog, RF, Optoelectronic and Sensor devices. This mega trend will bring a new round of market growth for wafer foundry enterprises.

From the perspective of regional developing trend, the trend in localization within the semiconductor industry has become more and more obvious in recent years. Some countries and regions have been actively planning geographical layouts for localised capacity constructions, greatly encouraging local chains collaborations. These measures are to mitigate geopolitical restrictions impact to the globalised industry chains. Overall, the regional semiconductor industry development will obtain the opportunities from the advantages of near market, while also face the challenges of losing industrial resources mobility.

(II) DEVELOPMENT STRATEGIES OF THE COMPANY

The integrated circuit industry is a capital-intensive, technology-intensive, and talent-intensive high-tech industry, and integrated circuit manufacturing is the core link of the integrated circuit industry. SMIC is one of the leading foundries in the world and is also the front runner in integrated circuit manufacturing with leading process manufacturing capabilities, production capacity advantages and service supporting facilities in Chinese mainland.

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

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

(III) BUSINESS PLAN

In 2024, the Company will still face the challenges from macroeconomy, geopolitics, industry competition, and the inventory for old products. The Company's performance is expected to be "moderate". Along with the semiconductor ecosystem, the Company will emerge from the downturn. The Company will realize relatively stable and mild growth, driven by the combined influence of gradual improvement in customer inventories and continued rebound in demand for smartphone and connectivity. However, from the perspective of the overall market, the demand recovery is not strong enough to support a comprehensive and strong rebound of semiconductor industry.

Based on the premise that there are no significant changes in the external environment, and according to the IFRSs, the Company's guidance for the year 2024 is: The revenue growth is expected to be not less than industry average in the same markets and around mid-single-digit percentage year-over-year. In 2024, the Company plans to continue the progress of 12-inch fabs and capacity-building projects that had been announced in recent years. The capital expenditure is expected to maintain roughly flat compared to that of previous year.

During the process of continuous high investments, the Company's gross margin is under the pressure of high depreciation, and the Company will always target sustained profitability, strictly control costs and improve efficiency.

SECTION 5 • REPORT OF THE DIRECTORS

I. BUSINESS OVERVIEW

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

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

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

II. BOARD OF DIRECTORS

Members of the Board are elected or re-elected by the shareholders of the Company. The Board shall have the 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. Any Director so appointed by the Board in accordance with the preceding sentence shall hold office only until the first annual general meeting of the Company after his/her appointment and shall then be eligible for re-election at that meeting.

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

III. SUBSIDIARIES

Please refer to Note 19 to the consolidated financial statements for details of the Company’s interests in major subsidiaries as of December 31, 2023.

IV. DIVIDENDS AND DIVIDEND POLICY

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

V. SHARE CAPITAL

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

VI. DISTRIBUTABLE RESERVE

The Company’s reserves available for distribution to shareholders as of December 31, 2023 amounted to US\$5,680.3 million.

VII. ISSUANCE OF EQUITY SECURITIES

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

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

Neither the Company nor its subsidiaries had conducted any repurchase, sale or redemption of the listed securities of the Company during the reporting period.

IX. EQUITY-LINKED AGREEMENTS

The Company has made various stock incentive plans which subsist as of December 31, 2023 as set out in Note 35 to the consolidated financial statements.

X. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

There was no material investments, acquisitions and disposals of the Company during the reporting period.

XI. CONNECTED TRANSACTIONS

Please refer to “V. Substantial Connected and Related Transactions” in “Section 8 Significant Events” for details of the Company’s connected transactions.

XII. RELATED PARTY TRANSACTIONS

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

Please refer to Note 39 to the consolidated financial statements for details of related party transactions.

XIII. SUBSTANTIAL SHAREHOLDERS

Please refer to “III. Particulars of Shareholders and De Facto Controllers” in “Section 9 Changes in Shares and Information of Shareholders” for details.

SECTION 5 REPORT OF THE DIRECTORS

XIV. TAX RELIEF

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

XV. ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in "V. (IV) The Equity Incentives Granted to the Directors, Senior Management and Core Technicians during the Reporting Period" in "Section 6 Corporate Governance", at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

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

XVII. DIRECTOR'S SERVICE CONTRACTS

No Director proposed for re-election has a service contract which is not determinable by the Group with the Company or any of its subsidiaries within 1 year without payment of compensation, other than statutory compensation.

XVIII. PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, subject to the provisions under relevant laws and regulations, every Director shall be indemnified by the Company against all losses or liabilities which the Directors may sustain or incur in or about the conduct of the Company's business or affairs or in the execution or discharge of his/her duties, powers, authorities or discretions.

The Company has taken out insurance against the liability and costs resulted from defending proceedings which may be brought against the Directors of the Company.

XIX. EMOLUMENTS TO THE DIRECTORS

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

XX. EMOLUMENTS TO THE KEY MANAGEMENT

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

XXI. EMPLOYEES

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

XXII. REMUNERATION POLICY

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

XXIII. STOCK INCENTIVE SCHEMES

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

XXIV. PRE-EMPTIVE RIGHTS

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

XXV. PUBLIC FLOAT

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

XXVI. MAJOR SUPPLIERS AND CUSTOMERS

Please refer to "V. (I) Analysis of Principal Businesses" in "Section 4 Management Discussion and Analysis" for details of the Group's major suppliers and customers.

XXVII. COMPLIANCE WITH LAWS AND REGULATIONS

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

XXVIII. AUDITORS

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

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

Shanghai, China
 March 28, 2024

SECTION 6 • CORPORATE GOVERNANCE

I. INTRODUCTION OF CORPORATE GOVERNANCE

The Company is committed to remaining an exemplary corporate citizen and maintaining a high level of corporate governance in order to protect the interests of its shareholders. The Company is committed to complying with the Corporate Governance Code (the "CG Code") as set out in Appendix C1 to the Hong Kong Listing Rules and has adopted a set of Corporate Governance Policy (the "CG Policy") since January 25, 2005 as its own code of corporate governance, which is amended from time to time (latest amended on February 10, 2022) to comply with the CG Code. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy. The Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2023. The current corporate governance situation is as follows:

The Company, being a red chip company established in the Cayman Islands and listed on the Hong Kong Stock Exchange and the Science and Technology Innovation Board of the Shanghai Stock Exchange, has formulated the Articles of Association in accordance with the requirements of the laws of the Cayman Islands and taking into account the actual circumstances.

At the same time, the Company strictly complies with the Hong Kong Listing Rules and the SSE STAR Market Listing Rules, and has developed a well-established corporate governance structure. The general meeting of shareholders and the Board of Directors of the Company operate independently and effectively and perform their duties in accordance with the laws of the Cayman Islands, the Hong Kong Listing Rules, the SSE STAR Market Listing Rules, the Articles of Association and other regulations.

The standing special committees of the Board of Directors of the Company include the Audit Committee, the Compensation Committee, the Nominating Committee and the Strategy Committee, which assist the Board of Directors in discharging its functions in the areas of audit, compensation, nomination and strategy respectively.

In addition, the Company currently employs four professionals as independent non-executive Directors of the Company to participate in decision-making and supervision, so as to enhance the objectivity and scientificity of the decision-making process of the Board. The independent non-executive Directors of the Company have been performing their duties in accordance with the Hong Kong Listing Rules and the standards generally recognised by the Hong Kong securities market.

As there are no provisions in the Companies Act of the Cayman Islands for the establishment of a supervisor or a supervisory committee of a company, the Company does not have a supervisor or a supervisory committee. The independent non-executive Directors and the Audit Committee of the Company can effectively exercise a substantial part of the duties and powers of the supervisory committee as mentioned above.

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

The Company is a red chip company established in the Cayman Islands and listed on the Hong Kong Stock Exchange and the SSE STAR MARKET. Its current corporate governance system is mainly formulated based on relevant laws, regulations and rules of the place of registration and listing of the Company, and compared with the current corporate governance model applicable to general A-share listed companies registered in China, there are certain differences. The details are as follows:

(I) THE RIGHTS OF INVESTORS TO OBTAIN ASSET RETURNS

According to the relevant laws of the Cayman Islands and the provisions of the Articles of Association, upon approval of the profit distribution plan by the general meeting of shareholders, the Company may distribute dividends out of the Company's profits (whether realised or unrealised), share premium or other assets as may be permitted under the Companies Act of the Cayman Islands, which is more flexible than general A-share listed companies registered in China. In addition, there is no substantial difference between the Company's system for obtaining asset returns by investors and the requirements of domestic laws and regulations.

(II) THE RIGHTS OF INVESTORS TO PARTICIPATE IN MAJOR DECISIONS

According to the Articles of Association, the remuneration of Directors of the Company, the Company's financial budget plan, the issuance of general corporate bonds of the Company (excluding the issuance of securities that affect the Company's share capital such as convertible bonds), the Company's provision of guarantees to its consolidated enterprises (excluding those that constitute "connected persons" under the Hong Kong Listing Rules), the change in the use of the Company's proceeds (subject to applicable legal provisions) and other matters will be decided by the Board of Directors, whereas according to the requirements of the domestic market, the aforesaid matters of A-share listed companies are generally required to be submitted to the general meeting of shareholders for consideration.

Notwithstanding the above differences, according to the Articles of Association, the authority to consider major events of the Company, such as fundamental changes in the Company's business, changes in the total number of shares authorized to be issued and the total number of outstanding shares of the Company, amendments to the Articles of Association, re-election of Directors, determination of profit distribution and making up for losses, shall still be vested at the general meeting of shareholders.

SECTION 6 CORPORATE GOVERNANCE

In addition, there are certain differences between the Company's related (connected) transaction system and the arrangements applicable to general domestic A-share listed companies, mainly due to the fact that the criteria for the Company's related (connected) transaction submitted to the general meeting of shareholders for consideration are implemented with reference to the Hong Kong Listing Rules.

According to the Articles of Association, the Directors of the Company shall be appointed and removed by the general meeting of shareholders (except where the appointment or removal is permitted by the Board of Directors in the Articles of Association), and he/she shall be loyal and diligent when deliberating on the operation and management of the Company, and shall safeguard the interests of the Company and all shareholders. Therefore, the division of duties and powers between the general meeting of shareholders and the Board of Directors in the Articles of Association does not prejudice investors' rights to participate in major decisions of the Company.

(III) THE RIGHTS OF INVESTORS TO OBTAIN DISTRIBUTION OF RESIDUAL PROPERTY

There is no material difference between the Articles of Association and the domestic requirements in the distribution of residual property.

(IV) COVERING LOSSES WITH CAPITAL RESERVE

According to the Company Law of the People's Republic of China, the capital reserve shall not be used to make up for the losses of the Company. According to the provisions of the Companies Act of the Cayman Islands, it does not prohibit a company from eliminating unrecovered losses on the books by way of capital reserve if the company is able to pay its debts as they fall due in the ordinary course of business and in compliance with applicable accounting standards.

Pursuant to the Companies Act of the Cayman Islands, the liquidation assets of the Company will be applied to pay remuneration of employees, pay relevant taxes and pay off debts of the Company, etc. The remaining assets will be distributed to shareholders. Since covering losses with capital reserve only involves adjustments among different items under equity in the financial statements of the Company, which will not affect the overall assets and liabilities of the Company and the net assets attributable to shareholders. As a result, the daily solvency of the Company and the rights of investors to obtain distribution of residual property have not been jeopardized, and thus, in terms of distribution of residual property, it will not result in the Company's level of protection of the rights and interests of its investors being lower than the requirements under domestic laws and regulations.

Apart from the differences in corporate governance as mentioned above, there are certain differences in the Company's other relevant arrangements as compared with the general domestic A-share listed companies in terms of merger, demerger, acquisition, liquidation and dissolution of the Company. However, the current corporate governance model of the Company can ensure that the Company's level of protection of investors' rights and interests is generally not lower than the requirements of domestic laws and regulations.

II. RED-CHIP STRUCTURE CORPORATE GOVERNANCE

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

Please refer to "I. Introduction of Corporate Governance" in "Section 6 Corporate Governance" of this annual report for details.

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

The independent non-executive Directors of the Company perform their duties in accordance with the Hong Kong Listing Rules. The requirements of the Hong Kong Listing Rules in respect of the qualifications, terms of reference and meeting mechanism of the independent non-executive directors differ to a certain extent when compared with the requirements for independent directors under domestic laws and regulations, such as the "Measures for the Administration of Independent Directors of Listed Companies" of CSRC, but there is no substantial difference in terms of safeguarding the interests of the Company as a whole and the protection of the legitimate rights and interests of small and medium shareholders.

ADJUSTMENT OF APPLICATION OF INFORMATION DISCLOSURE REQUIREMENTS AND ONGOING SUPERVISION REGULATIONS OF SSE

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

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

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

SECTION 6 CORPORATE GOVERNANCE

III. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(I) SHAREHOLDER RIGHTS

To convene an extraordinary general meeting

According to Article 57 of the Company's Articles of Association, members who individually or collectively hold not less than 10% of the voting rights, on a one vote per share basis, of the Company's Shares shall have the right to propose in writing the holding of an extraordinary general meeting to the Board.

To submit enquiries to the Board

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

To put forth proposals at an annual general meeting

According to Article 73 of the Company's Articles of Association, the Company's shareholders who may put a proposal at an annual general meeting of the Company must (1) be a member of record on both the date of giving of the notice by such shareholder and the record date for the determination of members entitled to vote at such meeting, holding individually or jointly of more than 3% (3% inclusive) of the issued outstanding shares with voting rights and (2) comply with the notice requirements, in each case, as specified in the Articles of Association.

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

(II) INVESTOR RELATIONS

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

The key to effectively communicate with shareholders and investors is to release information about the Company in a timely manner. In addition to announcing annual and interim reports, the Company announces its quarterly financial results approximately 45 days after the end of each quarter. The Company holds public conference calls/webcasts regularly, during which the senior management reports the performance, the latest developments, and answers questions from participants. The Company also keeps communication with equity research analysts, shareholders and investors through announcements, general meeting of shareholders, SSE E-interactive, investor hotlines and E-mails, company's website, roadshows, reverse roadshow, surveys, brokerage conference, etc.

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

The 2024 annual general meeting is scheduled to be held at Evergreen Laurel Hotel Shanghai, 1136 Zuchongzhi Road, Pudong New Area, Shanghai 201203 on or around June 28, 2024. The Company will issue an announcement to inform all shareholders.

(III) AMENDMENTS TO THE ARTICLES OF ASSOCIATION

By a special resolution passed at the annual general meeting of the Company held on June 28, 2023, the Company adopted a new set of amended and restated memorandum of association and articles of association to, among other things, comply with the Core Shareholder Protection Standards set out in Appendix A1 to the Hong Kong Listing Rules, reflect certain updates in relation to the applicable laws of the Cayman Islands and the Hong Kong Listing Rules and make other minor amendments. For details, please refer to the announcement dated May 11, 2023 and circular of the Company dated June 2, 2023.

Save as disclosed above, there was no change in the Articles of Association during the Year. A latest version of the Company's Articles of Association is also available on the Company's website, the Hong Kong Stock Exchange's website and SSE's website.

SECTION 6 CORPORATE GOVERNANCE

IV. INTRODUCTION OF GENERAL MEETINGS

Session	Date of convention	Inquiry index on the website on which the resolution(s) are publicized	Date of disclosure for publication of resolution(s)
The 2023 annual general meeting	June 28, 2023	The website of the Hong Kong Stock Exchange (https://www.hkexnews.hk) / The website of the SSE (https://www.sse.com.cn)	June 28, 2023 / June 29, 2023

At the annual general meeting of the Company, which was held through a combination of on-site meetings and online voting on June 28, 2023, the following resolutions were made:

- received and considered the 2022 annual report of the Company (including the audited consolidated financial statements and the reports of the Directors and the auditors of the Company for the year ended December 31, 2022);
- re-election of Dr. Gao Yonggang as an executive Director, Dr. Liu Xunfeng as an executive Director, Mr. Lu Guoqing as a non-executive Director, Mr. Yang Lumin as a non-executive Director, and Academician Wu Hanming as an independent non-executive Director;
- re-appointed Ernst & Young and Ernst & Young Hua Ming LLP (Special General Partnership) as the 2023 auditors of the Company and authorized the Audit Committee of the Board to fix their remuneration;
- approved the proposal for not making distribution for the year 2022;
- approved the general mandate to the Board to allot, issue, grant, distribute and otherwise deal with Hong Kong Shares in the Company, not exceeding 20% of the issued Hong Kong Share capital of the Company as at the date of 2023 AGM;
- approved the general mandate to the Board to repurchase Hong Kong Shares of the Company, not exceeding 10% of the issued Hong Kong Share capital of the Company as at the date of the 2023 AGM;
- authorized the Board to exercise the powers to allot, issue, grant, distribute and otherwise deal with the additional authorized but unissued Hong Kong Shares in the Company repurchased by the Company;
- approved the adoption of the 2024 Equity Incentive Plan and the issuance of shares thereunder;
- approved the grant of restricted share units to connected persons on September 5, 2022 in accordance with the terms of the 2014 Equity Incentive Plan;
- approved the grant of restricted share units to connected persons on April 1, 2023 in accordance with the terms of the 2014 Equity Incentive Plan;
- approved the amendments to the Rules of Procedures of General Meeting;
- approved the amendments to the Rules of Procedures of the Board Meetings; and
- approved the adoption of the New Memorandum and Articles of Association.

SECTION 6 CORPORATE GOVERNANCE

V. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

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

Unit: Share

Name	Position	Class of Director	Gender	Age ⁽¹⁾	Commencement date of the term ⁽²⁾	Cessation date/ Re-election of the term ⁽³⁾	Number of ordinary shares held at the beginning of the year ⁽⁴⁾	Number of ordinary shares held at the end of the year ⁽⁴⁾	Changes in shares held for the year	Reason for changes	Receiving remunerations from connected parties of the Company or not ⁽⁵⁾
Liu Xunfeng	Chairman and Executive Director	Class II	Male	58	May 11, 2023	the date of 2024 annual general meeting	-	-	-		No
Lu Guoqing	Non-executive Director	Class I	Male	61	May 13, 2021	the date of 2026 annual general meeting	-	-	-		Yes
Chen Shanzhi	Non-executive Director	Class II	Male	54	June 23, 2009	the date of 2024 annual general meeting	-	-	-		Yes
Yang Lumin	Non-executive Director	Class III	Male	44	November 10, 2022	the date of 2025 annual general meeting	-	-	-		Yes
Lau Lawrence Juen-Yee	Independent Non-executive Director	Class II	Male	79	June 22, 2018	the date of 2024 annual general meeting	-	-	-		No
Fan Ren Da Anthony	Independent Non-executive Director	Class II	Male	63	June 22, 2018	the date of 2024 annual general meeting	-	-	-		No
Liu Ming	Independent Non-executive Director	Class III	Female	59	February 4, 2021	the date of 2025 annual general meeting	-	-	-		No
Wu Hanming	Independent Non-executive Director	Class I	Male	71	August 11, 2022	the date of 2026 annual general meeting	-	-	-		No
Zhao Haijun	Co-Chief Executive Officer	-	Male	60	October 16, 2017	-	-	-	-		No
Liang Mong Song	Co-Chief Executive Officer	-	Male	71	October 16, 2017	-	-	-	-		No
Guo Guangli	Senior Vice President	-	Female	54	November 11, 2020	-	-	-	-		Yes
Wu Junfeng	Board Secretary and Company Secretary	-	Male	50	February 9, 2023	-	-	-	-		No
Zhang Xin	Senior Vice President	-	Male	58	April 30, 2020	-	23,000	80,000	57,000	Vesting and sale of STAR Market restricted shares	No
Jin Da	Vice President	-	Male	48	June 30, 2022	-	48,000	40,000	-8,000	Vesting and sale of STAR Market restricted shares	No
Yan Dayong	Core Technician	-	Male	45	June 30, 2022	-	-	35,000	35,000	Vesting of STAR Market restricted shares	No
Gao Yonggang (resigned)	Chairman and Executive Director	Class I	Male	58	June 23, 2009	July 17, 2023	-	-	-		Yes
Huang Dengshan (resigned)	Non-executive Director	Class II	Male	56	May 13, 2021	May 11, 2023	-	-	-		Yes
Total							71,000	155,000	84,000		

Notes:

- (1) Age is calculated as of December 31, 2023.
- (2) The commencement date of the term refers to the earliest date of serving as a director, senior management and core technician in the Company.
- (3) The relevant Director shall retire from office at the relevant annual general meeting and, if eligible, offer himself/herself from re-election as a Director of the Company.
- (4) The number of ordinary shares held at the beginning or at the end of the year only refers to the A-share holdings of the Company.
- (5) The related parties of the Company refer to the related parties defined in the SSE STAR Market Listing Rules.

SECTION 6 CORPORATE GOVERNANCE

The Board of Directors

Executive Director



Liu Xunfeng
Chairman

Non-Executive Directors



Lu Guoqing



Chen Shanzhi



Yang Lumin

Independent Non-Executive Directors



Lau Lawrence Juen-Yee



Fan Ren Da Anthony



Liu Ming



Wu Hanming

Note: Above photos of Directors only include current Directors.

SECTION 6 CORPORATE GOVERNANCE

Name	Major working experience
The Board of Directors Liu Xunfeng <i>Chairman, Executive Director</i>	<p>Dr. Liu Xunfeng serves as the Chairman of the Board and an executive director of the Company. Dr. Liu also serves as a director or Chairman of several subsidiaries of the Company. Dr. Liu concurrently serves as member of the 14th National Committee of the Chinese People's Political Consultative Conference and president of Shanghai Society for Advanced Materials. Dr. Liu has long tenured in large industrial group and has more than 30 years of experience in corporate management. He had successively served as the deputy chief engineer of the ethylene plant, deputy director of the investment engineering department, assistant to the general manager, and deputy general manager of SINOPEC Shanghai Petrochemical Co., Ltd., vice general manager of Shanghai Secco Petrochemical Company Limited, deputy general manager of Shanghai Chemical Industry Park Development Co., Ltd.(SCIP), deputy secretary of the Party Committee, president, secretary of the Party Committee and Chairman of Shanghai Huayi (Group) Co., Ltd., secretary of the Party Committee and Chairman of Shanghai Huayi Group Co., Ltd., Chairman of Shanghai Huayi Holding Group Co., Ltd., vice chairman and executive director of Semiconductor Manufacturing International Corporation, vice chairman of Shanghai Chemical Industry Park Development Co., Ltd.(SCIP), vice president of China Petroleum and Chemical Industry Federation. He has successively won the titles of Shanghai Industrial and Commercial Leader and Shanghai Outstanding Entrepreneur, etc.. Dr. Liu holds a Ph. D. in management science and engineering from Xi'an Jiaotong University, a Master's degree in business administration from China Europe International Business School, a Master's degree in chemical engineering from the Chemical Engineering Department of East China Institute of Chemical Technology (now known as East China University of Science and Technology), and he is a professorate senior engineer.</p>
Lu Guoqing <i>Non-Executive Director</i>	<p>Mr. Lu Guoqing serves as a non-executive director of the Company. He is currently the secretary of the Party Committee and Chairman of CICT, the secretary of the Party Committee, Chairman, president of FiberHome Technologies Group Co., Ltd. and the secretary of the Party Committee, Chairman, general manager of Wuhan Research Institute of Posts and Telecommunications. Mr. Lu has long tenured in technology research and development and enterprise management positions. He has served as the main person in charge of the enterprise for many years and has rich experience in operation and management. Mr. Lu served as the Chairman of Fiberhome Communication Technologies Co., Ltd. and Wuhan Ligong Guangke Co., Ltd.. Mr. Lu holds a Bachelor's degree in industrial instrumentation and automation from Tsinghua University and a Master's degree in management from Huazhong University of Science and Technology, and he is a professorate senior engineer.</p>
Chen Shanzhi <i>Non-Executive Director</i>	<p>Dr. Chen Shanzhi serves as a non-executive director of the Company. Dr. Chen is the vice president, the chief engineer and the head of science and technology committee of CICT. Dr. Chen is also a director of The Chinese Institute of Electronics, an executive director of China Institute of Communications, a director of China Communications Standards Association (CCSA) and a fellow of IEEE. Dr. Chen has nearly 30 years of experience in the field of information and communication technology, during which he has been involved in research and development, technology and strategy management. Dr. Chen served as a director of Fiberhome Telecommunication Technologies Co., Ltd.. Dr. Chen holds a Bachelor's degree from Xidian University, a Master's degree from China Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications, and a Ph.D. from Beijing University of Posts and Telecommunications.</p>
Yang Lumin <i>Non-Executive Director</i>	<p>Mr. Yang Lumin serves as a non-executive director of the Company. He is currently the Deputy Secretary of the Party Committee, President and Director of Sino IC Capital Co. Ltd. Mr. Yang has worked in the International Finance Bureau, Investment Business Bureau, Personnel Bureau, Jiangsu Branch and China Development Finance Company Limited of China Development Bank, and also served on the board of directors of the China IC Fund and the China IC Fund II. Mr. Yang obtained a Master's degree in finance from Peking University and is a senior economist.</p>
Lau Lawrence Juen-Yee <i>Independent Non-executive Director</i>	<p>Professor Lau Lawrence Juen-Yee serves as an independent non-executive director of the Company. Professor Lau currently serves as an independent non-executive director of AIA Group Limited (a company listed on the Hong Kong Stock Exchange: 1299) and an independent non-executive director of Far EasTone Telecommunications Company Limited (a company listed on the Taiwan Stock Exchange: 4904). He also serves as Chairman of the board of directors of The Chinese University of Hong Kong (Shenzhen) Finance Institute, a Non-official Member of the Board of the Hong Kong Investment Corporation Limited and a Non-official Member of the Candidate Eligibility Review Committee of the Hong Kong Special Administrative Region, a member of the Currency Board Sub-Committee of the Exchange Fund Advisory Committee of the Hong Kong Special Administrative Region, a member of Board of Governors of Our Hong Kong Foundation, as well as a member of the Board of Directors of the Chiang Ching-kuo Foundation for International Scholarly Exchange, Taipei. Professor Lau served as Professor at Stanford University, a Co-director of the Asia-Pacific Research Center at Stanford University, Director of the Stanford Institute for Economic Policy Research, Vice-Chancellor (President) of The Chinese University of Hong Kong, and Chairman of CIC International (Hong Kong) Co., Limited. Professor Lau was a member of the 11th and 12th National Committees of the Chinese People's Political Consultative Conference, a Vice-Chairman of the Sub-committee of Population, Resources and Environment, and a Vice-Chairman of the Sub-Committee of Economic. Professor Lau holds a B.S. degree in Physics from Stanford University, and M.A. and Ph.D. degrees in Economics from the University of California at Berkeley.</p>

SECTION 6 CORPORATE GOVERNANCE

Name	Major working experience
Fan Ren Da Anthony <i>Independent Nonexecutive Director</i>	Dr. Fan Ren Da Anthony serves as an independent non-executive director of the Company. Dr. Fan is the Chairman and managing director of AsiaLink Capital Limited. Dr. Fan is also an independent non-executive director of CITIC Resources Holdings Limited (1205), Uni-President China Holdings Ltd. (0220), Shanghai Industrial Urban Development Group Limited (0563), China Development Bank International Investment Limited (1062), Technovator International Limited (1206), China Dili Group (1387), Neo-Neon Holdings Limited (1868), an executive director of Tenfu (Cayman) Holdings Company Limited (6868) and a non-executive director of Hilong Holding Limited (1623), all listed on the Main Board of the Hong Kong Stock Exchange. Dr. Fan holds a Ph.D. in Economics. Dr. Fan is the Founding President of The Hong Kong Independent Non-Executive Director Association.
Liu Ming <i>Independent Nonexecutive Director</i>	Academician Liu Ming serves as an independent non-executive director of the Company. Academician Liu serves as a professor in Fudan University. She served as an assistant professor in University of Yantai, an associate professor, a professor in Institute of Microelectronics of the Chinese Academy of Sciences. During Academician Liu's 33-year career in the semiconductor industry, she has contributed to research in micro/nanofabrication, NVM device and circuit, modeling and simulation, and reliability. Academician Liu has published five Books and Chapters, more than 300 Journal papers, and more than 100 Conference Papers (including more than 40 keynote or invited papers). Academician Liu holds Bachelor and Master of Science degree in semiconductor from Hefei University of Technology, and Doctorate in material engineering from Beijing University of Aeronautics and Astronauts. She is an academician of Chinese Academy of Sciences and the Fellow of The World Academy of Sciences (TWAS) for the advancement of science in developing countries.
Wu Hanming <i>Independent Nonexecutive Director</i>	Academician Wu Hanming serves as an independent non-executive director of the Company. Academician Wu is an expert in microelectronics technology. Academician Wu is currently the dean of the School of Micro-Nano Electronics, Zhejiang University, the Chairman of Zhejiang ICsprout Semiconductor Co., Ltd., an independent director of BYD Semiconductor Company Limited, and an independent director of NAURA Technology Group Co., Ltd. (a company listed on Shenzhen Stock Exchange: 002371). He served as a senior engineer of Intel Corporation of the United States, a technical director, vice president of the R&D department and consultant of Semiconductor Manufacturing International Corporation, and an executive director of EtownIP Innovation Design Service Center (Ningbo) Co., Ltd.. Academician Wu has been working in China's integrated circuit industry for a long time and has made outstanding contributions. Academician Wu has published 116 papers and has been granted 67 invention patents. Academician Wu was selected as the first "Beijing Scholar", and awarded the title of "the top 10 national outstanding scientists and engineers" and "national outstanding professional and technical talents", etc. He was also the Chairman of the China Semiconductor Technology International Conference (CSTIC). Academician Wu holds Ph.D. from the Institute of Mechanics, Chinese Academy of Sciences and he is an academician of the Chinese Academy of Engineering.
Senior Management Liu Xunfeng	Biographical details are set out on page 44 of this annual report.
Zhao Haijun <i>Co-Chief Executive Officer</i>	Dr. Zhao Haijun serves as Co-Chief Executive Officer of the Company. Dr. Zhao also serves as a director of certain subsidiaries and affiliated companies of the Company, and a director on the board of directors of Zhejiang Juhua Co., Ltd. (a company listed on Shanghai Stock Exchange: 600160). Dr. Zhao has more than 30 years of experience in semiconductor operations and technology development. Dr. Zhao served as an executive Director of the Company between 2017 and 2022, and served as the Chief Operating Officer and Executive Vice President of the Company, General Manager of SMNC from 2010 to 2016. Dr. Zhao holds a Bachelor's and a Doctor's degree in Electronic Engineering from Tsinghua University and a Master of Business Administration (MBA) degree from the University of Chicago.
Liang Mong Song <i>Co-Chief Executive Officer</i>	Dr. Liang Mong Song serves as Co-Chief Executive Officer of the Company. Dr. Liang is involved in memories and logic process technology developments and has been engaged in the semiconductor industry for over 35 years. Dr. Liang owns over 450 patents and has published over 350 technical papers. Dr. Liang holds a doctor of philosophy degree in electrical engineering from the Department of Electrical Engineering and Computer Sciences at University of California, Berkeley. He is a Fellow of Institute of Electrical and Electronics Engineers.
Guo Guangli <i>Senior Vice President, Board Secretary and Company Secretary</i>	Ms. Guo Guangli serves as a senior vice president, Board Secretary and Company Secretary of the Company. Ms. Guo is a member of the Sixth Session of the Review Committee of the Shanghai Stock Exchange, a member of Expert Committee of China Enterprise Financial Management Association, a guest advisor of Central University of Finance and Economics. Ms. Guo served as the member of the Party Committee, chief accountant of Datang Telecom Technology Industry Group, and also the Chairman of Datang Telecom finance company. Ms. Guo has rich experience in corporate governance, financial management and investment and financing projects of capital market. Ms. Guo holds a Bachelor of law degree from Beijing University of Aeronautics and Astronautics and a Master of accounting from the Central University of Finance and Economics. She is a Chinese Certified Public Accountant.

SECTION 6 CORPORATE GOVERNANCE

Name	Major working experience
Wu Junfeng <i>Senior Vice President and Person-in-charge of Finance</i>	Dr. Wu Junfeng serves as a senior vice president and Person-in-charge of Finance of the Company. He also serves as a director of certain subsidiaries of the Company. Dr. Wu is the master's tutor for Southwestern University of Finance and Economics, Central University of Finance and Economics, an expert of ACCA China Think Tank, an executive director of The Chinese Tax Institute, a contributing researcher of China Government Audit Research Center. Dr. Wu served as a member of the Standing Committee of the Party Committee, the chief accountant, the board secretary of China General Nuclear Power Corporation, the Chairman of CGN Finance Co., Ltd., a member of the leading group and the chief financial officer of New Hope Group Co., Ltd., and the Chairman of New Hope Finance Co., Ltd.. Dr. Wu has rich experience in financial management and capital market investment and financing projects. Dr. Wu holds a Ph.D. from Southwestern University of Finance and Economics. He is a member of ACCA, a Chinese Certified Public Accountant and an Advanced Level Accountant.
Core Technicians	
Zhao Haijun	Biographical details are set out on page 45 of this annual report.
Liang Mong Song	Biographical details are set out on page 45 of this annual report.
Zhang Xin <i>Senior Vice President</i>	Mr. Zhang Xin serves as a senior vice president of the Company. He also serves as a director or Chairman of several subsidiaries and affiliated companies of the Company. Mr. Zhang is currently Chairman of the Zhong Guan Cun IC Industry Alliance, and a member of the Expert Committee of the China Integrated Circuit Innovation Alliance (ICIA). Mr. Zhang has been working in the field of Integrated Circuit manufacturing for many years and has a long overseas working experience, serving successively as a high profile in TSMC and Global Foundries. Mr. Zhang received his Bachelor's and Master's degrees in Electronic Physics from the Department of Electronic Engineering at Tsinghua University.
Jin Da <i>Vice President</i>	Mr. Jin Da serves as a vice president of the Company. Mr. Jin successively served in technical and management positions in research and development and multiple production departments of the Company. He has rich experience in the development of integrated circuit process technology. Mr. Jin holds a Bachelor's degree in materials engineering from Nanyang Technological University, Singapore, and a Master's degree in electrical engineering from the National University of Singapore.
Yan Dayong <i>Vice President</i>	Mr. Yan Dayong serves as a vice president of the Company. Mr. Yan successively served as the manager and director of process integration department, senior director and vice president of characteristic process research and development of the Company. He has rich experience in process integration and characteristic process technology research and development. Mr. Yan holds a Bachelor's degree and a Master's degree in engineering from the Department of Electronic Science and Technology of Xi'an Jiaotong University.

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

1. Positions in shareholder entities

Name	Name of shareholder entities	Position held in shareholder entities	Commencement date of term	Cessation date of term
Lu Guoqing	China Information and Communication Technology Group Co., Ltd.	Secretary of the Party Committee and Chairman of the Board	February 2021	–
Lu Guoqing	China Academy of Telecommunications Technology Co., Ltd.	Executive Director and General Manager	April 2021	–
Lu Guoqing	Datang Telecom Technology & Industry Holdings Co., Ltd.	Executive Director and General Manager	April 2021	–
Chen Shanzhi	China Information and Communication Technology Group Co., Ltd.	Vice General Manager	June 2018	–
Chen Shanzhi	China Academy of Telecommunications Technology Co., Ltd.	Vice General Manager	December 2017	–
Chen Shanzhi	Datang Telecom Technology & Industry Holdings Co., Ltd.	Senior Vice President	December 2009	–
Yang Lumin	China Integrated Circuit Industry Investment Fund Co., Ltd.	Director	May 2021	October 2023
Yang Lumin	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	Director	March 2021	October 2023
Huang Dengshan (resigned)	China Integrated Circuit Industry Investment Fund Co., Ltd.	Vice President	May 2015	–
Huang Dengshan (resigned)	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	Vice President	September 2019	–

SECTION 6 CORPORATE GOVERNANCE

2. Positions in other entities

Name	Name of other entities	Position held in other entities	Commencement date of term ^(note)	Cessation date of term
Liu Xunfeng	Shanghai Huayi Group Co., Ltd.	Secretary of the Party Committee and Chairman	January 2016	May 2023
Liu Xunfeng	Shanghai Huayi Holding Group Co., Ltd.	Chairman	June 2013	June 2023
Liu Xunfeng	Shanghai Chemical Industry Park Development Co., Ltd.	Vice Chairman	October 2007	July 2023
Zhao Haijun	Brite Semiconductor (Shanghai) Co., Ltd.	Chairman of the Board	January 2017	–
Zhao Haijun	Toppan Sensing Electronics (Shanghai) Co., Ltd.	Vice Chairman of the Board	June 2017	–
Zhao Haijun	Zhejiang Juhua Co., Ltd.	Director	November 2016	–
Lu Guoqing	Wuhan Research Institute of Posts and Telecommunications	Secretary of the Party Committee, Chairman, General Manager	December 2017	–
Lu Guoqing	FiberHome Technologies Group Co., Ltd.	Secretary of the Party Committee, Chairman, President	August 2016	–
Yang Lumin	Yangtze Memory Phase II Technologies Co., Ltd.	Director	March 2022	–
Yang Lumin	Wuhan Xinxin Semiconductor Manufacturing Co., Ltd.	Director	September 2021	–
Yang Lumin	Yangtze Memory Technologies Holding Co., Ltd.	Director	September 2021	–
Yang Lumin	Yangtze Memory Technologies Co., Ltd.	Director	September 2021	–
Yang Lumin	Sino IC Capital Co., Ltd.	Director and President	February 2021	–
Lau Lawrence Juen-Yee	AIA Group Limited	Independent Non-executive Director	September 2014	–
Lau Lawrence Juen-Yee	CNOOC Limited	Independent Non-executive Director	August 2005	May 2023
Lau Lawrence Juen-Yee	Far EasTone Telecommunications Company Limited	Independent Non-executive Director	May 2005	–
Fan Ren Da Anthony	Hilong Holding Limited	Non-executive Director	July 2022	–
Fan Ren Da Anthony	Tenfu (Cayman) Holdings Company Limited	Executive Director	May 2021	–
Fan Ren Da Anthony	Neo-Neon Holdings Limited	Independent Non-executive Director	August 2014	–
Fan Ren Da Anthony	China Development Bank International Investment Limited	Independent Non-executive Director	March 2012	–
Fan Ren Da Anthony	Technovator International Limited	Independent Non-executive Director	September 2011	–
Fan Ren Da Anthony	Shanghai Industrial Urban Development Group Limited	Independent Non-executive Director	July 2010	–
Fan Ren Da Anthony	Hong Kong Resources Holdings Company Limited	Independent Non-executive Director	September 2008	February 2024
Fan Ren Da Anthony	China Dili Group	Independent Non-executive Director	August 2008	–
Fan Ren Da Anthony	Uni-President China Holdings Ltd.	Independent Non-executive Director	September 2007	–
Fan Ren Da Anthony	AsiaLink Capital Limited	Chairman and Managing Director	October 2003	–
Fan Ren Da Anthony	CITIC Resources Holdings Limited	Independent Non-executive Director	August 2000	–
Liu Ming	Fudan University	Professor	January 2021	–
Wu Hanming	Innotron Memory Co., Ltd.	Independent Director	September 2021	September 2023
Wu Hanming	Zhejiang ICsprout Semiconductor Co., Ltd.	Chairman of the Board	January 2021	–
Wu Hanming	Piotech Inc.	Independent Director	January 2021	December 2023
Wu Hanming	BYD Semiconductor Company Limited	Independent Director	December 2020	–
Wu Hanming	University of Science and Technology of China	Dean of the National Demonstration School of Microelectronics	April 2020	March 2023
Wu Hanming	Zhejiang University	Dean of the School of Micro-Nano Electronics	December 2019	–
Wu Hanming	NAURA Technology Group Co., Ltd.	Independent Director	December 2019	–
Guo Guangli	Beijing Tianma Intelligent Control Technology Co., Ltd.	Independent Director	October 2021	–
Gao Yonggang (resigned)	JCET Group Co., Ltd.	Chairman of the Board	March 2023	–
Gao Yonggang (resigned)	SMIC Juyuan Private Equity Fund Management (Shenzhen) Co., Ltd.	Executive Director	May 2021	–
Gao Yonggang (resigned)	iRay Technology Company Limited	Independent Director	November 2020	–
Gao Yonggang (resigned)	Semiconductor Global Solutions	Chairman of the Board	March 2018	May 2023
Gao Yonggang (resigned)	China Fortune-Tech Capital Co., Ltd.	Chairman of the Board	February 2014	–

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

SECTION 6 CORPORATE GOVERNANCE

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

1. Remunerations of Directors, senior management and core technicians

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

The decision-making procedure for the remunerations of Directors and senior management	The remuneration of executive directors shall be approved by the Compensation Committee and reported to the Board in accordance with the Company's executive director remuneration policy and structure; the remuneration of non-executive Directors shall be proposed by the Compensation Committee to the Board and approved by the Board; the remuneration of senior management shall be determined according to the remuneration management policy formulated by the Company upon the approval of the Compensation Committee.
Whether Directors evade from discussions on their remuneration at the Board	Yes
Details of the Compensation Committee issuing recommendations on remuneration matters for Directors and senior management	During the reporting period, members of Compensation Committee fully discussed about remuneration matters for Directors and senior management, and formed a consensus. Policy on Director and Senior Management Remuneration approved by the Board.
The basis for determining remunerations of Directors and senior management	During the reporting period, remunerations of Directors, senior management and core technicians of the Company were in line with relevant remuneration policy and appraisal standards of the Company, and were granted in strict compliance with appraisal results. There were no events in violation of the remuneration management policy of the Company. The actual payment of remunerations was consistent with that as disclosed by the Company.
Actual payment of remunerations of Directors and senior management	
Total actual remunerations received by all Directors and senior management during the reporting period	US\$6.6 million
Total actual compensations received by core technicians during the reporting period	US\$4.0 million

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

2. Remuneration to the Senior Management

The remuneration to the senior management for the year ended December 31, 2023 is as follows.

in USD'000

	2023
Salaries, bonus and benefits	6,199
State-managed pension ^(Note)	41
Total	6,240

Note: The employees of the Group in Chinese Mainland participate in the pension insurance and unemployment insurance scheme administered by the local government. The Group contributes on a monthly basis to these schemes based on certain percentages of the salaries of the employees. After retirement, the local government is responsible for paying pensions to the retired employees.

SECTION 6 CORPORATE GOVERNANCE

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

1. Stock options of Directors and chief executives

(1) 2004 Stock Option Plan – Hong Kong Share

Unit: Share

Name	Position	Options grant date	Exercise price at grant date per share (HKD)	Unexercised options as of 1/1/2023	New grants during the reporting period	Lapsed options during the reporting period	Cancelled options during the reporting period	Exercised options during the reporting period	Weighted average closing price of Hong Kong Shares immediately before exercise dates (HKD)	Unexercised number as of 12/31/2023	Closing Price of Hong Kong Shares immediately before grant dates (HKD)	Exercisable period
Zhao Haijun	Co-Chief Executive Officer	6/11/2013	6.40	188,233	-	-	-	188,233	17.68	-	6.20	6/11/2013-6/10/2023
Gao Yonggang (Resigned)	Chairman, Executive Director	6/17/2013	6.24	1,360,824	-	-	-	1,360,824	17.68	-	6.10	6/17/2013-6/16/2023
Total				1,549,057	-	-	-	1,549,057		-		

(2) 2014 Stock Option Plan – Hong Kong Share

Unit: Share

Name	Position	Options grant date	Exercise price at grant date per share (HKD)	Unexercised options as of 1/1/2023	New grants during the reporting period	Lapsed options during the reporting period	Cancelled options during the reporting period	Exercised options during the reporting period	Weighted average closing price of Hong Kong Shares immediately before exercise dates (HKD)	Unexercised options as of 12/31/2023	Closing Price of Hong Kong Shares immediately before grant dates (HKD)	Exercisable period
Lau Lawrence Juen-Yee	Independent Non-executive Director	5/31/2021	24.50	32,877	-	-	-	-	-	32,877	24.15	5/31/2021-5/30/2031
Fan Ren Da	Independent Non-executive Director	9/13/2018	8.57	187,500	-	-	-	-	-	187,500	8.35	9/13/2018-9/12/2028
Anthony	Independent Non-executive Director	5/31/2021	24.50	32,877	-	-	-	-	-	32,877	24.15	5/31/2021-5/30/2031
Liu Ming	Independent Non-executive Director	5/31/2021	24.50	187,500	-	-	-	-	-	187,500	24.15	5/31/2021-5/30/2031
Zhao Haijun	Co-Chief Executive Officer	9/7/2017	7.90	1,687,500	-	-	-	-	-	1,687,500	7.83	9/7/2017-9/6/2027
		5/25/2020	18.10	219,706	-	-	-	-	-	219,706	16.92	5/25/2020-5/24/2030
		5/31/2021	24.50	277,149	-	-	-	-	-	277,149	24.15	5/31/2021-5/30/2031
Liang Mong Song	Co-Chief Executive Officer	5/25/2020	18.10	659,117	-	-	-	-	-	659,117	16.92	5/25/2020-5/24/2030
Gao Yonggang (Resigned)	Chairman, Executive Director	6/12/2014	6.40	288,648	-	-	-	288,648	17.68	-	6.40	6/12/2014-6/11/2024
		5/25/2020	18.10	586,793	-	-	-	-	-	586,793	16.92	5/25/2020-5/24/2030
		5/31/2021	24.50	296,085	-	-	-	-	-	296,085	24.15	5/31/2021-5/30/2031
Total				4,455,752	-	-	-	288,648		4,167,104		

SECTION 6 CORPORATE GOVERNANCE

2. Restricted Share Units (“RSU”) of Directors and chief executives

(1) 2014 Equity Incentive Plan – Hong Kong Share

Unit: Share

Name	Position	RSUs grant date	Purchase Price per share (HKD)	The vested RSUs held as of 1/1/2023	Unvested RSUs as of 1/1/2023	New grants during the reporting period	Lapsed RSUs during the reporting period	Cancelled RSUs during the reporting period	Vested RSUs during the reporting period	Weighted average closing price of Hong Kong Shares immediately before vesting dates (HKD)	Unvested RSUs as of 12/31/2023	The vested RSUs held as of 12/31/2023	Closing Price of Hong Kong Shares immediately before grant dates (HKD)	Vesting period
Lau Lawrence Juen-Yee	Independent Non-executive Director	5/31/2021	0.031	32,877	-	-	-	-	-	-	-	32,877	24.15	6/22/2021-1/1/2022
		4/8/2022	0.031	-	92,500	-	-	-	92,500	16.72	-	92,500	16.80	1/1/2022-1/1/2023
		4/1/2023	0.031	-	-	92,500	-	-	-	-	92,500	-	18.60	1/1/2023-1/1/2024
Fan Ren Da Anthony	Independent Non-executive Director	5/31/2021	0.031	32,877	-	-	-	-	-	-	-	-	24.15	6/22/2021-1/1/2022
		4/8/2022	0.031	-	92,500	-	-	-	92,500	16.72	-	-	16.80	1/1/2022-1/1/2023
		4/1/2023	0.031	-	-	92,500	-	-	-	-	92,500	-	18.60	1/1/2023-1/1/2024
Liu Ming	Independent Non-executive Director	5/31/2021	0.031	-	125,625	-	-	61,875	17.68	63,750	-	24.15	2/4/2021-2/4/2024	
Wu Hanming	Independent Non-executive Director	9/5/2022	0.031	-	277,500	-	-	91,575	18.48	185,925	-	15.00	8/11/2022-8/11/2025	
Zhao Haijun	Co-Chief Executive Officer	5/25/2020	0.031	43,301	43,302	-	-	-	21,651	16.04	21,651	64,952	16.92	3/1/2020-3/1/2024
		5/31/2021	0.031	34,512	103,538	-	-	-	34,513	16.04	69,025	69,025	24.15	3/1/2022-3/1/2025
		4/8/2022	0.031	-	401,538	-	-	-	100,384	16.04	301,154	100,384	16.80	3/1/2022-3/1/2026
Liang Mong Song	Co-Chief Executive Officer	4/1/2023	0.031	-	-	159,565	-	-	79,783	18.60	79,782	-	18.60	4/1/2023-4/1/2025
		5/25/2020	0.031	64,952	21,651	-	-	-	21,651	16.04	-	86,603	16.92	3/1/2019-3/1/2023
		5/25/2020	0.031	86,602	86,603	-	-	-	43,301	16.04	43,302	129,903	16.92	3/1/2020-3/1/2024
Gao Yonggang (Resigned)	Chairman, Executive Director	4/8/2022	0.031	-	401,538	-	-	-	100,384	16.04	301,154	100,384	16.80	3/1/2022-3/1/2026
		4/1/2023	0.031	-	-	159,565	-	-	79,783	18.6	79,782	-	18.60	4/1/2023-4/1/2025
		11/17/2014	0.031	85,505	-	-	-	-	-	-	-	-	8.60	6/17/2013-3/1/2018
Gao Yonggang (Resigned)	Chairman, Executive Director	5/25/2020	0.031	55,512	18,504	-	-	-	18,504	16.04	-	-	16.92	3/1/2019-3/1/2023
		5/25/2020	0.031	78,642	78,642	-	-	-	78,642	18.10	-	-	16.92	3/1/2020-3/1/2024
		5/31/2021	0.031	36,870	110,612	-	-	-	110,612	18.78	-	-	24.15	3/1/2021-3/1/2025
		4/8/2022	0.031	-	400,764	-	-	-	400,764	19.12	-	-	16.80	3/1/2022-3/1/2026
		4/1/2023	0.031	-	-	159,565	-	-	159,565	19.37	-	-	18.60	4/1/2023-4/1/2025
Total				551,650	2,254,817	663,695	-	-	1,587,987		1,330,525	676,628		

(2) 2024 Equity Incentive Plan - Hong Kong Share

The 2024 Equity Incentive Plan became effective on November 10, 2023. During the reporting period, there are no RSUs granted to the Directors and chief executives under the 2024 Equity Incentive Plan.

3. Type II Restricted Shares

2021 STAR Market Restricted Share Incentive Scheme – A Share

Unit: Share

Name	Position	Restricted Shares grant date	Grant price per share (RMB)	Unvested Restricted Shares as of 1/1/2023	New grants during the reporting period	Lapsed Restricted Shares during the reporting period	Cancelled Restricted Shares during the reporting period	Vested Restricted Shares during the reporting period	Weighted average closing price of A Shares immediately before vesting dates (RMB)	Unvested Restricted Shares as of 12/31/2023	Closing Price of A Shares immediately before grant dates (RMB)	Vesting period
Zhang Xin	Senior Vice President, Core Technician	7/19/2021	20	224,000	-	-	-	80,000	45.65	144,000	54.86	7/20/2022-7/17/2026
Jin Da	Vice President, Core Technician	7/19/2021	20	112,000	-	-	-	40,000	45.65	72,000	54.86	7/20/2022-7/17/2026
Yan Dayong	Vice President, Core Technician	7/19/2021	20	98,000	-	-	-	35,000	45.65	63,000	54.86	7/20/2022-7/17/2026
Total				434,000	-	-	-	155,000		279,000		

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

SECTION 6 CORPORATE GOVERNANCE

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

As at December 31, 2023, the interests or short positions of the Directors and the chief executive officer in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (“SFO”)), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name	Long/Short Position	Nature of Interests	Number of Ordinary Shares held	Derivatives		Total Interests	Percentage of aggregate interests to total issued share capital of the Company ⁽¹⁾
				Options (Hong Kong Share) ⁽²⁾	Restricted Share Units (Hong Kong Share) ⁽²⁾		
Executive Director							
Liu Xunfeng	-	-	-	-	-	-	-
Non-executive Directors							
Lu Guoqing	-	-	-	-	-	-	-
Chen Shanzhi	-	-	-	-	-	-	-
Yang Lumin	-	-	-	-	-	-	-
Independent Non-executive Directors							
Lau Lawrence Juen-Yee	Long Position	Beneficial Owner	-	32,877	217,877	250,754	0.003%
Fan Ren Da Anthony	Long Position	Beneficial Owner	312,877	220,377	92,500	625,754	0.008%
Liu Ming	Long Position	Beneficial Owner	41,304	187,500	63,750	292,554	0.004%
Wu Hanming	Long Position	Beneficial Owner	-	-	185,925	185,925	0.002%
Co-Chief Executive Officers							
Zhao Haijun	Long Position	Beneficial Owner	40,082	2,184,355	705,973	2,930,410	0.037%
Liang Mong Song	Long Position	Beneficial Owner	48,873	659,117	741,128	1,449,118	0.018%

Notes:

- (1) Based on 7,946,555,760 shares in issue as at December 31, 2023.
- (2) As at December 31, 2023, the interests held by Directors and Co-CEOs were all in Hong Kong Shares. The details of options (Hong Kong Share) and RSUs (Hong Kong Share) are as in the above information: 2004 Stock Option Plan, 2014 Stock Option Plan and 2014 Equity Incentive Plan.

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

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

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

Name	Position	Change	Reason for the change
Gao Yonggang	Chief Financial Officer	Resignation	Dr. Gao Yonggang has resigned from his position as the chief financial officer of the Company with effect from February 9, 2023 in order to focus on discharging his duties as the Chairman of the Board and the executive Director of the Company.
Wu Junfeng	Person-in-charge of Finance	Appointment	Dr. Wu Junfeng was appointed as the person-in-charge of finance and senior management of the Company on February 9, 2023.
Huang Dengshan	Non-executive Director	Resignation	Mr. Huang Dengshan has resigned as a non-executive Director and a member of the Nomination Committee with effect from May 11, 2023 due to other work commitments.
Gao Yonggang	Chairman, Executive Director	Resignation	Dr. Gao Yonggang has resigned as the Chairman of the Board, executive director of the Company and Chairman of the Nomination Committee with effect from July 17, 2023 due to job adjustment.
Liu Xunfeng	Chairman, Executive Director	Appointment	Dr. Liu Xunfeng was appointed as the vice chairman of the Board, executive director of the Company and a member the Nomination Committee on May 11, 2023, and as the Chairman of the Board, executive director of the Company and the Chairman of the Nomination Committee on July 17, 2023.

Save as disclosed above, there were no changes in the members of the Board, between the period from the date of the 2023 interim report and the date of this annual report. In addition to the disclosure in “V.(II) Positions of Current and Resigned Directors and Senior Management during the Reporting Period” in this section, there was no other change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) of the Hong Kong Listing Rules since the publication of the 2023 interim report of the Company.

SECTION 6 CORPORATE GOVERNANCE

VI. OVERVIEW OF THE BOARD

(I) THE RESPONSIBILITY OF THE BOARD

As the core institution of corporate governance, the Board bears key decision-making and supervisory responsibilities. The Board is responsible to the shareholders of the Company, overseeing and managing the Company's affairs, and making decisions that are in line with the best interests of the Company. The Board exercises its powers directly or through its subordinate committees, participates in and is responsible for establishing the overall strategy of the Company, setting corporate objects and targets, and supervising the implementation process. The Board is responsible for supervising the Company's financial performance and accounting preparation, developing corporate governance systems and policies, and reviewing the Company's internal control system. Each board member can consult or communicate with the senior management regarding the operations or financial situation of the Company.

(II) THE COMPOSITION OF THE BOARD

As at the date of this report, the Board has 8 members, including 1 Chairman (executive Director), 3 non-executive Directors and 4 independent non-executive Directors. There are no relationships among members of the Board. The personal information of each Director is set out in "V. Particulars of Directors and Senior Management" in this section, and published on the Company's website.

Independent non-executive Directors account for at least one-third of the total number of Board members. On an annual basis, each independent non-executive Director confirms his or her independence to the Company, and the Company considers these Directors to be independent (as defined under Rule 3.13 of the Hong Kong Listing Rules).

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

(III) THE CHAIRMAN AND THE EXECUTIVE OFFICER

For the year ended December 31, 2023, the roles of Chairman and Co-Chief Executive Officers are segregated. The role of Chairman is performed by Dr. Liu Xunfeng and the roles of Co-Chief Executive Officers are performed by Dr. Zhao Haijun and Dr. Liang Mong Song.

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

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

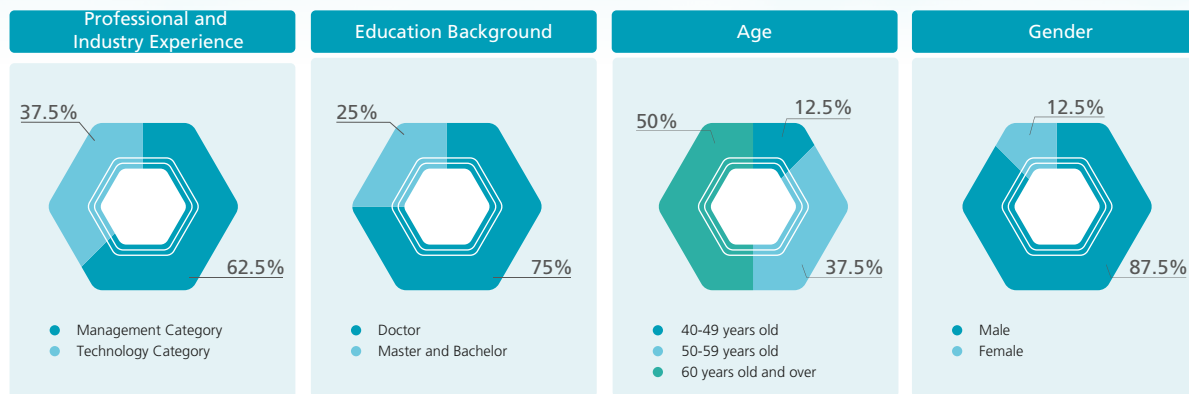
In accordance with the Company's Article of Associations and related regulations, the Company has adopted the standard procedure regarding the appointment of Directors, setting forth the process by which individuals are appointed as members of the Board. Under the policy, the Board will consider, among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

Directors appointed by the Board shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting. Directors may hold office until the expiration of their respective term upon an election passed at a general meeting by holders of a majority of the Company's issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of the Company. Each class of Directors (including all non-executive Directors) serves a term of three years.

SECTION 6 CORPORATE GOVERNANCE

(V) BOARD DIVERSITY POLICY

The Board has adopted a Board Diversity Policy. The Board considers that a diversity of perspectives is beneficial to the Company and believes that a diversity of perspectives can be achieved through the consideration of factors such as a diversity of skills, professional and industry experience, cultural and educational background, ethnicity, length of service, gender and age. Board appointments will also be made on the principle of meritocracy and objective criteria, taking into account factors based on the Company’s business model and specific needs from time to time. The Nomination Committee of the Board will give consideration to this policy when identifying qualified candidates to become members of the Board. The Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness. Currently, the Company has met the diversity requirement under the Hong Kong Listing Rules. Directors of different genders exist in the Board.



(VI) DIRECTORS’ TRAINING AND DEVELOPMENT

All Directors should keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company.

The Company is responsible for arranging its Directors to take adequate training and is responsible for the training expenses. Each newly appointed Director is provided with training with respect to such Director’s responsibilities under the Hong Kong Listing Rules and the SSE STAR Market Listing Rules, as well as the Company’s corporate governance policies and practices. The Company also provides each Director with ethics & compliance training, and arranges director trainings organized by relevant PRC institutions. The Company Secretary maintains the training records of all Directors. In 2023, the Directors complied with Code Provision C.1.4 of the CG Code through participation in the above-mentioned continuous professional development and reading relevant materials and journals to develop and refresh their knowledge and skills.

(VII) COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LIST ISSUERS

The Company has developed Management System and Implementation Rules for Insiders which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Hong Kong Listing Rules (the “Model Code”). The Company, having made specific enquiry to all Directors, received confirmation that all Directors have complied with the Management System and Implementation Rules for Insiders of the Company and the Model Code throughout the year ended December 31, 2023.

All directors, senior management, and employees of the Company and its subsidiaries are also required to comply with the Management System and Implementation Rules for Insiders of the Company and relevant provisions stipulated by CSRC and SSE in relation to inside trading.

SECTION 6 CORPORATE GOVERNANCE

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

The Company has established mechanisms to ensure independent views and input are available to the Board. The mechanisms may be covered in the following aspects: (1) independent non-executive director's nomination process (e.g. independent non-executive director's time commitments and qualification), (2) number of independent non-executive directors and their time contribution, (3) evaluation of independent non-executive directors' contribution, and (4) other channels where independent views are available (e.g. directors' access to external independent professional advice to assist performance of their duties). The Board has reviewed the implementation and effectiveness of such mechanisms in 2023.

(IX) CORPORATE GOVERNANCE FUNCTIONS

According to the revised CG Code which came into effect on January 1, 2022, the Company revised its Corporate Governance Policy in February 2022, which provides overall direction to achieve better corporate governance. Pursuant to this policy, the Board (or any of its committees) is responsible for performing the following corporate governance duties:

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

During the year ended December 31, 2023, the aforesaid corporate governance functions had been carried out by the Board pursuant to the Corporate Governance Policy.

(X) PROCEEDINGS OF THE BOARD

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

VII. PERFORMANCE OF DUTIES BY DIRECTORS

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

For the year ended December 31, 2023, the Directors' attendance at the Board meetings and general meetings are set out below:

Name of Director	Independent Director or not	Required attendance for the year (times)	Attendance at Board meetings				Any failure in attending in person for two consecutive meetings	Attendance at the general meetings Attendance (times)/Required attendance (times)
			Attendance in person (times)	Attendance by proxy (times)	Absence (times)	Attendance by way of communication (times)		
Liu Xunfeng	No	4	4	0	0	0	No	1/1
Lu Guoqing	No	5	3	2	0	1	No	0/1
Chen Shanzhi	No	5	4	1	0	1	No	1/1
Yang Lumin	No	5	5	0	0	1	No	1/1
Lau Lawrence Juen-Yee	Yes	5	5	0	0	2	No	1/1
Fan Ren Da Anthony	Yes	5	5	0	0	2	No	1/1
Liu Ming	Yes	5	4	1	0	1	No	1/1
Wu Hanming	Yes	5	4	1	0	0	No	1/1
Gao Yonggang (resigned)	No	2	2	0	0	0	No	1/1
Huang Dengshan (resigned)	No	1	1	0	0	0	No	0/0

Number of Board meetings held in the year	5
Including: Number of physical meetings	3
Number of meetings held by way of communication	0
Number of meetings held in combination of physical meetings and meetings by way of communication	2

SECTION 6 CORPORATE GOVERNANCE

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

For the year ended December 31, 2023, the Company held 5 board meetings and made 3 written resolutions and reviewed the proposals mainly including:

- 2022 annual report and 2023 interim report
- quarterly financial results announcements and quarterly guidance and other related proposals
- 2023 CAPEX plan of the Group
- 2023 company targets
- 2023 financial budget
- 2024 Hong Kong Equity Incentive Plan
- annual bonuses and Hong Kong Stock grant for non-executive directors
- 2022 Hong Kong Stock (RSU) grant to connected persons
- 2023 bonus accrual scheme based on company performance indicators
- change of company secretary
- appointment of person-in-charge of finance and senior management
- proposal of no profit distribution for 2022
- special report on the deposit and actual use of proceeds in 2022 and semi-annual 2023
- proposal on forecast of daily related transaction quota in 2023
- proposal on the forecast of the amount of external guarantee in 2023
- the environmental, social and governance report in 2022
- appointment of executive Director, member of the Nomination Committee and the election of vice chairman
- re-appointment of auditors
- conducting hedging activities in 2023
- amendments to the Articles of Association, Rules of Procedures of General Meetings and Rules of Procedures of the Board Meetings
- general mandate to issue shares and repurchase Hong Kong Shares
- re-election of Directors and determination of their remunerations
- appointment of Chairman of the Board, the Chairman of the Nomination Committee, the authorized representatives and the compensation
- the second attribution period of the first grant and the first attribution period of the reserved grant that complies with the attribution conditions under the Company's 2021 STAR Market Restricted Share Incentive Scheme
- lapsed part of restricted shares under the Company's 2021 STAR Market Restricted Share Incentive Scheme

SECTION 6 CORPORATE GOVERNANCE

VIII. SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS

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

(I) AUDIT COMMITTEE

The responsibilities of the Audit Committee

The Audit Committee shall be mainly responsible for (1) supervising the accounting and financial reporting system and procedures of the Company; (2) reviewing the Company's financial statements and related disclosures; (3) supervising and evaluating the work of the Company's internal audit department and external auditor; (4) supervising the Company's risk management and internal control system.

Performance of the Audit Committee

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

During the year ended December 31, 2023, the Audit Committee held a total of 4 meetings and made 2 written resolutions. Details of the Directors' attendance at the Audit Committee meetings and the main proposals reviewed are set forth below:

Audit Committee	Actual attendance/ Required attendance (times)	Note
Independent Non-executive Director		
Fan Ren Da Anthony	4/4	/
Lau Lawrence Juen-Yee	4/4	/
Liu Ming	4/4	The meeting on November 8, 2023 was attended by Dr. Fan Ren Da Anthony as a proxy on her behalf.
The reviewed proposals mainly include:		
<ul style="list-style-type: none"> • 2022 annual report and 2023 interim report • Quarterly financial results announcements and guidance • special report on the deposit and actual use of proceeds in 2022 and semi-annual 2023 • Audit Committee's 2022 Duty Performance Report • Proposal for the re-appointment of auditors for 2023 • Pre-approval proposal for non-audit services • 2022 and 2023 semi-annual Internal Audit Reports • 2022 and 2023 Risk Management Reports • Ethical and Compliance Work Report • Quarterly reports of external auditors and audit plans for 2023 		

(II) COMPENSATION COMMITTEE

The responsibilities of the Compensation Committee

The Compensation Committee is mainly responsible for evaluating and reviewing (1) the compensation plan of the Company's Directors and senior management and (2) the Company's share scheme matters.

SECTION 6 CORPORATE GOVERNANCE

Performance of the Compensation Committee

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

During the year ended December 31, 2023, the Compensation Committee held a total of 3 meetings. Details of the Directors' attendance at the Compensation Committee meetings and the main proposals reviewed are set forth below:

Compensation Committee	Actual attendance/ Required attendance (times)	Note
Independent Non-executive Director		
Fan Ren Da Anthony	3/3	/
Lau Lawrence Juen-Yee	3/3	/
Liu Ming	3/3	/
Non-executive Director		
Lu Guoqing	3/3	The meeting on July 17, 2023 was attended by Dr. Fan Ren Da Anthony as a proxy on his behalf.
The reviewed proposals mainly include:		
<ul style="list-style-type: none"> • the set up of 2024 Hong Kong Equity Incentive Plan • Hong Kong Stock incentive optimization plan • 2023 company targets • company performance completion and bonus provision plan in 2022 • 2023 bonus accrual scheme based on company performance indicators • annual bonuses and Hong Kong Stock grant for non-executive Directors • annual performance bonus and the Hong Kong Stock grant plan for executive Directors and senior management • Co-CEO compensation • the Hong Kong Stock grant plan for employees • compensation proposal for director's appointment and re-election 		

Summary of material matters relating to the share scheme reviewed by the Compensation Committee

Grant RSUs under the 2014 Equity Incentive Plan

During the year, 6,486,093 RSUs have been granted to 394 grantees (including directors and senior management of the Group) under the 2014 Equity Incentive Plan on April 1, 2023. The vesting period of all or part of RSUs granted is shorter than 12 months. Having considered that the grant of such RSUs forms part of the grantees' remuneration and/or replacement the grantees' awards when leaving their previous employer, and part of grant is subject to the fulfillment of the relevant performance targets for the year 2022 and such conditions had been fulfilled as at the grant date. The Compensation Committee approved such arrangement and believed that aligns with the purpose of the 2014 Equity Incentive Plan as it retains and motivates the relevant grantees (including the directors and senior management) of the Group for their contributions to the growth and profits of the Company.

Performance Target

The granting of the RSUs shall be conditional upon the achievement of certain targets based on both Company and individual performance indicators, including but not limited to revenue, profit, project completion status and other relevant indicators. Each target can be presented on an absolute and/or relative basis.

Clawback mechanism of the RSUs

The key clawback terms are as follow:

Any unvested RSUs shall be returned by the grantees and such RSUs will automatically lapse immediately under all circumstances, including but not limited to: (i) cessation of employment or service with the Group for any reason other than retirement that had been approved; or (ii) internal disciplinary action for violation of the internal code of the Group or the criminal liability for violation of the national laws and regulations. For the details of the above mentioned grant, please refer to the announcement of the Company dated April 2, 2023.

SECTION 6 CORPORATE GOVERNANCE

(III) NOMINATION COMMITTEE

The responsibilities of the Nomination Committee

The Nomination Committee shall be mainly responsible for (1) identifying and recommending candidates suitable for serving as Directors; (2) making recommendations to the Board on the appointment and succession of Directors; (3) ensuring the Company has a Board of an effective size, structure and composition.

Nomination Policy

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

Nomination Criteria

The Nomination Committee shall consider a number of factors in making nominations in accordance with the relevant requirements under the Hong Kong Listing Rules, including but not limited to the following:

- **Skills and Experience:** The candidate should possess the skills, knowledge and experience which are relevant to the operations of the Company and its subsidiaries.
- **Diversity:** Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance of skills and experience in board composition.
- **Commitment:** The candidate should be able to devote sufficient time to attend board meetings and participate in induction, trainings and other board associated activities. In particular, if the proposed candidate will be nominated as an independent non-executive director (“INED”) and will be holding his/her seventh (or more) listed company directorship, the Nomination Committee should consider the reason given by the candidate for being able to devote sufficient time to the Board.
- **Standing:** The candidate must satisfy the Board, Hong Kong Stock Exchange and SSE that he/she has the character, experience and integrity, and is able to demonstrate a standard of competence commensurate with the relevant position as a director of the Company.
- **Independence:** The candidate to be nominated as an INED must satisfy the independence criteria set out in Rule 3.13 of the Hong Kong Listing Rules.

Nomination Procedures

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

Performance of the Nomination Committee

As of the publication date of this annual report, the members of the Company’s nomination committee (the “Nomination Committee”) are Dr. Liu Xunfeng (Chairman of the Nomination Committee), Professor Lau Lawrence Juen-Yee, Dr. Fan Ren Da Anthony and Academician Wu Hanming.

SECTION 6 CORPORATE GOVERNANCE

During the year ended December 31, 2023, the Nomination Committee held 1 meeting. Details of Directors' attendance at the Nomination Committee meetings and the main proposals reviewed are set forth below:

Nomination Committee	Actual attendance/ Required attendance (times)	Note
Executive Director Liu Xunfeng	0/0	Appointed as a member of the Nomination Committee on May 11, 2023 and appointed as the Chairman of the Nomination Committee on July 17, 2023.
Independent Non-executive Director		
Lau Lawrence Juen-Yee	1/1	/
Fan Ren Da Anthony	1/1	/
Wu Hanming	1/1	/
The reviewed proposals mainly include:		
<ul style="list-style-type: none"> reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board set criteria and reviewed potential nominees for directorships evaluated the independence of the independent non-executive directors reviewed the re-election of directors nomination of new director 		

(IV) STRATEGIC COMMITTEE

The responsibilities of the Strategic Committee

The purpose of the Strategic Committee is to assist the Board and the management of the Company to evaluate and consider various strategic alternatives. The main responsibilities of the Strategic Committee include, among other things: (1) evaluate and consider any strategic alternative of the Company; (2) make recommendations to the Board on major matters of the Company and major investment and financing options; (3) contribute and participate in discussions with potential strategic partners with respect to strategic alternative; and (4) make recommendations to the Board and the management of the Company with respect to strategic alternative.

Performance of the Strategic Committee

As of the publication date of this annual report, the members of the Company's strategic committee (the "Strategic Committee") are Dr. Chen Shanzhi (Chairman of the Strategic Committee), Mr. Yang Lumin, Professor Lau Lawrence Juen-Yee, Academician Liu Ming and Academician Wu Hanming.

During the year ended December 31, 2023, the Strategic Committee held 1 meeting. Details of Directors' attendance at the Strategic Committee and the main proposals reviewed are set forth below:

Strategic Committee	Actual attendance/ Required attendance (times)	Note
Non-executive Director		
Chen Shanzhi	1/1	/
Yang Lumin	1/1	/
Independent Non-executive Director		
Lau Lawrence Juen-Yee	1/1	/
Liu Ming	1/1	/
Wu Hanming	1/1	/
The reviewed proposals mainly include:		
<ul style="list-style-type: none"> evaluated the Company's strategic planning made recommendations to the Board and the Company's management on strategic planning 		

SECTION 6 CORPORATE GOVERNANCE

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

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and the Group. The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

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

X. COMPANY SECRETARY

As of the publication date of this report, Ms. Guo Guangli acts as the Company Secretary of the Company. Ms. Hoo Mei Fung has resigned as the Joint Company Secretary on February 9, 2023. The biographical detail of Ms. Guo Guangli is set out in "V. (I) Changes in Shareholding of Current and Resigned Directors, Senior Management and Core Technicians and Their Remunerations during the Reporting Period" of this section.

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

Pursuant to Rule 3.29 of the Hong Kong Listing Rules, Ms. Guo Guangli had taken no less than 15 hours of relevant professional training for the year ended December 31, 2023.

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

(I) PARTICULARS OF EMPLOYEES

Number of in-service employees of the Company	2
Number of in-service employees of the subsidiaries	20,221
Total number of in-service employees	20,223
The number of retired employees whose expenses are borne by the Company and its subsidiaries	15

Composition of professions

Type of profession	Number of person by profession
Production staff	15,255
Sales staff	269
R&D staff	2,363
Administrative staff	2,336
Total	20,223

Education level

Type of education level	Number of persons
Doctorate	638
Master	4,862
Bachelor	8,025
Junior college and below	6,698
Total	20,223

Gender level

Gender	Percentage (%)
Male	63.2
Female	36.8

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

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

SECTION 6 CORPORATE GOVERNANCE

(II) REMUNERATION POLICY

The Group pays employees in the form of fixed salary and performance incentives, based on the positions, abilities and performance of employees. Among them, the fixed salary is the part that employees enjoy according to their position, and attendance, etc. The performance incentives shall be issued according to the company's business achievement and the individual performance, and it will be assessed according to the company policy. According to the relevant national and local regulations, the Group pays social insurance and housing provident fund for employees on the job, and also provides employees with rich benefits, including company welfare paid annual leave, commercial insurance, welfare rental, meal allowance, etc.

(III) TRAINING PROGRAMS

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

The Company built an international, professional, and systematic talent training and development system with reference to domestic and foreign first-class enterprises, established a Company's key and core talent pool by defining talent standards, building a talent evaluation mechanism and promoting talent inventory, while providing targeted training programs and courses for talents with different characteristics. In 2023, the Company conducted diversified training projects and courses in combination with offline teaching, online learning and team building. Training was completed over 300,000 person-time, with online and offline coverage rate achieving 100%.

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

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

1. Formulation and adjustment of profit distribution policy:

To further improve the profits distribution mechanism, ensure the stability of the Company's profit distribution policy, enhance the transparency and operability of profit distribution decisions and protect the rights and interests of shareholders, the Company considered and approved the "Profit Distribution Policy and Dividend Return Plan for the Three Years after the Initial Public Offering and Listing of RMB Ordinary Shares (A Shares) on the STAR Market of the Shanghai Stock Exchange of Semiconductor Manufacturing International Corporation" at a special general meeting held on June 1, 2020 in accordance with relevant provisions of relevant laws, regulations and regulatory documents, including the Securities Law of the People's Republic of China, the Notice of CSRC on Further Implementation of Cash Dividends of Listed Companies, Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies and the SSE STAR Market Listing Rules, in combination with the Memorandum of Association and Articles of Association of Semiconductor Manufacturing International Corporation and the Company's own conditions.

2. Implementation of the profit distribution:

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

(II) SPECIAL EXPLANATION OF CASH DIVIDEND POLICY

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

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

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

The capital expenditure in 2023 was approximately US\$7.5 billion. The capital expenditure in 2024 is expected to maintain roughly flat compared to 2023, which exceeded 10% of the Company's latest audited net assets, with large capital needs. The Company proposed not to make profit distribution for 2023 as considered and approved by the Board.

Undistributed profits are mainly used for capacity expansion.

SECTION 6 CORPORATE GOVERNANCE

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

(I) THE OVERALL INFORMATION OF STOCK INCENTIVE

1. Stock incentive plans during the reporting period

Name of plan	Incentive method	Number of target shares (share) ⁽¹⁾	Percentage of target shares (%) ⁽²⁾	Number of participants ⁽³⁾	Percentage of participants (%) ⁽⁴⁾	Price of target shares granted ⁽⁵⁾
2004 Stock Option Plan	Stock option	243,466,873	3.06	4,115	20.35	HKD5.85
2014 Stock Option Plan	Stock option	320,737,712	4.04	1,995	9.87	HKD13.35
2014 Equity Incentive Plan	Restricted Share Units	80,184,428	1.01	2,399	11.86	HKD0.031
2021 STAR Market Restricted Share Incentive Scheme	Type II Restricted Shares	75,650,400	0.95	4,616	22.83	RMB20
2024 Equity Incentive Plan	Restricted Share Units	596,812,206	7.51	-	-	HKD0.031

Notes:

- (1) The number of target shares is the maximum number of ordinary shares can be granted under the stock incentive plans;
- (2) The percentage of target shares is the proportion of the target shares to the total share capital of the Company as at the end of the reporting period;
- (3) The number of participants is the total number of participants after deducting the duplicate participants;
- (4) The percentage of participants is the proportion of the number of participants to the number of persons of the Company as at the end of the reporting period;
- (5) The price of target shares granted is the weighted average price of the accumulated target shares granted under the plan as of the end of the reporting period. For the details of price for each grant under the respective plan, please refer to the "V. (IV) The Equity Incentives Granted to the Directors, Senior Management and Core Technicians during the Reporting Period" and the below disclosure under this section.

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

Unit: Share

Name of plan	Number of Stock Incentives granted at the beginning of the year	Number of newly granted Stock Incentives during the reporting period	Number of vestable/ exercisable Stock Incentives during the reporting period	Number of vested/ exercised Stock Incentives during the reporting period	Grant price/ exercise price	Number of Stock Incentives granted at the end of the year	Number of vested/ exercised Stock Incentives at the end of the year
2004 Stock Option Plan	57,289,680	-	2,472,323	2,472,323	Note ⁽¹⁾	57,289,680	49,730,334
2014 Stock Option Plan	66,879,993	-	23,260,722	6,819,997	Note ⁽¹⁾	66,879,993	25,296,094
2014 Equity Incentive Plan	65,442,164	6,486,093	7,421,471	7,421,471	HKD0.031	71,928,257	49,225,274
2021 STAR Market Restricted Share Incentive Scheme	68,863,616	-	16,260,092	16,206,452	RMB20	64,787,032	35,146,172
2024 Equity Incentive Plan ⁽²⁾	-	-	-	-	-	-	-

Notes:

- (1) The details of grant prices of each period are as in the following information: 2004 Stock Option Plan and 2014 Stock Option Plan.
- (2) The 2024 Equity Incentive Plan became effective on November 10, 2023. There are no RSUs granted under such plan during the year. The total consideration for acceptance of the RSUS granted under such plan will be equivalent to the aggregate par value of the number of HK Share(s) granted to the eligible participants and the provision of services or such minimum payment as may be required by the applicable laws and rules or for such other consideration as the Compensation Committee may specify in connection with the grant.

SECTION 6 CORPORATE GOVERNANCE

The details of the numbers of options and awards available for grant under each share scheme mandate at the beginning and the end of the year are set out below:

- under the 2004 Stock Option Plan, there was no stock options available for grant at the beginning and the end of the year;
- under the 2014 Stock Option Plan, there were 270,204,947 options available for grant at the beginning of the year, and there were no options available for grant at the end of the year as the plan was terminated on November 10, 2023;
- under the 2014 Equity Incentive Plan, there were 16,849,889 RSUs available for grant at the beginning of the year, and there were no RSUs available for grant at the end of the year as the plan was terminated on November 10, 2023;
- under the 2021 STAR Market Restricted Share Incentive Scheme, there were no Restricted Shares available for grant at the beginning and the end of the year; and
- under 2024 Equity Incentive Plan, there were no RSUs available for grant at the beginning of the year as the plan became effective on November 10, 2023, and there were 596,812,206 RSUs available for grant at the end of the year.

The number of Hong Kong Shares that may be issued in respect of all options and awards under all Hong Kong Share schemes (including the 2004 Stock Option Plan, 2014 Stock Option Plan, 2014 Equity Incentive Plan and the 2024 Equity Incentive Plan) of the Company divided by the weighted average number of Hong Kong Shares in issue for the year is 0.54%.

The number of A Shares that may be issued in respect of the awards under the A Share scheme (i.e. 2021 STAR Market Restricted Share Incentive Scheme) of the Company during the year divided by the weighted average number of A Shares in issue for the year is 1.51%.

During the year, there were no options or awards granted under the 2004 Stock Option Plan, the 2014 Stock Option Plan, the 2021 STAR Market Restricted Share Incentive Scheme and the 2024 Equity Incentive Plan. There were 6,486,093 RSUs granted under the 2014 Equity Incentive Plan on April 1, 2023 with fair value of HKD18.57 which was based on ordinary share price on the grant date. Such RSUs granted had been or will be vested in accordance with the vesting period as disclosed in the Company's announcement dated April 2, 2023.

Please refer to Notes 4 and 35 to the consolidated financial statements for the accounting standards and policies adopted for options and incentives, RSUs and the fair value on the grant date.

(1) 2004 Stock Option Plan – Hong Kong Share

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

Movement of the options granted to employees of the Group (except Directors of the Company) under the 2004 Stock Option Plan during the year ended December 31, 2023 is as follows:

Unit: Share

Options grant date	Exercise price at grant date per share (HKD)	Unexercised number as of 1/1/2023	Number of new grants during the reporting period	Lapsed number during the reporting period	Cancelled number during the reporting period	Exercised number during the reporting period	Weighted average closing price of Hong Kong Shares immediately before exercise dates (HKD)	Unexercised number as of 12/31/2023	Closing price of Hong Kong Shares immediately before grant dates (HKD)	Exercisable period
5/7/2013	5.92	66,812	-	36,312	-	30,500	20.17	-	6.00	5/7/2013-5/6/2023
6/11/2013	6.40	1,032,490	-	12,416	-	1,020,074	19.53	-	6.20	6/11/2013-6/10/2023
9/6/2013	5.62	32,525	-	9,000	-	23,525	20.02	-	5.70	9/6/2013-9/5/2023
11/4/2013	5.74	56,300	-	18,900	-	37,400	19.43	-	5.60	11/4/2013-11/3/2023
Total		1,188,127	-	76,628	-	1,111,499		-		

Summary of the 2004 Stock Option Plan is as follows:

Purpose

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

Participants

The Company's 2004 Stock Option Plan is administered by the Company's Compensation Committee. The Company's 2004 Stock Option Plan provides for the grant of options to the Company's employees, officers or Directors, or to a trust established in connection with any employee benefit plan of the Company.

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

SECTION 6 CORPORATE GOVERNANCE

Maximum number of shares

The number of the Ordinary Shares available for award under the 2004 Stock Option Plan shall not, in aggregate, exceed 243,466,873 Ordinary Shares (as adjusted according to the impact of the Share Consolidation), representing 3.06% of the issued Ordinary Shares as at the date of the annual report.

Total number of shares available for issue

As at the date of the annual report, there were no shares available for issue under the 2004 Stock Option Plan.

Maximum entitlement of each participant

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

Exercise period

The stock options granted shall be exercised within ten years from the grant date, subject to changes under the Hong Kong Listing Rules, as determined by the Compensation Committee of the Company.

Vesting period

Options granted under the 2004 Stock Option Plan vest over a four-year period. Options may vest based on time or achievement of performance conditions.

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

Acceptance and payments

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

Exercise price and the determination basis

The exercise price of stock options must be at least equal to the fair market value of the Ordinary Shares on the date of grant. Such fair market value will be the higher of (i) the closing price of the shares on the Hong Kong Stock Exchange's daily quotation sheet on the applicable date of grant (which must be a business day), and (ii) the average closing price of the shares on the Hong Kong Stock Exchange (as stated in the relevant daily quotation sheets of the Hong Kong Stock Exchange) for the five business days immediately preceding the date of grant subject to such changes from time to time to applicable Hong Kong Listing Rules, as determined by the Compensation Committee.

Remaining life of the scheme

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

(2) 2014 Stock Option Plan – Hong Kong Share

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

Movement of the options granted to employees of the Group (except Directors of the Company) under the 2014 Stock Option Plan during year ended December 31, 2023 is as follows:

Unit: Share

Options grant date	Exercise price at grant date per share (HKD)	Unexercised number as of 1/1/2023	Number of new grants during the reporting period	Lapsed number during the reporting period	Cancelled number during the reporting period	Exercised number during the reporting period	Weighted average closing price of Hong Kong Shares immediately before exercise dates (HKD)	Unexercised number as of 12/31/2023	Closing price of Hong Kong Shares immediately before grant dates (HKD)	Exercisable period
6/12/2014	6.40	53,229	-	-	-	44,062	23.38	9,167	6.40	6/12/2014-6/11/2024
11/17/2014	8.50	1,033,399	-	9,862	-	295,616	21.18	727,921	8.60	11/17/2014-11/16/2024
2/24/2015	7.08	19,500	-	16,000	-	3,500	16.96	-	6.90	2/24/2015-2/23/2025
5/20/2015	8.30	2,557,079	-	-	-	2,521,163	20.24	35,916	8.20	5/20/2015-5/19/2025
5/25/2016	6.42	30,450	-	-	-	-	-	30,450	6.50	5/25/2016-5/24/2026
5/22/2017	8.48	11,687	-	-	-	4,750	17.27	6,937	8.35	5/22/2017-5/21/2027
9/7/2017	7.90	1,687,500	-	-	-	-	-	1,687,500	7.83	9/7/2017-9/6/2027
5/23/2018	10.51	5,993,572	-	73,700	-	1,996,902	20.58	3,922,970	10.40	5/23/2018-5/22/2028
11/19/2018	6.85	62,000	-	-	-	62,000	17.86	-	6.86	11/19/2018-11/18/2028
9/12/2019	9.82	254,500	-	-	-	189,000	21.50	65,500	9.70	9/12/2019-9/11/2029
5/25/2020	18.10	5,843,730	-	250,111	-	1,189,667	21.76	4,403,952	16.92	5/25/2020-5/24/2030
9/9/2020	22.05	8,851	-	-	-	-	-	8,851	18.80	9/9/2020-9/8/2030
11/23/2020	23.00	2,735,087	-	247,440	-	116,066	23.81	2,371,581	22.75	11/23/2020-11/22/2030
5/31/2021	24.50	3,269,542	-	235,158	-	-	-	3,034,384	24.15	5/31/2021-5/30/2031
9/15/2021	23.18	362,000	-	100,000	-	-	-	262,000	22.95	9/15/2021-9/14/2031
11/19/2021	22.41	3,718,775	-	375,958	-	108,623	23.73	3,234,194	22.35	11/19/2021-11/18/2031
Total		27,640,901	-	1,308,229	-	6,531,349		19,801,323		

SECTION 6 CORPORATE GOVERNANCE

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

As the 2024 Equity Incentive Plan has been approved at the annual general meeting held on June 28, 2023 and the Board has resolved to terminate the 2014 Stock Option Plan, the 2014 Stock Option Plan shall become expired on the effective date of the 2024 Equity Incentive Plan. Upon termination of the 2014 Stock Option Plan, no further options may be offered, but the options granted before the termination shall be retained and continue to vest in accordance with, and subject to the terms of the 2014 Stock Option Plan.

Summary of the 2014 Stock Option Plan is as follows:

Purpose

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

Participants

The Company's 2014 Stock Option Plan is administered by the Company's Compensation Committee. The Company's 2014 Stock Option Plan provides for the grant of options to the Company's employees, officers or Directors, or to a trust established in connection with any employee benefit plan of the Company.

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

Maximum number of shares

The number of Ordinary Shares available for issue under the 2014 Stock Option Plan shall not, in aggregate, exceed 320,737,712 Ordinary Shares (as adjusted according to the impact of the Share Consolidation), representing 4.04% of the issued Ordinary Shares as at the date of the annual report.

Total number of shares available for issue

As at the date of the annual report, the total number of shares available for issue under the 2014 Stock Option Plan was 17,082,027 shares, representing approximately 0.21% of the issued shares of the Company.

Maximum entitlement of each participant

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

Exercise period

The stock options granted shall be exercised within ten years from the grant date, subject to changes under the Hong Kong Listing Rules, as determined by the Compensation Committee of the Company.

Vesting period

Options granted under the 2014 Stock Option Plan vest over a four-year period.

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

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

Acceptance and payments

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

Exercise price and the determination basis

The exercise price of stock options must be at least equal to the fair market value of the Ordinary Shares on the date of grant. Such fair market value will be the higher of (i) the closing price of the shares on the Hong Kong Stock Exchange's daily quotation sheet on the applicable date of grant (which must be a business day), and (ii) the average closing price of the shares on the Hong Kong Stock Exchange (as stated in the relevant daily quotation sheets of the Hong Kong Stock Exchange) for the five business days immediately preceding the date of grant subject to such changes from time to time to applicable Hong Kong Listing Rules, as determined by the Compensation Committee.

Remaining life of the scheme

The 2014 Stock Option Plan will terminate ten years from the date of registration of the Plan with the PRC State Administration of Foreign Exchange, unless it is terminated earlier by the Board. The Board may amend or terminate the 2014 Stock Option Plan at any time without necessary of asking for shareholders' approval of the amendment unless required by applicable law. As the 2024 Equity Incentive Plan has taken effect on November 10, 2023, the 2014 Stock Option Plan was terminated on the same date.

SECTION 6 CORPORATE GOVERNANCE

(3) 2014 Equity Incentive Plan – Hong Kong Share

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

Movement of the RSUs granted to employees of the Group (except Directors of the Company) under the 2014 Equity Incentive Plan during the year ended December 31, 2023 is as follows:

Unit: Share

RSUs grant date	Purchase price per share (HKD)	Unvested RSUs as of 1/1/2023	New grants during the reporting period	Lapsed RSUs during the reporting period	Cancelled RSUs during the reporting period	Vested RSUs during the reporting period	Weighted average closing price of Hong Kong Shares immediately before vesting dates (HKD)	Unvested RSUs as of 12/31/2023	Closing price of Hong Kong Shares immediately before grant dates (HKD)	Vesting period
9/12/2019	0.031	12,000	-	-	-	12,000	16.64	-	9.70	10/15/2018-3/1/2023
5/25/2020	0.031	931,911	-	41,971	-	534,190	16.08	355,750	16.92	3/1/2019-3/1/2024
9/9/2020	0.031	873	-	-	-	873	16.04	-	18.80	3/1/2019-5/6/2024
11/23/2020	0.031	620,596	-	30,055	-	304,677	16.19	285,864	22.75	3/1/2020-9/29/2024
5/31/2021	0.031	1,160,067	-	81,015	-	388,242	16.26	690,810	24.15	10/16/2020-3/1/2025
9/15/2021	0.031	105,750	-	29,250	-	25,500	19.90	51,000	22.95	4/1/2021-6/10/2025
11/19/2021	0.031	1,311,997	-	106,632	-	426,876	16.09	778,489	22.35	3/1/2021-9/27/2025
4/8/2022	0.031	5,882,368	-	534,077	-	1,453,885	16.17	3,894,406	16.80	11/1/2021-3/1/2026
5/20/2022	0.031	119,970	-	-	-	29,992	17.15	89,978	15.88	1/4/2022-2/9/2026
9/5/2022	0.031	173,610	-	-	-	43,402	19.90	130,208	15.00	4/1/2022-6/28/2026
11/18/2022	0.031	500,340	-	-	-	125,084	18.62	375,256	17.40	8/29/2022-9/27/2026
4/1/2023	0.031	-	6,141,528	274,849	-	2,970,213	18.70	2,896,466	18.60	10/9/2022-1/16/2027
Total		10,819,482	6,141,528	1,097,849	-	6,314,934		9,548,227		

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

As the 2024 Equity Incentive Plan has been approved at the annual general meeting held on June 28, 2023 and the Board has resolved to terminate the 2014 Equity Incentive Plan, the 2014 Equity Incentive Plan shall become expired on the effective date of the 2024 Equity Incentive Plan. Upon termination of the 2014 Equity Incentive Plan, no further RSUs may be offered, but RSUs granted before the termination shall be retained and continue to vest in accordance with, and subject to the terms of the 2014 Equity Incentive Plan.

Summary of the 2014 Equity Incentive Plan is as follows:

Purpose

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

Participants

The Company's 2014 Equity Incentive Plan is administered by the Company's Compensation Committee. The Company's 2014 Equity Incentive provides for the grant of awards to the Company's employees, officers or Directors, or to a trust established in connection with any employee benefit plan of the Company.

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

Maximum number of shares

The aggregate number of the Ordinary Shares available for award under the 2014 Equity Incentive Plan may not exceed 80,184,428 Ordinary Shares (as adjusted according to the impact of the Share Consolidation), representing 1.01% of the issued Ordinary Shares as at the date of the annual report.

Total number of shares available for issue

As at the date of the annual report, the total number of shares available for issue under the 2014 Equity Incentive Plan was 22,702,983 shares, representing approximately 0.29% of the issued shares of the Company.

Maximum entitlement of each participant

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

SECTION 6 CORPORATE GOVERNANCE

Vesting period

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

The RSUs issued before April 1, 2023 to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversary of the vesting commencement date, respectively.

The RSUs issued after April 1, 2023 (included) to existing employees generally vest at a rate of 50%, 30%, 20% on the vesting commencement date and on the subsequent first and second anniversary, respectively.

Acceptance and payments

Save as the purchase price below, the 2014 Equity Incentive Plan does not provide for any payment upon application or acceptance of RSUs.

Purchase price and the determination basis

The purchase price of HKD0.031 per share awarded by vesting of the RSUs was determined by the Compensation Committee of the Company and subject to the applicable Cayman Islands laws.

Remaining life of the scheme

The Board may amend or terminate the 2014 Equity Incentive Plan at any time without necessary of asking for shareholders' approval of the amendment unless otherwise required by applicable law. As the 2024 Equity Incentive Plan has taken effect on November 10, 2023, the 2014 Stock Option Plan was terminated on the same date.

(4) 2021 STAR Market Restricted Share Incentive Scheme – A Share

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

Movement of restricted shares granted under the 2021 STAR Market Restricted Share Incentive Scheme to employees of the Group (except Directors of the Company) during the year ended December 31, 2023 is as follows:

Unit: Share

Restricted Shares grant date	Grant price per share (RMB)	Unvested Restricted Shares as of 1/1/2023	New grants during the reporting period	Lapsed Restricted Shares during the reporting period	Cancelled Restricted Shares during the reporting period	Vested Restricted Shares during the reporting period	Weighted average closing price of A Shares immediately before vesting dates (RMB)	Unvested Restricted Shares as of 12/31/2023	Closing price of A Shares immediately before grant dates (RMB)	Vesting period
7/19/2021	20.00	42,397,096	-	3,285,656	-	14,144,900	45.65	24,966,540	54.86	7/20/2022-7/17/2026
6/21/2022	20.00	7,526,800	-	790,928	-	2,061,552	52.94	4,674,320	45.68	6/22/2023-6/18/2027
Total		49,923,896	-	4,076,584	-	16,206,452		29,640,860		

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

Purpose

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

Scope of awardees

The total number of awardees for the first grant and reserved grant proposed under the Scheme represents approximately 22.83% of the Company's employees as of December 31, 2023. The Awardees include Directors, senior management, core technicians, middle and senior business management and key technical and business staff of the Company.

Source of the restricted shares to be granted

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

Number of restricted shares to be granted

The total amount of restricted shares available for award under the Scheme will not exceed 75,650,400 A-share ordinary shares, representing approximately 0.95% of the total issued share capital of the Company as at the date of the annual report. Among them, 67,535,200 restricted shares were granted as the first grant, representing approximately 90.00% of the total number of restricted shares under the Scheme and approximately 0.85% of the total issued share capital of the Company as at the date of the annual report. 8,115,200 restricted shares were reserved for the reserved grant, representing approximately 10.00% of the total number of restricted shares under the Scheme and approximately 0.10% of the total issued share capital of the Company as at the date of the annual report.

Total number of shares available for issue

As at the date of the annual report, the total number of shares available for issue under the 2021 STAR Market Restricted Share Incentive Scheme was 29,640,860 shares, representing approximately 0.37% of the issued shares of the Company.

SECTION 6 CORPORATE GOVERNANCE

Maximum entitlement of each awardee

The cumulative amount of the Company's shares granted to each awardee through all valid equity incentive plans shall not exceed 1% of the total share capital of the Company.

Attribution arrangements under the scheme

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

Acceptance and payment

Save as the grant price below, the 2021 STAR Market Restricted Share Incentive Scheme does not provide for any payment upon application or acceptance of the Restricted Shares granted.

Grant price and the determination basis

The grant price of the restricted shares for the first grant shall be RMB20 per Share. An awardee who has satisfied the conditions for grant and attribution may purchase A-share ordinary shares issued by the Company at such price. The grant price of the restricted shares for the reserved grant shall be the same as the grant price of the restricted shares for the first grant, i.e. RMB20 per share. The grant price was determined by comprehensive methodology which included the then average trading price of the RMB Shares listed on the STAR Market, the relevant PRC regulations and requirements on price determination and the incentive needs of the Company at the material time. For details of the determination basis, please further refer to the Company's circular dated 8 June 2021.

Validity period of the scheme

The validity period of the scheme will commence from the grant date of the first grant, until the date on which all restricted shares granted to awardees have been vested or lapsed, such period shall not exceed 72 months.

Performance assessment requirements at the Company level

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

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

Performance assessment requirements at awardee's individual level

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

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

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

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

(5) 2024 Equity Incentive Plan – Hong Kong Share

During the reporting period, the Board of the Company has resolved to approve the 2024 Equity Incentive Plan and to approve to grant new Hong Kong Shares in the form of RSUs. The plan has been approved by the shareholders at the annual general meeting held on June 28, 2023. The principal terms of the 2024 Equity Incentive Plan are set out in the circular of the Company dated June 2, 2023. As at the date of this report, the 2024 Equity Incentive Plan has taken effect on November 10, 2023 as it was registered with the PRC State Administration of Foreign Exchange.

Summary of the 2024 Equity Incentive Plan is as follows:

Purpose

The purposes of the 2024 Equity Incentive Plan are to attract, retain and motivate employees and Directors of the Company, to provide a means of long-term incentives for their contributions to the growth and profits of the Company, and to allow such employees and Directors to participate in such growth and profitability.

Participants

The Company's 2024 Equity Incentive Plan is administered by the Company's Compensation Committee. The Company's 2024 Equity Incentive provides for the grant of awards to the Company's employees, officers or Directors, or to a trust established in connection with any employee benefit plan of the Company.

Awards granted under the 2024 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the Compensation Committee.

SECTION 6 CORPORATE GOVERNANCE

Maximum number of shares

The aggregate number of the Ordinary Shares available for award under the 2024 Equity Incentive Plan may not exceed 596,812,206 Ordinary Shares (as adjusted according to the impact of the Share Consolidation), representing 7.51% of the issued Ordinary Shares as at the date of the annual report.

Total number of shares available for issue

As at the date of the annual report, there is no awards granted under the 2024 Equity Incentive Plan, the total number of shares to be issued is therefore not yet available, and the proportion of the issued shares of the Company is 0.

Maximum entitlement of each participant

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

Vesting period

Awards granted under the plan shall vest no earlier than the first anniversary of the date on which the Award is granted. However, subject to the terms of the plan and the relevant rules under the compensation committee charter, the Compensation Committee may determine a shorter vesting period for such award at its discretion.

Acceptance and payments

An award of RSUs shall consist of a promise of the Company to pay or deliver one or more Hong Kong Share(s) on a specified date for a consideration equivalent to the aggregate par value of the number of Hong Kong Share(s) granted to the eligible participants (the "Consideration") and the provision of services or such minimum payment as may be required by the applicable laws and rules or for such other consideration as the Compensation Committee may specify in connection with the grant. The Consideration shall be payable upon the acceptance of the grant of the RSUs but in any event no later than the date of vesting of the RSUs.

Purchase price and the determination basis

The 2024 Equity Incentive Plan does not provide any purchase price for each Hong Kong Share awarded.

Remaining life of the scheme

The 2024 Equity Incentive Plan will terminate ten years from the date of registration of the plan with the PRC State Administration of Foreign Exchange, unless it is terminated earlier by the Board. The Board may amend or terminate the 2024 Equity Incentive Plan at any time without necessary of asking for shareholders' approval of the amendment unless required by applicable law.

3. Completion of stock incentive assessment indicators and the share-based payment recognised during the reporting period

in USD'000

Name of plan	Completion of assessment indicators at the Company level during the reporting period	Total share-based payment recognised during the reporting period
2004 Stock Option Plan	N/A	–
2014 Stock Option Plan	N/A	3,061
2014 Equity Incentive Plan	N/A	18,934
2021 STAR Market Restricted Share Incentive Scheme	100%	64,892
2024 Equity Incentive Plan	N/A	–
Total		86,887

SECTION 6 CORPORATE GOVERNANCE

(II) RELEVANT INCENTIVE EVENTS THAT HAVE BEEN DISCLOSED IN THE PROVISIONAL ANNOUNCEMENTS AND WITH NO PROGRESS OR CHANGE IN SUBSEQUENT IMPLEMENTATION

Summary of the event	Inquiry index
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on January 30, 2023	Next day disclosure return on the Hong Kong Stock Exchange: January 30, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by Directors of the Company on February 17, 2023	Next day disclosure return on the Hong Kong Stock Exchange: February 17, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on February 27, 2023	Next day disclosure return on the Hong Kong Stock Exchange: February 27, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on March 29, 2023	Next day disclosure return on the Hong Kong Stock Exchange: March 29, 2023
On April 1, 2023, the Company granted Restricted Share Units under the 2014 Equity Incentive Plan.	For details, please see the Announcement on the CONNECTED TRANSACTION-RSU GRANT as disclosed on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on April 2, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on April 6, 2023	Next day disclosure return on the Hong Kong Stock Exchange: April 6, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on April 20, 2023	Next day disclosure return on the Hong Kong Stock Exchange: April 20, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on May 12, 2023	Next day disclosure return on the Hong Kong Stock Exchange: May 12, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by Directors and non-directors of the Company on June 30, 2023	Next day disclosure return on the Hong Kong Stock Exchange: June 30, 2023
On July 20, 2023, the Board of Directors of the Company considered and approved the Proposal on the Second Attribution Period of the First Grant that Complies with the Attribution Conditions under the Company's 2021 STAR Market Restricted Share Incentive Scheme, the Proposal on the First Attribution Period of the Reserved Grant that Complies with the Attribution Conditions under the Company's 2021 STAR Market Restricted Share Incentive Scheme and the Proposal on Lapsed Part of Restricted Shares under the 2021 STAR Market Restricted Share Incentive Scheme by way of written resolutions.	For details, please see the Announcement on the Second Attribution Period of the First Grant and the First Attribution Period of the Reserved Grant that Complies with the Attribution Conditions under the Company's 2021 STAR Market Restricted Share Incentive Scheme (2023-020), and the Announcement on the Void of Certain Restricted Shares under the 2021 STAR Market Restricted Shares Incentive Scheme (2023-021), as disclosed on the website of the Shanghai Stock Exchange (www.sse.com.cn) on July 21, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by Directors and non-directors of the Company on August 29, 2023	Next day disclosure return on the Hong Kong Stock Exchange: August 29, 2023
On August 31, 2023, the Company completed the registration of shares of the Second Attribution Period of the First Grant and the First Attribution Period of the Reserved Grant under the Company's 2021 STAR Market Restricted Share Incentive Scheme. The date of listing and circulation of the vested shares is September 6, 2023.	For details, please see the Announcement on the Vesting Results of the Second Vesting Period of the First Grant and the First Vesting Period of the Reserved grant of the 2021 STAR Market Restricted Share Incentive Scheme and the Listing of Shares (2023-024), as disclosed on the website of the Shanghai Stock Exchange (www.sse.com.cn) on September 2, 2023, and Next day disclosure return on the Hong Kong Stock Exchange: September 1, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on September 11, 2023	Next day disclosure return on the Hong Kong Stock Exchange: September 11, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) by Directors of the Company on September 27, 2023	Next day disclosure return on the Hong Kong Stock Exchange: September 27, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on October 26, 2023	Next day disclosure return on the Hong Kong Stock Exchange: October 26, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on November 28, 2023	Next day disclosure return on the Hong Kong Stock Exchange: November 28, 2023
Issue of ordinary shares pursuant to exercise of Restricted Share Units granted under the 2014 Equity Incentive Plan (adopted on June 13, 2013) other than by Directors of the Company on December 29, 2023	Next day disclosure return on the Hong Kong Stock Exchange: December 29, 2023

SECTION 6 CORPORATE GOVERNANCE

XIV. CONSTRUCTION AND IMPLEMENTATION OF INTERNAL CONTROL SYSTEM DURING THE REPORTING PERIOD

(I) RISK MANAGEMENT AND INTERNAL CONTROL

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

The Board supervises the management's designing, implementing and monitoring the risk management system to ensure the effectiveness of the risk management system. The implementation methods of the management are as follows:

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

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

(II) INTERNAL AUDIT

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

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

Responsibilities of the internal audit include:

- reviewing the management's internal control measures, providing reasonable assurance of the authenticity, accuracy and integrity of financial and operational information and ensuring the reliability and soundness of approaches for identification, measurement, classification and reporting;
- reviewing the internal control systems established or to be established, ensuring that the Company is currently in compliance with plans, procedures, systems, regulations and laws that have a significant impact on operations and reporting;
- reviewing the means of asset protection and verifying the existence of assets when appropriate;
- identifying major risks affecting the Company's achievement of business objectives, reporting related risks to the management and supervising the management to take appropriate protective measures;
- reviewing whether internal control measures supporting operation of the Company are effective, and putting forward suggestions on problems detected;

SECTION 6 CORPORATE GOVERNANCE

- ensuring that the work of internal and external auditors on internal control is coordinated; and
- assisting in establishing and improving the anti-fraud mechanism, identifying the key areas, key links and main contents of anti-fraud, and rationally concerning and reviewing possible fraud in the internal audit process.

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

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

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

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

(III) INSIDE INFORMATION

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

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

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

XVI. ETHICS COMPLIANCE

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

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

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

SECTION 7 • ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

I. STATEMENT FROM THE BOARD ON THE ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

RESPONSIBILITY OF THE BOARD

As a responsible corporate citizen, SMIC fully recognises the importance of environment, social and governance (“ESG”) on the path to a shared development, and joins hands with all stakeholders to make the world a better place. SMIC’s Board of Directors undertakes the ultimate responsibility for the ESG governance system, and is accountable for developing the Company’s ESG strategy, goal setting and progress, as well as ESG performance.

An ESG Steering Committee is set under the Board of Directors to be responsible for the Company’s ESG management. It formulates ESG strategy, objectives and direction by analyzing the internal and external environments, and deliberating corporate development strategy. The ESG Steering Committee leads and guides the ESG Committee in discussing, planning and promoting ESG-related issues, supervises ESG implementation across functional departments, so as to ensure legally compliant operation, and assists the Company in achieving ESG goals, reflecting how the Company cares for people, the environment and society. The ESG Steering Committee reviews the annual ESG Report and submits it to the Board for approval.

ISSUE ANALYSIS

Keeping abreast of the external environment and peer performance, the ESG Committee communicates closely with our internal and external stakeholders, identifies and assesses material issues, develops working plans based on ESG objectives, and reviews relevant progress regularly.

The ESG Committee is responsible for identifying, managing, overseeing and controlling the Company’s ESG-related risks, as well as facilitating the decision-making of the Board by providing risk analysis. The Board of Directors is responsible for overseeing material issues.

DAILY IMPLEMENTATION

An ESG Office has been set up at SMIC to optimize the ESG information collection system. Based on the nature of our business, the ESG Office analyses and formulates corresponding strategies, goals and action plans to promote a company-wide ESG strategy and integrate it into our daily operation, thereby continuously improving our ESG governance ability.

II. ENVIRONMENTAL INFORMATION

Whether relevant mechanisms for environmental protection have been established	Yes
Environmental protection funds invested during the reporting period	US\$239 million

(I) WHETHER THE COMPANY AND ITS SIGNIFICANT SUBSIDIARIES ARE CLASSIFIED AS THE KEY POLLUTANT DISCHARGING UNITS ANNOUNCED BY THE ENVIRONMENTAL PROTECTION AUTHORITY

SMIC’s subsidiaries including SMIC Shanghai, SMIC Beijing, SMNC, SMIC Tianjin, SMIC Shenzhen and SMSC are the key pollutant discharging companies. SMBC is the key environmental risk monitoring company.

1. Information on pollutant discharging

In 2023, none of the above companies have excessive emissions.

Exhaust Gases						
Methods of emission		Discharged after treatment up to standard		Number and distribution of outlets	307 outlets on the roof and ground	
Region	Type	Name of main pollutants	Maximum emission concentration of exhaust gases (mg/m ³)	Emission standard (mg/m ³)	Compliance	
Shanghai Region	Acid exhaust	Nitrogen oxides	13.0	150	Achieve	
		Fluoride	1.4			
	Alkaline exhaust	Ammonia	1.7			No concentration limit
Beijing Region	Organic exhaust	Non-methane hydrocarbon	43.5	70	Achieve	
	Acid exhaust	Nitrogen oxides	15.7	50	Achieve	
		Fluoride		0.6	3	Achieve
Tianjin Region	Alkaline exhaust	Ammonia	3.0	10	Achieve	
	Organic exhaust	Non-methane hydrocarbon	4.2	10	Achieve	
	Acid exhaust	Nitrogen oxides	30.0	50	Achieve	
Fluoride			1.2	9	Achieve	
Shenzhen Region	Alkaline exhaust	Ammonia	4.0	100	Achieve	
	Organic exhaust	Non-methane hydrocarbon	8.2	20	Achieve	
	Acid exhaust	Nitrogen oxides	6.1	120	Achieve	
Fluoride			2.6	9	Achieve	
	Alkaline exhaust	Ammonia	24.9	No concentration limit	Achieve	
	Organic exhaust	Non-methane hydrocarbon	14.3	20	Achieve	

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

Wastewater				
Methods of emission	Discharged through the pipe after treatment up to standard	Number and distribution of outlets	19 outlets in workshop and non-workshop	
Region	Name of main pollutants	Maximum emission concentration of wastewater (mg/L)	Emission standard (mg/L)	Compliance
Shanghai Region	Fluoride	12.7	20	Achieve
	Chemical Oxygen Demand (COD)	451.2	500	Achieve
	Ammonia nitrogen	29.1	45	Achieve
Beijing Region	Arsenic	0.1866	0.2	Achieve
	Fluoride	6.9	10	Achieve
	Chemical Oxygen Demand (COD)	239.0	500	Achieve
Tianjin Region	Ammonia nitrogen	20.5	45	Achieve
	Arsenic	0.0215	0.1	Achieve
	Fluoride	11.4	20	Achieve
Shenzhen Region	Chemical Oxygen Demand (COD)	257.0	500	Achieve
	Ammonia nitrogen	4.9	35	Achieve
	Fluoride	13.8	20	Achieve
	Chemical Oxygen Demand (COD)	265.0	500	Achieve
	Ammonia nitrogen	37.0	45	Achieve

2. Construction and operation of pollution prevention and control facilities

In 2023, SMIC can treat 154,160 m³ of wastewater and 436,477,200 m³ of exhaust gas per day, all pollution prevention and control facilities are in normal operation. 13 sets of acid exhaust treatment equipment, 8 sets of alkaline exhaust treatment equipment, 5 sets of organic exhaust treatment equipment and 3 sets of arsine treatment equipment are under construction/completed. 2 set of ammonia-containing wastewater treatment system, 2 set of fluorine-containing wastewater treatment system, 1 set of arsenic-containing wastewater treatment system are under construction/completed.

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

The construction projects of all key pollutant discharging companies and key environmental risk monitoring companies have completed the environmental impact assessment, and obtained the required environmental protection administrative permits according to the construction progress.

4. Response plan for environmental emergencies

In accordance with the requirements of the environmental protection department, the above key pollutant discharging companies and key environmental risk monitoring company have all completed the preparation and filing of the Emergency Response Plan for Environmental Incidents (the "Plan"). All these units have carried out emergency drills for environmental emergencies in accordance with the requirements of the Plan.

5. Environmental self-monitoring program

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

6. Other environmental information that should be disclosed

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

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

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

(III) THE INFORMATION OF RESOURCE ENERGY CONSUMPTION AND EMISSIONS

The following is the resource energy consumption and emissions information.

1. Emission of greenhouse gas

In 2023, total GHG emissions of the Group reached 2,607,939 tons of equivalent CO₂. The GHG emissions of per 8-inch equivalent wafer photomask layer reached 11.3 kg of equivalent CO₂ in emission intensity.

2. Consumption of energy resource

In 2023, the total electricity consumption of the Group was 3,194 million kWh, and the energy consumption intensity was 13.2 kWh per 8-inch equivalent wafer photomask layer; the total natural gas consumption of the Group was 21,930 thousand m³, and the energy consumption intensity was 95.5 m³ per 8-inch equivalent wafer photomask layer; the total steam consumption of the Group was 273 thousand tons, and the energy consumption intensity was 1.3 kg per 8-inch equivalent wafer photomask layer; the total water consumption of the Group was 26,932 thousand tons, and the energy consumption intensity was 0.107 tons per 8-inch equivalent wafer photomask layer.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

3. Discharge of waste and pollutants

In 2023, the Group have disposed 57,059 tons of general industrial solid waste, 67,529 tons of hazardous waste and 4,184 tons of domestic waste. The emission concentration and total amount of various pollutants have met the requirements of environmental permit.

The environmental management system of the Company

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

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

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

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

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

Whether carbon reduction measures have been taken	Yes
CO ₂ equivalent reduction (unit: tons)	28,166 tons
Type of carbon reduction measures (such as the use of clean energy for power generation, the use of carbon reduction technology in the production process, and the development and production of new products that contribute to carbon reduction)	Use carbon reduction technologies in the production process

SMIC continues to carry out carbon verification, fulfil carbon emission obligations as required, and implement carbon emission control measures at the same time, and control carbon emissions via various engineering and management measures. The main carbon emission control measures and achievements during the reporting period are as below:

In 2023, SMIC has implemented 10 projects, including aging ice machine renovation, energy-saving renovation of circulating air conditioners, heat recovery of ice machines and refrigerant improvement for etching process equipment, etc, to improve energy utilization efficiency, reduce energy consumption, and reduce carbon emissions, equivalent to an annual carbon reduction of about 28,166 tons of equivalent CO₂.

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

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

The environmental protection policy of SMIC emphasizes the optimal use of resources and energy, and the reduction of exhaust gas, greenhouse gases and hazardous waste emissions. We continue to implement improvement measures and the concept of sustainable development and fulfill environmental responsibility, to minimise the impact on the ecological environment. In 2023, SMIC Shanghai, SMIC Beijing and SMIC Shenzhen obtained the National Green Factory certification; SMIC Tianjin was awarded the National Green Supply Chain Management Enterprise and "front-runner" enterprise of Tianjin green development.

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

III. PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) PRINCIPAL BUSINESS SOCIAL CONTRIBUTION AND INDUSTRY KEY INDICATORS

1. *Principal business social contribution:*

In terms of logic IC, SMIC is representing the leading level of independent R&D of integrated circuit manufacturing technology in Chinese Mainland. In terms of specialty technologies, SMIC has successively launched the leading specialty technologies for segmented market in Chinese Mainland, and cooperated closely with customers, effectively understood the demands and development of end-user companies and the entire system industry, and has done its best to meet customer demand.

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

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

2. *Industry key indicators:*

(1) *Number of intellectual property*

By the end of 2023, SMIC filed 19,443 patent applications in total, of which 13,450 were granted. SMIC is leading the Chinese Mainland semiconductor industry in terms of the numbers of applied and granted patents.

(2) *Shipments, wafer production capacity*

In 2023, the Group's shipments were 5,867 thousand 8-inch equivalent wafers and the monthly capacity reached 805,500 8-inch equivalent wafers.

(II) TYPE AND CONTRIBUTIONS OF PUBLIC CHARITY ACTIVITIES ENGAGED

Type	Amount/Number	Descriptions
Donation funds for charities	RMB2.36 million	SMIC Liver Transplant Program for Children
The person of salvage	87 persons	

1. *SPECIFIC CONDITIONS OF PUBLIC CHARITY ACTIVITIES ENGAGED*

Public charity

In 2013, SMIC launched the "SMIC Liver Transplant Program for Children" charity project. The project has donated a total of nearly RMB45.0 million over the past eleven years. By the end of 2023, 832 children from the Chinese Mainland had been helped.

SMIC's responsibility in the community

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

Support for education

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

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

(III) PROTECTION OF THE INTEREST OF SHAREHOLDERS AND CREDITORS

In order to effectively protect the legitimate rights and interests of shareholders and investors, in accordance with the requirements of applicable laws, regulations and regulatory documents, the Company has formulated the Articles of Association, the Rules of Procedures for General Meetings (《股東大會議事規則》), the Management System for Information Disclosure (《信息披露事務管理制度》) and the Management System for Investor Relations (《投資者關係管理制度》), in order to effectively ensure the good communication among the Company and shareholders and investors, continue to complete the corporate governance structure, establish and improve the internal control system, implement a solid financial policy, and standardise the Company's operating, increase shareholders', investors' and creditors' understanding, trust and recognition of the Company, further improve the level of corporate governance, maximise the Company's value and protect the legitimate rights and interests of shareholders, investors and creditors.

(IV) PROTECTION OF THE INTEREST OF EMPLOYEES

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

Employee health & safety

SMIC attained OHSAS 18001 (Occupational Health and Safety Assessment Series) certification in 2003. The OHSAS 18001 (renamed ISO 45001) standard is a key component of our comprehensive health and safety management system and is based on international safety and health standards. With this certification, we have demonstrated our commitment to safety, risk management, and a healthier environment for our employees. Our safety management philosophy embraces accident prevention, ownership management, frequent safety audits, safety education, engineering control, personal accountability, and enforcement.

Employee care

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

Employee shareholding

Number of employees holding shares (person)	4,544
Proportion of employee shareholding in the total number of employees (%)	22.47
Number of shares held by employees (million shares)	99.77
Proportion of employee shareholding in total share capital (%)	1.26

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

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

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

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

In order to understand and meet the needs of customers in a timely manner, SMIC has professional customer service teams in Shanghai, Beijing, Tianjin, Shenzhen, Taiwan, China, California (USA), Munich (Germany), Milan (Italy), Tokyo (Japan), etc., which can provide worldwide customer service. SMIC has established a sound system to track and handle customer complaints. All customer complaints are investigated and handled by relevant departments timely according to the procedures.

(VI) ASSURANCE OF THE PRODUCT SAFETY

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

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

(VII) OTHER SITUATION IN TERMS OF SOCIAL RESPONSIBILITY

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

To achieve these goals:

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

In the practices of fulfilling CSR, we comply with the laws applicable in the place where we operate and align with the leading international standards for our industry. Our CSR practices have led to our Company to be awarded with HSI ESG rating A+, while continuing to be included in the Hang Seng Corporate Sustainability Index. In 2023, SMIC has been newly included in the HSI ESG Enhanced Index and HSI ESG Enhanced Select Index so as to honor our outstanding performance in environmental, social and governance areas. For details, please refer to www.hsi.com.hk.

IV. OTHER CORPORATE GOVERNANCE

(I) INVESTOR RELATIONS AND PROTECTION

Type	Time	Relevant information
Convening the earnings calls/webcasts	4	Hold earnings calls/webcasts regularly to facilitate calls for shareholders and investors to have a more comprehensive and timely in-depth understanding of the Company's operating performance, and answer questions from analysts, shareholders and investors.
Conducting investor relations management activities by virtue of new media	9	Distribute annual report and quarterly earnings report summary (four times a year), press releases of the Company being selected or achieving related awards, etc., through the Company's wechat account.
Setting up investor relations column on the official website	Yes	Set up the investor relations section on the Company's official website to comprehensively display information of interest to shareholders and investors.

Specific details of investor relations management and protection

The Company has a professional team conducting investor relations management, aiming to strengthen the communication among the Company and shareholders and investors, effectively establish a channel for the Company's management to listen to shareholders and investors' suggestions, and improve the Company's governance, maximising the value of the Company and protecting the lawful rights and interests of investors. In the management of investor relations, the Company communicates with the capital market, based on the principles of compliance, equality, initiative, honesty and trustworthiness by multiple channels, platforms and methods. Such communications cover the operation and management status, financial situation, product technology, capacity building and other information.

Other ways to communicate with investors

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

SECTION 7 ENVIRONMENTAL, SOCIAL RESPONSIBILITY AND OTHER CORPORATE GOVERNANCE

(II) TRANSPARENCY OF INFORMATION DISCLOSURE

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

(III) PROTECTION OF INTELLECTUAL PROPERTY AND INFORMATION SECURITY

1. Intellectual property protection

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

2. Information safety protection

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

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

(IV) PARTICIPATION OF INSTITUTIONAL INVESTORS IN CORPORATE GOVERNANCE

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

SECTION 8 • SIGNIFICANT EVENTS

I. PERFORMANCE OF UNDERTAKINGS

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

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

SECTION 8 SIGNIFICANT EVENTS

Note 1:

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

1. As of the date of this undertaking, the Company and affiliates directly or indirectly controlled by the Company have not, directly or indirectly, engaged in any business in any way within or outside China that constitutes peer competition or potential peer competition with the principal business of the issuer or its affiliates, including but not limited to develop, operate or assist in operating, participating in, and engaging in relevant businesses, independently or in conjunction with, on behalf of any person, firm or company (enterprise, unit).
2. As of the date of this undertaking, the Company undertakes that it will not: (1) independently or with a third party, in the form of direct or indirect control, engage in a business or activity that constitutes peer competition or potential peer competition with issuer's or its affiliates' principal business that has a significant adverse impact ("competitive business"); (2) if the Company and its affiliates directly or indirectly controlled by the Company obtained new investment opportunities in any way to own the controlling shares, equity or interests of companies engaged in competitive business with the issuer and its affiliates, the Company will notify the issuer in writing. If within the reasonable period specified in the notice, the issuer makes a written reply that it is willing to accept the new investment opportunity, the Company or its affiliates directly or indirectly controlled by the Company (except the issuer and its affiliates) will procure as permitted by law that these new investment opportunities to be first provided to the issuer or its affiliates on reasonable and fair terms and conditions.
3. The undertaking takes effect from the date of making the undertaking until any of the following occurs: (1) the Company and parties acting in concert (if any) directly or indirectly hold less than 5% (exclusive) of the issuers' shares; (2) the issuer's shares are terminated from listing on the Shanghai Stock Exchange (except for the suspension of trading of the issuer's shares for any reason); (3) when there is no statutory requirement for the content of a certain undertaking, the relevant part shall be automatically terminated.
4. For any party of the letter of undertaking, "affiliates" shall mean any other enterprise or entity of which (1) the party holds or controls 50% or more issued share capital or 50% or more voting rights, if applicable; or (2) the party is entitled 50% or more profits after tax; or (3) the party has the right to control the composition of the board of directors or control in any other form, regardless of whether it has legal personality or not, and the affiliates of the enterprise or entity.

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

Note 2:

Commitments by the Company

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

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

SECTION 8 SIGNIFICANT EVENTS

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

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

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

Commitments by Directors and senior management personnel

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

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

Note 3:

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

Triggering condition for stabilisation of share price:

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

SECTION 8 SIGNIFICANT EVENTS

Main measures and procedures of price stabilisation of the Company:

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

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

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

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

Note 4:

Commitments by the Company

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

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

Note 5:

Commitments by the Company

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

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

SECTION 8 SIGNIFICANT EVENTS

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

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

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

Note 6:

Commitments by the Company

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

Commitments by Directors and senior management personnel

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

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

SECTION 8 SIGNIFICANT EVENTS

Note 7:

Commitments by the Company

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

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

Note 8:

Commitments by the Company

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

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

Commitments by substantial shareholders

1. Contents contained in the Prospectus for the A Share offering have no misrepresentation, misleading statement or material omission, and the Company will be liable for the truthfulness, accuracy and completeness of the contents contained in the Prospectus.

SECTION 8 SIGNIFICANT EVENTS

2. In case any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus leads to any loss of investors in securities transactions, the Company will compensate for their losses in accordance with laws. The specific procedures are as follows:
 - (1) When securities regulatory departments or judicial authority determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus such that the Company shall be liable, the Company will initiate relevant procedures to compensate for the losses of investors within ten working days after receiving such written confirmation;
 - (2) The Company will communicate with the investors actively to negotiate and confirm the scope, sequence, amount and form of compensation;
 - (3) After confirming the compensation amount through the above-mentioned method, or by securities regulatory departments or the judicial authority, the Company will make compensation accordingly.

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

Commitments by domestic shareholders indirectly holding over 5% of shares

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

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

Commitments by Directors and senior management personnel

1. Contents contained in the Prospectus for the A Share offering and other application documents have no misrepresentation, misleading statement or material omission, and I will be liable for the truthfulness, accuracy and completeness of the contents contained in the Prospectus.
2. In case any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus and other application documents leads to any loss of investors in securities transactions, I will compensate for their losses in accordance with laws. The specific procedures are as follows:
 - (1) When securities regulatory departments or other competent authorities determine that there is any misrepresentation, misleading statement or material omission in the contents contained in the Prospectus and other application documents such that I shall be liable, I will initiate relevant procedures to compensate for the losses of investors within three working days after receiving such written confirmation;

SECTION 8 SIGNIFICANT EVENTS

- (2) I will communicate with the issuer, other intermediaries and the investors actively to negotiate and confirm the scope, sequence, amount and form of compensation;
- (3) After confirming the compensation amount through the above-mentioned method, or by securities regulatory departments or the judicial authority, I will make compensation in the form confirmed through the above-mentioned method or such other forms required by laws.

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

Note 9:

Commitments by the Company

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

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

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

SECTION 8 SIGNIFICANT EVENTS

Commitments by Directors and senior management personnel

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

Note 10:

Commitments by the Company

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

Commitments by Directors and senior management personnel

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

II. THE APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

in USD’000

	Current appointment
Name of domestic accounting firm	Ernst & Young Hua Ming LLP (Special General Partnership)
Remuneration of domestic accounting firm	593
Number of years of audit by domestic accounting firm	3 years
Name of certified public accountants of the domestic accounting firm	Meng Dong, Gu Fan
Accumulated term of auditing service of certified public accountants of domestic accounting firm	Meng Dong (3 years), Gu Fan (1 year)
Name of overseas accounting firm	Ernst & Young
Remuneration of overseas accounting firm	851
Number of years of audit by overseas accounting firm	3 years
Name of certified public accountant of the overseas accounting firm	Ng Cheung
Term of auditing of certified public accountant of the overseas accounting firm	3 years

SECTION 8 SIGNIFICANT EVENTS

III. MATERIAL LITIGATION AND ARBITRATION

The Company was involved in material litigation and arbitration during the year.

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

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

(II) OTHER EXPLANATIONS

1. Arbitration of contract disputed with PDF SOLUTIONS, INC.

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

2. Civil complaint filed with the United States district court

On July 8, 2022 (Los Angeles, U.S. time), the plaintiff filed a notice of appeal from the dismissal of the civil complaint as mentioned in (I) above. United States Court of Appeals for the Ninth Circuit confirmed receipt of the appeal with a notification on July 11, 2022 (Log Angeles, U.S. time), and dismissed the appeal on September 27, 2023. So far, this case is officially closed.

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

Dr. FAN Ren Da Anthony, an independent non-executive Director of the Company, was publicly censured by the Listing Committee of the Hong Kong Stock Exchange (the "Listing Committee") for breaching Rule 3.08 of the Hong Kong Listing Rules and his declaration and undertaking given to the Hong Kong Stock Exchange in the form set out in Appendix 5B to the Hong Kong Listing Rules during his tenure of directorship in Hong Kong Resources Holdings Company Limited (stock code: 2882) ("HKRH") in connection with the failure to procure together with other directors of HKRH the maintenance of adequate and effective internal controls by HKRH for its money lending business. Dr. Fan has been directed by the Listing Committee to attend 20 hours of training on regulatory and legal topics (including Hong Kong Listing Rules compliance).

V. SUBSTANTIAL CONNECTED AND RELATED TRANSACTIONS

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

Grant of Restricted Share Units

The Board announces that on April 1, 2023, the Company proposed to grant 937,889 Restricted Share Units under the 2014 Equity Incentive Plan to 10 connected persons of the Company, including Directors, Co-chief executive officers and directors of subsidiaries of the Company (the "Proposed RSU Grants"). Each of the Restricted Share Units granted to the connected persons represents the right to receive a Hong Kong Share on the date it vests.

In accordance with the terms of the 2014 Equity Incentive Plan, the Proposed RSU Grants will be made for no consideration, other than the minimum payment required by the applicable law in the Cayman Islands (which is the par value of the Ordinary Shares to be issued pursuant to the Proposed RSU Grants). The Proposed RSU Grants and any transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are thus subject to reporting, announcement and independent shareholders' approval requirements.

The Proposed RSU Grants and the transactions were approved by the independent shareholders at the annual general meeting of the Company held on June 28, 2023. For details of the Proposed RSU Grants, please refer to the announcement of the Company dated April 2, 2023.

SECTION 8 SIGNIFICANT EVENTS

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

Datang Holdings Framework Agreement – 2022 to 2024

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

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

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

The annual cap and actual transaction amounts generated by the Group under the Datang Holdings Framework Agreement during the year ended December 31, 2023 are set out below.

Transactions	Annual cap on transactions amount for the year ended December 31, 2023 (USD in million)	Actual transaction amounts for the year ended December 31, 2023 (USD in million)
The revenue generated by the Group under the Datang Holdings Framework Agreement	182	17

Conclusion

The Company has confirmed that the execution and enforcement of the agreement under the continuing connected transactions disclosed above in the section headed “(II) Non-exempt Continuing Connected Transactions Disclosed under the Hong Kong Listing Rules” for the year ended December 31, 2023 have followed the relevant pricing principles of such continuing connected transactions. None of the transaction amounts exceeded the annual caps for the year ended December 31, 2023.

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

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

Auditor review of continuing connected transactions

The auditor of the Company was engaged to report on the Group’s continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its conclusions in accordance with Rule 14A.56 of the Hong Kong Listing Rules and confirming that the aforesaid continuing connected transactions:

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

SECTION 8 SIGNIFICANT EVENTS

(III) RELATED PARTY TRANSACTIONS IN RELATION TO DAILY OPERATION

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

Summary of the event	Inquiry index
On March 28, 2023, the Board of the Company reviewed and approved the Proposal on Forecast of Daily Related Transaction Quota in 2023.	For details, please refer to the Announcement on Forecast of Daily Related Transaction Quota in 2023 dated March 29, 2023 published on Shanghai Securities News, China Securities Journal, Securities Times, Securities Daily, and on the website of SSE (https://www.sse.com.cn).

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

Related party	Related transaction	Estimated amount for 2023 (RMB'000)	Actual amount during the reporting period (RMB'000)	Percentage in the amount of similar transactions (%)
Semiconductor Global Solutions Corporation ("SGS")	Purchase of goods	220	32	0.0
	Receiving services	1,500	929	0.2
	Leasing assets to the related party	2,650	5,008	2.9
	Purchase of machinery and equipment from the related party	165,000	130,165	0.6
	Sale of machinery and equipment to the related party	2,100	–	0.0
	Subtotal	171,470	136,134	
China Fortune-Tech Capital Co., Ltd. ("China Fortune-Tech")	Receiving services	4,375	5,265	9.7
	Leasing assets to the related party	5,701	6,040	3.5
	Subtotal	10,076	11,305	
Toppan Sensing Electronics (Shanghai) Co., Ltd. (former Toppan SMIC Electronic (Shanghai) Co., Ltd.) ("Toppan")	Purchase of goods	32,148	30,240	0.2
	Leasing assets to the related party	29,556	33,519	19.3
	Subtotal	61,704	63,759	
Brite Semiconductor (Shanghai) Corporation ("Brite")	Sales of goods	678,000	433,673	1.1
	Subtotal	678,000	433,673	
	Total	921,250	644,871	

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

Related party	Related transaction	Annual caps in 2023 (USD in million)	Actual amount during the reporting period (USD in million)
Datang Holdings and its related parties	Sales of goods	182	17

SECTION 8 SIGNIFICANT EVENTS

VI. MATERIAL CONTRACTS AND THE IMPLEMENTATION THEREOF

(I) GUARANTEES

in USD'000

External guarantees provided by the Company (excluding guarantees provided for its subsidiaries)	
Total guarantee incurred during the reporting period (excluding those provided for subsidiaries)	–
Total balance of guarantee as at the end of the reporting period (A) (excluding those provided for subsidiaries)	–
Guarantee provided by the Company and its subsidiaries to its subsidiaries	
Total guarantee to subsidiaries incurred during the reporting period	1,114,547
Total balance of guarantee to subsidiaries as at the end of the reporting period (B)	2,884,899
Aggregate guarantee of the Company (including those provided for its subsidiaries)	
Aggregate guarantee (A+B)	2,884,899
Percentage of aggregate guarantee to equity attributable to owners of the Company (%)	14.3
Including:	
Amount of guarantee provided for shareholders, de facto controller and related parties (C)	–
Amount of debts guarantee directly or indirectly provided for guaranteed parties with gearing ratio over 70% (D)	2,179,042
Excess amount of aggregate guarantee over 50% of equity attributable to owners of the Company (E)	–
Aggregate amount of the above three categories (C+D+E)	2,179,042

(II) ENTRUSTED CASH ASSET MANAGEMENT

1. Entrusted wealth management

in USD'000

Type	Sources of funds	Amount in current period	Outstanding balance	Amounts overdue but not yet recovered
Structural deposits	Self-owned funds	431,593	389,236	–

2. Other information

Type of investment	Fund manager	Investment amount	Product type	Term of investment	Lawsuits involved or not
Harvest Express Money Market Fund A	Harvest Fund Management Co., Ltd.	RMB661,118,987	Non-principal-guaranteed with floating income	Nil	No
Harvest Cash Box Money Market Fund	Harvest Fund Management Co., Ltd.	RMB62,385,660	Non-principal-guaranteed with floating income	Nil	No
Harvest Benefit Added Money Market Fund	Harvest Fund Management Co., Ltd.	RMB22,991,435	Non-principal-guaranteed with floating income	Nil	No
Guojun Cash Manager Currency	Guotai Junan Securities Co.,Ltd.	RMB1,328,851	Non-principal-guaranteed with floating income	Nil	No

VII. USE OF THE PROCEEDS

(I) OVERALL UTILIZATION OF PROCEEDS

The Company received proceeds and over-allotment funds with total amount of approximately RMB53,230.2 million (approximately US\$7,616.1 million) on July 14, 2020 and August 17, 2020, respectively. The net amount of proceeds after deducting the issuance expenses was approximately RMB52,515.6 million (approximately US\$7,513.9 million). The Company's proceeds have been fully invested in the fundraising project according to the purpose of the proceeds, and the cancellation procedures for all proceeds special accounts have been completed during the reporting period. For details, please refer to the Company's Announcement of Special Report on the Deposit and Actual Use of Proceeds for the Year of 2023 disclosed on the same date of this report.

In USD'000

Source of the proceeds	Time for receiving the proceeds (Note)	Total proceeds	Including: Amount of excess funds raised	The net proceeds after deducting the issuance expenses	Total committed investment amount	Total committed investment amount after adjustment (1)	Accumulated investment amount as of the end of the reporting period (2)	Progress in investment as of the end of the reporting period (%) (3)=(2)/(1)	Investment amount for the year (4)	Total proceeds with change in use
Initial public offering of shares	July 14, 2020	7,616,128	3,671,810	7,513,885	7,513,885	7,513,885	7,513,885	100.0	–	N/A

Note: Over-allotment funds was received on August 17, 2020.

SECTION 9 • CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

I. CHANGES IN SHARES

(I) TABLE OF CHANGES IN SHARES

1. Table of changes in Shares

Unit: Share

	Prior to the change		Increase/(decrease) in the change				After the change		
	Number	Proportion (%)	Issuance of new shares	Shares dividend	Conversion of capital reserves into share capital	Others	Sub-total	Number	Proportion (%)
I. Tradable shares not subject to selling restrictions	7,912,664,696	100.00	16,206,452	-	-	17,684,612	33,891,064	7,946,555,760	100.00
1. RMB Ordinary Shares	1,957,402,720	24.74	16,206,452	-	-	-	16,206,452	1,973,609,172	24.84
2. Overseas-listed foreign shares	5,955,261,976	75.26	-	-	-	17,684,612	17,684,612	5,972,946,588	75.16
II. Total shares	7,912,664,696	100.00	16,206,452	-	-	17,684,612	33,891,064	7,946,555,760	100.00

Notes:

- (1) This table does not include the impact of refinancing business on share changes;
- (2) Overseas-listed foreign shares in this table are ordinary shares listed on the Hong Kong Stock Exchange.

2. Description of changes in shares

- (1) The change of the Company's A-share capital is due to the listing and trading of 16,206,452 Restricted Shares vested during the second vesting period of the first grant and the first attribution period of the reserved grant of the 2021 STAR Market Restricted Share Incentive Scheme of the Company on September 6, 2023. For details, please see the Announcement on the Vesting Results of the Second Vesting Period of the First Grant and the First Vesting Period of the Reserved grant of the 2021 STAR Market Restricted Share Incentive Scheme and the Listing of Shares of SMIC (2023-024) on September 2, 2023.
- (2) During the reporting period, the number of Hong Kong shares increased by 17,684,612 shares due to the new shares issued under the Hong Kong share incentive plans.

3. The impact (if any) of share changes on financial indicators, such as earnings per share and net assets per share for the most recent year and period

During the reporting period, the Company's share capital increased due to the vesting of STAR Market restricted shares and the new shares issued under the Hong Kong share incentive plans. The change has no significant impact on financial indicators, such as earnings per share and net assets per share.

(II) REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, neither the Company nor its subsidiaries had conducted any repurchase, sale or redemption of the listed securities of the Company.

II. ISSUANCE AND LISTING OF SECURITIES

(I) ISSUANCE OF SECURITIES DURING THE REPORTING PERIOD

Unit: Share

Type of shares and derivative securities	Issue date	Issue price	Issue amounts	Listing date	Amounts approved for listing	Ending date for transaction
RMB ordinary shares (A Shares)	August 31, 2023	RMB20	16,206,452	September 6, 2023	16,206,452	/

On August 31, 2023, the Company completed the share registration for the second vesting period of the first grant and the first vesting period of the reserved grant of the 2021 STAR Market Restricted Shares Incentive Scheme, and issued 16,206,452 A-share ordinary shares to awardees, which were listed and circulated on September 6, 2023.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS

(I) TOTAL NUMBER OF SHAREHOLDERS

Total number of shareholders of ordinary shares as of the end of the reporting period ⁽¹⁾	244,046
Total number of shareholders of ordinary shares as at the end of the month preceding the day when the annual report was disclosed ⁽²⁾	248,000

Notes:

- (1) As of the end of the reporting period, 244,046 registered shareholders consist of 232,065 holding A Shares and 11,981 holding Hong Kong Shares.
- (2) As of February 29, 2024, 248,000 registered shareholders consist of 236,040 holding A Shares and 11,960 holding Hong Kong Shares.

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

(II) SUBSTANTIAL SHAREHOLDERS

As at December 31, 2023, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in 5% or more of the issued shares and underlying shares which are required to be disclosed to the Company pursuant to the provisions of Parts 2 and 3 of Chapter XV of the Hong Kong Securities and Futures Ordinance or which are required to be entered in the register of deposit of shares of the Company pursuant to the provisions of Section 336 of the Hong Kong Securities and Futures Ordinance:

Unit: Share

Name of Shareholders	Nature of Interests	Long/Short Position	Number of Ordinary Shares held		Percentage of Ordinary Shares Held to Total Issued Share Capital ⁽¹⁾	Derivatives	Total Interests	Percentage of Total Interests to Total Issued Share Capital ⁽¹⁾
			Directly	Indirectly				
China Information and Communication Technology Group Co., Ltd. and related stakeholders								
China Information and Communication Technology Group Co., Ltd.	Interest of corporation controlled	Long Position	72,470,855 ⁽²⁾	1,116,852,595 ⁽²⁾	14.97%	-	1,189,323,450	14.97%
Datang Holdings (Hongkong) Investment Company Limited	Beneficial owner	Long Position	1,116,852,595 ⁽²⁾	-	14.05%	-	1,116,852,595	14.05%
China Integrated Circuit Industry Investment Fund Co., Ltd. and related stakeholders								
China Integrated Circuit Industry Investment Fund Co., Ltd.	Interest of corporation controlled	Long Position	-	617,214,804 ⁽³⁾	7.77%	-	617,214,804	7.77%
Xinxin (Hongkong) Capital Co., Ltd.	Beneficial owner	Long Position	617,214,804 ⁽³⁾	-	7.77%	-	617,214,804	7.77%

Notes:

- (1) Based on 7,946,555,760 shares in issue as at December 31, 2023.
- (2) 1,116,852,595 shares are held by Datang HK which is a wholly-owned subsidiary of Datang Holdings, which in turn is wholly-owned by CICT. In addition, CICT directly holds 72,470,855 Ordinary Shares denominated in RMB, for a total of 1,189,323,450 shares.
- (3) 617,214,804 shares are held by Xinxin HK, a wholly-owned subsidiary of Xunxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.

(III) PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS AND THE TOP TEN FLOATING SHAREHOLDERS (OR SHAREHOLDERS NOT SUBJECT TO SELLING RESTRICTIONS) AS OF THE END OF THE REPORTING PERIOD

1. As of the end of the reporting period, the Company had issued 5,972,946,588 shares in Hong Kong, accounting for approximately 75.2% of the total share capital of the Company and 1,973,609,172 shares in SSE STAR Market, accounting for approximately 24.8% of the total share capital of the Company.
2. The Company's register of members in Hong Kong consists of HKSCC NOMINEES LIMITED and other registered shareholders, among which, shares held by HKSCC NOMINEES LIMITED on behalf of non-registered shareholders account for approximately 99.8% of the Company's Hong Kong Shares; shares held by other registered shareholders account for approximately 0.2% of the Company's Hong Kong Shares.
3. Pursuant to the Hong Kong Securities and Futures Ordinance, shareholders holding interests in 5% or more of any class of voting shares of the Company are required to make their own declaration of interests. According to the declaration of shareholders' interests, Datang HK held 1,116,852,595 Hong Kong Shares and Xinxin HK held 617,214,804 Hong Kong Shares. The Company has excluded the number of shares held by the aforesaid shareholders from the number of shares held by HKSCC NOMINEES LIMITED.
4. Nature of A shareholders is reported according to the nature of holders of shares as set out in the A Share register of China Clearing.

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

Unit: Share

Particulars of shareholdings of top 10 shareholders (excluding shares lent under refinancing)							
Name of shareholders	Increase/decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage (%)	Number of shares held with selling restrictions	Pledged, marked or frozen		
					Status of shares	Number	Nature of shareholders
HKSCC NOMINEES LIMITED	17,906,414	4,226,937,558	53.19	-	Unknown	-	Unknown
Datang Holdings (Hongkong) Investment Company Limited	-	1,116,852,595	14.05	-	Nil	-	Overseas legal person
Xinxin (Hongkong) Capital Co., Ltd.	-	617,214,804	7.77	-	Nil	-	Overseas legal person
China Merchants Bank Co., Ltd. – ChinaAMC SSE STAR 50 Exchange Traded Funds* (華夏上證科創板50成份交易型開放式指數證券投資基金)	100,762,427	208,352,114	2.62	-	Nil	-	Others
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	-	127,458,120	1.60	-	Nil	-	Others
China Information and Communication Technology Group Co., Ltd.	-	72,470,855	0.91	-	Nil	-	State-owned legal person
Industrial and Commercial Bank of China Limited – E Fund SSE STAR 50 Exchange Traded Funds* (易方達上證科創板50成份交易型開放式指數證券投資基金)	20,765,258	55,510,389	0.70	-	Nil	-	Others
China Construction Bank Corporation – ChinaAMC CNI Semiconductor Wafer Exchange Traded Funds* (華夏國證半導體芯片交易型開放式指數證券投資基金)	6,902,607	46,571,769	0.59	-	Nil	-	Others
Guotai Junan Securities Co., Ltd. – Guolianan CSI All-Index Semiconductor Products and Equipment Exchange-traded Open-ended Index Securities Investment Fund* (國聯安中證全指半導體產品與設備交易型開放式指數證券投資基金)	9,584,237	33,435,738	0.42	-	Nil	-	Others
Bank of China Co., Ltd. – Cathay CES Semiconductor Chip Industry Exchange-traded Open-ended Index Securities Investment Fund* (國泰CES半導體芯片行業交易型開放式指數證券投資基金)	4,516,804	25,060,036	0.32	-	Nil	-	Others

Particulars of shareholding of top 10 shareholders not subject to selling restrictions				
Name of shareholders	Number of tradable shares held without selling restrictions	Type	Type and number of shares	
				Number
HKSCC NOMINEES LIMITED	4,226,937,558	Overseas listed foreign shares		4,226,937,558
Datang Holdings (Hongkong) Investment Company Limited	1,116,852,595	Overseas listed foreign shares		1,116,852,595
Xinxin (Hongkong) Capital Co., Ltd.	617,214,804	Overseas listed foreign shares		617,214,804
China Merchants Bank Co., Ltd. – ChinaAMC SSE STAR 50 Exchange Traded Funds* (華夏上證科創板50成份交易型開放式指數證券投資基金)	208,352,114	RMB Ordinary Shares		208,352,114
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	127,458,120	RMB Ordinary Shares		127,458,120
China Information and Communication Technology Group Co., Ltd.	72,470,855	RMB Ordinary Shares		72,470,855
Industrial and Commercial Bank of China Limited – E Fund SSE STAR 50 Exchange Traded Funds* (易方達上證科創板50成份交易型開放式指數證券投資基金)	55,510,389	RMB Ordinary Shares		55,510,389
China Construction Bank Corporation – ChinaAMC CNI Semiconductor Wafer Exchange Traded Funds* (華夏國證半導體芯片交易型開放式指數證券投資基金)	46,571,769	RMB Ordinary Shares		46,571,769
Guotai Junan Securities Co., Ltd. – Guolianan CSI All-Index Semiconductor Products and Equipment Exchange-traded Open-ended Index Securities Investment Fund* (國聯安中證全指半導體產品與設備交易型開放式指數證券投資基金)	33,435,738	RMB Ordinary Shares		33,435,738
Bank of China Co., Ltd. – Cathay CES Semiconductor Chip Industry Exchange-traded Open-ended Index Securities Investment Fund* (國泰CES半導體芯片行業交易型開放式指數證券投資基金)	25,060,036	RMB Ordinary Shares		25,060,036
Explanations on affiliated relationship or parties acting in concert among the abovementioned shareholders				
			1. Datang HK is a wholly-owned subsidiary of CICT.	
			2. Xinxin HK is a wholly-owned subsidiary of China IC Fund.	
			3. Lou Yuguang (樓宇光), Tang Xuefeng (唐雪峰), Yan Jianqiu (嚴劍秋) and Wang Wenli (王文莉), directors of China IC Fund, also serve as the directors of China IC Fund II. Supervisors Lin Guifeng (林桂鳳) and Song Ying (宋穎) also serve as supervisors of China IC Fund II, and director Fan Bing (范冰) also serves as the supervisor of China IC Fund II.	
			4. As the fund manager, Sino IC Capital Co., Ltd. manages China IC Fund and China IC Fund II in accordance with the respective entrusted management agreements.	
			5. China IC Fund and China IC Fund II have some of the same shareholders.	
			Apart from these, the Company does not know whether the other shareholders mentioned above have affiliated relationship or parties acting in concert.	

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

Name of shareholders	Shares lent through refinancing by top ten shareholders							
	General and credit account holdings at the beginning of reporting period		Shares lent under refinancing at the beginning of the period and have not been returned		General and credit account holdings at the end of reporting period		Shares lent under refinancing at the end of the period and have not been returned	
	Total number of shares	Percentage (%)	Total number of shares	Percentage (%)	Total number of shares	Percentage (%)	Total number of shares	Percentage (%)
China Merchants Bank Co., Ltd. – ChinaAMC SSE STAR 50 Exchange Traded Funds* (華夏上證科創板50成份交易型開放式指數證券投資基金)	107,589,687	1.36	3,759,300	0.05	208,352,114	2.62	2,708,300	0.03
Industrial and Commercial Bank of China Limited – E Fund SSE STAR 50 Exchange Traded Funds* (易方達上證科創板50成份交易型開放式指數證券投資基金)	34,745,131	0.44	2,204,400	0.03	55,510,389	0.70	566,300	0.01
China Construction Bank Corporation – ChinaAMC CNI Semiconductor Wafer Exchange Traded Funds* (華夏國證半導體芯片交易型開放式指數證券投資基金)	39,669,162	0.50	1,266,600	0.02	46,571,769	0.59	929,800	0.01
Guotai Junan Securities Co., Ltd. – Guolianan CSI All-Index Semiconductor Products and Equipment Exchange-traded Open-ended Index Securities Investment Fund* (國聯安中證全指半導體產品與設備交易型開放式指數證券投資基金)	23,851,501	0.30	498,100	0.01	33,435,738	0.42	58,100	0.001
Bank of China Co., Ltd. – Cathay CES Semiconductor Chip Industry Exchange-traded Open-ended Index Securities Investment Fund* (國泰CES半導體芯片行業交易型開放式指數證券投資基金)	20,543,232	0.26	713,600	0.01	25,060,036	0.32	351,200	0.004

Change in top ten shareholders compared with the previous period

Unit: Share

Name of shareholders	Change in top 10 shareholders compared with the previous period					
	New/exit during the reporting period	Shares lent under refinancing at the end of the period and have not been returned		Ordinary account, credit account holdings and shares lent under refinancing and have not been returned at the end of the period		
		Total number of shares	Percentage (%)	Total number of shares	Percentage (%)	
Guotai Junan Securities Co., Ltd. – Guolianan CSI All-Index Semiconductor Products and Equipment Exchange-traded Open-ended Index Securities Investment Fund* (國聯安中證全指半導體產品與設備交易型開放式指數證券投資基金)	New	58,100	0.001	33,493,838	0.42	
Bank of China Co., Ltd. – Cathay CES Semiconductor Chip Industry Exchange-traded Open-ended Index Securities Investment Fund* (國泰CES半導體芯片行業交易型開放式指數證券投資基金)	New	351,200	0.004	25,411,236	0.32	
China Merchants Bank Co., Ltd. – Galaxy Innovation Growth Mixed Securities Investment Fund* (銀河創新成長混合型證券投資基金)	Exit	–	–	24,500,000	0.31	
Guoxin Investment Corporation Limited	Exit	–	–	6,680,429	0.08	

(IV) STRATEGIC INVESTORS OR GENERAL LEGAL PERSONS BECOMING TOP 10 SHAREHOLDERS BECAUSE OF THE NEW SHARE PLACING/DEPOSITARY RECEIPTS

Name of Strategic Investors or General Legal Persons	Stipulated start date of shareholding	Stipulated end date of shareholding
China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	July 16, 2020	Nil
China Information and Communication Technology Group Co., Ltd.	July 16, 2020	Nil
Explanation on agreed shareholding period of strategic investors or general legal persons participating in placing of new shares	The lock-up period was within twelve months from the date of initial public offering of shares and listing on SSE STAR Market.	

SECTION 9 CHANGES IN SHARES AND INFORMATION OF SHAREHOLDERS

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

During the reporting period, the shareholding of any single shareholder of the Company is below 30%. The number of Directors nominated by each shareholder is less than 1/2 of the total number of Directors. There are no circumstances in which a single shareholder may determine the selection of more than half of the Company's Board by actually controlling the voting rights of the Company's shares, or has a significant impact on the resolutions of the general meeting, and there is no relationship or concerted relationship between the substantial shareholders of the Company. Therefore, the Company does not have a controlling shareholder or a de facto controller.

V. OTHER LEGAL PERSON SHAREHOLDERS HOLDING 10% OR MORE OF SHARES

Name of legal person shareholder	Person in charge or legal representative of the unit	Date of establishment	Organization code	Registered capital	Principal activities or management activities
China Information and Communication Technology Group Co., Ltd.	Lu Guoqing	August 15, 2018	91420100MA4LOGG411	RMB30 billion	Investment and asset management
Datang Holdings (Hongkong) Investment Company Limited	Xiaoxia Shao	December 3, 2008	N/A	HKD1,000	Investment holding

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



SECTION 10

FINANCIAL REPORT

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
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To the shareholders of Semiconductor Manufacturing International Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Semiconductor Manufacturing International Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 160, which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Fair value measurement of a joint venture and associates' portfolio investments

Acting as a limited partner, the Group has invested in a number of portfolio investments through several investment funds, which were accounted for as investments in a joint venture or associates using equity method. The investment funds measured their portfolio investments at fair value.

The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and application of appropriate assumptions in the valuation. The Group has applied various valuation techniques to determine the fair values of portfolio investments. These valuation techniques, particularly those requiring significant unobservable inputs, usually involve management's judgement and assumptions. Valuation results can vary significantly when different valuation techniques and assumptions are applied.

Due to the significance of the balance of the investment funds, the quantity of the Group's joint venture and associates' portfolio investments, the degree of complexity involved in valuing portfolio investments and the significant degree of judgement exercised by management in determining the valuation methodology and assumptions used in the valuation process, fair value measurement of a joint venture and associates' portfolio investments is considered a key audit matter.

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

How our audit addressed the key audit matter

Our audit procedures included, among others,

Obtaining an understanding of the management's internal control and assessment process of fair value measurement of a joint venture and associates' portfolio investments, evaluating the design and operating effectiveness of key controls over the valuation of fair value measurement of a joint venture and associates' portfolio investments;

Evaluating the Group's methodology valuing the investment funds and the significant assumptions used with the assistance of our valuation specialists, and testing the accuracy of mathematical calculation applied in the valuation models. We performed the following procedures on a sample basis:

- for portfolio investments that traded in active markets, we assessed the fair values by comparing the fair value of the investments with publicly available market data;
- for portfolio investments that had recent equity transactions, we assessed the fair values by reading the recent investment agreements, understanding the relevant investment terms and comparing the fair values of investments with the transaction prices specified in the related agreements;
- for portfolio investments that did not have direct open market value or recent equity transaction, we assessed the appropriateness of the valuation methodology (e.g., market approach) adopted and the key assumptions in the valuation based on our industry knowledge as well as the information of comparable companies.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Ng.

Ernst & Young
Certified Public Accountants

Hong Kong
March 28, 2024

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023

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

	Notes	2023	2022
Revenue	6	6,321,560	7,273,284
Cost of sales		(5,103,816)	(4,511,636)
Gross profit		1,217,744	2,761,648
Research and development expenses		(707,275)	(733,096)
Selling and marketing expenses		(36,162)	(33,834)
General and administration expenses		(482,262)	(493,730)
Impairment losses on financial assets, net	36	1,255	(605)
Other operating income	7	364,447	335,296
Profit from operations		357,747	1,835,679
Interest income		736,591	349,135
Finance costs	8	(209,424)	(125,582)
Foreign exchange gain		11,155	6,586
Other gains, net	9	262,591	26,763
Share of profit of associates and a joint venture		28,789	121,524
Profit before tax		1,187,449	2,214,105
Income tax expense	10	(62,514)	(16,023)
Profit for the year	11	1,124,935	2,198,082
Other comprehensive income			
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translating foreign operations		(35,068)	(149,125)
Cash flow hedges	28	(80,633)	94,916
Total comprehensive income for the year		1,009,234	2,143,873
Profit for the year attributable to:			
Owners of the Company		902,526	1,817,942
Non-controlling interests		222,409	380,140
		1,124,935	2,198,082
Total comprehensive income for the year attributable to:			
Owners of the Company		786,893	1,763,975
Non-controlling interests		222,341	379,898
		1,009,234	2,143,873
Earnings per share			
Basic	14	\$0.11	\$0.23
Diluted	14	\$0.11	\$0.23

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023

(In USD'000)

	Notes	2023	2022
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	16	23,944,961	18,855,532
Right-of-use assets	17	473,797	529,795
Intangible assets	18	33,662	45,331
Investments in associates	20	2,042,671	1,912,042
Investment in a joint venture	20	2,295	9,051
Deferred tax assets	10	13,194	14,244
Financial assets at fair value through profit or loss	21	481,969	208,307
Financial assets at amortised cost	21	6,891,233	5,553,445
Derivative financial instruments	21	12,087	32,958
Restricted cash	23	256,071	–
Other assets		209	52,877
Total non-current assets		34,152,149	27,213,582
<i>Current assets</i>			
Inventories	24	2,735,921	1,911,487
Prepayment and prepaid operating expenses		106,154	103,368
Trade and other receivables	25	1,170,008	1,302,642
Financial assets at fair value through profit or loss	21	214,629	375,776
Financial assets at amortised cost	21	2,948,991	5,122,706
Derivative financial instruments	21	42,836	146,669
Restricted cash	23	179,536	676,937
Cash and cash equivalents	21	6,215,058	6,932,587
		13,613,133	16,572,172
Assets classified as held-for-sale	26	22,030	22,030
Total current assets		13,635,163	16,594,202
Total assets		47,787,312	43,807,784

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023

(In USD'000)

	Notes	2023	2022
Equity and liabilities			
<i>Capital and reserves</i>			
Ordinary shares	27	31,786	31,651
Share premium	27	14,117,072	13,963,465
Other reserves	28	286,917	377,059
Retained earnings	29	5,680,327	4,777,801
Equity attributable to owners of the Company		20,116,102	19,149,976
Non-controlling interests		10,729,514	9,811,445
Total equity		30,845,616	28,961,421
<i>Non-current liabilities</i>			
Borrowings	30	8,334,648	6,718,304
Lease liabilities	17	26,280	57,682
Bonds payable	31	599,115	598,379
Deferred tax liabilities	10	38,913	34,980
Deferred government funding	32	306,611	396,803
Derivative financial instruments	21	34,547	15,286
Total non-current liabilities		9,340,114	7,821,434
<i>Current liabilities</i>			
Trade and other payables	33	3,727,922	3,217,001
Contract liabilities	6	2,053,222	1,977,058
Borrowings	30	1,216,283	1,268,218
Lease liabilities	17	32,340	51,849
Deferred government funding	32	173,097	153,812
Accrued liabilities	34	298,022	309,183
Derivative financial instruments	21	90,180	45,217
Current tax liabilities		10,516	2,591
Total current liabilities		7,601,582	7,024,929
Total liabilities		16,941,696	14,846,363
Total equity and liabilities		47,787,312	43,807,784

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(In USD'000)

	Ordinary shares (Note 27)	Share premium (Note 27)	Equity-settled employee benefit reserve (Note 28)	Foreign currency translation reserve (Note 28)
As at January 1, 2022	31,615	13,836,614	112,426	46,558
Profit for the year	–	–	–	–
Other comprehensive income for the year	–	–	–	(148,883)
Total comprehensive income for the year	–	–	–	(148,883)
Issue of shares under share incentive plans	104	162,765	(104,753)	–
Share-based compensation	–	–	135,081	–
Shares repurchased	(75)	(38,239)	–	–
Conversion options of convertible bonds exercised	7	2,325	–	–
Share of other capital reserve of associates	–	–	–	–
Capital injection from non-controlling interests	–	–	–	–
Dilution of interests in subsidiaries	–	–	–	–
Subtotal	36	126,851	30,328	–
As at December 31, 2022	31,651	13,963,465	142,754	(102,325)
Profit for the year	–	–	–	–
Other comprehensive income for the year	–	–	–	(35,000)
Total comprehensive income for the year	–	–	–	(35,000)
Issue of shares under share incentive plans	135	153,607	(96,965)	–
Share-based compensation	–	–	75,192	–
Share of other capital reserve of associates	–	–	–	–
Capital injection from non-controlling interests	–	–	–	–
Dilution of interests in subsidiaries	–	–	–	–
Subtotal	135	153,607	(21,773)	–
As at December 31, 2023	31,786	14,117,072	120,981 ⁽¹⁾	(137,325) ⁽¹⁾

⁽¹⁾ These reserve accounts comprise the reserves of US\$286,917 thousand (December 31, 2022: US\$377,059 thousand) in the consolidated statement of financial position.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(In USD'000)

Convertible bond equity reserve	Cash flow hedges reserve (Note 28)	Others	Retained earnings (Note 29)	Attributable to owner of the Company	Non- controlling interests	Total equity
341	17	162,234	2,959,859	17,149,664	8,288,479	25,438,143
–	–	–	1,817,942	1,817,942	380,140	2,198,082
–	94,916	–	–	(53,967)	(242)	(54,209)
–	94,916	–	1,817,942	1,763,975	379,898	2,143,873
–	–	–	–	58,116	–	58,116
–	–	–	–	135,081	18,004	153,085
–	–	–	–	(38,314)	–	(38,314)
(341)	–	–	–	1,991	–	1,991
–	–	4,341	–	4,341	–	4,341
–	–	–	–	–	1,200,186	1,200,186
–	–	75,122	–	75,122	(75,122)	–
(341)	–	79,463	–	236,337	1,143,068	1,379,405
–	94,933	241,697	4,777,801	19,149,976	9,811,445	28,961,421
–	–	–	902,526	902,526	222,409	1,124,935
–	(80,633)	–	–	(115,633)	(68)	(115,701)
–	(80,633)	–	902,526	786,893	222,341	1,009,234
–	–	–	–	56,777	–	56,777
–	–	–	–	75,192	11,693	86,885
–	–	6,204	–	6,204	–	6,204
–	–	–	–	–	725,095	725,095
–	–	41,060	–	41,060	(41,060)	–
–	–	47,264	–	179,233	695,728	874,961
–	14,300 ⁽¹⁾	288,961 ⁽¹⁾	5,680,327	20,116,102	10,729,514	30,845,616

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

(In USD'000)

	Notes	2023	2022
Operating activities			
Profit for the year		1,124,935	2,198,082
Adjustments for:			
Income tax expense	10	62,514	16,023
Depreciation and amortisation	11	2,667,291	2,271,361
Equity-settled share-based payment expense	11	86,885	153,085
Interest income		(736,591)	(349,135)
Finance costs	8	209,424	125,582
Gain on disposal of property, plant and equipment	7	(858)	(46,792)
Gain on partial disposal of associates	9	(216,967)	(5,299)
Recognition of impairment losses	11	188,283	64,692
Net gain arising from the fair value through profit or loss	9	(51,265)	(12,257)
Net loss on foreign exchange from non-operating activities		259,936	166,935
Share of profit of associates and a joint venture		(28,789)	(121,524)
Other non-cash expense/(income)		965	(65)
		3,565,763	4,460,688
Adjustments for the movements in working capital:			
Increase in trade and other receivables		(30,608)	(11,510)
Increase in inventories		(1,013,972)	(781,763)
Decrease in restricted cash relating to operating activities		23,575	162,766
Decrease/(increase) in other operating assets		49,882	(111,187)
Increase in trade and other payables		465,987	792,311
Increase in contract liabilities		76,164	954,398
Decrease in deferred government funding		(70,907)	(191,745)
(Decrease)/increase in other operating liabilities		(10,217)	80,306
Cash generated from operations		3,055,667	5,354,264
Interest paid		(210,951)	(165,205)
Interest received		496,399	212,428
Income taxes returned/(paid)		17,179	(53,571)
Net cash generated from operating activities		3,358,294	5,347,916

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

(In USD'000)

	2023	2022
Investing activities		
Acquisition of financial assets at fair value through profit or loss	(1,213,359)	(703,083)
Proceeds from sale of financial assets at fair value through profit or loss	1,124,834	382,762
Acquisition of financial assets at amortised cost	(6,610,647)	(19,193,398)
Proceeds from maturity of financial assets at amortised cost	7,836,620	15,174,163
Acquisition of property, plant and equipment	(7,630,407)	(6,172,106)
Proceeds from disposal of property, plant and equipment	3,590	64,815
Acquisition of intangible assets	(2,222)	(9,500)
Acquisition of land-use right	(818)	(78,940)
Proceeds from disposal of land-use right	–	6,325
Capital injection in associates	(110,052)	(100,697)
Proceeds from sale of equity interests in associates and a joint venture	208,544	53,378
Dividends received from associates	8,934	8,243
Guarantee deposits (paid)/refunded	(24,168)	33,300
Proceeds from settlement of derivative financial instruments	201,579	143,233
Net cash used in investing activities	(6,207,572)	(10,391,505)
Financing activities		
Proceeds from borrowings	4,657,043	3,763,758
Repayment of borrowings	(2,918,575)	(1,073,253)
Repayment of the principal portion of the lease liabilities	(51,981)	(96,759)
Repayment of medium-term notes	–	(238,042)
Proceeds from issue of shares under share incentive plans	56,777	58,116
Payment for shares repurchased	–	(38,314)
Capital injection from non-controlling interests	725,095	1,200,186
Guarantee deposits refunded/(paid)	21,032	(19,936)
(Payments for)/proceeds from settlement of derivative financial instruments	(23,053)	58,534
Net cash generated from financing activities	2,466,338	3,614,290
Net decrease in cash and cash equivalents	(382,940)	(1,429,299)
Cash and cash equivalents at the beginning of the year	6,932,587	8,581,746
Effects of exchange rate changes on cash and cash equivalents	(334,589)	(219,860)
Cash and cash equivalents at the end of the year	6,215,058	6,932,587

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

1. GENERAL INFORMATION

Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) was established under the laws of the Cayman Islands on April 3, 2000. The Company’s ordinary shares are listed on the mainboard of Stock Exchange of Hong Kong Limited and the SSE STAR Market, respectively. The address of the principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. The registered address is at P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The subsidiaries of the Company are engaged in the manufacturing and testing of integrated circuits wafer (silicon wafers and various compound semiconductors), the rendering of the development, design and technical services related to integrated circuits, the manufacturing of photomask, the testing and sale of self-produced products, and other services. The subsidiaries and their activities are set out in Note 19.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments, monetary funds and derivative financial instruments which have been measured at fair value. Assets classified as held-for-sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in Note 4.

These financial statements are presented in United States dollars (“USD”) and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IFRSS MANDATORILY EFFECTIVE FOR THE YEAR

The Group has adopted the following new and revised IFRSs for the first time for the current year’s financial statements.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

IFRSS MANDATORILY EFFECTIVE FOR THE YEAR *(continued)*

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

Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 4 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments had no impact on the Group's financial statements.

Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments and the mandatory temporary exception retrospectively. Further disclosures are included in note 10 to the financial statements.

IFRSS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following revised IFRSs, which have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁽³⁾</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback⁽¹⁾</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")⁽¹⁾</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")⁽¹⁾</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements⁽¹⁾</i>
Amendments to IAS 21	<i>Lack of Exchangeability⁽²⁾</i>

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

⁽²⁾ Effective for annual periods beginning on or after January 1, 2025

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

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB. However, the amendments are available for adoption now.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

IFRSS ISSUED BUT NOT YET EFFECTIVE *(continued)*

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

4. MATERIAL ACCOUNTING POLICIES

INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are accounted for using the equity method in accordance with IAS 27 and IAS 28. Under the equity method, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint venture are eliminated to the extent of the Group's investments in the associates or a joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Upon the acquisition of the ownership interest in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (*continued*)

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments, monetary funds and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than 1 year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

When the contract contains a financing component which provides the Group with a significant financial benefit for more than 1 year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is 1 year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Revenues are recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the stand-alone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (*continued*)

REVENUE RECOGNITION (*continued*)

Sale of goods

The Group manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Group also sells certain semiconductor standard products to customers. Revenue from the sale of wafer is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the wafer.

Customers have the right of return within 1 year pursuant to warranty provisions. The Group typically performs tests of its products prior to shipment to identify yield rate per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid by the customer or for the costs to return products and to ship replacement products to the customer. The Group estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects at customers that may exceed historical trends.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group satisfies performance obligation under the contract (i.e., transfers control of the related goods or services to the customer).

Rendering of services

Revenue from the rendering testing services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the reporting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

FOREIGN CURRENCIES

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

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

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

The functional currencies of certain subsidiaries, joint ventures and associates are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the average exchange rates that for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates that approximate to those prevailing at the dates of the transactions are used. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests.

On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (continued)

GOVERNMENT FUNDING

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

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

OTHER EMPLOYEE BENEFITS

Retirement benefits

The Group's Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a rate equal to 14.0% to 16.0% of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid and there are no forfeited contributions that may be used by the Group. The costs are recognised in profit or loss or in underlying assets as they become payable.

SHARE-BASED PAYMENT ARRANGEMENTS

The Company operates share option schemes. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. When share options are exercised, the amount previously recognised in the reserve will be transferred to share premium.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are other service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and does not give rise to equal taxable and deductible temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their costs, less accumulated depreciation and any impairment losses. Such cost comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The Group constructs certain of its plant and equipment. In addition to costs under the construction contracts, the costs that are directly related to the construction and acquisition of such plant and equipment are capitalised. Depreciation is recorded at the time assets are ready for their intended use. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	25 years	4%
Machinery and equipment	5 to 10 years	10% to 20%
Office equipment	3 to 5 years	20% to 33 ¹ / ₃ %

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (*continued*)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

LEASES

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	5 to 6 years
Machinery and equipment	3 to 5 years
Land-use right	50 to 70 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of vehicle and computer (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (*continued*)

LEASES (*continued*)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised in profit or loss in the period in which they are earned.

Sale and leaseback transactions

The Group applies the requirements of IFRS 15 Revenue from Contracts with Customers to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a seller – lessee

For sale and leaseback transactions in which a transfer of the asset satisfies the requirements in IFRS 15 to be accounted for as a sale, the Group measure the right-of-use assets arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee and accordingly recognises only the amount of the gain that relates to the rights transferred to the buyer-lessor. For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as borrowings within the scope of IFRS 9.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

RESTRICTED CASH

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average basis, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held-for-sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property equipment and intangible assets classified as held for sale are not depreciated or amortised.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments. Dividends on the equity investments are also recognised as other gain in profit or loss when the right of payment has been established.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECL"s) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (*continued*)

INVESTMENTS AND OTHER FINANCIAL ASSETS (*continued*)

General approach (*continued*)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, lease liabilities, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, derivative financial instruments, bonds payable and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised costs

After initial recognition, trade and other payables, borrowings, lease liabilities, and bonds payable are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

4. MATERIAL ACCOUNTING POLICIES (*continued*)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, cross currency swap contracts and interest rate swap contracts. Further details of derivative financial instruments are disclosed in Note 21 and Note 36, respectively.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Cash flow hedges

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

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

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

REPURCHASE OF SHARES

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

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

5. CRITICAL ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of financial instruments

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 37 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Fair value measurement of associates and a joint venture's portfolio investments

The Group has invested in a number of portfolio investments through several investment funds, which were accounted for as investments in associates or a joint venture using equity method. The investment funds measured their equity investments in portfolio investments at fair value. The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation. The unlisted equity investments in portfolio investments have been valued based on a market-based valuation technique as detailed in Note 20 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity. The Group classifies the fair value of these investments as Level 3.

Impairment of inventories

The Group periodically assesses the net realizable value of its inventories and provides for inventory impairment based on the difference between the cost of the inventory and the net realizable value. When estimating the net realizable value of inventories, management considers the purpose for which the inventories are held, as well as future use or sales as the basis for estimation. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the inventories and write-down of inventories in the period in which such estimates have been changed.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

6. SEGMENT INFORMATION AND REVENUE

DESCRIPTION OF SEGMENTS

For management purposes, the Group operates in one segment, engaging principally in the manufacture and sale of integrated circuits. Management makes high-level strategic decisions and reviews the consolidated results of the Group.

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group's operating revenue from customers is detailed as below:

	Revenue from external customers	
	2023 USD'000	2022 USD'000
By region		
China	5,062,085	5,400,629
America	1,034,382	1,510,291
Eurasia	225,093	362,364
	6,321,560	7,273,284
By type of goods or services		
Wafers	5,794,477	6,735,640
Masks, testing and others	527,083	537,644
	6,321,560	7,273,284
By timing of revenue recognition		
Goods transferred at a point in time	6,273,851	7,153,875
Services transferred over time	47,709	119,409
	6,321,560	7,273,284

LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognised the liabilities related to contracts with customers as contract liabilities of US\$2,053.2 million as of December 31, 2023 (December 31, 2022: US\$1,977.1 million). The contract liabilities comprise of the prepayments received from customers, to whom the wafers have not been transferred. Revenue recognised that was included in the contract liabilities as at the beginning of the year was US\$1,977.1 million (2022: US\$1,022.7 million). Amount of US\$2,053.2 million is expected to be recognised as revenue within 1 year as all related contracts have a duration of 1 year or less.

PERFORMANCE OBLIGATIONS

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally made within a certain period of time after advance payment or invoicing. Some contracts provide customers with a right of return and volume rebates.

Rendering of services

The performance obligation is satisfied over time as services are rendered and settle regularly according to the service progress.

SEGMENT ASSETS

The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expand its capacity at the existing fabs. The non-current assets were mainly located in Chinese Mainland.

SIGNIFICANT CUSTOMERS

Revenue of approximately USD\$948.7 million (2022: USD\$857.1 million), which accounted for 10% or more of total revenue, was derived from sales to a single customer and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

7. OTHER OPERATING INCOME

	2023 USD'000	2022 USD'000
Gain on disposal of property, plant and equipment	858	46,792
Government funding	363,589	288,504
	364,447	335,296

8. FINANCE COSTS

	2023 USD'000	2022 USD'000
Interest on:		
Bank and other borrowings	190,109	102,078
Leases (Note 17)	2,422	5,154
Convertible bonds	–	13
Corporate bonds (Note 31)	16,893	16,873
Medium-term notes	–	1,464
	209,424	125,582

9. OTHER GAINS, NET

	2023 USD'000	2022 USD'000
Net gain arising from the fair value through profit or loss:		
Structural deposits and monetary funds	14,545	11,415
Equity securities	36,720	842
	51,265	12,257
Gain on partial disposal of associates ⁽¹⁾	216,967	5,299
Others	(5,641)	9,207
	262,591	26,763

⁽¹⁾ The gain was mainly arising from the passive dilution of the Group's equity interests in an associate caused by the new issuance of shares by the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

10. INCOME TAXES

INCOME TAX EXPENSE

	2023 USD'000	2022 USD'000
Current tax — Land Appreciation Tax	–	25
Current tax — Enterprise Income Tax	56,909	10,495
Deferred tax	5,605	5,503
	62,514	16,023

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

	2023 USD'000	2022 USD'000
Profit before tax	1,187,449	2,214,105
Income tax expense calculated at 25%	296,863	553,526
Effect of different tax rate in other jurisdictions	5,389	112,044
Share of loss/(profit) of associates and a joint venture	10,003	(30,381)
Expenses not deductible for tax	6,511	3,139
Effect of tax holiday and tax concession	(128,821)	(475,910)
Additional deduction	(94,183)	(244,244)
Temporary differences and tax losses not recognised	21,562	99,149
Income not subjected to tax	(54,810)	(1,325)
Land appreciation tax	–	25
	62,514	16,023

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Chinese Mainland. The Group is therefore liable for withholding tax on dividends distributed by those subsidiaries established in Chinese Mainland. No deferred tax liability for withholding tax has been recognised as the Company is able to control the timing of distributions from subsidiaries and is not expected to distribute these profits of subsidiaries in Chinese Mainland in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

10. INCOME TAXES (continued)

DEFERRED TAX BALANCES

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

Deferred tax assets	Property, plant and equipment USD'000	Accruals USD'000	Intangible assets USD'000	Impairment USD'000	Loss available for offsetting against future taxable profits USD'000	Total USD'000
As at January 1, 2022	23,108	2,521	1,219	352	–	27,200
Recognise in profit or loss	(689)	1,837	(156)	926	16,225	18,143
As at December 31, 2022	22,419	4,358	1,063	1,278	16,225	45,343
Recognise in profit or loss	(1,502)	369	(188)	4,832	(16,225)	(12,714)
As at December 31, 2023	20,917	4,727	875	6,110	–	32,629

Deferred tax liabilities	Financial asset at fair value through profit or loss USD'000	Property, plant and equipment USD'000	Total USD'000
As at January 1, 2022	32,188	12,576	44,764
Recognise in profit or loss	(2,095)	25,741	23,646
Exchange differences	(2,331)	–	(2,331)
As at December 31, 2022	27,762	38,317	66,079
Recognise in profit or loss	(2,264)	(4,845)	(7,109)
Exchange differences	(622)	–	(622)
As at December 31, 2023	24,876	33,472	58,348

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is the net deferred tax balances of the Group for financial reporting purposes:

	2023 USD'000	2022 USD'000
Net deferred tax assets	13,194	14,244
Net deferred tax liabilities	38,913	34,980

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

	2023 USD'000	2022 USD'000
Tax Losses	3,668,513	2,711,835
Deductible temporary differences	176,521	1,022,280
	3,845,034	3,734,115

At the end of the reporting period, no deferred tax asset was recognised in respect of tax losses of US\$3,668.5 million (December 31, 2022: US\$2,711.8 million) due to the unpredictability of future taxable profit, of which US\$1.6 million, US\$52.5 million, US\$2.5 million, US\$178.3 million and US\$3,433.6 million will expire in 2024, 2025, 2026, 2027, 2028 and thereon, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

10. INCOME TAXES (continued)

INCOME TAX RATE

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation. The detailed status of the Group's principal PRC entities with income tax holidays are elaborated as follows:

According to CaiShui [2012] No.27, Guofa [2020] No.8 and relevant tax regulations, SMIC Beijing is qualified as an integrated circuit enterprise and entitled to enjoy a 10-year tax holiday (income tax full exemption from 2015 to 2024) beginning from 2015 after utilizing all prior years' tax losses. Meanwhile, SMIC Beijing has obtained the certificate of high-tech enterprise issued on December 17, 2021. SMIC Beijing enjoyed the preferential treatment of full exemption from income tax in 2023 and will submit documents in accordance with the relevant regulations as required.

According to Enterprise Income Tax Law of the People's Republic of China, the following entities were qualified as high-tech enterprises and were entitled to enjoy the preferential corporate income tax rate of 15% in 2023.

Entities	Effective period	Date of issue
SMIC Shanghai	2023-2025	December 12, 2023
SMIC Tianjin	2022-2024	November 15, 2022
SMNC	2022-2024	December 30, 2022
SMIC Shenzhen	2023-2025	November 15, 2023
SMSC	2022-2024	December 14, 2022

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

Pillar Two income taxes

As stated in note 3, the Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities arising from Pillar Two income taxes, and will account for the Pillar Two income taxes as current tax when incurred. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which some subsidiaries of Group operate, and the legislation in these jurisdictions will be effective for the Group's financial year beginning January 1, 2024.

The Group has assessed its potential exposure based on the available information regarding the financial performance of the Group in the current year and prior year 2022. As such, it may not be entirely representative of future circumstances. By assessing the effective tax rates in these jurisdictions and considering that the De Minimis relief that may limit the potential exposure, the Group does not expect a material exposure to Pillar Two income taxes.

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2023 USD'000	2022 USD'000
Cost of sales		
Cost of wafers sold	4,610,796	4,177,122
Impairment losses recognised on inventories	189,538	64,087
Cost of others sold	303,482	270,427
	5,103,816	4,511,636
Impairment losses on financial assets, net		
(Reversal)/addition in allowance on doubtful trade receivables (Note 36)	(802)	809
Reversal in allowance on doubtful other receivables (Note 36)	(453)	(204)
	(1,255)	605
Depreciation and amortisation		
Depreciation of property, plant and equipment (Note 16)	2,594,871	2,154,126
Depreciation of right-of-use assets (Note 17)	58,029	98,268
Amortisation of intangible assets (Note 18)	14,391	18,967
	2,667,291	2,271,361
Employee benefits expense		
Wages and salaries	663,205	659,776
State-managed pension ⁽¹⁾	86,506	75,851
Bonus	141,540	219,671
Non-monetary benefits	42,353	50,528
Equity-settled share-based payment expense (Note 35)	86,885	153,085
	1,020,489	1,158,911
Other expense/(gain)		
Royalties expense	24,137	38,548
Foreign exchange gain	(11,155)	(6,586)
Auditors' remuneration		
Audit services – annual report related	1,444	1,510
Audit services – others	79	–
Non-audit services ⁽²⁾	65	143
	1,588	1,653

⁽¹⁾ The employees of the Group in Chinese Mainland participate in the pension insurance and unemployment insurance scheme administered by the local government. The Group contributes on a monthly basis to these schemes based on certain percentages of the salaries of the employees. After retirement, the local government is responsible for paying pensions to the retired employees.

⁽²⁾ The non-audit services consist of consultation of ESG report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

	2023 USD'000	2022 USD'000
Salaries, fees, bonus and benefits	5,343	5,005
State-managed pension	22	22
Equity-settled share-based payment expense	2,639	3,704
	8,004	8,731

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

DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

2023	Salaries, fees, bonus and benefits USD'000	State-managed pension USD'000	Total remuneration USD'000
Executive directors:			
Liu Xunfeng	521	6	527
Gao Yonggang ⁽¹⁾	1,776	6	1,782
	2,297	12	2,309
Non-executive directors:			
Lu Guoqing	-	-	-
Chen Shanzhi	-	-	-
Yang Lumin	-	-	-
Huang Dengshan ⁽²⁾	-	-	-
	-	-	-
Independent non-executive directors:			
Lau Lawrence Juen-Yee	83	-	83
Fan Ren Da Anthony	98	-	98
Liu Ming	72	-	72
Wu Hanming	67	-	67
	320	-	320
Co-CEOs:			
Zhao Haijun	1,361	10	1,371
Liang Mong Song	1,365	-	1,365
	2,726	10	2,736
	5,343	22	5,365

⁽¹⁾ On July 17, 2023, Gao Yonggang resigned as an executive director of the Company.

⁽²⁾ On May 11, 2023, Huang Dengshan resigned as a non-executive director of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS (continued)

EQUITY-SETTLED SHARE-BASED PAYMENT EXPENSE

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

The directors and chief executives during the year held stock options and RSUs. The related expense for the year ended December 31, 2023 was as follows:

	2023 USD'000
Lau Lawrence Juen-Yee	219
Fan Ren Da Anthony	219
Liu Ming	107
Wu Hanming	289
Zhao Haijun	530
Liang Mong Song	473
Gao Yonggang (resigned)	802
	2,639

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included one (2022: one) executive director and two (2022: two) Co-CEOs, details of whose emoluments are set out in Note 12 above. Details of the emoluments of the remaining two (2022: two) highest paid individuals (except directors and Co-CEOs) for the year are as follows:

	2023 USD'000
Salaries and benefits	617
Bonus	450
State-managed pension	19
Equity-settled share-based payment expense	752
	1,838

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

In 2023, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2022: nil).

The emoluments of the remaining two highest paid individuals (except Directors and Co-CEOs) fell within the following band is as below:

	2023
Approximately US\$896,001 to US\$960,000	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

14. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	(In USD'000, except share and per share data)	
	2023	2022
Earnings used in the calculation of basic earnings per share	902,526	1,817,942
Weighted average number of ordinary shares for the purposes of basic earnings per share	7,928,909,712	7,907,846,013
Basic earnings per share	\$0.11	\$0.23

DILUTED EARNINGS PER SHARE

The earnings used in the calculation of diluted earnings per share are as follows:

	(In USD'000, except share and per share data)	
	2023	2022
Earnings used in the calculation of basic earnings per share	902,526	1,817,942
Interest on convertible bonds (Note 8)	–	13
Earnings used in the calculation of diluted earnings per share	902,526	1,817,955
Weighted average number of ordinary shares used in the calculation of basic earnings per share	7,928,909,712	7,907,846,013
Employee options	5,479,598	8,169,992
Restricted share units	10,120,357	8,762,134
Restricted shares	19,505,077	14,230,435
Convertible bonds	–	464,739
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	7,964,014,744	7,939,473,313
Diluted earnings per share	\$0.11	\$0.23

During the year ended December 31, 2023, the Group had 9,460,349 (2022: 17,199,117) weighted average outstanding employee stock options excluded from the computation of diluted earnings per share because the exercise price was higher than the average market price of the ordinary shares. The Group had 6,570 (2022: 15,569,224) outstanding restricted shares excluded from the computation of diluted earnings per share due to the uncertainty about the achievement of non-market-based performance conditions in the future.

15. DIVIDEND

The board of director did not recommend the payment of any dividend for the year ended December 31, 2023 (December 31, 2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings USD'000	Machinery and equipment USD'000	Office equipment USD'000	Construction in progress USD'000	Total USD'000
Cost					
As at January 1, 2022	1,414,911	21,607,934	310,197	3,984,189	27,317,231
Additions	–	–	–	6,772,293	6,772,293
Transfers	81,480	3,992,117	97,969	(4,171,566)	–
Disposals	(221)	(152,588)	(2,975)	(2,221)	(158,005)
Reclassified as held-for-sale assets	(13,119)	–	–	–	(13,119)
As at December 31, 2022	1,483,051	25,447,463	405,191	6,582,695	33,918,400
Additions	–	229,066	–	7,460,755	7,689,821
Transfers	27,466	3,025,227	100,899	(3,153,592)	–
Disposals	(378)	(63,300)	(905)	(126)	(64,709)
As at December 31, 2023	1,510,139	28,638,456	505,185	10,889,732	41,543,512
Accumulated depreciation and impairment					
As at January 1, 2022	347,458	12,442,533	256,431	10,026	13,056,448
Depreciation	61,007	2,046,926	46,193	–	2,154,126
Disposals	(60)	(134,659)	(2,975)	–	(137,694)
Impairment loss written off	–	(153)	–	(2,221)	(2,374)
Reclassified as held-for-sale assets	(7,638)	–	–	–	(7,638)
As at December 31, 2022	400,767	14,354,647	299,649	7,805	15,062,868
Depreciation	59,673	2,468,142	67,056	–	2,594,871
Disposals	(241)	(57,631)	(900)	–	(58,772)
Impairment loss written off	–	(290)	–	(126)	(416)
As at December 31, 2023	460,199	16,764,868	365,805	7,679	17,598,551
Net carrying amount					
As at December 31, 2022	1,082,284	11,092,816	105,542	6,574,890	18,855,532
As at December 31, 2023	1,049,940	11,873,588	139,380	10,882,053	23,944,961

CONSTRUCTION IN PROGRESS

Included in construction in progress as of December 31, 2023, US\$5,693.4 million, US\$4,018.1 million, US\$578.6 million and US\$592.1 million were related to the construction of facilities and payment for acquisition of machinery and equipment of the fabs in Shanghai, Beijing, Shenzhen and Tianjin, respectively.

ASSETS PLEDGED AS SECURITY

As of December 31, 2023, there were no property, plant and equipment in the Group (December 31, 2022: approximately US\$198.4 million) that have been mortgaged to borrowings (Note 30) of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

17. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for various items of buildings, machinery and equipment, and other equipment used in its operations. Lump sum payments were made to acquire the land-use right with lease periods of 50 to 70 years and no ongoing payments will be made. Leases of buildings, machinery and equipment generally have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings USD'000	Machinery and equipment USD'000	land-use right USD'000	Total USD'000
As at January 1, 2022	1,983	198,024	353,722	553,729
Additions	–	–	78,940	78,940
Depreciation	(353)	(89,737)	(8,178)	(98,268)
Reclassified as held-for-sale assets	–	–	(48)	(48)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(4,558)	–	(4,558)
As at December 31, 2022	1,630	103,729	424,436	529,795
Additions	1,226	–	805	2,031
Depreciation	(520)	(48,275)	(9,234)	(58,029)
As at December 31, 2023	2,336	55,454	416,007	473,797

Land-use right pledged as security

As of December 31, 2023, there was no land-use right (December 31, 2022: US\$33.4 million) that has been mortgaged to borrowings (Note 30) of the Group.

Lease liabilities

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

	2023 USD'000	2022 USD'000
As at January 1,	109,531	210,224
New leases	1,226	–
Interest charged	2,422	5,154
Repayment	(54,403)	(101,913)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(4,558)
Foreign exchange loss	(156)	624
As at December 31,	58,620	109,531
Current portion	32,340	51,849
Non-current portion	26,280	57,682
	58,620	109,531

The maturity analysis of lease liabilities is disclosed in Note 36 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

17. LEASES (continued)

THE GROUP AS A LESSEE (continued)

Profit or loss in relation to leases

The amounts recognised in profit or loss in relation to leases are as follows:

	2023 USD'000	2022 USD'000
Interest expense	2,422	5,154
Depreciation of right-of-use assets	58,029	98,268
Expense relating to short-term and low value leases	7,390	5,881

Cash outflow in relation to leases

The total cash outflow for leases is disclosed in Note 38 to the consolidated financial statements.

THE GROUP AS A LESSOR

The Group leases parts of its buildings under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was US\$25.0 million (2022: US\$25.0 million).

As of December 31, 2023, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2023 USD'000	2022 USD'000
Within 1 year	4,723	5,873
1-2 years	3,907	3,448
Over 2 years	2,605	4,163
	11,235	13,484

18. INTANGIBLE ASSETS

	IP license USD'000
Cost	
As at January 1, 2022	471,203
Additions	941
Disposals	(4,259)
As at December 31, 2022	467,885
Additions	2,722
As at December 31, 2023	470,607
Accumulated amortisation and impairment	
As at January 1, 2022	403,587
Amortisation	18,967
As at December 31, 2022	422,554
Amortisation	14,391
As at December 31, 2023	436,945
Net carrying amount	
As at December 31, 2022	45,331
As at December 31, 2023	33,662

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

19. SUBSIDIARIES

The subsidiaries of the Company at the end of the reporting period are as follows:

Name of entity	Place of establishment/ incorporation and operation	Kind of legal entity	Issued share/ registered capital	Percentage of equity attributable to the Company	Principal activities	
SMIC Shanghai #	PRC	Limited corporation	USD2,440,000,000	Indirectly	100.00%	Manufacturing and trading of semiconductor products
SMIC Beijing #	PRC	Limited corporation	USD1,000,000,000	Indirectly	100.00%	Manufacturing and trading of semiconductor products
SMIC Tianjin #	PRC	Limited corporation	USD1,290,000,000	Indirectly	100.00%	Manufacturing and trading of semiconductor products
SMIC Shenzhen #	PRC	Limited corporation	USD2,415,000,000	Indirectly	55.05%	Manufacturing and trading of semiconductor products
SMNC #	PRC	Limited corporation	USD4,800,000,000	Indirectly	51.00%	Manufacturing and trading of semiconductor products
SMSC #	PRC	Limited corporation	USD6,500,000,000	Indirectly	38.52%	Manufacturing and trading of semiconductor products
SMBC #	PRC	Limited corporation	USD5,000,000,000	Indirectly	51.00%	Manufacturing and trading of semiconductor products
SMOC #	PRC	Limited corporation	USD5,500,000,000	Indirectly	67.03%	Manufacturing and trading of semiconductor products
SMIC New Technology #	PRC	Limited corporation	USD400,000,000	Indirectly	100.00%	Research and development activities
SMTC #	PRC	Limited corporation	USD5,000,000,000	Indirectly	100.00%	Manufacturing and trading of semiconductor products
Better Way Enterprises Limited	Samoa	—	USD1,000,000	Directly	100.00%	Provision of marketing related activities
SMIC, Americas	United States of America	—	USD500,000	Directly	100.00%	Provision of marketing related activities
SMIC Japan Corporation	Japan	—	JPY10,000,000	Directly	100.00%	Provision of marketing related activities
SMIC Europe S.R.L	Italy	—	EUR100,000	Directly	100.00%	Provision of marketing related activities
Semiconductor Manufacturing International (BVI) Corporation	British Virgin Islands	—	USD10	Directly	100.00%	Provision of marketing related activities
SMIC Investment (Shanghai) Corporation #	PRC	Limited corporation	USD465,800,000	Directly	100.00%	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands	—	USD50,000	Directly	100.00%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	—	USD10,000	Directly	100.00%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	—	HKD1,000	Indirectly	100.00%	Investment holding
SilTech Semiconductor (Shanghai) Corporation Limited #	PRC	Limited corporation	USD12,000,000	Indirectly	100.00%	Investment holding
SMIC Holdings Corporation #	PRC	Limited corporation	USD50,000,000	Directly	100.00%	investment holding
Magnificent Tower Limited	British Virgin Islands	—	USD50,000	Indirectly	100.00%	investment holding
China IC Capital Co., Ltd #	PRC	Limited corporation	RMB3,458,000,000	Indirectly	100.00%	Investment holding
China IC Capital (Ningbo) Co., Ltd #	PRC	Limited corporation	RMB4,000,000,000	Indirectly	100.00%	Investment holding
Shanghai Hexin Investment Management Limited Partnership #	PRC	Limited partnership	RMB50,000,000	Indirectly	99.00%	Investment holding
Qingdao Juyuan Jintai Capital Fund, LLP #	PRC	Limited partnership	RMB155,000,000	Indirectly	78.55%	Investment holding
Shanghai SMIC Private School #	PRC	Non-profit private school	RMB4,000,000	Indirectly	100.00%	Private education
Beijing SMIC Private School #	PRC	Non-profit private school	RMB5,000,000	Indirectly	100.00%	Private education
SMIC Development (Chengdu) Corporation #	PRC	Limited corporation	USD5,000,000	Directly	100.00%	Construction, operation, and management of living quarters

For identification purposes only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

19. SUBSIDIARIES (continued)

MATERIAL NON-CONTROLLING INTERESTS

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

	2023 USD'000	2022 USD'000
Current assets	3,323,234	3,429,011
Non-current assets	7,297,608	6,390,865
Current liabilities	(1,115,001)	(1,252,730)
Non-current liabilities	(338,199)	(124,600)
Net assets	9,167,642	8,442,546
Equity attributable to owners of the Company	4,675,497	4,305,698
Non-controlling interests	4,492,145	4,136,848
Net assets	9,167,642	8,442,546

	2023 USD'000	2022 USD'000
Revenue	1,654,369	1,884,773
Expense	(1,621,252)	(1,509,514)
Other income	31,455	(24,196)
Profit for the year	64,572	351,063
Profit attributable to owners of the Company	32,932	178,616
Profit attributable to the non-controlling interests	31,640	172,447
Profit for the year	64,572	351,063
Total comprehensive income attributable to owners of the Company	32,932	186,551
Total comprehensive income attributable to the non-controlling interests	31,640	180,068
Total comprehensive income for the year	64,572	366,619
Dividends paid to non-controlling interests	–	–
Net cash inflow from operating activities	1,146,884	860,527
Net cash outflow from investing activities	(2,025,828)	(1,580,481)
Net cash inflow from financing activities	844,255	854,529
Net cash (outflow)/inflow	(34,689)	134,575

20. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

The details of the Group's material associates at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of share held	Statutory percentage of ownership interest attributable to the Group	
			2023	2022
JCET	Jiangsu, PRC	Ordinary	12.79%	12.86%
Sino IC Leasing	Shanghai, PRC	Ordinary	8.17%	8.17%
NSI	Zhejiang, PRC	Ordinary	14.83%	15.85%
UNTC	Zhejiang, PRC	Ordinary	14.10%	19.57%

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

In accordance with the Articles of Association of the investees, the Group has significant influence through the right the Group owned to appoint director(s) to the board of directors of the above companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

20. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (continued)

All of these associates are accounted for using the equity method in these consolidated financial statements. Summarised financial information in respect of the Group's material associates, which include JCET, Sino IC Leasing, NSI and UNTC is below:

	2023 USD'000	2022 USD'000
Current assets	5,350,351	4,894,514
Non-current assets	15,163,147	14,186,058
Current liabilities	(3,228,642)	(3,662,163)
Non-current liabilities	(8,573,576)	(7,968,287)
Net assets	8,711,280	7,450,122
Less: non-controlling interests	(564,683)	(607,358)
Equity attributable to owners of the associates	8,146,597	6,842,764
Share of equity of associates	962,993	817,025
Goodwill	306,479	308,218
Less: unrealised profit	(11,661)	(23,831)
Carrying amount of the Group's interest	1,257,811	1,101,412

	2023 USD'000	2022 USD'000
Total revenue	5,374,547	6,191,716
Profit attributable to owners	(225,669)	199,935
Total comprehensive income attributable to owners	(283,076)	(214,971)
Dividends received from the associates	8,654	7,708

Details of the joint venture, which is an unlisted company invested directly through China IC Capital (Ningbo) Co., Ltd. at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group	
			2023	2022
Shanghai Xinxin Investment Centre (Limited Partnership)	Shanghai, PRC	Limited partner interest	49.00%	49.00%

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

	Investments in associates		Investment in a joint venture	
	2023 USD'000	2022 USD'000	2023 USD'000	2022 USD'000
Share of profit for the year	75,666	96,442	1,288	(2,364)
Share of total comprehensive income for the year	61,250	30,298	1,219	(3,232)
Aggregate carrying amount of the Group's investments	784,860	810,630	2,295	9,051

The associates and the joint venture included several investment funds, which measured their equity investments in portfolio investments at fair value. As of December 31, 2023, the carrying amount of those investment funds was US\$705.0 million (December 31, 2022: US\$745.3 million). The valuation of such portfolio investments is primarily based on a combination of adoption of applicable valuation methodology and the application of appropriate assumptions in the valuation. The unlisted equity investments in portfolio investments have been valued using recent transaction price or market approach, the listed equity investments in portfolio investments have been valued using quoted market prices adjusted for marketability and liquidity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

Financial assets	2023 USD'000	2022 USD'000
Non-current portion		
Financial assets at fair value through profit or loss		
Listed equity securities	–	649
Restricted listed equity securities	30,009	37,172
Unlisted equity securities	167,821	170,486
Structural deposits	284,139	–
Financial assets at amortised cost		
Bank deposits maturing more than 1 year	6,891,233	5,553,445
Other financial assets at amortised cost		
Restricted cash	256,071	–
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	1,306	9,028
Interest rate swap contracts — cash flow hedges	10,781	23,930
Current portion		
Financial assets at fair value through profit or loss		
Structural deposits	108,926	290,523
Monetary funds	105,703	85,253
Financial assets at amortised cost		
Bank deposits maturing more than 3 months and within 1 year	2,948,991	5,122,706
Other financial assets at amortised cost		
Cash and cash equivalents	6,215,058	6,932,587
Restricted cash	179,536	676,937
Financial assets included in trade and other receivables ⁽¹⁾ (Note 25)	605,236	905,037
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	38,897	146,669
Interest rate swap contracts — cash flow hedges	3,939	–
	17,847,646	19,954,422

⁽¹⁾ Financial assets included in trade and other receivables excluded the value-added tax to be deducted and tax recoverables.

Financial liabilities	2023 USD'000	2022 USD'000
Non-current portion		
Financial liabilities at amortised cost		
Borrowings (Note 30)	8,334,648	6,718,304
Lease liabilities (Note 17)	26,280	57,682
Bonds payable (Note 31)	599,115	598,379
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	34,547	15,286
Current portion		
Financial liabilities at amortised cost		
Financial liabilities included in trade and other payables and accrued liabilities	3,550,863	3,059,683
Borrowings (Note 30)	1,216,283	1,268,218
Lease liabilities (Note 17)	32,340	51,849
Derivative financial instruments		
Cross currency swap contracts — cash flow hedges	90,180	45,217
	13,884,256	11,814,618

The Group's exposure to various risks associated with the financial instruments is discussed in Note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

22. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments included cross currency swap contracts and interest rate swap contracts, the carrying amounts of those derivative financial instruments were presented in Note 21.

CROSS CURRENCY SWAP CONTRACTS – CASH FLOW HEDGE

Cross currency swap contracts are designated as hedging instruments in cash flow hedges of outstanding bank deposits and debts denominated in RMB. It is the policy of the Group to enter into cross currency swap contracts to mitigate the impact of volatility of future cash flows caused by the changes in exchange rates associated with the balance of bank deposits and debts denominated in RMB.

The following table details the notional amounts and remaining terms of the cross currency swap contracts outstanding at the end of the reporting period:

	Average exchange rate		Notional value			
	2023	2022	2023 RMB'000	2022 RMB'000	2023 USD'000	2022 USD'000
Buy RMB						
Within 1 year	6.9259	6.5624	20,769,845	4,110,929	2,932,476	590,261
1-5 years	6.7624	6.5542	7,455,000	9,162,300	1,052,565	1,315,553
Sell RMB						
Within 1 year	7.0802	6.7135	19,314,757	30,932,517	2,727,033	4,441,392

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

	Notional amount RMB'000	Carrying amount		Line item in the statement of financial position USD'000	Change in fair value used for measuring hedge ineffectiveness for the year USD'000
		Assets USD'000	Liabilities USD'000		
Buy RMB	28,224,845	8,856	(110,370)	Derivative financial instrument	(96,572)
Sell RMB	19,314,757	31,347	(14,357)	Derivative financial instrument	96,392

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

	Total hedging gain/ (loss) recognised in other comprehensive income USD'000	Hedge ineffectiveness recognised in profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income	Amount reclassified from other comprehensive income to profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income
Buy RMB	(96,572)	-	N/A	27,216	Foreign exchange gain, Finance costs
Sell RMB	96,392	-	N/A	(99,262)	Foreign exchange gain, Finance costs

The Group does not enter into any cross currency swap contract for speculative purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

INTEREST RATE SWAP CONTRACTS – CASH FLOW HEDGE

Interest rate swap contracts are designated as hedging instruments in cash flow hedges of debts with variable interest rates. Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and on the cash flow exposures of the issued variable rate debt.

The following table details the notional amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

	Average interest rate		Notional value	
	2023	2022	2023 USD'000	2022 USD'000
Receive floating pay fixed rates				
Within 1 year	2.60%	–	152,000	–
1-5 years	1.51%	2.03%	159,000	340,000

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

	Notional amount USD'000	Carrying amount		Line item in the statement of financial position USD'000	Change in fair value used for measuring hedge ineffectiveness for the year USD'000
		Assets USD'000	Liabilities USD'000		
Receive floating pay fixed rates	311,000	14,720	–	Derivative financial instrument	17,147

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

	Total hedging gain recognised in other comprehensive income USD'000	Hedge ineffectiveness recognised in profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income	Amount reclassified from other comprehensive income to profit or loss USD'000	Line item in the statement of profit or loss and other comprehensive income

The interest rate swaps are settled on a quarterly basis. The floating rate on the interest rate swaps is based on SOFR. The difference between the fixed and floating interest rates will be settled on a net basis.

23. RESTRICTED CASH

	2023 USD'000	2022 USD'000
Non-current portion	256,071	–
Current portion	179,536	676,937
	435,607	676,937

As of December 31, 2023, the restricted cash consisted of bank deposits pledged against secured borrowings of US\$411.4 million (December 31, 2022: US\$653.4 million), and bank deposits pledged against foreign exchange trading of US\$24.2 million (December 31, 2022: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

24. INVENTORIES

	2023 USD'000	2022 USD'000
Raw materials	1,265,914	764,026
Work in progress	1,068,664	945,529
Finished goods	401,343	201,932
	2,735,921	1,911,487

25. TRADE AND OTHER RECEIVABLES

	2023 USD'000	2022 USD'000
Trade receivables	495,102	691,783
Allowance on doubtful trade receivables (Note 36)	(758)	(1,560)
	494,344	690,223
Other receivables	10,427	29,885
Allowance on doubtful other receivables (Note 36)	(413)	(866)
	10,014	29,019
Notes receivables	62,470	74,894
Value-added tax to be deducted	558,807	325,027
Tax recoverables	5,965	72,578
Investment receivables	3,884	8,502
Interest receivables	25,820	77,247
Refundable deposits and surety	8,704	25,152
	1,170,008	1,302,642

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

Age of trade receivables	2023 USD'000	2022 USD'000
Within 1 year	495,003	690,995
1-2 years	6	553
2-3 years	-	36
Over 3 years	93	199
	495,102	691,783

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business, which are generally due for settlement within 30-90 days. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 36.

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

Age of other receivables	2023 USD'000	2022 USD'000
Within 1 year	8,920	29,050
1-2 years	1,297	538
2-3 years	29	92
Over 3 years	181	205
	10,427	29,885

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

26. ASSETS CLASSIFIED AS HELD-FOR-SALE

As of December 31, 2023, the assets related to employee's living quarters recognised as assets classified as held-for-sales was US\$22.0 million (December 31, 2022: US\$22.0 million). The expected disposal expense was US\$5.0 million (December 31, 2022: US\$5.3 million).

27. SHARES AND ISSUED CAPITAL

ISSUED AND FULLY PAID ORDINARY SHARES

	Number of shares	Ordinary shares USD'000	Share premium USD'000
As at January 1, 2022	7,903,856,555	31,615	13,836,614
Issue of shares under share incentive plans (Note 35)	25,968,139	104	162,765
Conversion options of convertible bonds exercised	1,679,502	7	2,325
Shares repurchased	(18,839,500)	(75)	(38,239)
As at December 31, 2022	7,912,664,696	31,651	13,963,465
Issue of shares under share incentive plans (Note 35)	33,891,064	135	153,607
As at December 31, 2023	7,946,555,760	31,786	14,117,072

28. OTHER RESERVES

EQUITY-SETTLED EMPLOYEE BENEFIT RESERVE

The equity-settled employee benefit reserve related to share options, RSUs and restricted shares granted by the Company to the Group's employees under stock incentive plans. Items included in equity-settled employee benefit reserve will not be reclassified subsequently to profit or loss.

FOREIGN CURRENCY TRANSLATION RESERVE

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. United States dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating the net assets of foreign operations) will be reclassified to profit or loss upon the disposal or deconsolidation of the foreign operation.

CASH FLOW HEDGES

To mitigate the impact of volatility of future cash flows caused by the changes in exchange rates and interest rate associated with outstanding debts, the Group entered into several cross currency swap contracts and interest rate swap contracts, which were designated as hedging instruments. Any gains or losses arising from changes in fair value of these hedging instruments are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income/(loss) and later reclassified to profit or loss when the hedged item affects profit or loss.

The hedging reserve is used to record gains or losses on derivatives designated and qualified as cash flow hedges that are recognised in other comprehensive income. Amounts will be reclassified to profit or loss when the associated hedged transaction affects profit or loss.

	2023 USD'000	2022 USD'000
Other comprehensive income on cash flow hedges recognised		
Fair value gain	16,967	248,889
Offset foreign exchange loss	(1,858)	(186,116)
(Deducted)/added finance cost	(95,742)	32,143
	(80,633)	94,916
As at January 1,	94,933	17
As at December 31,	14,300	94,933

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

29. RETAINED EARNINGS

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of the registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under the PRC regulations.

30. BORROWINGS

	2023 USD'000	2022 USD'000
At amortised cost		
Short-term bank borrowings		
– secured	–	140,000
– unsecured nor unguaranteed	479,337	508,704
Long-term bank borrowings		
– guaranteed	2,827,484	1,869,234
– secured	276,200	478,000
– unsecured nor unguaranteed	5,967,910	4,969,689
Other borrowings		
– secured	–	20,895
	9,550,931	7,986,522
Current portion		
Short-term bank borrowings	479,337	648,704
Current maturities of long-term bank borrowings and other borrowings	736,946	619,514
	1,216,283	1,268,218
Non-current portion		
Non-current maturities of long-term bank borrowings and other borrowings	8,334,648	6,718,304
	9,550,931	7,986,522
Borrowing by repayment schedule		
Within 1 year	1,216,283	1,268,218
1-2 years	2,802,153	1,399,806
2-5 years	2,707,835	3,744,395
Over 5 years	2,824,660	1,574,103
	9,550,931	7,986,522

The Group's bank borrowings and other borrowings amounting to US\$276.2 million were secured by the mortgage of assets and the pledge of bank deposits of the Group as follows:

	2023 USD'000	2022 USD'000
Secured by		
– Property, plant and equipment and land-use rights	–	184,895
– Restricted cash	276,200	454,000
	276,200	638,895

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

	2023 USD'000	2022 USD'000
RMB	8,614,664	6,630,555
USD	936,267	1,355,967
	9,550,931	7,986,522

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

30. BORROWINGS (continued)

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

	2023 USD'000	2022 USD'000
RMB	2.10%	2.25%
USD	3.54%	2.79%

31. BONDS PAYABLE

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

	USD'000
Principal amount	600,000
Discount of bonds payable	(3,232)
Transaction cost	(368)
	596,400

The movement of the corporate bonds is set out below:

	USD'000
As at January 1, 2022	597,663
Interest charged	16,873
Interest payable recognised	(16,157)
As at December 31, 2022	598,379
Interest charged (Note 8)	16,893
Interest payable recognised	(16,157)
As at December 31, 2023	599,115

32. DEFERRED GOVERNMENT FUNDING

Government funding is recorded as a liability upon receipt and recognised as other operating income over the useful life of R&D equipment or until the milestones specified in the terms of the funding have been reached. In 2023, the Group receives government funding of US\$292.7 million (2022: US\$96.8 million) and recognised US\$363.6 million (2022: US\$288.5 million) as other operating income.

33. TRADE AND OTHER PAYABLES

	2023 USD'000	2022 USD'000
Payables for property, plant and equipment	2,123,363	1,758,066
Trade payables	700,642	582,548
Deposits received	544,564	556,953
Others	359,353	319,434
	3,727,922	3,217,001

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

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For the year ended December 31, 2023

33. TRADE AND OTHER PAYABLES (*continued*)

The following is an aging analysis of trade payables and payables for property, plant and equipment presented based on the invoice date at the end of the reporting period.

Age of payables	2023 USD'000	2022 USD'000
Within 30 days	2,717,453	2,256,114
31-60 days	79,238	48,127
Over 60 days	27,314	36,373
	2,824,005	2,340,614

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

34. ACCRUED LIABILITIES

The amounts of accrued liabilities as of December 31, 2023 and 2022 were US\$298.0 million and US\$309.2 million, within which the amounts of accrued bonus were US\$201.4 million and US\$185.6 million respectively.

35. SHARE-BASED PAYMENTS

STOCK INCENTIVE PLANS

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

The expense arising from equity-settled share-based payments for the year ended December 31, 2023 was US\$86.9 million (2022: US\$153.1 million).

Stock option plan

The options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of 4 years.

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

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

Equity incentive plan

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

The RSUs issued before April 1, 2023 to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversary of the vesting commencement date, respectively.

The RSUs issued after April 1, 2023 (included) to existing employees generally vest at a rate of 50%,30%,20% on the vesting commencement date and on the subsequent first and second anniversary, respectively.

SSE STAR Market restricted share incentive scheme

The restricted shares were granted to awardees, including directors, senior management, core technicians, middle and senior business management and key technical and business staff at a grant price of RMB20 per share. The purpose of the scheme is to further stabilise its core team and align the interests of employees and the shareholders.

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

The validity period of the scheme will commence from the grant date of the first grant, until the date on which all restricted shares granted to awardees have been vested or lapsed, such period shall not exceed 72 months.

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For the year ended December 31, 2023

35. SHARE-BASED PAYMENTS (continued)

MOVEMENTS DURING THE YEAR

Share options

The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the year:

	2023 Number	2023 WAEP	2022 Number	2022 WAEP
Outstanding at January 1	31,802,132	HKD15.54	38,579,564	HKD15.09
Lapsed during the year	(1,384,857)	HKD20.32	(3,483,749)	HKD18.87
Exercised during the year	(9,292,320)	HKD9.80	(3,293,683)	HKD6.77
Outstanding at December 31	21,124,955	HKD17.75	31,802,132	HKD15.54
Exercisable at December 31	13,187,828	HKD17.26	13,061,692	HKD12.11

The weighted average closing price of the Company’s shares immediately before the dates while the share options were exercised was HKD20.11 (2022: HKD16.63).

The range of exercise prices for options outstanding at the end of the year was from HKD6.40 to HKD24.50 (2022: from HKD5.62 to HKD24.50).

No share option was granted in 2023.

RSUs

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

	2023 Number	2023 Purchase price	2022 Number	2022 Purchase price
Unvested at January 1	12,016,129	HKD0.031	8,767,193	HKD0.031
Granted during the year	6,486,093	HKD0.031	8,695,676	HKD0.031
Lapsed during the year	(1,097,849)	HKD0.031	(1,942,709)	HKD0.031
Vested during the year	(7,421,471)	HKD0.031	(3,504,031)	HKD0.031
Unvested at December 31	9,982,902	HKD0.031	12,016,129	HKD0.031

The weighted average closing price of the Company’s shares immediately before the dates on which the RSUs were vested was HKD17.60 (2022: HKD18.06).

RSUs were granted on April 1, 2023 with the fair value of HKD18.57 (April 8, May 20, September 5 and November 18, 2022: HKD17.05, HKD16.25, HKD15.11, HKD16.97).

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

Restricted shares

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

	2023 Number	2023 Grant price	2022 Number	2022 Grant price
Unvested at January 1	49,923,896	RMB20	66,858,880	RMB20
Granted during the year	–	RMB20	8,115,200	RMB20
Lapsed during the year	(4,076,584)	RMB20	(6,110,464)	RMB20
Vested during the year	(16,206,452)	RMB20	(18,939,720)	RMB20
Unvested at December 31	29,640,860	RMB20	49,923,896	RMB20

No restricted shares was granted in 2023.

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For the year ended December 31, 2023

36. RISK MANAGEMENT

CAPITAL MANAGEMENT

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

The Group balances its overall capital structure through new share issues, share buy-backs, the issue of new debt or the repayment of existing debt, and reviews the capital structure on an interim basis.

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

Net Debt	2023 USD'000	2022 USD'000
Borrowings	9,550,931	7,986,522
Lease liabilities	58,620	109,531
Bonds payable	599,115	598,379
Subtotal	10,208,666	8,694,432
Less:		
Cash and cash equivalents	6,215,058	6,932,587
Restricted cash	435,607	676,937
Financial assets at fair value through profit or loss – current portion	214,629	375,776
Financial assets at amortised cost	9,840,224	10,676,151
	(6,496,852)	(9,967,019)

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

	2023 USD'000	2022 USD'000
Net debt	(6,496,852)	(9,967,019)
Equity	30,845,616	28,961,421
Net debt to equity ratio	-21.1%	-34.4%

FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise borrowings, lease liabilities, bonds payables, restricted cash, cash and cash equivalents, and bank deposits maturing more than 3 months. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally cross currency swaps and interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- cross currency swap contracts to mitigate the impact of volatility of future cash flows caused by the fluctuation in exchange rates associated with outstanding long-term debts and financial asset at amortised cost denominated in a currency other than the USD; and
- interest rate swaps to mitigate the risk of rising interest rates.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as of December 31, 2023.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

36. RISK MANAGEMENT (continued)

FOREIGN CURRENCY RISK

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities, considering the effects of derivative financial instruments, at the end of the reporting period are as follows:

	Liabilities		Assets	
	2023 USD'000	2022 USD'000	2023 USD'000	2022 USD'000
EUR	281,233	115,584	269,997	112,656
JPY	186,501	190,757	179,454	177,482
RMB	6,580,281	6,292,429	8,196,808	7,180,684
Others	122,799	108,205	6,023	25,202

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of RMB.

The following table details the Group's sensitivity to a 5% increase in the RMB against USD, which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. For a 5% decrease of the RMB against USD, there would be an equal and opposite impact on the profit or loss after tax below predicted.

	2023 USD'000	2022 USD'000
Profit after tax	(83,825)	(46,087)

INTEREST RATE RISK

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

Interest rate sensitivity analysis

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At December 31, 2023, after taking into account the effect of the interest rate swaps, approximately 58% (2022: 56%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a 50bps increase in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate borrowings) and the Group's equity. For a 50bps decrease of interest rates, there would be an equal and opposite impact on the profit or loss after tax below predicted.

	2023 USD'000	2022 USD'000
Profit after tax	(18,149)	(14,301)

PRICE RISK

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the consolidated statement of financial position as at fair value through profit or loss (Note 21).

On December 31, 2023, 5% increase/(decrease) in equity securities price would result in increase/(decrease) in profit by US\$7.42 million (December 31, 2022: US\$7.81 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

36. RISK MANAGEMENT (continued)

CREDIT RISK

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly exposed to credit risk from trade receivables, other receivables, other financial assets at amortised cost, including bank deposits, interest receivables, notes receivables, restricted cash, investment receivables, refundable deposits and surety, and the financial assets at fair value through profit or loss, including structural deposits, monetary funds and derivative financial instruments.

Customer credit risk is managed subject to the Group's established policy. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and is offered credit terms only with the approval from Finance and Sales Division. Credit quality of a customer is assessed using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and credit ratings of its counterparties are continuously monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

At the end of the reporting period, the Group had certain concentrations of credit risk as 38.1% (2022: 30.5%) and 61.5% (2022: 60.5%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and aging.

The loss allowance as of December 31, 2023 for trade receivables was determined using simplified approach as follows:

2023	Balance	Expected loss rate	Allowance on doubtful receivables
Within 1 year	495,003	0.13%	664
1-2 years	6	23.08%	1
Over 3 years	93	100%	93
	495,102		758

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

For other receivables, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on other receivables has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to 12-month ECL. Based on the assessment, the impairment loss reversed during the year for other receivables was US\$0.5 million.

The closing allowance on doubtful trade receivables and other receivables as of December 31, 2023 reconcile to the opening balance as follows:

	2023 USD'000	2022 USD'000
As at January 1,	2,426	1,821
(Reversal)/addition in allowance on doubtful trade receivables	(802)	809
Reversal in allowance on doubtful other receivables	(453)	(204)
As at December 31,	1,171	2,426

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

36. RISK MANAGEMENT (continued)

LIQUIDITY RISK

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
2023							
Interest-bearing bank and other borrowings	Fixed	2.10%	111,760	620,182	4,267,383	2,231,647	7,230,972
	Floating	2.54%	405,588	276,964	2,051,940	556,247	3,290,739
Lease liabilities		3.70%-5.00%	8,430	25,054	26,718	-	60,202
Bonds payable		2.69%	8,079	8,079	608,079	-	624,237
Financial liabilities included in trade and other payables and accrual liabilities			3,232,116	306,727	-	-	3,538,843
			3,765,973	1,237,006	6,954,120	2,787,894	14,744,993

		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	Over 5 years USD'000	Total USD'000
2022							
Interest-bearing bank and other borrowings	Fixed	2.22%	368,779	474,388	2,134,587	1,544,295	4,522,049
	Floating	2.47%	60,770	544,385	3,348,386	275,919	4,229,460
Lease liabilities		3.70%-5.00%	15,723	38,839	58,923	-	113,485
Bonds payable		2.69%	8,079	8,079	624,237	-	640,395
Financial liabilities included in trade and other payables and accrual liabilities			3,013,350	33,473	-	-	3,046,823
			3,466,701	1,099,164	6,166,133	1,820,214	12,552,212

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Interest rates above do not include effect by hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

36. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

The following table details the Group's liquidity analysis for the cross currency swap contracts and interest rate swap contract. The table has been drawn up based on the undiscounted inflows and outflows on those derivatives.

2023	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Over 5 years USD'000	Total USD'000
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
– inflows	2,066,035	3,685,054	1,090,536	–	6,841,625
– outflows	(2,077,153)	(3,673,272)	(1,158,686)	–	(6,909,111)
Interest rate swap contracts					
— cash flow hedges					
Gross settled:					
– inflows	5,214	10,321	8,236	–	23,771
– outflows	(1,566)	(2,723)	(1,859)	–	(6,148)
	(7,470)	19,380	(61,773)	–	(49,863)
<hr/>					
2022	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Over 5 years USD'000	Total USD'000
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
– inflows	2,758,449	2,366,228	1,361,679	–	6,486,356
– outflows	(2,604,472)	(2,348,083)	(1,414,285)	–	(6,366,840)
Net settled:					
– net outflows	(2,539)	(857)	–	–	(3,396)
Interest rate swap contracts					
— cash flow hedges					
Gross settled:					
– inflows	4,943	14,481	20,680	–	40,104
– outflows	(1,703)	(4,995)	(6,148)	–	(12,846)
	154,678	26,774	(38,074)	–	143,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted cash, financial assets at amortised cost, financial assets included in trade and other receivables, lease liabilities, financial liabilities included in trade and other payables and accrued liabilities, borrowings and bonds payable approximate to their carrying amounts.

VALUATION PROCESSES

The finance department performs the valuations of financial assets required for financial reporting purposes and reports directly to the chief financial officer. Discussions of valuation processes, results and change analyses are held by the chief financial officer and the financial team annually, in line with the Group's yearly reporting periods. The valuation is reviewed by the audit committee.

VALUATION TECHNIQUES AND ASSUMPTIONS APPLIED FOR THE PURPOSES OF MEASURING FAIR VALUE

The fair values of financial instruments are based on quoted market prices in active markets and valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information that the Group obtains from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, the Group generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and the Group's evaluation of those factors changes.

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the year ended December 31, 2023:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

2023	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
Restricted listed equity securities	Asian option pricing model	–	–	30,009	30,009
Unlisted equity securities	Valuation multiples or the latest price method of financing	–	–	167,821	167,821
Monetary funds	Observable prices	105,703	–	–	105,703
Cross currency swap contracts – cash flow hedges	The present value of the estimated future cash flows based on observable yield curves	–	40,203	–	40,203
Interest rate swap contracts – cash flow hedges	The present value of the estimated future cash flows based on observable yield curves	–	14,720	–	14,720
Structural deposits	Monte Carlo simulation	–	–	393,065	393,065
		105,703	54,923	590,895	751,521
Financial liabilities					
Cross currency swap contracts – cash flow hedges	The present value of the estimated future cash flows based on observable yield curves	–	124,727	–	124,727
2022	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
Listed equity securities	Quoted market prices	649	–	–	649
Restricted listed equity securities	Asian option pricing model	–	–	37,172	37,172
Unlisted equity securities	Valuation multiples or the latest price method of financing	–	–	170,486	170,486
Monetary funds	Observable prices	85,253	–	–	85,253
Cross currency swap contracts – cash flow hedges	The present value of the estimated future cash flows based on observable yield curves	–	155,697	–	155,697
Interest rate swap contracts – cash flow hedges	The present value of the estimated future cash flows based on observable yield curves	–	23,930	–	23,930
Structural deposits	Monte Carlo simulation	–	–	290,523	290,523
		85,902	179,627	498,181	763,710
Financial liabilities					
Cross currency swap contracts – cash flow hedges	The present value of the estimated future cash flows based on observable yield curves	–	60,503	–	60,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The following table presents the changes in level 3 instruments for the year ended:

	Restricted listed equity securities USD'000	Unlisted equity securities USD'000	Structural deposits USD'000	Total USD'000
As at January 1, 2022	16,133	204,556	–	220,689
Additions	18,270	5,872	527,848	551,990
Disposals	(16,133)	(4,675)	(220,119)	(240,927)
Gains recognised	19,932	(18,978)	10,072	11,026
Foreign exchange gain	(1,030)	(16,289)	(27,278)	(44,597)
As at December 31, 2022	37,172	170,486	290,523	498,181
Additions	–	9,786	1,069,641	1,079,427
Disposals	(16,990)	(34,450)	(956,876)	(1,008,316)
Gains recognised	10,747	25,275	12,448	48,470
Foreign exchange gain	(920)	(3,276)	(22,671)	(26,867)
As at December 31, 2023	30,009	167,821	393,065	590,895

VALUATION INPUTS AND RELATIONSHIPS TO FAIR VALUE

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

2023	Fair value (USD'000)	Valuation techniques	Unobservable input
Unlisted equity securities	167,821	Valuation multiples or the latest price method of financing	Average PE, PS, EVS multiple of peers and the latest price of financing
Restricted listed equity securities	30,009	Asian option pricing model	Liquidity discounts
Structural deposits	393,065	Monte Carlo simulation	Brownian motion process

2022	Fair value (USD'000)	Valuation techniques	Unobservable input
Unlisted equity securities	170,486	Valuation multiples or the latest price method of financing	Average PE, PS of peers and the latest price of financing
Restricted listed equity securities	37,172	Asian options pricing model	Liquidity discounts
Structural deposits	290,523	Monte Carlo simulation	Brownian motion process

The sensitivity analysis of unobservable inputs as of December 31, 2023 is summarised as below:

The higher the average PE, PS, EVS multiple of peers, the higher the fair value.

The higher the latest price of financing, the higher the fair value.

The higher the liquidity discounts, the lower the fair value.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2022: nil).

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38. CASH FLOW INFORMATION

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Liabilities from financing activities	Borrowings USD'000	Lease liabilities USD'000	Bonds payable USD'000	Convertible bonds USD'000	Medium-term notes USD'000	Total USD'000
As at January 1, 2022	5,726,987	210,224	597,663	1,978	235,515	6,772,367
Net cash flows in/(out)	2,690,505	(96,759)	–	–	(238,042)	2,355,704
Conversion options exercised	–	–	–	(1,991)	–	(1,991)
Interest charged	102,078	5,154	16,873	13	1,464	125,582
Interest payable recognised	(102,078)	(5,154)	(16,157)	–	(1,405)	(124,794)
Foreign exchange loss	(430,970)	–	–	–	2,468	(428,502)
Other changes	–	(3,934)	–	–	–	(3,934)
As at December 31, 2022	7,986,522	109,531	598,379	–	–	8,694,432
Net cash flows in/(out)	1,738,468	(51,981)	–	–	–	1,686,487
Acquisition – leases	–	1,226	–	–	–	1,226
Interest charged	190,109	2,422	16,893	–	–	209,424
Interest payable recognised	(190,109)	(2,422)	(16,157)	–	–	(208,688)
Foreign exchange loss	(174,059)	(156)	–	–	–	(174,215)
As at December 31, 2023	9,550,931	58,620	599,115	–	–	10,208,666

NON-CASH INVESTING AND FINANCING ACTIVITIES

	2023 USD'000	2022 USD'000
Conversion options of convertible bonds exercised during the year	–	1,991
Increase of right-of-use assets (excluded land-use right)	1,226	–
	1,226	1,991

TOTAL CASH OUTFLOW OF LEASES

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

	2023 USD'000	2022 USD'000
Within operating activities	9,812	11,035
Within financing activities	72,424	96,759
	82,236	107,794

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For the year ended December 31, 2023

38. CASH FLOW INFORMATION (continued)

CURRENCIES IN WHICH CASH AND CASH EQUIVALENTS ARE HELD

Denominated in	2023	2022
RMB	5,365,279	4,653,630
USD	394,086	1,984,816
EUR	269,998	112,655
JPY	179,422	177,408
HKD	6,273	3,059
TWD	–	1,019
	6,215,058	6,932,587

39. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the year ended December 31, 2023 and the relationships with the Group are disclosed below:

Related party name	Relationship
Subsidiaries of Datang Holdings (“Datang”)	Datang Holdings through Datang HK indirectly holding more than 5% shares of the Company
Toppan	An associate of the Group
Brite and its subsidiaries	An associate of the Group
China Fortune-Tech	An associate of the Group
JCET and its subsidiaries	An associate of the Group
Sino IC Leasing and its subsidiaries	An associate of the Group
UNTC	An associate of the Group
NSI	An associate of the Group
SGS	An associate of the Group
Semiconductor Technology Innovation Center (Beijing) Co., Ltd. (“Beijing Innovation Center”)	An associate of the Group
China IC Fund II	A director of the Company served as its director
Key Management Personnel who have transactions with the Group	Directors and senior management personnel

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39. RELATED PARTY TRANSACTIONS (continued)

TRADING TRANSACTIONS

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

		2023 USD'000	2022 USD'000
Sale of goods and services			
Brite and its subsidiaries	Sale of goods	100,998	139,238
Beijing Innovation Center	Sale of goods and services	60,047	132,150
Datang ⁽¹⁾	Sale of goods	16,634	214,199
NSI	Sale of goods and services	12,866	22,333
UNTC	Sale of goods and services	–	44
Purchase of goods and services			
Toppan	Purchase of goods	4,260	2,184
Beijing Innovation Center	Purchase of services	3,127	3,943
JCET and its subsidiaries	Purchase of services	729	595
China Fortune-Tech	Purchase of services	745	598
SGS	Purchase of goods and services	134	254
Transfer of assets			
Sino IC Leasing and its subsidiaries	Purchase of equipment	229,066	495,608
SGS	Purchase of equipment	18,368	18,986
UNTC	Sale of equipment	–	352
SGS	Sale of equipment	–	299
NSI	Sale of equipment	–	189
Beijing Innovation Center	Grant of licensing	–	122
Group as a lessor			
Toppan	Rent income	4,751	4,561
China Fortune-Tech	Rent income	860	770
SGS	Rent income	713	402
Beijing Innovation Center	Rent income	411	220
UNTC	Rent income	103	239
NSI	Rent income	23	86
Group as a lessee			
Sino IC Leasing and its subsidiaries	Payment of lease liabilities	53,754	100,828

⁽¹⁾ The related party transactions above constituted non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules. Details are disclosed in "V. (II) Non-exempt Continuing Connected Transactions Disclosed under the Hong Kong Listing Rules" in "Section 8 Significant Events" in the annual report. The other party transactions did not constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules.

The pricing of trading transactions with related parties that are not members of the Group refers to the pricing standards of third parties for comparable product or services at the same time and in the same region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

39. RELATED PARTY TRANSACTIONS (continued)

TRADING TRANSACTIONS (continued)

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

	Amounts due from related parties		Amounts due to related parties	
	2023 USD'000	2022 USD'000	2023 USD'000	2022 USD'000
Brite and its subsidiaries	8,216	15,643	5,916	8,110
UNTC	–	72	–	24
SGS	3,700	10,808	2,281	1,262
Toppan	1,002	780	689	174
Beijing Innovation Center	38,923	127,630	19,172	28,340
China Fortune-Tech	223	–	55	56
Sino IC Leasing and its subsidiaries	–	–	56,097	107,751
Datang	–	1,470	2,414	11,933
NSI	4,415	6,071	5,625	2,202
JCET and its subsidiaries	–	–	51	12

The balances are unsecured and interest-free.

CAPITAL CONTRIBUTION

The Group engaged with China IC Fund II jointly injected capital into certain subsidiaries of the Group, of which the China IC Fund II contributed a total of US\$265.5 million during the period.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Directors and senior management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

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

	2023 USD'000	2022 USD'000
Salaries, bonus and benefits	6,519	6,854
State-managed pension	41	33
Equity-settled share-based payment expense	2,814	3,775
	9,374	10,662

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

The numbers of senior management whose remuneration including salaries, bonus, benefits and state-managed pension fell within the following bands for the years ended December 31, 2023 are as follows:

	2023
Approximately US\$384,001 to US\$448,000	1
Approximately US\$512,001 to US\$576,000	1
Approximately US\$768,001 to US\$832,000	1
Approximately US\$1,344,001 to US\$1,408,000	2
Approximately US\$1,728,001 to US\$1,792,000	1
	6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

40. FINANCIAL INFORMATION OF THE COMPANY

STATEMENT OF FINANCIAL POSITION

	2023 USD'000	2022 USD'000
Assets		
<i>Non-current assets</i>		
Property, plant and equipment	16,483	32,001
Intangible assets	–	521
Investment in subsidiaries	10,956,682	9,993,170
Investment in associates	218,208	217,576
Other assets	302,442	30,562
Total non-current assets	11,493,815	10,273,830
<i>Current assets</i>		
Prepayment and prepaid operating expenses	941	993
Trade and other receivables	22,756	46,209
Due from subsidiaries	10,718,913	10,375,190
Financial assets at amortised cost	–	100,000
Derivative financial instruments	7,550	110,025
Cash and cash equivalents	337,570	208,419
Total current assets	11,087,730	10,840,836
Total assets	22,581,545	21,114,666
Equity and liabilities		
<i>Capital and reserves</i>		
Ordinary shares	31,786	31,651
Share premium	14,117,072	13,963,465
Other reserves	286,917	377,059
Retained earnings	5,680,327	4,777,801
Total equity	20,116,102	19,149,976
<i>Non-current liabilities</i>		
Borrowings	757,230	628,154
Bonds payable	599,115	598,379
Derivative financial instruments	34,547	13,953
Total non-current liabilities	1,390,892	1,240,486
<i>Current liabilities</i>		
Trade and other payables	43,364	38,636
Due to subsidiaries	817,505	643,089
Borrowings	149,533	13,800
Accrued liabilities	10,206	11,932
Derivative financial instruments	53,943	16,747
Total current liabilities	1,074,551	724,204
Total liabilities	2,465,443	1,964,690
Total equity and liabilities	22,581,545	21,114,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

40. FINANCIAL INFORMATION OF THE COMPANY (continued)

STATEMENT OF CHANGES IN EQUITY

(In USD'000)

	Ordinary shares	Share premium	Other reserves	Retained earnings	Total equity
As at January 1, 2022	31,615	13,836,614	321,576	2,959,859	17,149,664
Profit for the year	–	–	–	1,817,942	1,817,942
Other comprehensive income for the year	–	–	(53,967)	–	(53,967)
Total comprehensive income for the year	–	–	(53,967)	1,817,942	1,763,975
Issue of shares under share incentive plans	104	162,765	(104,753)	–	58,116
Share-based compensation	–	–	135,081	–	135,081
Shares repurchased	(75)	(38,239)	–	–	(38,314)
Conversion options of convertible bonds exercised during the year	7	2,325	(341)	–	1,991
Share of other capital reserve of associates accounted for using equity method	–	–	4,341	–	4,341
Transaction with non-controlling interests	–	–	75,122	–	75,122
Subtotal	36	126,851	109,450	–	236,337
As at December 31, 2022	31,651	13,963,465	377,059	4,777,801	19,149,976
Profit for the year	–	–	–	902,526	902,526
Other comprehensive income for the year	–	–	(115,633)	–	(115,633)
Total comprehensive income for the year	–	–	(115,633)	902,526	786,893
Issue of shares under share incentive plans	135	153,607	(96,965)	–	56,777
Share-based compensation	–	–	75,192	–	75,192
Share of other capital reserve of associates accounted for using equity method	–	–	6,204	–	6,204
Transaction with non-controlling interests	–	–	41,060	–	41,060
Subtotal	135	153,607	25,491	–	179,233
As at December 31, 2023	31,786	14,117,072	286,917	5,680,327	20,116,102

41. COMMITMENTS

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

	2023 USD'000	2022 USD'000
Commitments for building and facility construction	503,805	1,163,143
Commitments for acquisition of machinery and equipment	10,701,636	11,213,365
Commitments for acquisition of intangible assets	20,071	45,169
Commitments for capital contributions	171,384	209,690
	11,396,896	12,631,367

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

42. CONTINGENCY EVENTS

ARBITRATION OF CONTRACT DISPUTED WITH PDF SOLUTIONS, INC.

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

Management of the Group is of the view that the aforementioned contract dispute is still in the arbitration stage and the result of arbitration is uncertain and cannot be reasonably ascertainable. As of December 31, 2023, the Group did not make provision for the contingent liabilities from the contract dispute.

43. SUBSEQUENT EVENTS

On March 26, 2024, the subsidiary of the Company, SilTech Semiconductor (Shanghai) Corporation Limited ("SilTech Shanghai"), engaged into a share transfer agreement (the "Agreement") with Panshi Hong Kong Co., Ltd. ("Panshi Hong Kong").

According to the Agreement, SilTech Shanghai intends to transfer its 228,833,996 shares of JCET, which are subject to unrestricted circulation, to Panshi Hong Kong or its affiliates at a price of RMB29.00 per share, with a total transfer consideration of RMB6,636 million (approximately US\$935 million). After the completion of this transaction, SilTech Shanghai will no longer hold any shares in JCET.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on March 28, 2024.