* For identification purposes only

Annual Report 2018

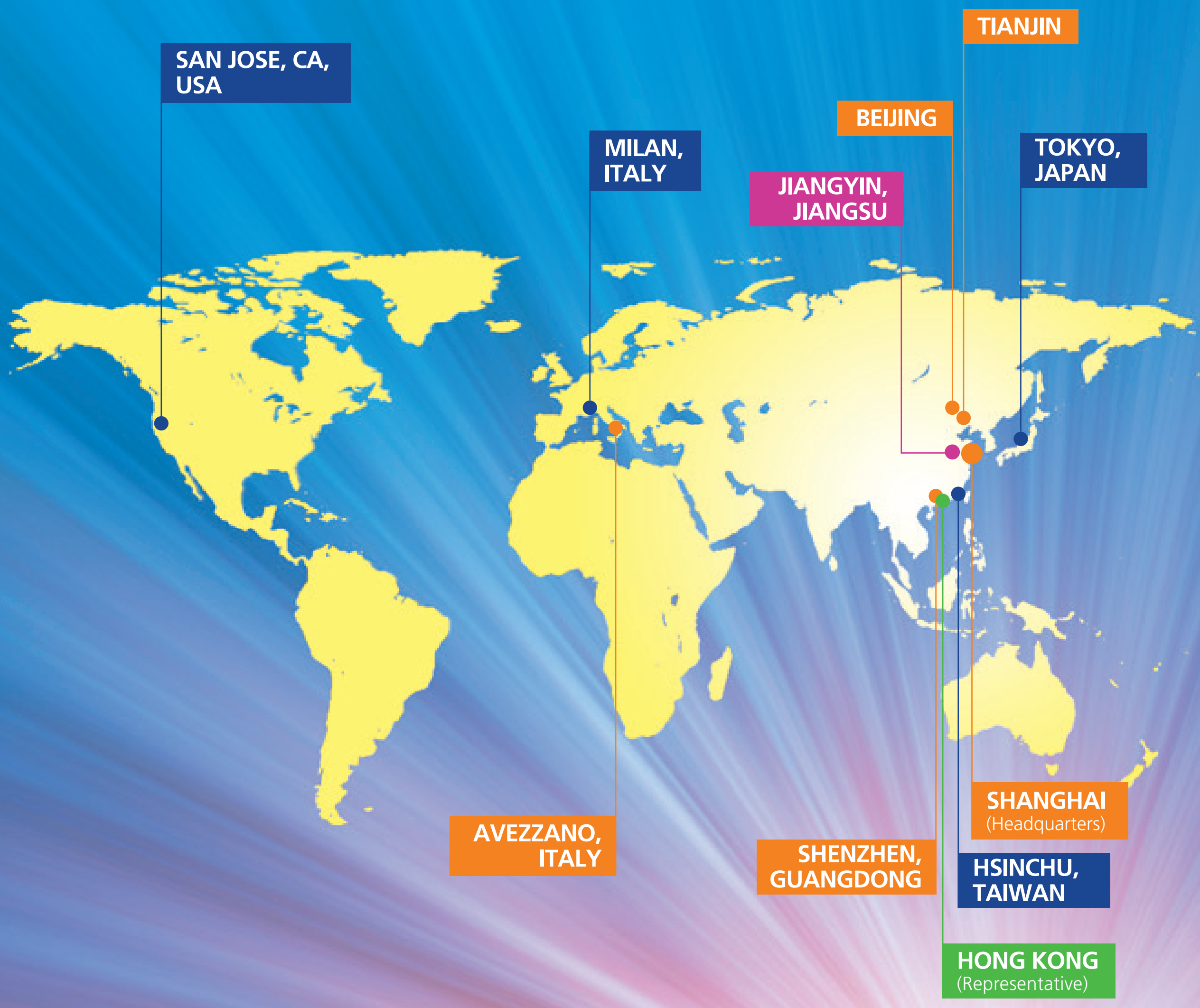
中芯國際集成電路製造有限公司*

Semiconductor Manufacturing International Corporation

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0981

SMIC
GLOBAL NETWORK



- SMIC FAB
- SMIC MARKETING OFFICE
- SMIC REPRESENTATIVE OFFICE
- SMIC BUMPING FAB

THE LARGEST ADVANCED FOUNDRY IN MAINLAND CHINA

EMPOWERED TECHNOLOGY

ENRICHED SERVICES.

ENHANCED COMPETITIVENESS

CONTENTS

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This annual report may contain, in addition to historical information, "forward-looking statements" within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995 and Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. These forward-looking statements are based on SMIC's current assumptions, expectations and projections about future events. SMIC uses words like "believe", "anticipate", "intend", "estimate", "expect", "project" and similar expressions to identify forward looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicality and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC's customers, bad debt risk, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity and financial stability in end markets.

Except as required by law, SMIC undertakes no obligation and does not intend to update any forward-looking statement, whether as a result of new information, future events or otherwise.

ABOUT NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("NON-GAAP") FINANCIAL MEASURE

This annual report includes EBITDA, which is a non-GAAP financial measure. Such non-GAAP financial measure is not calculated or presented in accordance with, and are not alternatives or substitutes for financial measures prepared in accordance with IFRS, and should be read only in conjunction with the Group's financial measures prepared in accordance with IFRS. The Group's non-GAAP financial measures may be different from similarly-titled non-GAAP financial measures used by other companies. The presentation of non-GAAP financial measure is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS. SMIC believes that use of these non-GAAP financial measures facilitates investors' and management's comparisons to SMIC's historical performance. The Group's management regularly uses these non-GAAP financial measures to understand, manage and evaluate the Group's business and make financial and operational decisions.

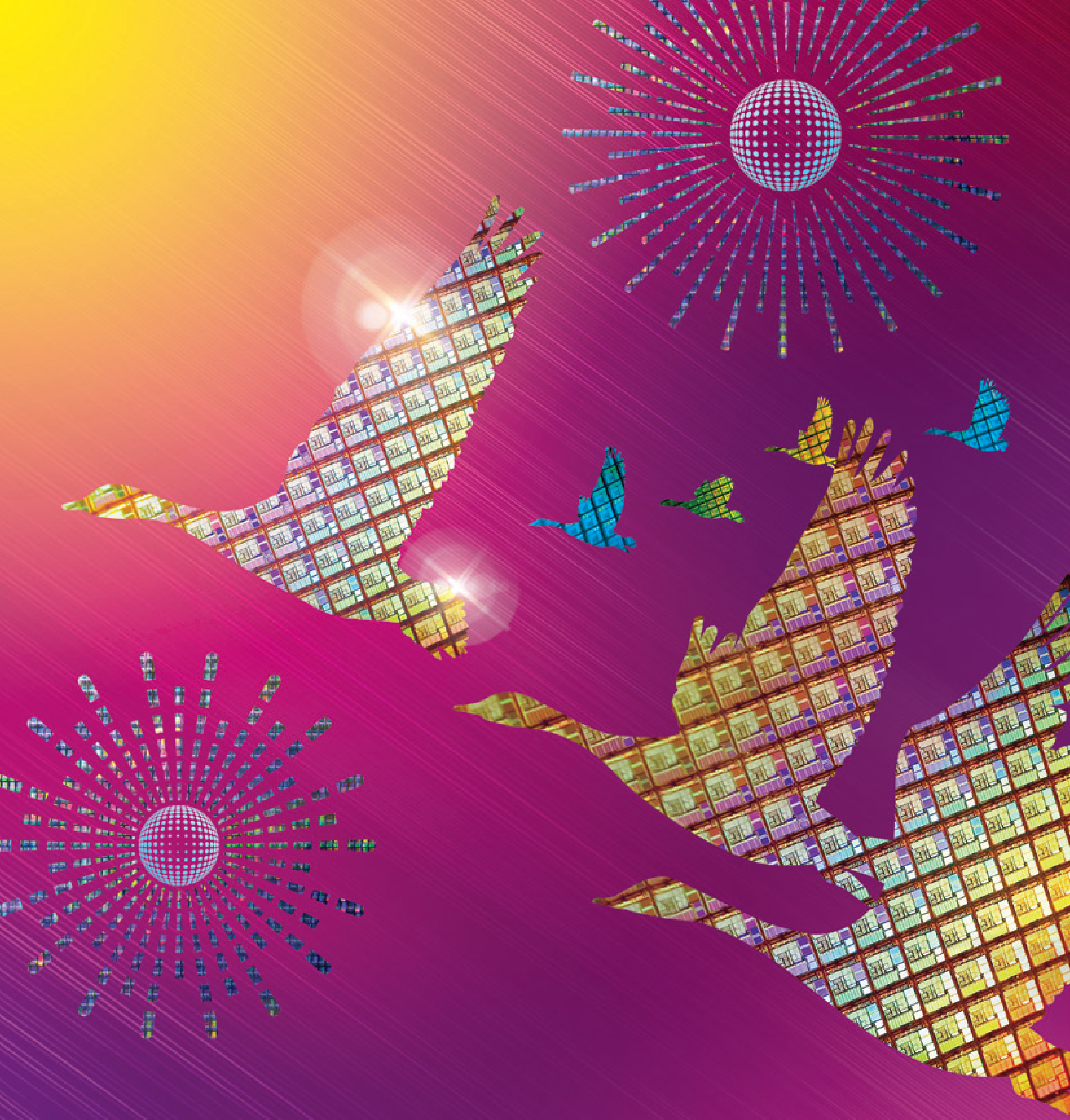
For more information and reconciliations of the non-GAAP financial measure to its most directly comparable GAAP financial measure, please see the disclosure on page 22.

ADDITIONAL INFORMATION

References in this annual report to:

- "2019 AGM" are to the Company's annual general meeting scheduled to be held on or around June 21, 2019;
- "BGN" are to Bulgarian Lev;
- "Board" are to the board of Directors;
- "China" or the "PRC" are to the People's Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- "Company" or "SMIC" are to Semiconductor Manufacturing International Corporation;
- "Director(s)" are to the director(s) of the Company;
- "EUR" are to Euros;
- "Group" are to the Company and its subsidiaries;
- "HK$" are to Hong Kong dollars;
- "Hong Kong Stock Exchange Listing Rules", "Listing Rules" or "Hong Kong Listing Rules" are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;
- "IFRS" are to International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "JPY" are to Japanese Yen;
- "NYSE" or "New York Stock Exchange" are to the New York Stock Exchange, Inc.;
- "Ordinary Share(s)" are to the ordinary share(s), in the share capital of the Company, of US$0.0004 each before December 7, 2016 and to the ordinary share(s) of US$0.004 each upon the Share Consolidation becoming effective on December 7, 2016;
- "RMB" are to Renminbi;
- "SEC" are to the U.S. Securities and Exchange Commission;
- "SEHK", "HKSE" or "Hong Kong Stock Exchange" are to the Stock Exchange of Hong Kong Limited;
- "Share Consolidation" are to the consolidation of every ten (10) issued and unissued ordinary shares of US$0.0004 each in the existing share capital of the Company into one ordinary share of US$0.004 each with effect from December 7, 2016;
- "US$" or "USD" are to U.S. dollars; and
- "U.S. GAAP" are to the generally accepted accounting principles in the United States.

All references in this annual report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer, 45 nanometer and 28 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state "0.25 micron process technology" that also includes 0.22 micron,0.21 micron, 0.20 micron and 0.19 micron technologies and "0.18 micron process technology" also includes 0.17 micron and 0.16 micron technologies. The financial information presented in this annual report has been prepared in accordance with IFRS.



BEING
TRUSTWORTHY
AND **RELIABLE**
FOR OUR CUSTOMERS

CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name (for identification purposes only)	中芯國際集成電路製造有限公司
Registered office	PO Box 2681 Cricket Square Hutchins Drive Grand Cayman KY1-1111 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong	Suite 3003 30th Floor 9 Queen's Road Central Hong Kong
Website address	http://www.smics.com
Joint Company Secretaries	Gao Yonggang Liu Wei
Authorized representatives	Zhou Zixue Gao Yonggang
Places of listing	The Stock Exchange of Hong Kong Limited ("HKSE") New York Stock Exchange ("NYSE")
Stock code	981 (HKSE) SMI (NYSE)

Financial Calendar

Announcement of 2018 annual results	March 29, 2019
2019 Annual General Meeting	June 21, 2019
Book closure period for 2019 Annual General Meeting	June 18, 2019 to June 21, 2019, both days inclusive
Financial year end	December 31

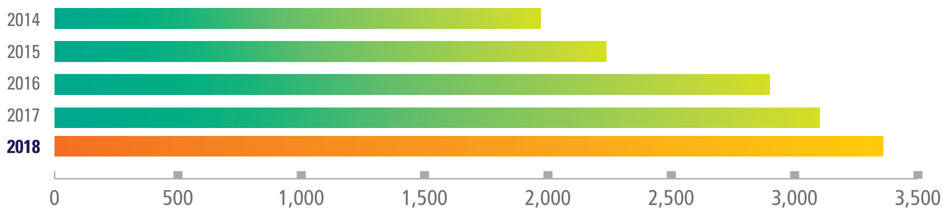
STRIVING FOR RETURNS

ON BEHALF OF SHAREHOLDERS

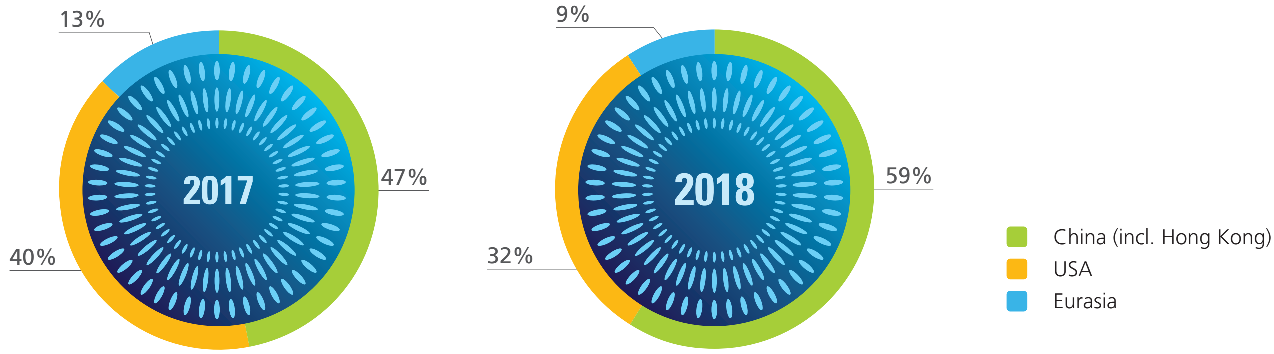
FINANCIAL HIGHLIGHTS

Total Revenue

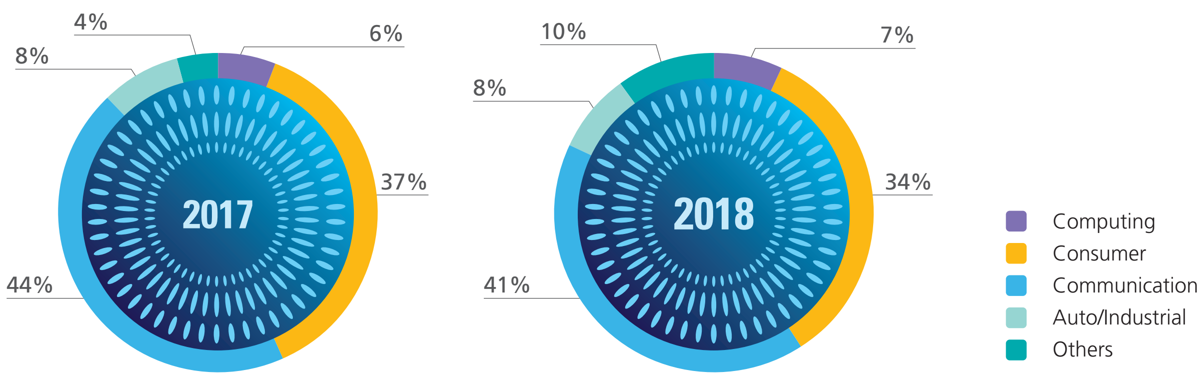
Revenue (US$ million)



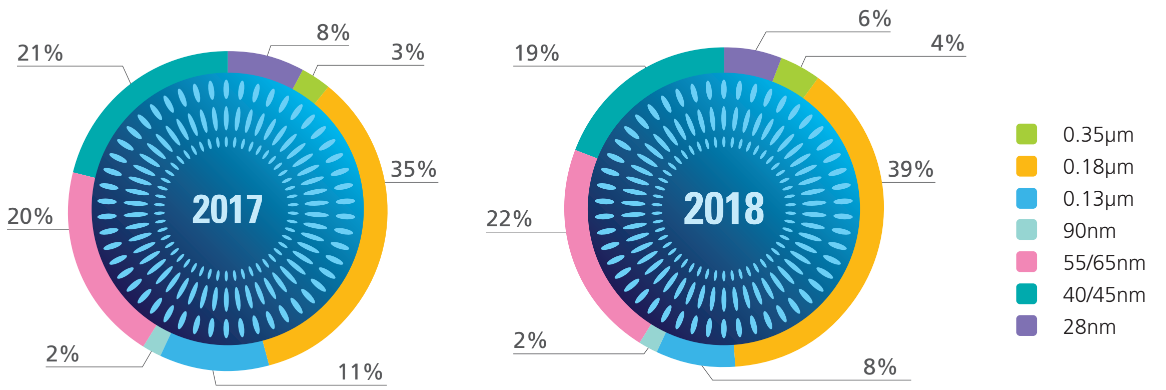
Sales by Region



Sales by Application



Wafer Sales by Technology



LETTER TO SHAREHOLDERS

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

In 2018, the global political and economic environment was complex with many uncertainties. Influenced by the saturation of the smart phone markets and global trade frictions, the growth of the IC industry slowed down and the pressure of price competition increased. The industry is facing great challenges, and yet, with this environment, the Company managed to make remarkable progress, thanks to the dedication and teamwork of all SMIC's employees. The Company recorded historic high revenue of US$3.36 billion for the year of 2018, representing a year-on-year increase of 8.3%. Earnings before interest, tax, depreciation and amortization amounted to US$1.16 billion, representing a year-on-year increase of 4.2%. For the year of 2018, revenue from PRC-based customers excluding technology licensing revenue increased 24.3% as compared to that of the previous year.

2018 was a year of accelerated research and development("R&D"). We invested over US$0.6 billion in R&D activities, far exceeding the industry average of R&D expenses in terms of revenue. We would like to express our heartfelt gratitude to all the members of our R&D team for their round-the-clock hard-work, enabling us to achieve significant breakthroughs in the research and development of advanced technology, demonstrating noteworthy improvement in the efficiency of our R&D efforts. We have completed the development of 28nm HKC+ and 14nm FinFET technology, and have begun customer engagement. It is expected that the mass production will commence in 2019. We also successfully developed the PRC's first 14nm masks. With the most advanced mask production capacity in the PRC, we can provide 14nm mask services for our customers this year.

2018 was the sixth year in which we have sponsored the "SMIC Liver Transplant Program for Children." The Company announced in June 2018 that it had donated RMB2.40 million to China Soong Ching Ling Foundation for the project. For the past six years, the Company has donated over RMB13.50 million and our business partners in the industry have donated RMB7.50 million to this program, accumulating a total donation of RMB21 million; through which, 350 afflicted and impoverished children from across the country have successfully received treatment and are able to enjoy their new lives.

In 2019, SMIC will operate under the dual pressures of uncertainties surrounding the external environment and the adjustment of the Company in this critical year of transition. We shall continue to focus on advancing our technology, building up platforms and developing business partnerships in order to fulfill our commitments to providing competitive services to our customers. Bearing in mind the saying that good honing gives a sharp edge to a sword and bitter cold adds keen fragrance to plum blossom, we will continue to work together and forge ahead, investing in R&D and providing enhanced customer service to strengthen the Company's overall competitive edge in order to lead SMIC to become a leading world-class semiconductor foundry in the near future. We remain committed to diligently and carefully execute our business plan for the best interests of all of our shareholders. We would like to again express our sincere gratitude to our shareholders, customers, suppliers, and employees for their continued care and support of SMIC.

Zhou Zixue
Chairman of the Board and Executive Director

Zhao Haijun, Liang Mong Song
Co-Chief Executive Officers and Executive Directors

Shanghai, China
March 29, 2019

BUSINESS REVIEW

In 2018, the Group continued to successfully execute its long-term strategy with sustained profitability and at the same time advancing its technology capabilities on leading edge and value-added differentiated processes. The Group's technology portfolio and proximity to the China market, coupled with the management team's proven track record in operations, technology development and customer service, has positioned the Group well for long term growth. 2018 was a milestone year for SMIC in many aspects. It was the second year since the Group appointed Dr. Zhao Haijun and Dr. Liang Mong Song as Co-Chief Executive Officers, during which the Group generated record annual revenue of US$3.36 billion, the highest in the Group's 18-year history. In 2018, the Group also continued to foster partnerships with leading industry players on 14nm Fin Field Effect Transistor ("FinFET") process technology development, and is ready for business engagement and IP validation, with expect to risk production expected to commence in 2019. In 2018, there was significant progress on 14nm FinFET process with customers. Our FinFET technology targets to address for mobile, wireless, and computing, AI, IoT and automotive applications to expand our product and service offerings. In addition to 28nm PolySiON and 28nm HKC, our 28nm HKC+ technology development is now completed and will be in mass production in 2019. The Group, together with China Integrated Circuit Industry Investment Fund Co., Ltd ("China IC Fund") and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd ("Shanghai IC Fund"), built up a majority-owned subsidiary, Semiconductor Manufacturing South China Corporation, to speed up the introduction of advanced FinFET technology and products.

We believe the Group was the first pure-play foundry in China to enter into mass production with 28nm wafer process technology for mobile computing applications, the first pure-play foundry worldwide to offer 55nm embedded Flash ("eFlash") and RF wafer solutions for SIM Card and IoT related wireless connectivity applications, and the first pure-play foundry worldwide to offer 38nm NAND Flash memory wafer process technology. The Group also continued to drive its value-added wafer manufacturing process technologies for specialty products, such as Power Management IC ("PMIC"), Battery Management IC ("BMIC"), embedded Electrically Erasable Programmable Read-Only Memory ("eEEPROM"), eFlash, Microprocessor ("MCU"), Ultra-Low-Power technologies ("ULP"), Radio Frequencies IC ("RF") and wireless connectivity, Touch Controller IC ("TCIC"), Biometric Sensors, CMOS Image Sensors ("CIS"), and Micro-Electrical-Mechanical System ("MEMS") sensors. These applications are the essential building blocks for the mobile computing market, the growing automotive electronics market, and Internet-of-Things ("IoT") market.

With an expanded manufacturing base, well-balanced technology portfolio and one-stop shop service offerings, the Group is well positioned with its global operations to serve both domestic and worldwide customers.

FINANCIAL OVERVIEW

Despite a challenging environment in 2018, the Group's sales totaled US$3,360.0 million, compared to US$3,101.2 million in 2017. The Group recorded a profit of US$77.2 million in 2018, compared to US$126.4 million in 2017. During the year, we generated US$799.4 million in cash from operating activities, compared to US$1,080.7 million in 2017. Capital expenditures in 2018 totaled US$1,813.4 million, compared to US$2,487.9 million in 2017. Looking ahead, our objective is to continue sustained profitability over the long term. To achieve this, we intend to focus on precision execution, efficiency improvement, customer service excellence while fostering innovation.

BUSINESS REVIEW

CUSTOMERS AND MARKETS

The Group continues to serve a broad global customer base comprising leading integrated device manufacturers, fabless semiconductor companies and system companies. Geographically, customers from the North America contributed 31.6% of the overall revenue in 2018, compared to 40.0% in 2017. Leveraging on the Group's strategic position in China, our China revenue contributed 59.1% of the overall revenue in 2018, compared to 47.3% in 2017. Eurasia contributed 9.3% of the overall revenue in 2018, compared to 12.7% in 2017.

In terms of applications, revenue contribution from communication applications represented 41.2% to the Group's overall revenue in 2018 as compared to 44.3% in 2017. Consumer applications contributed 34.4% to the Group's overall revenue in 2018 as compared to 37.4% in 2017. While the Group has very limited exposure to the PC market, it has grown its business in the computer applications from US$192.3 million in 2017 to US$221.0 million in 2018, representing a 14.9% increase on annual growth in computer segment. The Group has also increased its revenue in automotive and industrial applications from US$244.8 million in 2017 to US$263.0 million in 2018, representing a 7.4% increase on annual growth. Furthermore, other related applications revenue increase from US$132.5 million in 2017 to US$171.7 million (excluding the recognized technology licensing revenue of US$163.8 million authorized to an associate of Group) in 2018, representing a 29.6% increase on annual growth.

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

We believe the Group is also well positioned with its continuous business growth in China. According to IHS Markit, China continues to be the number one region of the world in terms of semiconductor IC consumptions, mainly due to its high volume electronics manufacturing and mass consumer market. IHS estimates that US$240 billion worth of semiconductors were shipped to China in 2018, representing 48.6% of worldwide semiconductor value. In addition, we believe the overall local China's IC design market is still growing healthily and strongly. Local analyst, IHS Markit, estimated that the China's IC design market reached approximately US$33 billion in 2018, a 26.9% year to year increase from 2017 and projected that it might experience a compound annual growth rate of 20.0% till year 2022, which would bring the worth of the China IC design market to US$82 billion by 2022. Global pure-play foundry market revenue year-on-year growth rate was 4.55% in 2018 according to IHS Markit, relatively SMIC total revenue year-on-year growth rate was 8.3% in 2018. While global pure-play foundry market is expected to grow by a compound annual growth rate of 4.62% during 2018 to 2022, our business revenue growth target is in line with foundry industry growth rate.

Notably, as indicative of future revenue growth, we continued to see new designs using both specialty technology and advanced technology, in particular on 0.18μm, 0.11/0.13μm, 55/65nm, 40/45nm, 28nm and 14nm FinFET process technologies. The Group has, in each of its sales regions, customers utilizing its most competitive specialty technology and advanced node technology. We believe China is rapidly closing the gap with the rest of the world in terms of innovation and design capabilities. To fully leverage the market growth potential in China, the Group plans to continue to deepen its collaboration with Chinese customers while broadening relationships with its global customers and enable their success in China and various emerging markets, such as mobile computing, automotive electronics, IoT, high performance computing, 5G, industrial, security and surveillance, Artificial Intelligence ("AI"), and edge computing related applications.

BUSINESS REVIEW

LONG-TERM BUSINESS MODEL AND STRATEGY FOR GENERATING AND PRESERVING VALUE

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

RESEARCH AND DEVELOPMENT

SMIC primarily focuses its research and development ("R&D") efforts on advanced logic and value-added specialty technologies. SMIC aims to accelerate advanced technology development with an emphasis on FinFET technology.

In 2018, SMIC successfully established its 14 nanometer technology platform, received customer recognition and moved into customer engagement and product verification. Our 14 nanometer technology will enter production in 2019. Meanwhile, 12 nanometer technology development also achieved breakthrough.

In 2018, SMIC launched the second generation 28HKMG platform, 28HKC+, for both Base Band and RF applications, with 15% performance improvement and 25% power reduction as compared with first generation 28HKMG technology 28HKC. Our 28HKC+ will enter production in 2019.

SMIC has also worked to enhance its R&D organizational structure in 2018, resulting in expanded capability, high efficiency, and increased resource allocation for accelerating technology developments, including advanced and specialty technologies.

In 2018, SMIC made over 600 patent filings as a result of its technology R&D activities.

BUSINESS REVIEW

OUTLOOK FOR 2019

Looking forward, we believe that 2019 is a year of uncertainty, and also a year of opportunity for SMIC. With uncertainties in the macro environment, we are actively seeking growth opportunities through steady progress in expanding our customer base, enriching mature and specialty technology product mix and applications, and exploring value-added opportunities. We continue to strive to be fundamentally strong, as we tighten customer partnerships and further expand our technology development.

For the year of 2019, we target core business revenue to be in line with the foundry industry revenue growth forecast. We continue to target a balanced strategy to maintain growth and profitability.

In 2019, our planned capital expenditure is $2.2 billion, which will be mainly used to build up the new majority-owned subsidiary's advanced fab in Shanghai, targeting to have a mini-line ready in the second half of the year. As we expand capacity to support the needs of our customers, we continue to utilize a joint-venture model for our advanced node facilities.

We continue to refine and build up our various mature node platforms. Mature technology is still a key growth driver for SMIC, as we plan to have multiple products ramping this year, including power management, memory, high-voltage LCD driver, CMOS image sensors, and fingerprint sensors.

In 2019, we are conservatively optimistic, as we see an abundance of opportunities knocking at our door. We expect China business to continue to be strong and maintain our commitment to serving a diverse range of global customers. SMIC's aim is to be a fundamentally strong company, and in the near to mid-term we must withstand the growing pains of developing and laying a strong foundation for our strategies and business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as of and for the years ended December 31, 2014, 2015, 2016, 2017 and 2018 are derived from, and should be read in conjunction with, the audited consolidated financial statements, including the related notes, found elsewhere in this annual report. The summary consolidated financial data presented below have been prepared in accordance with IFRS.

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DATA

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands, except per share, shares, percentages and units)				
Revenue	**3,359,984**	3,101,175	2,914,180	2,236,415	1,969,966
Cost of sales	**(2,613,307)**	(2,360,431)	(2,064,499)	(1,553,795)	(1,486,514)
Gross profit	**746,677**	740,744	849,681	682,620	483,452
Research and development expenses, net	**(558,110)**	(427,111)	(318,247)	(237,157)	(189,733)
Sales and marketing expenses	**(30,455)**	(35,796)	(35,034)	(41,876)	(38,252)
General and administration expenses	**(199,818)**	(198,036)	(167,582)	(213,190)	(137,871)
Net impairment losses (recognized) reversal on financial assets	**(937)**	137	10,211	13	(1,557)
Other operating income, net	**57,283**	44,957	177	31,594	14,206
Profit from operations	**14,640**	124,895	339,206	222,004	130,245
Interest income	**64,339**	27,090	11,243	5,199	14,230
Finance costs	**(24,278)**	(18,021)	(23,037)	(12,218)	(20,715)
Foreign exchange losses	**(8,499)**	(12,694)	(1,640)	(26,349)	(5,993)
Other gains (losses), net	**24,282**	16,499	(2,113)	55,611	18,210
Share of gain (loss) of investment accounted for using equity method	**21,203**	(9,500)	(13,777)	(13,383)	2,073
Profit before tax	**91,687**	128,269	309,882	230,864	138,050
Income tax (expense) benefit	**(14,476)**	(1,846)	6,552	(8,541)	(11,789)
Profit for the year	**77,211**	126,423	316,434	222,323	126,261
Other comprehensive income (loss)					
Item that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations	**(35,919)**	23,213	(19,031)	(8,185)	(324)
Change in value of available-for-sale financial assets	**—**	(2,381)	807	452	—
Cash flow hedges	**35,931**	35,143	(34,627)	—	—
Share of other comprehensive income of joint ventures accounted for using equity method	**—**	17,646	—	—	—
Others	**—**	(131)	1	130	—
Items that will not be reclassified to profit or loss					
Actuarial gains or losses on defined benefit plans	**129**	(436)	1,520	—	—
Total comprehensive income for the year	**77,352**	199,477	265,104	214,720	125,937

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands, except per share, shares, percentages and units)				
Profit (loss) for the year attributable to:					
Owners of the Company	**134,055**	179,679	376,630	253,411	152,969
Non-controlling interest	**(56,844)**	(53,256)	(60,196)	(31,088)	(26,708)
	77,211	126,423	316,434	222,323	126,261
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	**133,977**	251,135	326,191	245,803	152,645
Non-controlling interest	**(56,625)**	(51,658)	(61,087)	(31,083)	(26,708)
	77,352	199,477	265,104	214,720	125,937
Earnings per share[(1)]					
Basic	**$0.03**	$0.04	$0.09	$0.07	$0.05
Diluted	**$0.03**	$0.04	$0.08	$0.06	$0.04
Shares issued and outstanding[(1)]	**5,039,819,199**	4,916,106,889	4,252,922,259	4,207,374,896	3,585,609,617
Financial Ratio					
Gross margin	**22.2%**	23.9%	29.2%	30.5%	24.5%
Net margin	**2.3%**	4.1%	10.9%	9.9%	6.4%
Operating Data					
Wafers shipped (in unit)	**4,874,663**	4,310,779	3,957,685	3,015,966	2,559,245

MAIN FINANCIAL POSITION DATA

	As of December 31,				
	2018	2017	2016	2015	2014
	(in US$ thousands)				
Total assets	**14,424,320**	11,918,451	10,115,278	7,115,347	5,769,379
Total non-current assets	**8,274,729**	7,749,467	6,431,525	4,525,297	3,471,120
Property, plant and equipment	**6,777,970**	6,523,403	5,687,357	3,903,818	2,995,086
Investments in associates	**1,135,442**	758,241	240,136	181,331	57,631
Total current assets	**6,149,591**	4,168,984	3,683,753	2,590,050	2,298,259
Inventories	**593,009**	622,679	464,216	387,326	316,041
Trade and other receivables	**837,828**	616,308	645,822	499,846	456,388
Financial assets at amortized cost[(2)]	**1,996,808**	—	—	—	—
Other financial assets[(2)]	**—**	683,812	31,543	282,880	644,071
Restricted cash — current	**592,290**	336,043	337,699	302,416	238,051
Cash and cash equivalent	**1,786,420**	1,838,300	2,126,011	1,005,201	603,036
Total liabilities	**5,500,740**	5,197,116	4,712,051	2,925,092	2,461,657
Total non-current liabilities	**2,641,512**	3,290,337	2,731,151	1,157,901	1,311,416
Total current liabilities	**2,859,228**	1,906,779	1,980,900	1,767,191	1,150,241
Total equity	**8,923,580**	6,721,335	5,403,227	4,190,255	3,307,722
Non-controlling interests	**2,905,766**	1,488,302	1,252,553	460,399	359,307

(1) The basic and diluted earnings per share and the number of shares for 2014, 2015 and 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US$0.0004 each consolidated into one ordinary share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

(2) Other financial assets were mainly reclassified to financial assets at amortized cost as of January 1, 2018, compliment with IFRS 9. For details, please refer to Note 2 to the Consolidated Financial Statements.

MAIN CASH FLOW DATA

	For the year ended December 31,				
	2018	2017	2016	2015	2014
			(in US$ thousands)		
Net cash generated from operating activities	**799,426**	1,080,686	977,202	669,197	608,102
Profit for the year	**77,211**	126,423	316,434	222,323	126,261
Depreciation and amortization	**1,048,410**	971,382	729,866	523,549	549,468
Net cash used in investing activities	**(3,197,261)**	(2,662,139)	(2,443,333)	(789,556)	(1,144,123)
Payments for property, plant and equipment	**(1,808,253)**	(2,287,205)	(2,757,202)	(1,230,812)	(653,134)
Net cash from financing activities	**2,376,922**	1,271,591	2,614,778	537,078	676,683
Net (decrease) increase in cash and cash equivalent	**(20,913)**	(309,862)	1,148,647	416,719	140,662

YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017

REVENUE

Revenue increased by 8.3% from US$3,101.2 million for 2017 to US$3,360.0 million for 2018. Excluding the recognition of technology licensing revenue, revenue increased by 3.1% from US$3,101.2 million for 2017 to US$3,196.2 million for 2018, primarily due to the net impact of an increase in wafer shipments and decrease in average selling price in 2018. The number of wafer shipments increased by 13.1% from 4,310,779 8-inch wafer equivalents for 2017 to 4,874,663 8-inch wafer equivalents for 2018. The average selling price* of the wafers the Group shipped decreased from US$719 per wafer in 2017 to US$656 in 2018. The technology licensing revenue of US$163.8 million internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation (an associate of the Group) with no related cost of sales recognized by the Group.

COST OF SALES

Cost of sales increased by 10.7% from US$2,360.4 million for 2017 to US$2,613.3 million for 2018, primarily due to the increase in depreciation and in wafer shipment and product-mix change in 2018. Out of the total cost of sales, US$774.3 million and US$831.4 million were attributable to depreciation and amortization for the year ended December 31, 2017 and 2018, respectively.

GROSS PROFIT

The Group's gross profit was US$746.7 million for 2018 compared to US$740.7 million for 2017. Gross margin was 22.2% in 2018 compared to 23.9% in 2017. Excluding the recognition of technology licensing revenue, gross margin decreased to 18.2% in 2018 from 23.9% in 2017, primarily due to product-mix change and lower average selling price in 2018.

PROFIT FOR THE YEAR FROM OPERATIONS

Profit from operations decreased from US$124.9 million for the year ended December 31, 2017 to US$14.6 million for the year ended December 31, 2018 primarily due to the combined effect of the changes of revenue, cost of sales and gross profit mentioned above, and the below following changes:

Research and development expenses increased by 30.7% from US$427.1 million for the year ended December 31, 2017 to US$558.1 million for the year ended December 31, 2018. The increase was mainly due to the higher level of R&D activities in 2018.

General and administrative expenses increased from US$198.0 million for the year ended December 31, 2017 to US$199.8 million for the year ended December 31, 2018.

* Based on simplified average selling price which is calculated as the revenue (excluding licensing revenue) divided by total shipments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Sales and marketing expenses decreased from US$35.8 million for the year ended December 31, 2017 to US$30.5 million for the year ended December 31, 2018.

Other operating incomes increased from US$45.0 million for the year ended December 31, 2017 to US$57.3 million for the year ended December 31, 2018. The increase was mainly due to increased gain on disposal of property, plant and equipment in 2018.

PROFIT FOR THE YEAR

The Group had a profit of US$77.2 million for 2018 compared to US$126.4 million for 2017 mainly due to the net impact of 1) the factors described above, 2) more interest net income, 3) decreased foreign exchange losses, and 4) more gains on investment in financial instruments and entities accounted for using equity method.

FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE COMING YEAR

The Group's planned 2019 capital expenditures for foundry operations are approximately $2.1 billion, which are mainly for the expansion of capacity in our majority-owned Shanghai 300mm fab and our FinFET R&D line.

The Group's planned 2019 capital expenditures for non-foundry operations are approximately $105.8 million, mainly for the construction of employees' living quarters.

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

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

DEBT ARRANGEMENTS

Set forth in the table below are the aggregate amounts, as of December 31, 2018, of the Group's future cash payment obligations under the Group's existing contractual arrangements on a consolidated basis:

		Payments due by period			
Contractual obligations	**Total**	Less than 1 year	1–2 years	2–5 years	Over 5 years
		(consolidated, in US$ thousands)			
Short-term borrowings	**192,198**	192,198	—	—	—
Long-term borrowings	**2,098,570**	337,807	434,998	895,135	430,630
Convertible bonds	**418,592**	—	—	418,592	—
Bonds payable	**498,551**	498,551	—	—	—
Medium-term notes	**218,247**	218,247	—	—	—
Purchase commitments	**1,548,278**	1,548,278	—	—	—
Lease commitments	**352,540**	121,588	230,952	—	—
Total contractual obligations	**5,326,976**	2,916,669	665,950	1,313,727	430,630

As of December 31, 2018, the Group's outstanding long-term loans primarily consisted of secured bank loans of US$524.1 million and unsecured bank loans of US$1,574.5 million which are repayable in installments starting in January 2019, with the last payment due in May 2031. A summary of borrowing arrangements is disclosed in Note 30 to our financial statements for reference.

ASSETS PLEDGED AS SECURITY

Property, plant and equipment with carrying amount of approximately US$207.2 million have been pledged to secure borrowings of the Group under mortgages. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

COMMITMENTS

As of December 31, 2018, the Group had commitments of US$1,548.3 million, of which US$333.2 million for facilities construction obligations in connection with the Group's facilities, US$1,209.3 million to purchase machinery and equipment for its fabs and US$5.7 million to purchase intellectual property.

As of December 31, 2018, the Group had total future minimum lease payments under non-cancellable operating leases amounted to US$352.5 million. For the details, please refer to Note 41 to our consolidated financial statements of this annual report.

GEARING RATIO

As of December 31, 2018, the Group's net debt to equity ratio was approximately −4.5%. Please refer to Note 38 to our financial statements for calculation.

CAPITALIZED INTEREST

Interest, after netting off government funding received, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful life of the assets. Capitalized interests of US$47.2 million and US$31.1 million in 2018 and 2017, respectively, were added to the cost of the underlying assets and are depreciated over the respective useful life of the assets. In 2018 and 2017, the Group recorded depreciation expenses relating to the capitalized interest of US$27.5 million and US$22.7 million, respectively.

EXCHANGE RATE AND INTEREST RATE RISKS

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

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

Details of the Group's foreign exchange risk and interest rate risk are set out in Note 38 to our consolidated financial statements of this annual report for reference.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION ("EBITDA")

EBITDA is defined as profit for the period excluding the impact of the finance cost, depreciation and amortization, and income tax benefit and expense. SMIC uses EBITDA as a measure of operating performance; for planning purposes, including the preparation of the Group's annual operating budget; to allocate resources to enhance the financial performance of the Group's business; to evaluate the effectiveness of the Group's business strategies; and in communications with SMIC's board of directors concerning the Group's financial performance. Although EBITDA is widely used by investors to measure a company's operating performance without regard to items, such as net finance cost, income tax benefit and expense and depreciation and amortization that can vary substantially from company to company depending upon their respective financing structures and accounting policies, the book values of their assets, their capital structures and the methods by which their assets were acquired, EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results of operations as reported under IFRS. Some of these limitations are: it does not reflect the Group's capital expenditures or future requirements for capital expenditures or other contractual commitments; it does not reflect changes in, or cash requirements for, the Group's working capital needs; it does not reflect finance cost; it does not reflect cash requirements for income taxes; that, although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for these replacements; and that other companies in SMIC's industry may calculate these measures differently than SMIC does, limiting their usefulness as comparative measures.

The following table sets forth the reconciliation of EBITDA to their most directly comparable financial measures presented in accordance with IFRS, for the periods indicated.

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Profit for the year	**77,211**	126,423	316,434
Finance costs	**24,278**	18,021	23,037
Depreciation and amortization	**1,048,410**	971,382	729,866
Income tax expense (benefit)	**14,476**	1,846	(6,552)
EBITDA	**1,164,375**	1,117,672	1,062,785

DIRECTORS AND SENIOR MANAGEMENT

The composition of the Board during the year ended December 31, 2018 and up to the date of this report is set forth as follows:

Name of Director	Age	Position
Zhou Zixue	62	Chairman, Executive Director
Zhao Haijun	55	Co-Chief Executive Officer, Executive Director
Liang Mong Song	66	Co-Chief Executive Officer, Executive Director
Gao Yonggang	54	Chief Financial Officer, Executive Vice President, Joint Company Secretary, and Executive Director
Chen Shanzhi	50	Non-executive Director
Zhou Jie	51	Non-executive Director
Ren Kai	46	Non-executive Director
Lu Jun	50	Non-executive Director
Tong Guohua	61	Non-executive Director
William Tudor Brown	60	Independent Non-executive Director
Chiang Shang-Yi	72	Independent Non-executive Director
Cong Jingsheng Jason	55	Independent Non-executive Director
Lau Lawrence Juen-Yee	74	Independent Non-executive Director (Appointed on June 22, 2018)
Fan Ren Da Anthony	58	Independent Non-executive Director (Appointed on June 22, 2018)

Executive Directors


Zhou Zixue
Chairman


Zhao Haijun
Co-CEO

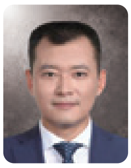

Liang Mong Song
Co-CEO


Gao Yonggang
CFO

Non-Executive Directors


Tong Guohua


Chen Shanzhi


Lu Jun


Ren Kai


Zhou Jie

Independent Non-Executive Directors


Lau Lawrence Juen-Yee


William Tudor Brown


Chiang Shang-Yi


Cong Jingsheng Jason


Fan Ren Da Anthony

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The Company's senior management is appointed by, and serves at the discretion of, the Board. The following table sets forth the names, ages and positions of the senior management as of the date of this annual report:

Name of Senior Management	Age	Position
Zhao Haijun	55	Co-Chief Executive Officer and Executive Director
Liang Mong Song	66	Co-Chief Executive Officer and Executive Director
Gao Yonggang	54	Executive Director, Chief Financial Officer, Executive Vice President, and Joint Company Secretary
Zhou Meisheng	61	Executive Vice President, Technology Research and Development

BRIEF BIOGRAPHICAL DETAILS

BOARD OF DIRECTORS

Zhou Zixue

Chairman of the Board, Executive Director

Dr. Zhou Zixue joined the Company on March 6, 2015 as an executive director and Chairman of the Board. Dr. Zhou received a Master of Management degree from the University of Science and Technology of China, and a Doctor of Economics degree from the Central China Normal University. Dr. Zhou has more than 30 years of experience in the economic operation, regulation and management of industry and information technology. Prior to his current employment, Dr. Zhou severed as the Chief Economist and the Director of Finance of the Ministry of Industry and Information Technology. Prior to that, he worked in several divisions in the Ministry of Information Industry, the Ministry of Electronics Industry, the Ministry of Machinery and Electronics Industry, and the state owned DongGuangDian Factory. Dr. Zhou is currently the Vice Chairman and Secretary General of the China Information Technology Industry Federation, the Chairman of the China Semiconductor Industry Association, an independent director of the Yunnan Nantian Electronics Information Co., Ltd (a company listed on Shenzhen Stock Exchange: 000948), an independent director of the Hisense Electric Co., Ltd (a company listed on Shanghai Stock Exchange: 600060). Dr. Zhou also serves as a director of certain subsidiaries of the Company.

Zhao Haijun

Co-Chief Executive Officer, Executive Director

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

Liang Mong Song

Co-Chief Executive Officer, Executive Director

Dr. Liang Mong Song became the Executive Director and Co-Chief Executive Officer of the Company on October 16, 2017. Dr. Liang graduated with a doctor of philosophy degree in electrical engineering from the Department of Electrical Engineering and Computer Sciences at University of California, Berkeley. Dr. Liang has been engaged in the semiconductor industry for over 33 years. Dr. Liang held senior director position on research and development in Taiwan Semiconductor Manufacturing Company Limited between 1992 and 2009. Dr. Liang was involved in memories and advanced logic process technology developments. Dr. Liang owns over 450 patents and has published over 350 technical papers. He is a Fellow of Institute of Electrical and Electronics Engineers (IEEE).

DIRECTORS AND SENIOR MANAGEMENT

Gao Yonggang

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

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

Dr. Gao was the Chief Financial Officer of Datang Telecom Technology & Industry Group (China Academy of Telecommunications Technology), Chairman of Datang Telecom Group Finance Co., Ltd., etc. Dr. Gao is a standing committee member of Accounting Society of China, standing director of Enterprise Financial Management Association of China. Dr. Gao graduated from Nankai University with a Ph.D. in management. He has conducted studies in the field of financial investment, and has been involved in a number of key research projects and publications in this area. Dr. Gao is also a Fellow of the Institute of Chartered Accountants in Australia. Founding Member, director of The Hong Kong Independent Non-Executive Director Association.

Chen Shanzhi

Non-Executive Director

Dr. Chen Shanzhi has been a non-executive Director of the Company since 2009. Dr. Chen is the vice president of China Information Communication Technologies Group Corporation (CICT), and head of specialist committee. Dr. Chen received his bachelor's degree from Xidian University, master's degree from China Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications, and Ph.D. from Beijing University of Posts and Telecommunications. Dr. Chen has 20 years of experience in the field of information and communication technology, during which he has been involved in research and development, technology and strategy management. Dr. Chen has made major contributions in the core technologies breakthroughs, international standards formulation and industrialization of China's leading TD-LTE-Advanced 4G technology. Currently he is leading 5G technologies, Internet of vehicles and standards research, as well as industrialization.

Besides, Dr. Chen is also the director of State Key Laboratory of Wireless Mobile Communication, chairman and director of State Engineering Laboratory of New Generation Mobile Communication Wireless Network and Chip Technology, member of Expert Advisory Group for National Science and Technology Platform, chairman of Chinese High-tech Industrialization Association for Information Technology Committee, a director of The Chinese Institute of Electronics, an executive director of China Institute of Communications, a director of China Communications Standards Association (CCSA) and a senior member of IEEE. Dr. Chen was a member of the IT Experts Panel of the National 863 Program and a member of the Programming Group of the major project of "The New-generation Broadband Wireless Mobile Communications Network".

Dr. Chen has published six academic monographs, which four of them were published by SPRINGER in English. He published more than 60 SCI papers in top journals such as IEEE, he has applied for and been authorized more than 50 invention patents, among of these more than 30 are written to 3GPP and ITU international standards which have become the standard necessary patent for 4G and 5G mobile communication systems and successfully applied in the global 4G commercial network and China's high-speed train mobile coverage, promoting the innovation and development of 4G and 5G Industries, and producing remarkable economic and social value.

Dr. Chen received the Grand Prize for National Science and Technology Progress Award China in 2016, the second prize for the State Award for Technological Invention China in 2015, the first prize for 2012 National Science and Technology Progress Award, the second prize for 2001 National Science and Technology Progress Award, 2017 Ho Leung Ho Lee Foundation Science and Technology Innovation Award, the Ninth Guanghua Engineering Science and Technology Award, the first prize for 2012 China Institute of Communications Science and Technology Award and the first prize for 2009 National Enterprise Management Modernization Innovation Achievement Award and other honors.

DIRECTORS AND SENIOR MANAGEMENT

Zhou Jie

Non-Executive Director

Mr. Zhou Jie has been a Director since January 2009. Mr. Zhou is the Chairman of the Board and the secretary of CPC party committee of Haitong Securities Co., Ltd. (listed on the Shanghai Stock Exchange under the stock code of 600837; listed on the Hong Kong Stock Exchange under the stock code of 6837) since October 2016. From February 1992 to June 1996, Mr. Zhou served in the investment banking department of Shanghai Wanguo Holdings Ltd. From June 1996 to December 2001, Mr. Zhou served, successively, as the manager of investment department, the vice general manager, and the chairman of the board of directors and the general manager of Shanghai SIIC Asset Management Co., Ltd. From December 2001 to April 2003, he was the director and general manager of SIIC Medical Science and Technology (Group) Limited. From January 2002 to July 2016, he acted, successively, as the executive director and the vice executive officer, the executive director and the executive vice president, the vice chairman and chief executive officer of Shanghai Industrial Holdings Limited (listed on the Hong Kong Stock Exchange under the stock code of 0363). From August 2004 to July 2016, he was the chief planning officer, the executive director and vice president, the executive director and executive vice president, and the president and deputy secretary of CPC committee of SIIC Shanghai (Holding) Co., Ltd. From March 2010 to May 2012, he was the chairman of the supervisory committee of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on the Shanghai Stock Exchange under the stock code of 601607; listed on the Hong Kong Stock Exchange under the stock code of 2607), of which he was the chairman of the board of directors and the secretary of CPC committee from June 2012 to June 2013 and from May 2016 to July 2016.

Mr. Zhou has been a supervisor, the chairman of the remuneration committee of Shanghai Stock Exchange, the president of Shanghai Securities Association, and the representative of members of National Internet Finance Association of China since 2016, the vice chairman of Shanghai Financial Association, the president of Shanghai Association of Financial Planners, and an arbitrator of Shanghai Arbitration Commission since 2017. Mr. Zhou was graduated from the College of Management of Shanghai Jiao Tong University majoring in the management engineering with a master's degree of engineering in February 1992.

Ren Kai

Non-Executive Director

Mr. Ren Kai became a Director of the Company on August 11, 2015, received a bachelor degree in industry and international trade from Harbin Engineering University. Since September 2014, Mr. Ren has been serving as the Vice President of Sino IC Capital. From October 2007 to August 2014, he had served as the Director of the Review Board 4 of the Review Bureau 2 of China Development Bank. From October 2004 to December 2007, Mr. Ren served as a Deputy Director of each of the Review Board 3 and the Review Board 4 of the Review Bureau 2 of China Development Bank. From July 1995 to October 2004, Mr. Ren had worked in the Electromechanical Textile Credit Bureau, Chengdu representative office, the Review Bureau 4, the Review Bureau 3 and the Review Bureau 2 of China Development Bank. Mr. Ren has been engaged in loan review programs and investment operations in the fields of equipment and electronics; he is familiar with industrial policies and has in-depth understanding in integrated circuit and related industries. Mr. Ren had gained extensive experience in investment management while he was working in the Review Board 2 of China Development Bank as he led the team to complete the review of hundreds of major projects with annual review commitments of over RMB100 billion and accumulative review commitments of over RMB30 billion in the field of integrated circuit. Mr. Ren is also the director of SJ Semiconductor (Jiangyin) Corporation.

Lu Jun

Non-Executive Director

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

DIRECTORS AND SENIOR MANAGEMENT

Tong Guohua
Non-Executive Director

Dr. Tong Guohua became a Director of the Company on February 14, 2017. Dr. Tong is a professorate senior engineer and doctoral tutor of the School of Public Administration of Huazhong University of Science and Technology. Dr. Tong became President and Secretary of Party of China Academy of Telecommunications Technology as well as Executive Director and President of Datang Telecom Technology & Industry Holdings Co., Ltd. in June 2016. Since December 2017,he served as the Chairman, General Manager and Secretary of Party of China Academy of Telecommunications Technology Co., Ltd as well as Executive Director and President of Datang Telecom Technology & Industry Holdings Co., Ltd. Since June 26, 2018, he became chairman and secretary of the Party Committee of China Information and Communication Technology Group Co., Ltd. He began working in August 1974 and was President and Secretary of Party of Wuhan Institute of Posts and Telecommunications from November 2004.

Dr. Tong has been elected as a "National Model Worker" and he was the representative of the eleventh and the twelfth National People's Congress, and member of the thirteenth CPPCC National Committee. Dr. Tong was awarded the title "Young Experts with Outstanding Contributions of Hubei Province" in 2004. In 2006, he was awarded as one of the "Top Ten Outstanding Entrepreneurs in the Brand Building of China", "Outstanding Employee Representative of Hubei Province" and "Entrepreneur with Outstanding Contribution of Wuhan City". In 2007, Dr. Tong was named "China's Information Industry Person of the Year" and awarded as a "Person with Outstanding Contribution in Brand Building of Wuhan Region". In 2008, he was awarded "Innovative Economic Contribution Prize of Hubei Province" and he was named one of the "Top 10 Most Important People in the 30 Years' Reform and Development of State-owned Enterprises of Hubei Province". In 2009, he was named as an "Outstanding Entrepreneur of Wuhan City."

Dr. Tong graduated from Wuhan University in 1982 with a bachelor's degree in chemistry. He received a master's degree in science and technology management from Fudan University in 1990. In 2002, he received his doctoral degree in management science and engineering from Huazhong University of Science and Technology.

William Tudor Brown
Independent Non-executive Director

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

DIRECTORS AND SENIOR MANAGEMENT

Chiang Shang-Yi

Independent Non-Executive Director

Dr. Chiang Shang-Yi became a Director of the Company on December 20, 2016. During Dr. Chiang's 40-year career in the semiconductor industry, he has contributed to the research and development of CMOS, NMOS, Bipolar, DMOS, SOS, SOI, GaAs lasers, LED, E-Beam lithography and silicon solar cells. At TSMC, Dr. Chiang led TSMC R&D team set milestones in semiconductor technology in the 0.25μm, 0.18μm, 0.15μm, 0.13μm, 90nm, 65nm, 40nm, 28nm, 20nm and 16nm FinFET generations, transformed TSMC from a technology follower to a technology leader. He worked at Texas Instruments and Hewlett-Packard after completing his study. Then, he returned to Taiwan in 1997 to serve as TSMC's Vice President of Research and Development. He was Co-Chief Operating Officer when he retired at the end of 2013. After that, Dr. Chiang served two more years as the Adviser to Chairman at TSMC.

Dr. Chiang's achievements have won many awards and honours. In 2001, he was chosen as one of the 50 "Stars of Asia" by Businessweek Magazine. This award recognizes the outstanding performance of TSMC's R&D team under his leadership, his vision and his determination. He was made a Life Fellow of the Institute of Electrical and Electronics Engineers (IEEE) in 2002. He received ERSO Award and was honoured as National Taiwan University Distinguished Alumni in 2013. He won IEEE Ernst Weber Managerial Leadership Award and was elected ITRI (Industrial Technology Research Institute) Laureate by the Taiwan Government in 2015.

Dr. Chiang has devoted his career to advancing the semiconductor technology and developing the semiconductor industry, and is a pioneer in making digital technology commonplace in our society.

Dr. Chiang earned his Bachelor of Science degree from National Taiwan University in 1968, his Master of Science degree from Princeton University in 1970 and his Doctorate from Stanford University in 1974, all in Electrical Engineering.

Cong Jingsheng Jason

Independent Non-Executive Director

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

Lau Lawrence Juen-Yee

Independent Non-Executive Director

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

DIRECTORS AND SENIOR MANAGEMENT

Professor Lau was a member of the 11th and 12th National Committees of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Subcommittee of Economics. In addition, he currently serves as a Vice-Chairman of the China Center for International Economic Exchanges, a Vice-President of the China Science Center of the International Eurasian Academy of Sciences, an Adviser to the National Bureau of Statistics of the People's Republic of China, a member of the International Advisory Council of the China Development Bank and Chairman of the Board of Directors of The Chinese University of Hong Kong (Shenzhen) Finance Institute. In addition, he also serves as a member of the Exchange Fund Advisory Committee of Hong Kong and the Chairman of its Governance Sub-Committee, a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road Committee, a Vice-Chairman of Our Hong Kong Foundation, a Member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company, as well as a member of the Board of Directors of the Chiang Ching-kuo Foundation for International Scholarly Exchange, Taipei. He also serves as an Independent Non-executive Director of AIA Group Limited (Stock Code: 04457), CNOOC Limited (Stock Code: 00883), and Hysan Development Company Limited (Stock Code: 00014), all listed on the Hong Kong Stock Exchange, and an Independent Non-executive Director of Far EasTone Telecommunications Company Limited (Taiwan: 4904), Taipei, listed on the Taiwan Stock Exchange.

Fan Ren Da Anthony
Independent Non-Executive Director

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

SENIOR MANAGEMENT

Dr. Zhao Haijun

Biographical details are set out on page 24 of this annual report.

Dr. Liang Mong Song

Biographical details are set out on page 24 of this annual report.

Dr. Gao Yonggang

Biographical details are set out on page 25 of this annual report.

Dr. Zhou Meisheng

Dr. Zhou Meisheng, age 61, was appointed as Executive Vice President of Technology Research and Development since October 12, 2017. Dr. Zhou is one professional of the "National Recruitment Program of Global Experts (abbreviation of the overseas high-level talent introduction plan). Before she joined the Company, she served in Lam Research China as Regional CTO, prior to that, Dr. Zhou has ever served as Vice President of the Company, and earlier to that, she has ever conducted various levels of management positions in Chartered Semiconductor Manufacturing, TSMC, UMC and Global Foundries. Dr. Zhou received BSc and MSc degrees from Fudan University China in 1982 & 1985 respectively, and Ph.D. degree in Chemistry from Princeton University in 1990. Equipped with more than 20 years' experience in world's leading foundry companies, Dr. Zhou has accumulated extensive and rich management experience in advanced technology R&D, technical cooperation, technology transfer, verification of mass production, the start-up operation/mass production/operation of 12" Fab, and gradually shaped her own distinctive management philosophy. Specialized in module device, process and integrated technology, Dr. Zhou has been awarded with more than 130 US patents and published over 40 papers as co-inventor/author.

JOINT COMPANY SECRETARY

Dr. Gao Yonggang

Biographical details are set out above.

Dr. Liu Wei

Dr. Liu Wei, aged 61, was appointed as SMIC's Joint Company Secretary in July 2017. Dr Liu is one of the senior partners of DLA Piper. Between 2008 and 2017, Dr. Liu was the Head of China Practice and managing partner of the Beijing Office of DLA Piper. Dr. Liu has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong, England and Wales. Dr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law, the University of Cambridge, with a bachelor in Chinese literature, a master degree in law, a PhD in Law in 1982, 1986 and 1996 respectively. He also completed his Postgraduate Certificate in Laws (PCLL) of the University of Hong Kong in 2000. Dr. Liu was the first student from the mainland of the PRC to obtain a PhD in law from the University of Cambridge after 1949. Dr. Liu worked for several local and state PRC governmental authorities. He is currently a member of the Shaanxi CPPCC. In 1988, Dr. Liu, as one of the lawyers working in Hong Kong in the early stage, participated in related work of the Hong Kong Basic Law, and then he was retained by the Securities and Futures Commission of Hong Kong as a PRC affairs officer responsible for the policies and supervision of law of red chip shares, H-shares and B-shares, and was responsible for coordination with the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

CHANGES IN DIRECTORATE AND UPDATE OF DIRECTORS' INFORMATION

As previously disclosed by the Company, there were no changes in the members of the Board, between the period from the date of the 2018 Interim Report and the date of this annual report. Except as disclosed in the section headed "Director and Senior Management" in this annual report, there was no 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 Listing Rules since the publication of the 2018 interim report of the Company.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

Despite a challenging environment in 2018, the Group's sales totaled US$3,360.0 million, compared to US$3,101.2 million in 2017. The Group recorded a profit of US$77.2 million in 2018, compared to US$126.4 million in 2017. During 2018, the Group also has expanded its capacity of its fabs in Shanghai, Beijing, and Tianjing, China, as well as entered into key business partnerships and engagements. 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, including but not limited to the followings:

1. Cyclicality of the semiconductor manufacturing industry;

2. Fluctuations in purchase price of raw materials;

3. Fluctuations in global financial markets and currencies;

4. Inability to keep up with technology migration; and

5. Difficulty to attract and retain technical and managerial talents.

The Group continues to serve a broad global customer base comprised of leading IDMs, fabless semiconductor companies and system companies. Looking ahead, our long-term goal is to achieve sustained profitability through optimal efficiency and utilization of existing assets, harnessing of our strong market position in China and investing further in advanced technology and capacity. For further details, please see pages 12 to 15 of the Annual Report.

We are committed to protecting the environment and have in place various environmental protection, safety and health ("ESH") policies, as well as international standards certifications. We have complied with all relevant laws and regulations, such as the European Union's Restriction of Hazardous Substances (RoHS) Directive. For further details, please see pages 113 to 115 of the Annual Report.

The Company will publish a separate environmental, social and governance report on the Hong Kong Stock Exchange's website and the Company's website no later than three months after the publication of this report.

BOARD OF DIRECTORS

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

The composition of the Board during the year ended December 31, 2018 and up to the date of this report is set forth as follows:

Name of Director	Position	Class	Directorship Appointment Commencement Date
Zhou Zixue	Chairman, Executive Director	I	2015/3/6
Gao Yonggang	Chief Financial Officer, Executive Vice President, Joint Company Secretary and Executive Director	I	2009/6/23
William Tudor Brown	Independent Non-executive Director	I	2013/8/8
Tong Guohua	Non-executive Director	I	2017/2/14
Zhao Haijun	Co-Chief Executive Officer, Executive Director	II	2017/10/16
Chen Shanzhi	Non-executive Director	II	2009/6/23
Lu Jun	Non-executive Director	II	2016/2/18
Lau Lawrence Juen-Yee	Independent Non-executive Director	II	2018/6/22
Fan Ren Da Anthony	Independent Non-executive Director	II	2018/6/22
Liang Mong Song	Co-Chief Executive Officer, Executive Director	III	2017/10/16
Zhou Jie	Non-executive Director	III	2009/1/23
Ren Kai	Non-executive Director	III	2015/8/11
Chiang Shang-Yi	Independent Non-executive Director	III	2016/12/20
Cong Jingsheng Jason	Independent Non-executive Director	III	2017/2/14

SUBSIDIARIES

As of December 31, 2018, the Company's subsidiaries are as follows:

1. 中芯國際控股有限公司
   SMIC Holdings Corporation*
   Principal place of operation: Shanghai, PRC
   Place of incorporation: Shanghai, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: N/A
   Registered capital: US$50,000,000
   Equity holder: the Company (100%)

2. 中芯國際集成電路製造(上海)有限公司
   Semiconductor Manufacturing International (Shanghai) Corporation*
   Principal place of operation: Shanghai, PRC
   Place of incorporation: Shanghai, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$5,880,000,000
   Registered capital: US$2,190,000,000
   Equity holder: the Company (100%, indirectly through SMIC Investment (Shanghai) Corporation)

3. 中芯國際集成電路製造(北京)有限公司
   Semiconductor Manufacturing International (Beijing) Corporation*
   Principal place of operation: Beijing, PRC
   Place of incorporation: Beijing, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$3,000,000,000
   Registered capital: US$1,000,000,000
   Equity holder: the Company (100%, indirectly through SMIC Investment (Shanghai) Corporation)

4. 中芯國際集成電路製造(天津)有限公司
   Semiconductor Manufacturing International (Tianjin) Corporation*
   Principal place of operation: Tianjin, PRC
   Place of incorporation: Tianjin, PRC
   Legal entity: Wholly foreign-owned enterprise
   Total investment: US$2,600,000,000
   Registered capital: US$1,290,000,000
   Equity holder: the Company (100%, indirectly through SMIC Investment (Shanghai) Corporation)

5. 中芯北方集成電路製造(北京)有限公司
   Semiconductor Manufacturing North China (Beijing) Corporation*
   Principal place of operation: Beijing, PRC
   Place of incorporation: Beijing, PRC
   Legal entity: Majority-owned subsidiary
   Total investment: US$7,200,000,000
   Registered capital: US$4,800,000,000
   Equity holder: the Company (51% in total, 16.0% indirectly through SMIC Investment (Shanghai) Corporation, 19.62% indirectly through SMIC Holdings Corporation and 15.38% indirectly through Semiconductor Manufacturing International (Beijing) Corporation)

6. エス・エム・アイ・シージャパン株式会社
   SMIC Japan Corporation*
   Principal country of operation: Japan
   Place of incorporation: Japan
   Authorized capital: JPY10,000,000 divided into 200 shares of a par value of JPY50,000
   Equity holder: the Company (100%)

7. SMIC, Americas
   Principal country of operation: U.S.A.
   Place of incorporation: California, U.S.A.
   Authorized capital: US$500,000 divided into 50,000,000 shares of a par value of US$0.01
   Equity holder: the Company (100%)

8. Better Way Enterprises Limited
   Principal country of operation: Samoa
   Place of incorporation: Samoa
   Authorized capital: US$1,000,000 divided into 1,000,000 shares of a par value of US$1.00
   Issued share capital: US$1.00
   Equity holder: the Company (100%)

9. SMIC Europe S.r.l.
Principal place of operation: Milan, Italy
Place of incorporation: Agrate Brianza (Monza and Brianza), Italy
Registered capital: EUR100,000
Equity holder: the Company (100%)

10. Semiconductor Manufacturing International (Solar Cell) Corporation
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$11,000 divided into 11,000,000 shares of a par value of US$0.001
Equity holder: the Company (100%)

11. 中芯集電投資(上海)有限公司
SMIC Investment (Shanghai) Corporation* (formerly "SMIC Commercial Shanghai Limited Company")
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US$1,300,000,000
Registered capital: US$465,800,000
Equity holder: the Company (100%)

12. 中芯國際開發管理(成都)有限公司
SMIC Development (Chengdu) Corporation*
Principal place of operation: Chengdu, PRC
Place of incorporation: Chengdu, PRC
Legal entity: Wholly foreign-owned enterprise
Total Investment: US$12,500,000
Registered capital: US$5,000,000
Equity holder: the Company (100%)

13. Magnificent Tower Limited
Principal country of operation: British Virgin Islands
Place of incorporation: British Virgin Islands
Authorized capital: US$50,000
Issued share capital: US$1.00
Equity holder: the Company (100%, indirectly through Better Way Enterprises Limited)

14. SMIC Shanghai (Cayman) Corporation
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

15. SMIC Beijing (Cayman) Corporation
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

16. SMIC Tianjin (Cayman) Corporation
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

17. SMIC Hong Kong International Company Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Shanghai (Cayman) Corporation)

18. SMIC Beijing (HK) Company Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Beijing (Cayman) Corporation)

19. SMIC Tianjin (HK) Company Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Tianjin (Cayman) Corporation)

20. SMIC Solar Cell (HK) Company Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$10,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International (Solar Cell) Corporation)

21. Semiconductor Manufacturing International (BVI) Corporation
Principal country of operation: British Virgin Islands
Place of incorporation: British Virgin Islands
Authorized capital: US$10.00
Issued share capital: US$10.00
Equity holder: the Company (100%)

22. Admiral Investment Holdings Limited
Principal country of operation: British Virgin Islands
Place of incorporation: British Virgin Islands
Authorized capital: US$10.00
Issued share capital: US$10.00
Equity holder: the Company (100%)

REPORT OF THE DIRECTORS

23. SMIC Shenzhen (Cayman) Corporation
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$50,000
Issued share capital: US$0.0004
Equity holder: the Company (100%)

24. 中芯國際集成電路新技術研發(上海)有限公司
SMIC New Technology Research & Development (Shanghai) Corporation*
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Majority-owned subsidiary
Total investment: US$1,200,000,000
Registered capital: US$400,000,000
Equity holder: the Company (97.45% in total, 22.20% indirectly through SMIC Investment (Shanghai) Corporation and 75.25% indirectly through SMIC Holdings Corporation)

25. SMIC Shenzhen (HK) Company Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$1,000
Issued share capital: HK$1.00
Equity holder: the Company (100%, indirectly through SMIC Shenzhen (Cayman) Corporation)

26. SilTech Semiconductor Corporation
Principal country of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$10,000
Issued share capital: US$10,000
Equity holder: the Company (100%)

27. SilTech Semiconductor (Hong Kong) Corporation Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$1,000
Issued share capital: HK$1,000
Equity holder: the Company (100%, indirectly through SilTech Semiconductor Corporation)

28. 中芯國際集成電路製造(深圳)有限公司
Semiconductor Manufacturing International (Shenzhen) Corporation*
Principal place of operation: Shenzhen, PRC
Place of incorporation: Shenzhen, PRC
Legal entity: Wholly foreign-owned enterprise
Total Investment: US$2,100,000,000
Registered capital: US$700,000,000
Equity holder: the Company (100% in total, 82% indirectly through SMIC Holdings Corporation and 18% indirectly through SMIC Investment (Shanghai) Corporation)

29. 芯電半導體(上海)有限公司
SilTech Semiconductor (Shanghai) Corporation Limited*
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Wholly foreign-owned enterprise
Total investment: US$35,000,000
Registered capital: US$12,000,000
Equity holder: the Company (100%, indirectly through SilTech Semiconductor (Hong Kong) Corporation Limited)

30. 中芯晶圓股權投資(上海)有限公司
China IC Capital Co., Ltd*
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: One-person Company with Limited Liability (wholly owned by a foreign invested company)
Registered capital: RMB1,458,000,000
Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International (Shanghai) Corporation)

31. 上海合芯投資管理合夥企業(有限合夥)
Shanghai Hexin Investment Management Limited Partnership*
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Majority-owned subsidiary
Registered capital: RMB50,000,000
Equity holder: the Company (99%, indirectly through China IC Capital (Ningbo) Co., Ltd)

32. SJ Semiconductor Corporation
Principal place of operation: Cayman Islands
Place of incorporation: Cayman Islands
Authorized capital: US$15,000
Issued share capital: US$5,668.05
Equity holder: the Company (56.045%)

33. SJ Semiconductor (HK) Limited
Principal place of operation: Hong Kong
Place of incorporation: Hong Kong
Authorized capital: HK$1,000
Issued share capital: HK$1,000
Equity holder: the Company (56.045%, indirectly through SJ Semiconductor Corporation)

34. 中芯長電半導體(江陰)有限公司
SJ Semiconductor (Jiangyin) Corporation*
Principal place of operation: Jiangyin City, Jiangsu Province, PRC
Place of incorporation: Jiangyin City, Jiangsu Province, PRC
Legal entity: Majority-owned subsidiary
Total investment: US$1,140,000,000
Registered capital: US$399,500,000
Equity holder: the Company (56.045%, indirectly through SJ Semiconductor (HK) Limited)

35. 中芯南方集成電路製造有限公司
Semiconductor Manufacturing South China Corporation*
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: Majority-owned subsidiary
Total investment: US$10,240,000,000
Registered capital: US$3,500,000,000
Equity holder: the Company (51.32% in total, 6.76% indirectly through Semiconductor Manufacturing International (Shanghai) Corporation and 44.56% indirectly through SMIC Holdings Corporation)

36. LFoundry S.r.l.
Principal place of operation: Avezzano (AQ), Italy
Place of incorporation: Avezzano (AQ), Italy
Registered capital: EUR2,000,000
Equity holder: the Company (70%, indirectly through SMIC Hong Kong International Company Limited)

37. SJ Semiconductor USA Co.
Principal place of operation: San Jose, California, USA
Place of incorporation: San Jose, California, USA
Authorized capital: US$2,000,000
Equity holder: the Company (56.045%, indirectly through SJ Semiconductor Corporation)

* For identification purposes only

38. SMIC (Sofia) EOOD
Principal place of operation: Sofia, Bulgaria
Place of incorporation: Sofia, Bulgaria
Authorized capital: BGN1,800,000
Equity holder: the Company (100%, indirectly through SMIC Hong Kong International Company Limited)

39. 中芯國際創新設計服務中心(寧波)有限公司
SMIC Innovation Design Center (Ningbo) Co., Ltd.*
Principal place of operation: Ningbo, PRC
Place of incorporation: Ningbo, PRC
Authorized capital: RMB20,000,000
Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International (Shanghai) Corporation)

40. 中芯晶圓股權投資(寧波)有限公司
China IC Capital (Ningbo) Co., Ltd*
Principal place of operation: Shanghai, PRC
Place of incorporation: Shanghai, PRC
Legal entity: One-person Company with Limited Liability (wholly owned by a foreign invested company)
Registered capital: RMB1,200,000,000
Equity holder: the Company (100%, indirectly through China IC Capital Co., Ltd)

41. 北方集成電路技術創新中心(北京)有限公司
North China IC Innovation Center (Beijing) Co., Ltd*
Principal place of operation: Beijing, PRC
Place of incorporation: Beijing, PRC
Legal entity: Majority-owned subsidiary
Total investment: RMB1,000,000
Registered capital: RMB1,000,000
Equity holder: the Company (51%, indirectly through Semiconductor Manufacturing North China (Beijing) Corporation)

DIVIDENDS AND DIVIDEND POLICY

As of December 31, 2018, the Company's retained earnings increased to US$331.3 million retained earnings from US$187.0 million retained earnings as of December 31, 2017. Please refer to Note 28 for more details. The Company has not declared or paid any cash dividends on the Ordinary Shares. We intend to retain any earnings for use in the Company's business and do not currently intend to pay cash dividends on the Ordinary Shares. Dividends, if any, on the outstanding Ordinary Shares will be declared by and subject to the discretion of the Board. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

- the Company's results of operations and cash flow;
- the Company's future prospects;
- the Company's capital requirements and surplus;
- the Company's financial condition;
- general business conditions;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company; and
- other factors deemed relevant by the Board.

The Company's ability to pay cash dividends will also depend upon the amount of distributions, if any, received by the Company from its wholly-owned Chinese operating subsidiaries. Under the applicable requirements of China's Company Law, the Company's subsidiaries in China may only distribute dividends after they have made allowances for:

- recovery of losses, if any;
- allocation to the statutory common reserve funds;
- allocation to staff and workers' bonus and welfare funds; and
- allocation to a discretionary common reserve fund if approved by the Company's shareholders.

More specifically, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as statutory common reserves and a discretionary percentage of their net profit has been set aside for the staff and workers' bonus and welfare funds. These operating subsidiaries are not required to set aside any of their net profit as statutory common reserves if the accumulation of such reserves has reached at least 50% of their respective registered capital. Furthermore, if they record no net income for a year, they generally may not distribute dividends for that year.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Page 37 to Page 39 Issue of Equity Securities and Note 26 to the consolidated financial statement.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution to shareholders as of December 31, 2018 amounted to US$185.8 million (December 31, 2017: US$96.4 million and December 31, 2016: nil).

ISSUE OF EQUITY SECURITIES

ISSUE OF NEW SHARES TO DATANG TELECOM TECHNOLOGY & INDUSTRY HOLDINGS CO., LTD. ("DATANG")

On June 29, 2018, pursuant to the share subscription agreement between the Company, Datang and Datang Holdings (Hongkong) Investment Company Limited ("Datang HK"), the Company allotted and issued 61,526,473 ordinary shares, representing an aggregate nominal value of approximately US$246,106, at the price of HK$10.65 per share. The net price per share under the issue is HK$10.65. The market price of the shares on the date of the share subscription agreement was HK$10.34.

The issue of shares to Datang will strengthen the relationship between Datang and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the placing of shares and issue of perpetual subordinated convertible securities as disclosed in the announcement of the Company dated November 29, 2017. For details, please refer to Note 26 to the Consolidated Financial Statements.

The total funds raised from the issue and details of the use of proceeds are as follows:

Total proceeds raised from the issue	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2018	Utilized proceeds as of December 31, 2018	Unutilized proceeds as of December 31, 2018
US$83.5 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$83.5 million	US$83.5 million utilized in accordance with the intended use as previously disclosed	US$0

ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES (THE "PSCS") TO DATANG

On June 29, 2018, pursuant to the PSCS subscription agreement between the Company, Datang and Datang HK, the Company completed the issue of the PSCS in the principal amount of US$200.0 million. Assuming full conversion of the PSCS at the initial conversion price of HK$12.78, the PSCS will be convertible into 122,118,935 ordinary shares, representing an aggregate nominal value of approximately US$488,476. The net price per conversion share under the issue is HK$12.77. The market price of the shares on the date of the PSCS subscription agreement was HK$10.34.

The issue of PSCS to Datang will strengthen the relationship between Datang and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the placing of shares and issue of PSCS as disclosed in the announcement of the Company dated November 29, 2017. For details, please refer to Note 29 to the Consolidated Financial Statements.

The total funds raised from the issue and details of the use of proceeds are as follows:

Total proceeds raised from the issue	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2018	Utilized proceeds as of December 31, 2018	Unutilized proceeds as of December 31, 2018
US$200.0 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$200.0 million	US$200.0 million utilized in accordance with the intended use as previously disclosed	US$0

REPORT OF THE DIRECTORS

ISSUE OF NEW SHARES TO CHINA IC FUND

On August 29, 2018, pursuant to the share subscription agreement between the Company, China IC Fund and Xinxin (Hongkong) Capital Co., Ltd ("Xinxin HK", wholly-owned by China IC Fund), the Company allotted and issued 57,054,901 ordinary shares, representing an aggregate nominal value of approximately US$228,220, at the price of HK$10.65 per share. The net price per share under the issue is HK$10.65. The market price of the shares on the date of the share subscription agreement was HK$9.11.

The issue of shares to China IC Fund will strengthen the relationship between China IC Fund and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the placing of shares and issue of perpetual subordinated convertible securities as disclosed in the announcement of the Company dated November 29, 2017. For details, please refer to Note 26 to the Consolidated Financial Statements.

The total funds raised from the issue and details of the use of proceeds are as follows:

Total proceeds raised from the issue	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2018	Utilized proceeds as of December 31, 2018	Unutilized proceeds as of December 31, 2018
US$77.4 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$77.4 million	US$77.4 million utilized in accordance with the intended use as previously disclosed	US$0

ISSUE OF THE PSCS TO CHINA IC FUND

On August 29, 2018, pursuant to the PSCS subscription agreement between the Company, China IC Fund and Xinxin HK, the Company completed the issue of the PSCS in the principal amount of US$300.0 million. Assuming full conversion of the PSCS at the initial conversion price of HK$12.78, the PSCS will be convertible into 183,178,403 ordinary shares, representing an aggregate nominal value of approximately US$732,714. The net price per conversion share under the issue is HK$12.77. The market price of the shares on the date of the PSCS subscription agreement was HK$9.11.

The issue of PSCS to China IC Fund will strengthen the relationship between China IC Fund and Xinxin HK and provide an additional source of funding for the Company's needs beyond the capital raised through the placing of shares and issue of PSCS as disclosed in the announcement of the Company dated November 29, 2017. For details, please refer to Note 29 to the Consolidated Financial Statements.

The total funds raised from the issue and details of the use of proceeds are as follows:

Total proceeds raised from the issue	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2018	Utilized proceeds as of December 31, 2018	Unutilized proceeds as of December 31, 2018
US$300.0 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$300.0 million	US$300.0 million utilized in accordance with the intended use as previously disclosed	US$0

ISSUE OF EQUITY SECURITIES BY THE COMPANY IN THE PAST FINANCIAL YEARS WITH PROCEEDS BROUGHT FORWARD

The details of funds raised from previous issue(s) and details of the use of proceeds during the year ended December 31, 2018 for such issue(s) are as follows:

a) Placing of shares to the placees as disclosed in the announcement of the Company dated November 29, 2017

Total proceeds raised from the issue	Proceeds from the issue brought forward as on January 1, 2018	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2018	Unutilized proceeds as of December 31, 2018
US$329.1 million	US$329.1 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$329.1 million utilized in accordance with the intended use as previously disclosed	US$0

b) Issue of PSCS to the subscribers as disclosed in the announcement of the Company dated November 29, 2017

Total proceeds raised from the issue	Proceeds from the issue brought forward as on January 1, 2018	Intended use of the proceeds as previously disclosed	Utilized proceeds during the year ended December 31, 2018	Unutilized proceeds as of December 31, 2018
US$65.0 million	US$65.0 million	The Company's capital expenditure for capacity expansion and general corporate purposes	US$65.0 million utilized in accordance with the intended use as previously disclosed	US$0

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

SHARE BUY-BACK

On September 27, 2018, the company repurchased 7,291,000 ordinary shares on Hong Kong Stock Exchange. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK$8.32 per share, with prices ranging from HK$8.27 to HK$8.36. The total cost of HK$60.8 million (approximately US$7.8 million) was deducted from the shareholder equity.

On October 4, 2018, the company repurchased 11,650,000 ordinary shares on Hong Kong Stock Exchange. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK$8.23 per share, with prices ranging from HK$8.11 to HK$8.32. The total cost of HK$96.1 million (approximately US$12.3 million) was deducted from the shareholder equity. On October 25, 2018, the company cancelled 18,941,000 ordinary shares amounted at US$20.0 million, in respect of the repurchase on September 27, 2018 and October 4, 2018.

For details, please refer to Note 26 to the Consolidated Financial Statements.

REPORT OF THE DIRECTORS

CONVERSION OF ZERO COUPON CONVERTIBLE BOND

The Company exercised its right to redeem the US$200.0 million zero coupon convertible bonds due 2018, the US$86.8 million zero coupon convertible bonds due 2018, the US$95.0 million zero coupon convertible bonds due 2018 and the US$22.2 million zero coupon convertible bonds due 2018 (the "Bonds") on March 10, 2017 being the option redemption date when all of the Bonds would be redeemed in cash at 100% of the Bonds' principal amount. The conversion price is HK$7.965, approximately US$1.027. On March 3, 2017, the Company received notices from all holders of the Bonds for the full conversion of the outstanding Bonds. As all outstanding Bonds have been fully converted and no Bonds remain outstanding, no redemption of the Bonds will be carried out. The Company delisted the Bonds from the Singapore Exchange Securities Trading Limited. For details, please refer to Note 31 to the Consolidated Financial Statements.

EQUITY-LINKED AGREEMENTS

The Company completed the issue of the pre-emptive shares to China IC Fund and Datang in 2018. For further details regarding the placing agreement, please refer to Note 26 to the consolidated financial statements.

The Company completed the issue of the perpetual subordinated convertible securities in 2018 and 2017. For further details, please refer to Note 29 to the consolidated financial statements.

The Company has issued a US$450 million zero coupon convertible bonds due 2022, which subsist as of December 31, 2018 as set out in Note 31 to the consolidated financial statements.

The Company has made various stock incentive plans which subsist as of December 31, 2018 as set out in Note 37 to the consolidated financial statements.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

CAPITAL CONTRIBUTION IN SEMICONDUCTOR MANUFACTURING SOUTH CHINA CORPORATION ("SMSC")

On January 30, 2018, SMIC Holdings Corporation ("SMIC Holdings"), Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"), China IC Fund and Shanghai IC Fund entered into the joint venture agreement and the capital contribution agreement pursuant to which SMIC Holdings, China IC Fund and Shanghai IC Fund agreed to make cash contribution to the registered capital of SMSC in the amount of US$1.5435 billion, US$946.5 million and US$800.0 million, respectively. As a result of the capital contribution: (i) the registered capital of SMSC will increase from US$210.0 million to US$3.5 billion; (ii) the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, will decrease from 100% to 50.1%; and (iii) SMSC will be owned as to 27.04% and 22.86% by China IC Fund and Shanghai IC Fund, respectively.

The principal business of SMSC includes wafer manufacturing, wafer probing and bumping, technology development, design service, mask manufacturing, assembly and final testing of integrated circuits and sales of self-manufactured products. SMSC is expected to establish and build up large-scale manufacturing capacity focusing on 14 nanometer and below process and manufacturing technologies and aims to reach a manufacturing capacity of 35,000 wafers per month. The Group believes that the investment in SMSC is attractive and able to generate sustainable and attractive returns in the near future.

EQUITY TRANSFER AND CAPITAL CONTRIBUTION IN NINGBO SEMICONDUCTOR INTERNATIONAL CORPORATION ("NSI")

On March 22, 2018, NSI, SMIC Holdings and China IC Fund entered into the equity transfer agreement, pursuant to which SMIC Holdings has agreed to sell the equity Interest to China IC Fund. Upon the completion of the equity transfer, the shareholding of SMIC Holdings in NSI will decrease from approximately 66.76% to 38.59%, and NSI will cease to be a subsidiary of the Company and its financial results will cease to be consolidated with the Group's results. The equity transfer has been completed in April 2018 and the Group recorded its ownership interest of NSI as investment in associate.

REPORT OF THE DIRECTORS

On March 23, 2018, NSI, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd, Beijing Integrated Circuit Design and Testing Fund, Ningbo Integrated Circuit Industry Fund and Infotech National Emerging Fund entered into the capital increase agreement, pursuant to which (i) SMIC Holdings has agreed to make further cash contribution of RMB565.0 million (approximately US$89.4 million) into the registered capital of NSI. Its shareholding in NSI will decrease from approximately 38.59% to approximately 38.57%; (ii) China IC Fund has agreed to make further cash contribution of RMB500.0 million (approximately US$79.2 million) into the registered capital of NSI. Its shareholding in NSI will increase from approximately 28.17% to approximately 32.97%. The all above parties' performance of the Capital Contribution obligations will lead to an increase in the registered capital from RMB355 million to RMB1.82 billion (approximately US$56.2 million to US$288.1 million).

CAPITAL CONTRIBUTION IN IPV CAPITAL GLOBAL TECHNOLOGY FUND (THE "IPV FUND")

On May 2, 2018, IPV Global Technology Management Limited as the general partner and China IC Fund, China IC Capital Co., Ltd ("China IC Capital", a wholly-owned investment fund company of SMIC) and other investor as the limited partners entered into the partnership agreement in relation to the establishment and management of the IPV Fund. The IPV Fund will be established in the PRC as a limited partnership for the purpose of equity investments, investment management and other activities, in order to maximize the profit of all partners. Pursuant to the partnership agreement, the total capital commitment to the IPV Fund is RMB1,616.2 million (approximately US$244.3 million) of which RMB800.0 million (approximately US$120.9 million) is to be contributed by China IC Fund and RMB165.0 million (approximately US$24.9 million) is to be contributed by China IC Capital. As of the date of this report, China IC Capital has contributed to RMB49.5 million (approximately US$7.5 million).

SUBSCRIPTION OF SHARES IN JIANGSU CHANGJIANG ELECTRONICS TECHNOLOGY CO. LTD ("JCET")

On August 30, 2018, the Company has, through its wholly-owned subsidiary Siltech Semiconductor (Shanghai) Corporation Limited, completed a subscription for 34,696,198 shares in JCET in cash by way of private placement (the "Subscription"). The shares were subscribed at a price of RMB14.89 per share, with the total subscription price being RMB516,626,388.22 (approximately US$75.9 million). Immediately before and after completion of the Subscription, the shareholding interest of the Company in JCET is 14.28%. The Company understands that JCET has completed the issue and registration procedures of these shares, including listing of the shares on the Shanghai Stock Exchange. The newly subscribed shares will not be transferrable by the Company for 36 months after completion of the Subscription.

CAPITAL CONTRIBUTION IN SINO IC LEASING CO., LTD ("SINO IC LEASING")

On July 20, 2017, the Company agreed to increase its capital contribution obligation, subject to the amended joint venture agreement, towards Sino IC Leasing from RMB600.0 million to RMB800.0 million (from approximately US$88.3 million to US$117.8 million), while its shareholding in Sino IC Leasing will decrease to approximately 7.44% as of the date of this annual report.

CAPITAL CONTRIBUTION IN SEMICONDUCTOR MANUFACTURING NORTH CHINA (BEIJING) CORPORATION ("SMNC")

On August 10, 2017, the Company, Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing"), SMIC Holdings, China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership), Beijing Industrial Development Investment Management Co., Ltd., Zhongguancun Development Group and Beijing E-Town International Investment & Development Co., Ltd. agreed to amend the previous joint venture agreement through the amended joint venture agreement, pursuant to which: (i) the Company, SMIC Beijing and SMIC Holdings have agreed to make further cash contribution of US$1,224.0 million into the registered capital of SMNC. The Company's aggregate shareholding in SMNC will remain at 51%; (ii) China IC Fund has agreed to make further cash contribution of US$900.0 million into the registered capital of SMNC. Its shareholding in SMNC will increase from 26.5% to 32%; and (iii) E-Town Capital has agreed to make cash contribution of US$276.0 million into the registered capital of SMNC representing 5.75% of the enlarged registered capital of SMNC. The capital contribution is expected to be completed before the end of 2019.

DISPOSAL OF 19.61% EQUITY INTEREST IN CHANGJIANG XINKE BY SILTECH SHANGHAI TO JCET AND ISSUE OF A SHARES TO SILTECH SHANGHAI BY JCET AND PRIVATE PLACEMENT OF A SHARES TO SILTECH SHANGHAI BY JCET

On April 27, 2016, SilTech Semiconductor (Shanghai) Corporation Limited ("SilTech Shanghai") and JCET entered into a disposal agreement (the "Disposal Agreement"), pursuant to which SilTech Shanghai agreed to sell its 19.61% equity interest in Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke") to JCET in consideration of RMB664.0 million, which will be satisfied by JCET's issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement (the "Subscription Agreement"), pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655.0 million in cash. On May 10, 2017, the Company was notified by JCET that the China Securities Regulatory Commission has granted approval for this transaction, and the Disposal Agreement and the Subscription Agreement became effective accordingly. On June 19, 2017, the transactions were completed and SMIC became the single largest shareholder of JCET. The Group recorded its ownership interest of JCET as investment in associate due to its right to nominate directors of JCET's Board.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

1. Capital Contribution in Semiconductor Manufacturing South China Corporation ("SMSC") and Deemed Disposal of Equity Interest

On January 30, 2018, SMIC Holdings, Semiconductor Manufacturing International (Shanghai) Corporation ("SMIC Shanghai"), China IC Fund and Shanghai IC Fund entered into the Joint Venture Agreement and the Capital Contribution Agreement pursuant to which SMIC Holdings, China IC Fund and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd ("Shanghai IC Fund") agreed to make cash contribution to the Registered Capital of Semiconductor Manufacturing South China Corporation ("SMSC") in the amount of US$1.5435 billion, US946.5 million and US$800 million, respectively. As a result of the Capital Contribution: (i) the Registered Capital of SMSC would increase from US$210 million to US$3.5 billion; (ii) the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, would decrease from 100% to 50.1%; and (iii) SMSC would be owned as to 27.04% and 22.86% by China IC Fund and Shanghai IC Fund, respectively.

Summary of principal terms of the joint venture agreement

Date: January 30, 2018

Parties:

(a) SMIC Holdings

(b) SMIC Shanghai

(c) China IC Fund

(d) Shanghai IC Fund

Total Investment and Registered Capital

The total investment in SMSC by the parties was estimated to be US$10.24 billion. The parties would contribute in aggregate US$3.5 billion of the total investment as Capital Contribution in the following manner:

(a) SMIC Holdings had committed to contribute US$1.5985 billion, representing 45.67% of the enlarged Registered Capital after the Capital Contribution. US$55 million has been contributed prior to entering into the Joint Venture Agreement and US$1.5435 billion is outstanding;

(b) SMIC Shanghai had committed to contribute US$155 million, which has been fully contributed prior to entering into the Joint Venture Agreement, representing 4.43% of the enlarged Registered Capital after the Capital Contribution;

(c) China IC Fund had committed to contribute US$946.5 million, which is outstanding, representing 27.04% of the enlarged Registered Capital after the Capital Contribution; and

(d) Shanghai IC Fund had committed to contribute US$800 million, which is outstanding, representing 22.86% of the enlarged Registered Capital after the Capital Contribution.

REPORT OF THE DIRECTORS

The consideration was arrived at after arm's length negotiation among the parties with reference to the net asset value, future business prospects and development potential of SMSC. The difference between the total investment of US$10.24 billion and enlarged Registered Capital after the Capital Contribution of US$3.5 billion was intended to be funded through debt financing.

Each party shall complete 30% of its outstanding contributions prior to June 30, 2018, complete 30% of its outstanding contributions prior to December 31, 2018, and complete the remaining 40% of the contributions prior to June 30, 2019 (the "Time Frame").

Notwithstanding the above, the capital contribution by China IC Fund is subject to the following conditions ("Condition Precedent"):

(i) receipt of the written approval from the competent government authority(ies) in Shanghai, pursuant to which a government subsidy lasting for not less than five years with an amount each year not less than 4% of the total capital contribution of China IC Fund shall be granted to SMSC; and

(ii) the validity of the investment period of China IC Fund (after which China IC fund cannot make capital contribution to SMSC).

The parties had further agreed that if China IC Fund fails to make Capital Contribution in accordance with the Time Frame, due to (i) the Condition Precedent is not satisfied or only satisfied within one month prior to the any deadline of the Time Frame; or (ii) the expiry of the investment period of China IC Fund, the failure by China IC Fund to make its Capital Contribution will not constitute a breach of the Joint Venture Agreement. However, if the Condition Precedent is satisfied within one month prior to any deadline of the Time Frame, or beyond any such deadline (but within the investment period of China IC Fund), China IC Fund shall make the relevant capital contribution in accordance with the Joint Venture Agreement within one month after the satisfaction of the Condition Precedent. If China IC Fund fails to make capital contribution due to the Condition Precedent cannot be met on or before August 25, 2019, and/or if China IC Fund is unable to make capital contribution due to the expiry of its investment period, such failure to make capital contribution will not constitute a breach by China IC Fund, and the parties will further negotiate and amend the Joint Venture Agreement and the articles of association of SMSC as well as other relevant legal documents.

The cash capital contribution by SMIC Holdings would be funded by the internal cash flow. The proceeds of the Capital Contribution would be used by SMSC as capital expenditure and working capital.

Summary of principal terms of the capital contribution agreement

Date: January 30, 2018

Parties:

(a) SMIC Holdings

(b) SMIC Shanghai

(c) China IC Fund

(d) Shanghai IC Fund

Subscription of Registered Capital

The Registered Capital of SMSC would increase from US$210 million to US$3.5 billion. In respect of the increase of US$3.29 billion, the parties had agreed that SMIC Holdings would contribute the amount of US$1.5435 billion in cash while China IC Fund and Shanghai IC Fund would contribute the RMB equivalent of US$946.5 million and US$800 million in cash (calculated at the middle exchange rate of RMB to US$ as announced by the People's Bank of China on the date of the contribution), respectively.

Reasons for and Benefits of the Capital Contribution

SMSC is a 12-inch wafer fab with advanced process capability built in line with the schedule of the Company's 14 nanometre and below advanced technology node research and development and mass production. China IC Fund and Shanghai IC Fund mainly invest in the value chain of integrated circuit industry via various approaches, primarily in integrated circuit chip manufacturing as well as chip designing, packaging test and equipment and materials. The 12-inch wafer fab will be built by joint venture partnership with China IC Fund and Shanghai IC Fund and the Company could speed up the introduction of advanced manufacturing process and products with the support of the government industry funds. This will also relieve the Company from spending large amount of cash investment and depreciation cost caused by the expansion of advanced production capacity.

The Company believes that such partnership with China IC Fund and Shanghai IC Fund through the Joint Venture Agreement and the Capital Contribution Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and beneficial to the sustainable development of the Company. The Directors (excluding independent non-executive Directors whose view will be given after taking into account the advice from the independent financial adviser) consider that it is in the best interests of the Company and the Shareholders as a whole to enter into the Joint Venture Agreement and the Capital Contribution Agreement and the transactions contemplated thereunder; the terms of the Joint Venture Agreement and the Capital Contribution Agreement are fair and reasonable; and the entering into of the Joint Venture Agreement and the Capital Contribution Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implications of the Listing Rules

As China IC Fund holds approximately 15.05% of the issued share capital of the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, as at the date of this announcement, it is a connected person of the Company under the Listing Rules. The transactions contemplated under the Joint Venture Agreement and the Capital Contribution Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Joint Venture Agreement and the Capital Contribution Agreement, as a result of the Capital Contribution, the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, will decrease from 100% to 50.1%, which constitutes a deemed disposal for the Company under Chapter 14 of the Listing Rules.

As certain applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Joint Venture Agreement and the Capital Contribution Agreement exceed 5% but are less than 25%, the transactions contemplated under the Joint Venture Agreement and the Capital Contribution Agreement constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules, and a non-exempt connected transaction subject to reporting, announcement and the Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Joint Venture Agreement, Capital Contribution Agreement and all transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on March 27, 2018 as required under Chapter 14 of the Listing Rules.

2. *Equity Transfer in Ningbo Semiconductor International Corporation and Capital Contribution in Ningbo Semiconductor International Corporation*

On March 22, 2018, Ningbo Semiconductor International Corporation ("the Joint Venture Company"), SMIC Holdings Corporation ("SMIC Holdings") and China Integrated Circuit Industry Investment Fund Co., Ltd ("China IC Fund") entered into the Equity Transfer Agreement, pursuant to which SMIC Holdings had agreed to sell 28.17% equity interest in Ningbo Semiconductor International Corporation held by SMIC Holdings prior to the equity transfer (the "Equity Interest") to China IC Fund. Upon the completion of the Equity Transfer, the shareholding of SMIC Holdings in the Joint Venture Company would decrease from approximately 66.76% to 38.59%, and the Joint Venture Company would cease to be a subsidiary of the Company and its financial results would cease to be consolidated with the Group's results.

On March 22, 2018, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd ("Ningbo Senson") and Beijing Integrated Circuit Design and Testing Fund ("Beijing Fund") had agreed to amend the previous joint venture agreement through the First Amended Joint Venture Agreement for the Equity Transfer.

REPORT OF THE DIRECTORS

Capital Contribution in Ningbo Semiconductor International Corporation

On March 23, 2018, the Joint Venture Company, SMIC Holdings, China IC Fund, Ningbo Senson, Beijing Fund, Ningbo Integrated Circuit Industry Fund Management Co., Ltd ("IC Spaces") and Infotech National Emerging Industry Venture Capital Guiding Fund ("Infotech") entered into the Capital Increase Agreement, pursuant to which (i) SMIC Holdings had agreed to make further cash contribution of RMB565 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will decrease from approximately 38.59% to approximately 38.57%; (ii) China IC Fund had agreed to make further cash contribution of RMB500 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will increase from approximately 28.17% to approximately 32.97%; (iii) Ningbo Senson had agreed to make further cash contribution of RMB200 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will decrease from approximately 24.79% to approximately 15.82%; (iv) Beijing Fund would make no further cash contribution and its shareholding in the Joint Venture Company will decrease from approximately 8.45% to approximately 1.65%; (v) IC Spaces had agreed to make cash contribution of RMB100 million into the registered capital of the Joint Venture Company, representing approximately 5.50% of the enlarged registered capital of the Joint Venture Company; and (vi) Infotech had agreed to make cash contribution of RMB100 million into the registered capital of the Joint Venture Company, representing approximately 5.50% of the enlarged registered capital of the Joint Venture Company. The above parties' performance of the Capital Contribution obligations would lead to an increase in the registered capital from RMB355 million to RMB1.82 billion.

On March 23, 2018, SMIC Holdings, China IC Fund, Ningbo Senson, Beijing Fund, IC Spaces and Infotech agreed to amend the First Amended Joint Venture Agreement through the Second Amended Joint Venture Agreement for the Capital Contribution.

Reasons for and Benefits of the Equity Transfer and the Capital Contribution

The Joint Venture Company is positioned as a new research and manufacturing base for specialised analog semiconductor industry in China. It adopts a new business model by combining professional foundry and customized ODM, while providing a platform for the design service of related products. The Joint Venture Company focuses on the segments of high-voltage analog, radio frequency front-end and the integrated technology of silicon semiconductor for new optoelectronics and magnetic materials. Its products, working together with the Company's products with advanced logic technology, will provide related systems with a comprehensive solution, and effectively support the currently rapid development of 4G/5G mobile communication and handheld devices, smart home appliances, industrial smart control and robots, automobiles with advanced energy sources, which will successfully complete the integration of upstream and downstream resources in the relevant semiconductor industry chain. The Joint Venture Company will provide a strong support to the expansion of the Company's current product mix and has an important strategic position for achieving the grand strategic goal of the Company, where important impact will be made on the development of the Company from now on. The Company is of the view that the Equity Transfer, Capital Contribution and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole, and are beneficial to the sustainable development of the Company.

The Directors (including independent non-executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole for SMIC Holdings to enter into the Equity Transfer Agreement, the First Amended Joint Venture Agreement, the Capital Increase Agreement and the Second Amended Joint Venture Agreement and the transactions contemplated thereunder; the terms of the Equity Transfer Agreement, the First Amended Joint Venture Agreement, the Capital Increase Agreement and the Second Amended Joint Venture Agreement are fair and reasonable; and the entering into of the Equity Transfer Agreement, the First Amended Joint Venture Agreement, the Capital Increase Agreement and the Second Amended Joint Venture Agreement and transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implication of Listing Rules

As China IC Fund holds approximately 15.04% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company under the Listing Rules. As Ningbo Senson holds 24.79% equity interest in the Joint Venture Company, a subsidiary of the Company prior to the Equity Transfer, Ningbo Senson is a connected person at the subsidiary level of the Company prior to the Equity Transfer under the Listing Rules. SMIC Holdings' entering into the Equity Transfer Agreement with the Joint Venture Company and China IC Fund, and the First Amended Joint Venture Agreement with, amongst others, China IC Fund and Ningbo Senson, constitutes a connected transaction under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Equity Transfer Agreement and the First Amended Joint Venture Agreement exceed 0.1% but are less than 5%, the transaction contemplated under the Equity Transfer Agreement and the First Amended Joint Venture Agreement constitutes a connected transaction of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

As the shareholding of SMIC Holdings in the Joint Venture Company will decrease from approximately 66.76% to approximately 38.59% upon the completion of the Equity Transfer, the Joint Venture Company will cease to be the subsidiary of the Company after the Equity Transfer and Ningbo Senson will cease to be a connected person at the subsidiary level of the Company after the Equity Transfer under the Listing Rules. As China IC Fund is a connected person of the Company, SMIC Holdings' entering into the Capital Increase Agreement and the Second Amended Joint Venture Agreement with, amongst others, China IC Fund constitutes a connected transaction under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Capital Increase Agreement and the Second Amended Joint Venture Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Capital Increase Agreement and the Second Amended Joint Venture Agreement constitutes a connected transaction of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

3. Subscription of Shares and Perpetual Subordinated Convertible Securities by China IC Fund and Datang

Background

On November 29, 2017, the Company entered into a placing agreement (the "Placing Agreement") with J.P. Morgan Securities Plc and Deutsche Bank AG, Hong Kong Branch (the "Joint Placing Agents") pursuant to which the Company conditionally agreed to place, through the Joint Placing Agents, 241,418,625 Shares (the "Placing Shares") to not less than six independent placees at a price of HK$10.65 per Placing Share. The Placing Shares will be allotted and issued pursuant to the general and unconditional mandate granted to the Directors by passing a resolution of the Shareholders at the annual general meeting of the Company held on June 23, 2017 to exercise the power of the Company to allot and issue up to 20% of the issued share capital of the Company as at the date of passing such resolution. The issue of the Placing Shares is not subject to the approval of the Shareholders. The placing shares will rank pari passu in all aspects with the ordinary shares of the Company.

On November 29, 2017, the Company and the Barclays Bank PLC, Deutsche Bank AG, Hong Kong Branch and J.P. Morgan Securities Plc (the "Joint Managers") entered into a subscription agreement (the "Placed PSCS Subscription Agreement"), pursuant to which each of the Joint Managers has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for the perpetual subordinated convertible securities of an aggregate principal amount of US$65 million issued by the Company (the "Placed PSCS").

On December 6, 2017, all the conditions set out in the Placing Agreement had been fulfilled and completion of the Placing took place. Pursuant to the terms and conditions of the Placing Agreement, the Company allotted and issued 241,418,625 Placing Shares, representing approximately 4.92% of the issued share capital of the Company as enlarged by the issue of the Placing Shares, to not less than six independent Placees at the price of HK$10.65 per Placing Share.

On December 14, 2017, all the conditions set out in the Placed PSCS Subscription Agreement had been fulfilled and completion of the issue of the Placed PSCS in the principal amount of US$65 million took place.

On December 14, 2017, pursuant to the share purchase agreement dated November 6, 2008 between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd., a company established under PRC laws ("Datang") (the "Datang Purchase Agreement"), Datang has delivered a notice to the Company that it will exercise its pre-emptive right in relation to the issue of the Placing Shares, the Placed PSCS, the potential subscription of securities by China IC Fund pursuant to the exercise of its pre-emptive right under the share purchase agreement dated February 12, 2015 between the Company and China IC Fund (the "China IC Fund Agreement") and the potential subscription of perpetual subordinated convertible securities by China IC Fund. Details can be found on the announcement of the Company dated December 14, 2017.

On December 14, 2017, pursuant to the China IC Fund Agreement, China IC Fund has delivered a notice to the Company that it will exercise its pre-emptive right in relation to the issue of the Placing Shares, the Placed PSCS, the potential subscription of securities by Datang pursuant to the exercise of its pre-emptive right under the Datang Purchase Agreement and the potential subscription of perpetual subordinated convertible securities by Datang. Details can be found on the announcement of the Company dated December 14, 2017.

As each of Datang and China IC Fund is a substantial shareholder of the Company and thus a connected person of the Company, the potential subscription by Datang as indicated above and the potential subscription by China IC Fund as indicated above will constitute connected transactions of the Company and will be subject to independent shareholders' approval under the Listing Rules. The Company will make such further announcement(s) as necessary if any agreement(s) is/are entered into by the Company with Datang or China IC Fund regarding the above matters.

The Datang Pre-emptive Share Subscription Agreement

On April 23, 2018, the Company entered into the Datang Pre-emptive Share Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang Pre-emptive Shares. The subscription by Datang through Datang HK of the Datang Pre-emptive Shares will be at a price equivalent to the Placing Price, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The Datang PSCS Subscription Agreement

On April 23, 2018, the Company entered into the Datang PSCS Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang PSCS Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang PSCS in an aggregate principal amount of US$200,000,000 for a total cash consideration of US$200,000,000 which is 100% of the aggregate principal amount of the Placed PSCS, based on terms and conditions that are substantially the same as the issue of the Placed PSCS, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The Conversion Price would initially be HK$12.78 per Share, but would be subject to adjustment. Based on the initial Conversion Price of HK$12.78 per Share and assuming full conversion of the Datang PSCS at the initial Conversion Price, the Datang PSCS will be convertible into 122,118,935 Shares, representing approximately 2.48% of the issued share capital of the Company on the last full Trading Day immediately before execution of the Datang PSCS Subscription Agreement and approximately 2.42% of the issued share capital of the Company as enlarged by and assuming full conversion of the Datang PSCS.

The China IC Fund Pre-emptive share Subscription Agreement

On April 23, 2018, the Company entered into the China IC Fund Pre-emptive Share Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the China IC Fund Pre-emptive Shares. The subscription by China IC Fund through Xinxin HK of the China IC Fund Pre-emptive Shares will be at a price equivalent to the Placing Price, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The China IC Fund PSCS Subscription Agreement

On April 23, 2018, the Company entered into the China IC Fund PSCS Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund PSCS Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, though Xinxin HK, conditionally agreed to subscribe for, the China IC Fund PSCS in an aggregate principal amount of US$300,000,000 for a total cash consideration of US$300,000,000 which is 100% of the aggregate principal amount of the Placed PSCS, based on terms and conditions that are substantially the same as the issue of the Placed PSCS, and conditional upon the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The Conversion Price would initially be HK$12.78 per Share, but would be subject to adjustment. Based on the initial Conversion Price of HK$12.78 per Share and assuming full conversion of the China IC Fund PSCS at the initial Conversion Price, the China IC Fund PSCS will be convertible into 183,178,403 Shares, representing approximately 3.71% of the issued share capital of the Company on the last full Trading Day immediately before execution of the China IC Fund PSCS Subscription Agreement and approximately 3.58% of the issued share capital of the Company as enlarged by and assuming full conversion of the China IC Fund PSCS.

Reasons for and Benefits of the Datang Subscription and the China IC Fund Subscription

The Company is of the view that the Datang Subscription and the China IC Fund Subscription will strengthen the relationship between Datang, China IC Fund and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the Placing and the issued of the Placed PSCS.

Implication of Listing Rules

Datang currently holds 16.18% of the entire existing issued share capital of the Company. China IC Fund currently holds 15.01% of the entire existing issued share capital of the Company. As each of Datang and China IC Fund is a substantial Shareholder of the Company by virtue of their respective shareholding interest, each of them is a connected person of the Company and the entering into of the Datang Preemptive Share Subscription Agreement, the Datang PSCS Subscription Agreement, the China IC Fund Pre-emptive Share Subscription Agreement and China IC Fund PSCS Subscription Agreement as well as the transactions contemplated thereunder (including the allotment and issue of the Datang Pre-emptive Shares and the China IC Fund Pre-emptive Shares, the issue of the Datang PSCS and the China IC Fund PSCS and any Datang Conversion Shares and/or China IC Fund Conversion Shares) will constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Datang Pre-emptive Share Subscription Agreement, the Datang PSCS Subscription Agreement, the China IC Fund Pre-emptive Share Subscription Agreement and China IC Fund PSCS Subscription Agreement and the transactions contemplated thereunder are subject to reporting, announcement and Independent Shareholders' approval requirements under the Chapter 14A of the Listing Rules. Such agreements and all transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on June 22, 2018 as required under Chapter 14A of the Listing Rules.

4. Entering into Partnership Agreement for the Establishment of IPV Capital Global Technology Fund ("the Fund")

On May 2, 2018, IPV Global Technology Management Limited ("IPV Global") as the General Partner and China IC Fund, China IC Capital Co., Ltd ("China IC Capital") and L&L Capital as the Limited Partners entered into the Partnership Agreement in relation to the establishment and management of the Fund. The Fund would be established in the PRC as a limited partnership for the purpose of equity investments, investment management and other activities, in order to maximize the profit of all Partners. Pursuant to the Partnership Agreement, the total capital commitment to the Fund is RMB1,616,160,000, of which RMB16.16 million is to be contributed by IPV Global, RMB800 million is to be contributed by China IC Fund, RMB165 million is to be contributed by China IC Capital and RMB635 million is to be contributed by L&L Capital. The Fund will be managed by Infotech Venture Investment Company Ltd. ("Infotech Venture Investment").

The purpose of the fund is to carry out equity investments, investment management and other activities within the business scope of the Fund, in order to maximize the profit of all Partners.

Reasons for and Benefits of the Partnership Agreement

The Partnership will invest in selected companies operating in the semiconductor and semiconductor-related industries. Such investments are intended to help accelerate the development of the integrated circuit industry eco-system in the PRC and to excavate the potential opportunities for the exploitation and integration of resources in the industry. As a result, the Company's customers and partners will benefit from such development, while the Company may also enjoy the financial benefits from such investments. Therefore, there are advantageous reasons from both strategic and financial perspectives for China IC Capital to enter into the Partnership Agreement for the establishment of the Fund.

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

Implication of Listing Rules

As China IC Fund holds approximately 15.01% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Capital is an indirect wholly-owned subsidiary of the Company. Accordingly, the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

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

5. RSUs Grant to Dr. Chen, Mr. Tan and Mr. Brown

At the meeting of the Board held on February 7, 2018, the Board resolved to grant 337,500 RSUs (the "RSU Grants") under the 2014 Equity Incentive Plan. Among the 337,500 RSUs, 125,000 RSUs were granted to Dr. Chen, 125,000 RSUs were granted to Mr. Tan and 87,500 RSUs were granted to Mr. Brown. Each of the RSUs granted to Dr. Chen, Mr. Tan and Mr. Brown represents the right to receive an Ordinary Share on the date it vests. It is intended that 62,500, 62,500, and 25,000 RSUs granted to Dr. Chen, Mr. Tan and Mr. Brown respectively will vest immediately upon their grant. It is intended that 62,500, 62,500, and 62,500 RSUs granted to Dr. Chen, Mr. Tan and Mr. Brown respectively will vest on January 1, 2019.

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

The grant of 337,500 RSUs and any transactions contemplated thereunder constitutes non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and thus subject to reporting, announcement and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules. The RSU Grant and the transactions were approved by the independent shareholders at the extraordinary general meeting of the Company held on November 7, 2018.

6. The Subscription of the Oriented Debt Financing Instrument

On May 18, 2018, Semiconductor Manufacturing International (Beijing) Corporation ("SMIC Beijing"), Shanghai Guotai Junan Securities Asset Management Co., Ltd. (the "Subscriber") (as manager) and China Merchants Bank Co., Ltd. (Shanghai Branch) (the "Custodian Bank") (as custodian trustee) entered into the Asset Management Agreement, pursuant to which, among others, the Subscriber shall provide SMIC Beijing with asset management and investment services in respect of the Entrusted Assets in accordance with the terms under the Asset Management Agreement, which include investment in Oriented Debt Financing Instrument.

On July 6, 2018, pursuant to the terms of the Asset Management Agreement, Sino IC Leasing Co., Ltd. (the "Issuer") had issued and the Subscriber had subscribed for, an amount of RMB200 million out of the total issue of an aggregate principal amount of RMB500 million of Oriented Debt Financing Instrument, using funds from the Entrusted Assets (the assets of SMIC Beijing deposited in designated custodian accounts, which are managed by the Subscriber and under the custody of the Custodian Bank pursuant to the terms of the Asset Management Agreement).

On August 10, 2018, pursuant to the terms of the Asset Management Agreement, the Issuer had issued and the Subscriber had subscribed for, an amount of RMB100 million out of the total issue of an aggregate principal amount of RMB500 million of Oriented Debt Financing Instrument, using funds from the Entrusted Assets.

Reasons for and Benefits of the Subscription

The Group had not participated in the negotiation of the subscription amount of the Subscription or the terms of the Oriented Debt Financing Instrument. To the best knowledge of the Company, the terms of the Oriented Debt Financing Instrument are the same as those generally applicable to other Oriented Debt Financing Instrument issued by the Issuer.

The subscription of the Oriented Debt Financing Instrument is considered to be beneficial to the Company through the interest earnings to the Entrusted Assets under the Asset Management Agreement, of which SMIC Beijing is the ultimate beneficiary.

The Directors (including independent non-executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole for the Subscriber to enter into the Subscription pursuant to the terms of the Asset Management Agreement and the Subscription are fair and reasonable; and the Subscription is on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implication of Listing Rules

As China IC Fund holds approximately 14.82% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a substantial shareholder and a connected person of the Company under the Listing Rules. China IC Fund also holds approximately 32.31% of equity interest in the Issuer. The Issuer is therefore an associate of China IC Fund and is a connected person of the Company under the Listing Rules. Accordingly, the Subscription pursuant to the terms of the Asset Management Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

On July 6, 2018, as the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Subscription exceed 0.1% but are less than 5%, the Subscription constitute connected transactions of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

On August 10, 2018, as announced by the Company on July 6, 2018, the Subscriber had subscribed for an amount of RMB200 million out of the total issue of an aggregate principal amount of RMB500 million of oriented debt financing instrument issued on July 6, 2018 in cash. Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under Subscription are required to be aggregated with the Previous Subscription. As the highest applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Two Subscriptions (after aggregation) exceed 0.1% but are less than 5%, the Two Subscriptions constitute connected transactions of the Company and are subject to the reporting and announcement requirements under the Listing Rules, but are exempt from the circular and the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

7. Capital Contribution and Deemed Disposal of Equity Interest in Semiconductor Global Solutions Co., Ltd. ("SGS")

On March 1, 2018, SMIC Holdings Corporation ("SMIC Holdings"), Triplecores Korea Co., Ltd. ("Triplecores") and IC SPACES Holdings Co., Ltd ("IC SPACES") entered into a joint venture agreement in relation to the establishment of SGS in the PRC, pursuant to which the registered capital of SGS is US$10 million. SMIC Holdings and Triplecores agreed to make cash contributions in US Dollars and IC SPACES agreed to make cash contribution in Renminbi to the registered capital of SGS in the sum of US$6 million, US$3 million and US$1 million, respectively. As a result, the Company holds, through SMIC Holdings, 60.00% of the equity interest of SGS.

REPORT OF THE DIRECTORS

On August 10, 2018, SMIC Holdings, Triplecores, IC SPACES and Sino IC Leasing Co., Ltd. ("Sino IC Leasing") had agreed to amend the joint venture agreement dated March 1, 2018 through the Amended JV Agreements, pursuant to which: (i) SMIC Holdings will not make additional capital contribution in the registered capital of SGS and Triplecores, IC SPACES and Sino IC Leasing will make additional capital contributions in the registered capital of SGS in the sum of US$2 million, US$3 million and US$5 million, respectively; (ii) the registered capital of SGS will increase from US$10 million to US$20 million; (iii) the Company's equity interest in SGS, through SMIC Holdings, will decrease from 60.00% to 30.00%; and (iv) SGS will be owned by China IC Fund, though Sino IC Leasing, as to approximately 8.08%.

As China IC Fund mainly invests in the value chain of integrated circuit industry via various approaches, primarily in IC chip manufacturing as well as chip designing, packaging test and equipment and materials, the Company believes that such joint venture will build up SGS at a faster pace and capture more business opportunities.

The Company believes that such joint venture with Triplecores, IC SPACES and Sino IC Leasing through the Amended JV Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and beneficial to the sustainable development of the Company. The Directors (including the independent non-executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole to enter into the Amended JV Agreement and the transactions contemplated thereunder; the terms of the Amended JV Agreement are fair and reasonable; and the entering into of the Amended JV Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Implication of Listing Rules

As China IC Fund holds approximately 14.82% of the issued share capital of the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, as at the date of this announcement, it is a connected person of the Company under the Listing Rules. As China IC Fund holds approximately 32.31% of the issued share capital of Sino IC Leasing, as at the date of this announcement, Sino IC Leasing is an associate of a connected person of the Company under the Listing Rules. The transactions contemplated under the Amended JV Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Amended JV Agreement, the Company's equity interest in SGS, through SMIC Holdings, would decrease from 60.00% to 30.00%, which constitutes a deemed disposal for the Company under Chapter 14 of the Listing Rules.

As certain applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Amended JV Agreement exceed 0.10% but are less than 5.00%, the transactions contemplated under the Amended JV Agreement constitute a connected transaction of the Company subject to the reporting and announcement requirements of Chapter 14A of the Listing Rules and is exempted from the independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

8. Restrictive Share Units (RSU) Grant to Professor Lau and Mr. Fan

At the meeting of the Board held on June 22, 2018, the Board resolved to grant 375,000 RSUs (the "Proposed RSU Grants") under the 2014 Equity Incentive Plan. Among the 375,000 RSUs, 187,500 RSUs were granted to Professor Lau and 187,500 RSUs were granted to Mr. Fan. Each of the RSUs granted to Professor Lau and Mr. Fan represents the right to receive an Ordinary Share on the date it vests. It is intended that such Restricted Share Units will vest over a period of three years at the rate of 33%, 33% and 34% for each 12 month period commencing on the date on which the relevant Director commenced his term of office as an independent non-executive Director.

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

The grant of 375,000 RSUs and any transactions contemplated thereunder constitutes non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and thus subject to reporting, announcement and the independent shareholders' approval requirements of Chapter 14A of the Hong Kong Listing Rules. The RSU Grant and the transactions were approved by the independent shareholders at the extraordinary general meeting of the Company held on January 11, 2019.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. *Financial Services Agreement with Datang Finance — 2016 to 2018*

On December 18, 2015, the Company and Datang Telecom Group Finance Co., Ltd. ("Datang Finance") entered into the financial services agreement with a three year term commencing on January 1, 2016 and ending on December 31, 2018 ("Financial Services Agreement"), pursuant to which Datang Finance has agreed to provide the Company and its subsidiaries, including its associated companies and companies under its management ("Group") with a range of financial services (including deposit services, loan services, foreign exchange services and other financial services) subject to the terms and conditions provided therein.

Datang Finance would provide to the Group a range of financial services as the Group may request from time to time. Such financial services include deposit services, loan services, foreign exchange services and other financial services.

The financial services of Datang Finance are provided based on the following pricing principles:

1. *Deposit services*
   The terms (including interest rates) in respect of deposit services offered to the Group by Datang Finance shall be no less favourable than those offered to the Group by third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

2. *Loan services*
   The terms (including interest rates) in respect of loans services offered to the Group by Datang Finance shall be no less favourable than those offered to the Group by third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

3. *Foreign exchange services*
   The terms (including exchange rates) in respect of foreign exchange services offered to the Group by Datang Finance shall be no less favourable than those offered to the Group by third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

4. *Other financial services*
   The terms (including fees charged by Datang Finance) for the provision of financial services other than deposits services, loan services and foreign exchange services shall be no less favourable than the terms (including fees charged to the Group) applicable to third parties in respect of comparable services, subject to the relevant provisions of Chinese laws and regulations.

The Annual Caps under the Financial Services Agreement are set out below:

Annual Caps	**For the year ended December 31,**		
	2018 US$ million	2017 US$ million	2016 US$ million
Deposit Cap (the maximum daily outstanding balances including accrued interests which is not cumulative in nature and inclusive of foreign currency and RMB deposits)	**100**	100	100
Spot FX Trading Cap (the maximum daily transaction amount for foreign exchange settlement and sales)	**50**	50	50
Other Financial Services Cap (the maximum annual fee for other financial services)	**5**	5	5

There are no historical caps for the deposit services, the foreign exchange services and other financial services with Datang Finance. The Annual Caps are determined based on the Group's actual financial needs and reasonable forecast.

REPORT OF THE DIRECTORS

The actual transaction amounts for the range of financial services which Datang Finance has provided to the Company pursuant to the Financial Services Agreement during the year ended December 31, 2018 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31,		
	2018 US$ million	2017 US$ million	2016 US$ million
Deposit Services	**2.21**	11.8	12.3
Spot FX Trading Services	—	—	—
Other Financial Services	—	—	0.01

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

The reasons for the Company to enter into the Financial Services Agreement are as follows:

1) The entering into of the Financial Services Agreement does not preclude the Group from using the financial services of other PRC commercial banks. The Group has the discretion in selecting other PRC commercial banks as its financial services provider as it thinks fit and appropriate for the benefits of the Group;

2) The entering into of the Financial Services Agreement enables the Group to broaden its existing financing channels; and

3) The terms in respect of the deposit services, the loan services and the foreign exchange services offered by Datang Finance to the Group will be no less favourable than those offered to the Group by third parties and the commercial banks in the PRC in respect of comparable services, which enables the Group to lower its finance costs.

Each of Datang Finance and Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang Holdings") is a wholly-owned subsidiary of China Academy of Telecommunications Technology and Datang Holdings in turn wholly owns Datang Holdings (Hongkong) Investment Company Limited ("Datang Hongkong"), a substantial shareholder of the Company which held approximately 18.30% of the total issued share capital of the Company as at the date of entering into the Financial Services Agreement. Datang Finance is a fellow subsidiary of Datang Holdings and an associate of Datang Hongkong, and thus a connected person of the Company under Chapter 14A of the Listing Rules. The Financial Services Agreement and the transactions contemplated thereunder are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Other than Dr. Gao Yonggang and Dr. Chen Shanzhi, both of whom are nominated as Directors by Datang Hongkong and its associates, none of the Directors has a material interest in the Financial Services Agreement or the transactions contemplated thereunder. Dr. Gao and Dr. Chen abstained from voting at the meeting of the Board on the resolutions approving the Financial Services Agreement and the transactions contemplated thereunder.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Financial Services Agreement that took place between Datang Finance and the Group during the period ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Financial Services Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Financial Services Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

2. Renewed Framework Agreement with Datang — 2016 to 2018

On December 28, 2015, the Company entered into a renewed framework agreement with Datang Telecom Technology & Industry Holding Co., Ltd. ("Datang Holdings") ("Renewed Framework Agreement"), pursuant to which the Group and Datang Holdings (including its associates) agree to engage in business collaboration including but not limited to foundry service. The term of the Renewed Framework Agreement is three years commencing from January 1, 2016. The pricing for the transactions contemplated under the Renewed Framework Agreement is determined by reference to reasonable market price available from or to independent third parties in the ordinary and usual course of business based on normal commercial terms and on an arm's length negotiation, or the price based on the actual production cost incurred plus a reasonable profit margin with reference to the general range of profit margins in the industry, and will be determined on terms not less favorable than those applicable to sales by independent third parties to the Company or its subsidiaries and not more favourable than those applicable to sales by the Company or its subsidiaries to independent third parties (if any). In relation to the provision of foundry services by the Company to Datang Holdings, the Company will have reference to the terms (including pricing) which it offers to independent third party customers for services of a comparable nature and quantity, as well as the reasonable market prices which are applicable.

The expected caps, being the maximum revenue on an aggregated basis expected to be generated by the Group from the transactions contemplated under the Renewed Framework Agreement ("Non-Exempt Continuing Connected Transactions"), are:

- US$50 million for the year ended December 31, 2016;
- US$66 million for the year ended December 31, 2017; and
- US$82 million for the year ending December 31, 2018.

In arriving at the expected caps, the Company has considered the potential level of Non-Exempt Continuing Connected Transactions it may potentially provide in light of current market conditions of the semiconductor industry and the technological capability of the Company, having regard to the historical transaction volume of Datang Holdings and its associates with the Company and the historical revenues generated by the Company from the transactions under the framework agreement dated February 18, 2014 (the "2014 Framework Agreement") entered into between the Company and Datang Holdings.

The Company considers that Datang Holdings plays a key role in China's semiconductor industry. By entering into the Renewed Framework Agreement and the Non-Exempt Continuing Connected Transactions with Datang Holdings, the Company believes that this will bring the Company sustainable business opportunities and also drive the Company's technological achievement.

The aggregate revenues generated by the Group from the transactions entered into pursuant to the Renewed Framework Agreement were US$17.9 million, US$20.2 million and US$11.9 million for the year ended December 31, 2016, 2017 and 2018 respectively.

As Datang Holdings is the holding company of Datang Holdings (Hongkong) Investment Company Limited, a substantial shareholder of the Company holding approximately 18.30% of the total issued share capital of the Company as at time of entering into the Renewed Framework Agreement, Datang Holdings is an associate of Datang (Hongkong) and hence a connected person of the Company under Chapter 14A of the Listing Rules. The Non-Exempt Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company confirms that Dr. Chen Shanzhi and Dr. Gao Yonggang, both being Directors nominated by Datang Holdings, have abstained from voting on all relevant board resolutions relating to the Renewed Framework Agreement and the Non-Exempt Continuing Connected Transactions.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Renewed Framework Agreement that took place between Datang Holdings (or any of its associates) and the Company (or any of its subsidiaries) for the year ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Renewed Framework Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the non-exempt continuing connected transactions of the Company under the Renewed Framework Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

3. Continuing Connected Transactions in relations to Centralised Fund Management Agreement — 2016 to 2018

On March 21, 2016, the Company, SMIC Beijing and SJ Semiconductor (Jiangyin) Corporation ("SJ Jiangyin"), entered into centralised fund management agreement ("Centralised Fund Management Agreement") in relation to: (i) the Company authorising its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SJ Jiangyin participating in the Group's centralised fund management system. SMIC Beijing will provide internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SJ Jiangyin pursuant to the Centralised Fund Management Agreement, ending on December 31, 2018.

The Company would authorise its wholly-owned subsidiary SMIC Beijing to carry out centralised management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations. Based on such authorisation, SMIC Beijing would provide fund management services to SJ Jiangyin within the scope permitted by the relevant PRC policies.

The price of the services provided by SMIC Beijing to SJ Jiangyin contemplated under the Centralised Fund Management Agreement will be fair and reasonable under the Listing Rules, determined according to the market principle on an arm's length basis, subject to compliance with requirements for connected transactions of the Hong Kong Stock Exchange:

1. Internal Deposit Services

The terms (including interest rates) in respect of the internal deposit services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to SJ Jiangyin's deposits with SMIC Beijing will be determined based on arm's length negotiations by the parties. The Company will make reference to the interest rate (if any) prescribed by the PBOC applicable to RMB deposits from time to time and published on the PBOC's website for the same type of deposits.

2. Collection and Payment Services and Foreign Exchange Services

The terms (including fees charged by SMIC Beijing and exchange rates) in respect of the collection and payment services and foreign exchange services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Jiangyin for providing such services will be determined based on arm's length negotiations by the parties.

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3. *Internal Loan Services*

The terms (including interest rates) in respect of the internal loan services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SJ Jiangyin by SMIC Beijing will be based on arm's length negotiation by the parties. The Company will make reference to the benchmark interest rate (if any) prescribed by the PBOC applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

4. *Provision of Letter of Credit Services*

The terms (including fees charged by the Company) in respect of the letters of credit provided by the Company to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by the Company to SJ Jiangyin for providing such services will be determined based on arm's length negotiations by the parties.

5. *Other Financial Services*

The terms (including fees charged by SMIC Beijing) in respect of other financial services provided by SJ Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Jiangyin for providing such services will be determined based on arm's length negotiations by the parties.

The annual caps under the Centralized Fund Management Agreement are set out below.

Annual Caps	**For the year ending December 31,**		
	2018 US$ million	2017 US$ million	2016 US$ million
Internal Deposit Cap (the maximum daily outstanding balances including accrued interests)	**500**	500	500
Collection and Payment and Foreign Exchange Cap (the maximum daily transaction amount for collection and payment services and foreign exchange services)	**500**	500	500
Internal Loan Cap (the maximum borrowing limit per calendar year)	**500**	500	500
Letter of Credit Cap (the maximum aggregate amount under the letter(s) of credit issued on SJ Jiangyin's behalf per calendar year)	**500**	500	500
Other Financial Services Cap (the maximum fees charged for provision of other financial services per calendar year)	**50**	50	50

The Company considers that the entry into of the Centralized Fund Management Agreement and the transactions contemplated thereunder will open up the domestic and foreign funding channels of the Group, increase efficient fund usage and reduce the Group's overall debt levels and interest expense. The centralized management of foreign exchange risk exposure will also reduce the risks of exchange loss of the Group.

As China IC Fund holds approximately 17.55% equity interest in the Company through its wholly-owned subsidiary at the time of entering into the Centralized Fund Management Agreement, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund holds approximately 25.0% equity interest at the date of entering into the Centralized Fund Management Agreement in SJ Semiconductor Corporation ("SJ Cayman"), a majority owned subsidiary of the Company, through its wholly-owned subsidiary, Xun Xin (Shanghai) Investment Co. Ltd. ("Xun Xin"). SJ Cayman and its wholly-owned subsidiary SJ Jiangyin are therefore connected subsidiaries of the Company as defined under Rule 14A.16 of the Listing Rules. SJ Jiangyin is thus a connected person of the Company under the Listing Rules. The transactions contemplated under the Centralized Fund Management Agreement are subject to reporting, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the Nomination Committee of the Company, holds the position of President in China IC Fund's sole manager Sino IC Capital Co., Ltd., Mr. Ren Kai, who is a Class III non-executive Director and a member of the Strategic Advisory Committee of the Company, holds the position of Vice President in China IC Fund's sole manager Sino IC Capital Co., Ltd and the position of legal representative in Xun Xin. Both Mr. Lu Jun and Mr. Ren Kai have abstained from voting on the relevant board resolution in respect of the Centralized Fund Management Agreement.

The Centralized Fund Management Agreement and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on June 24, 2016 as required under Chapter 14A of the Listing Rules.

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement during the year ended December 31, 2018 are set out below.

Transactions	**Actual Transaction Amounts for the year ended December 31,**		
	2018 US$ million	2017 US$ million	2016 US$ million
Internal Deposit Services	**137.9**	147.2	93.2
Collection and Payment Services and Foreign Exchange Services	—	—	—
Internal Loan Services	—	—	—
Letter of Credit Services	**19.5**	4.7	—
Other Financial Services	—	—	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Centralized Fund Management Agreement that took place between the Company and SJ Jiangyin for the year ended December 31, 2018 had been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Centralized Fund Management Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

On September 20, 2017 that the Company, SMIC Beijing, SJ Jiangyin and SJ Cayman (on behalf of itself and SJ Semiconductor (HK) Limited ("SJ Hong Kong")) entered into the Supplemental Agreement to amend the Centralized Fund Management Agreement. Pursuant to the Supplemental Agreement, the parties agreed that (1) the Centralized Fund Management Agreement should l apply not only to SJ Jiangyin but also to its indirect 100% holding company SJ Cayman and its direct 100% holding company SJ Hong Kong; and (2) references in the Centralized Fund Management Agreement to SJ Jiangyin should include references to SJ Cayman and SJ Hong Kong.

4. *Centralized Fund Management Contract with Semiconductor Manufacturing North China (Beijing) Corporation — 2016 to 2018*

On March 31, 2016, the Company and its subsidiaries, SMIC Beijing and SMNC entered into a Centralized fund management contract ("Centralized Fund Management Contract") providing the terms under which: (i) the Company would procure its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMNC would participate in the Group's Centralized fund management system. SMIC Beijing provides internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SMNC within the scope permitted by the relevant PRC policies ending on December 31, 2018.

The Centralized Fund Management Contract was entered into by the parties on March 31, 2016, at the time when SMNC was not a connected person. Due to the completion of the investment by China IC Fund (which indirectly held approximately 17.54% equity interest in the Company at the relevant time and is therefore a connected person of the Company at the issuer level) in approximately 26.5% equity interest in SMNC on June 30, 2016, SMNC became a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules, and thus a connected person of the Company. The Centralized Fund Management Contract and the transactions contemplated thereunder constitute continuing transactions subsequently became continuing connected transactions.

The expected Annual Caps were:

1. The Internal Deposit Cap (representing the proposed maximum daily outstanding balances including accrued interests placed by SMNC with SMIC Beijing) is US$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

2. The Collection and Payment and Foreign Exchange Cap (representing the proposed maximum daily transaction amount for collection and payment services and foreign exchange services provided by SMIC Beijing to SMNC) is US$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

3. The Internal Loan Cap (representing the proposed maximum daily outstanding balance of loans including accrued interest provided by SMIC Beijing to SMNC) is US$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

4. The Letter of Credit Cap (representing the proposed maximum aggregate principal amount of the letter(s) of credit issued on SMNC's behalf per calendar year) is US$2 billion for each of the three years ending in December 31, 2016, 2017 and 2018 respectively.

5. The Other Financial Services Cap (representing the proposed maximum fees charged by SMIC Beijing for providing other financial services to SMNC per calendar year) is US$50 million for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

The price of the services provided by SMIC Beijing to SMNC contemplated under the Centralized Fund Management Contract would be fair and reasonable under the Listing Rules, determined according to the market principle on an arm's length basis subject to compliance with requirements of the Hong Kong Stock Exchange and relevant requirements in the PRC.

The Company considers that the entry into of the Centralized Fund Management Contract and the transactions contemplated thereunder will have the following benefits:

1. open up the domestic and foreign funding channels of the Group;

2. reduce the Group's overall debt levels and increase efficient fund usage;

3. reduce the Group's interest expense; and

4. obtain favorable exchange rate for the Group.

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Contract during the year ended December 31, 2018 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31,		
	2018 US$ million	2017 US$ million	2016 US$ million
Internal Deposit Services	**1,962.6**	1,182.3	719.7
Collection and Payment Services and Foreign Exchange Services	—	—	—
Internal Loan Services	—	—	120.5
Letter of Credit Services	—	—	—
Other Financial Services	—	—	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Centralized Fund Management Contract that took place between the Company and its subsidiaries, SMIC Beijing and SMNC for the year ended December 31, 2018 had been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Centralized Fund Management Contract on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Contract and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

5. *Framework Agreement with Sino IC Leasing Co., Ltd. — 2016 to 2020 — and Supplemental Agreement to Framework Agreement*

On March 30, 2016, the Company and Sino IC Leasing Co., Ltd. ("Sino IC Leasing") entered into a framework agreement ("Framework Agreement with Sino IC Leasing"), pursuant to which Sino IC Leasing. should provide to the Company a range of financial services (including but not limited to leasing, factoring, loan entrustment, bills acceptance and discounting services) and certain other related services (including but not limited to financial advisory and consulting services), ending on December 31, 2020.

Sino IC Leasing should support the needs of the Company in its business expansion for funds in both RMB and other foreign currencies. Sino IC Leasing should provide the following services to the Company within the scope permitted by the relevant PRC laws, regulations and policies, as well as the internal operational and management policies of the Company:

1. *Finance related Services*

   The finance related services which Sino IC Leasing will provide to the Company include but are not limited to leasing, factoring, loan entrustment, bills acceptance and discounting services.

2. *Other related Services*

   The other related services which Sino IC Leasing will provide to the Company include but are not limited to financial advisory and consulting services.

The Annual Caps under the Framework Agreement with Sino IC Leasing are set out below.

Annual Caps	**For the year ending December 31,**				
	2020 US$ billion	2019 US$ billion	2018 US$ billion	2017 US$ billion	2016 US$ billion
Financial services Cap (the maximum rental and fees charged for provision of financial services per calendar year)	**1.5**	1.5	1.5	1.5	1.5
Other related services Cap (the maximum fees charged for provision of other related services per calendar year)	**0.15**	0.15	0.15	0.15	0.15

The price for the services provided by Sino IC Leasing to the Company contemplated under the Framework Agreement with Sino IC Leasing would be determined by reference to the current market conditions and the terms (including the prices) which are comparable to the quotes from independent third parties (to the extent available) providing services of a similar nature with comparable scale in the ordinary and usual course of business based on normal commercial terms and on arm's length negotiations, as well as the reasonable market prices which are applicable around that time, subject to compliance with requirements for related party transactions and connected transactions of the Hong Kong Stock Exchange.

The reasons for the Company to enter into the Framework Agreement with Sino IC Leasing are as follows:

1. the entering into of the Framework Agreement with Sino IC Leasing will enable the Group to broaden its existing financing channels; and

2. optimise the existing machinery of the Company and increase operating cash flow.

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As China IC Fund holds approximately 17.55% equity interest in the Company at of time of entering into the Framework Agreement with Sino IC Leasing through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund also holds approximately 35.21% equity interest in Sino IC Leasing at time of entering into the Framework Agreement with Sino IC Leasing, therefore Sino IC Leasing is a connected person of the Company under the Listing Rules by virtue of being an associate of a connected person of the Company as defined under Rule 14A.13 of the Listing Rules. The Framework Agreement with Sino IC Leasing and the transactions contemplated thereunder constitute non-exempt continuing connected transactions subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules. As the term of the Framework Agreement with Sino IC Leasing exceeds three years, the independent financial adviser, Messis Capital Ltd., also explained why a period longer than three years is required and confirmed that it is normal business practice for an agreement of this type to be of such duration.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, holds the position of President in China IC Fund's sole manager, namely Sino IC Capital Co., Ltd. Mr. Ren Kai, who is a Class III non-executive Director, also holds the position of Vice President in Sino IC Capital Co., Ltd. As such, both Mr. Lu and Mr. Ren have abstained from voting on the relevant board resolutions in respect of the Framework Agreement with Sino IC Leasing.

The Framework Agreement with Sino IC Leasing and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with Sino IC Leasing were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on August 10, 2016 as required under Chapter 14A of the Listing Rules.

On December 21, 2016, the Company and Sino IC Leasing entered into a supplemental agreement to amend the Framework Agreement with Sino IC Leasing.

Pursuant to the Supplemental Agreement, the Company and Sino IC Leasing agreed that (1) the Framework Agreement with Sino IC Leasing should apply not only to Sino IC Leasing but also to its subsidiaries; and (2) references therein to Sino IC Leasing should include references to its subsidiaries. The Supplemental Agreement is subject to applicable laws and regulations, including the Listing Rules.

The reason for entering into the Supplemental Agreement was that the Company had been informed by Sino IC Leasing that, in order to take advantage of benefits which may be available to its subsidiaries which are established in certain areas in the PRC, it wished to have the ability to perform its services under the Framework Agreement with Sino IC Leasing through its subsidiaries.

The actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with Sino IC Leasing during the year ended December 31, 2018 are set out below.

Transactions	**Actual Transaction Amounts for the year ended December 31,**		
	2018 **US$ million**	2017 US$ million	2016 US$ million
Financial Services	**87.1**	45.6	—
Other Related Services	—	—	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement with Sino IC Leasing that took place between the Company and Sino IC Leasing for the year ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Framework Agreement with Sino IC Leasing on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with Sino IC Leasing and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

6. Framework Agreement with SJ Semiconductor Corporation — 2017 to 2019 — and Amendment Agreement to Framework Agreement

On December 27, 2016, the Company and its majority owned subsidiary SJ Semiconductor Corporation ("SJ Cayman") entered into a framework agreement in relation to supply of goods and services, transfer of equipment and provision of technical authorization or licensing with a term commencing on January 1, 2017 and ending on December 31, 2019 and subject to the terms and conditions provided therein ("Framework Agreement with SJ Cayman").

The Company and SJ Cayman agreed to enter into one or more of the following types of transaction with each other including supply of goods and services, transfer of equipment and provision of technical authorization or licensing:

1. Purchase and sale of spare parts and raw materials;

2. Rendering of or receiving services including, without limitation, (a) processing and testing service; (b) procurement service; (c) research, development and experiment support service; and (d) comprehensive administration, logistics, production management and IT service;

3. Transfer of equipment; and

4. Provision of technical authorization or licensing by the Company to SJ Cayman.

The price of the transactions contemplated under the Framework Agreement with SJ Cayman ("Continuing Connected Transactions with SJ Cayman") will be determined in accordance with the following general principles in ascending order:

(1) the price prescribed or approved by state or local price control department (if any);

(2) a reasonable price in accordance with the industry guided price for a particular type of service or product issued by the relevant industry association (if any);

(3) the comparable local market price, which shall be determined after arm's length negotiation between both parties of the contract with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender. The Company will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price;

(4) where there is no comparable local market price, price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of(a) the actual reasonable cost; and (b) a fair and reasonable profit rate. The expected range of profit is from 5% to 10%, which is in line with the industry and not lower than the profit rate charged by the Company or SJ Cayman (as applicable) to independent third parties (to the extent available).

REPORT OF THE DIRECTORS

As to price prescribed by the state or local price control department, state-prescribed fees apply to water, electricity, gas and communication services involved in providing procurement service and comprehensive administration, logistics, production management and IT service, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority. Under the Pricing Law of the PRC, the state may implement state- prescribed or guidance price for specific goods and services if necessary, such price will be promulgated in accordance with the requirements of relevant laws, regulations or administrative rules from time to time. If any state-prescribed price or guidance price becomes available to the Continuing Connected Transactions with SJ Cayman in the future, the parties will execute such price first in accordance with pricing principle (1) above.

The annual caps for the Continuing Connected Transactions with SJ Cayman are set out below:

Annual Caps	For the year ending December 31,		
	2019 **US$ million**	2018 US$ million	2017 US$ million
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company	**11**	11	11
Supply of goods and services and transfer of equipment by SJ Cayman	**100**	100	100

In arriving at the annual caps, the Company considered the historical transaction amounts between the Company and SJ Cayman, as well as reasonable factors such as the expected occurrences of non-exempt continuing transactions in light of current market conditions of the semiconductor industry and the technological capability of the Company. The Company has also considered the fact that SJ Cayman has only been established recently in August 2014 and is expected to steadily progress towards establishing full operations in 2019.

On July 25, 2018, the Company and SJ Cayman entered into the Amendment Agreement to revise the Existing Annual Caps.

Pursuant to the Amendment Agreement, the parties have agreed to revise the Existing Annual Caps such that the maximum annual transaction value for the supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company to SJ Cayman contemplated under the Framework Agreement with SJ Cayman shall be adjusted from US$11 million (or its equivalent in other currencies) and US$11 million (or its equivalent in other currencies) for the years ending December 31, 2018 and 2019, respectively, to US$25 million (or its equivalent in other currencies) and US$25 million(or its equivalent in other currencies) for the years ending December 31, 2018 and 2019, respectively.

The reason for entering into the Amendment Agreement was that the continuous growth and expansion of the business operations of SJ Cayman. The Company expects that the Existing Annual Caps will not be sufficient.

The revised annual caps are set out below:

Annual Caps	For the year ending December 31,		
	2019 US$ million	2018 US$ million	2017 US$ million
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company	**25 (Revised)**	25 (Revised)	11
Supply of goods and services and transfer of equipment by SJ Cayman	**100**	100	100

REPORT OF THE DIRECTORS

The actual transaction amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SJ Cayman for the year ended December 31, 2018 are set out below.

Transactions	**Actual Transaction Amounts for the year ended December 31,**	
	2018 US$ million	2017 US$ million
Supply of goods and services, transfer of equipment and provision of technical authorization or licensing generated by the Company	**6.5**	0.9
Supply of goods and services and transfer of equipment generated by SJ Cayman	**45.7**	20.8

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

The Company considers that the entry into the Framework Agreement with SJ Cayman and the Continuing Connected Transactions with SJ Cayman will continue to bring the Company an effective and complete wafer turn-key solution.

As China IC Fund holds approximately 17.404% equity interest in the Company at the date of entering into the Framework Agreement with SJ Cayman through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund holds approximately 29.405% equity interest in SJ Cayman at the date of entering into the Framework Agreement with SJ Cayman through its wholly-owned subsidiary, Xun Xin. SJ Cayman is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules. The Framework Agreement with SJ Cayman and the transactions contemplated thereunder are exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

No Director is considered to have a material interest in the Framework Agreement with SJ Cayman which would have required the Director to abstain from voting at the Board Meeting authorizing the Framework Agreement with SJ Cayman.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement with SJ Cayman that took place between the Company and its majority owned subsidiary SJ Cayman for the year ended December 31, 2018 had been entered into 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better; and 3) in accordance with the Framework Agreement with SJ Cayman on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with SJ Cayman and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

7. *Framework Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2018 to 2020*

On December 6, 2017 the Company and its subsidiary, Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") entered into a framework agreement in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee. The Framework Agreement is for a term of three years commencing on January 1, 2018 and ending on December 31, 2020 ("Framework Agreement with SMNC 2018–2020").

REPORT OF THE DIRECTORS

The Company and SMNC agreed to enter into one or more of the following types of transactions with each other including the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee:

1. Purchase and sale of spare parts, raw materials, photomasks and finished products;

2. Rendering of or receiving services, including, without limitation, (a) processing and testing service; (b) sales service; (c) overseas market promotion and customer service; (d) procurement service; (e) research, development and experiment support service; (f) comprehensive administration, logistics, production management and IT service; and (g) water, electricity, gas and heat provision service;

3. Leasing of assets, such as plant, office premises and equipment;

4. Transfer of assets;

5. Provision of technical authorization or licensing by the Company and/or its subsidiaries (other than SMNC and its subsidiaries) ("Group A") to SMNC and/or its subsidiaries ("Group B"), as well as the sharing of research and development costs in relation to 28-nanometer technologies; and

6. Provision of guarantee by Group A for SMNC's financing activities.

The price of the transactions contemplated under the Framework Agreement with SMNC 2018–2020 ("Continuing CTs") will be determined in accordance with the following general principles (in ascending order):

(1) the price prescribed or approved by state or local price control department (if any);

(2) a reasonable price in accordance with the industry guided price;

(3) the comparable local market price, which shall be determined after arm's length negotiation between both parties with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender;

(4) where there is no comparable local market price, the price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate;

(5) where none of the above general pricing principles are applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.

Where general pricing principles (2) to (5) apply, to the extent possible, each of Group A and Group B will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price.

As to the price prescribed by the state or local price control department, state-prescribed fees apply to water and electricity, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority. Under the Pricing Law of the PRC, the PRC government may implement a state-prescribed or guidance price for specific goods and services if necessary, and such price will be promulgated in accordance with the requirements of relevant laws, regulations or administrative rules from time to time. If any state-prescribed price or guidance price becomes available to the Continuing CTs in the future, the parties will execute such price first in accordance with pricing principle (1) above.

The breakdown for the proposed Annual Caps for the Continuing Connected Transactions is set out below:

Annual Caps	For the year ended December 31,		
	2020	2019	2018
	US$ million	US$ million	US$ million
Purchase and sale of goods	**1,500**	1,100	900
Rendering of or receiving services	**200**	150	100
Leasing of assets	**200**	200	200
Transfer of equipment	**200**	200	200
Provision of technical authorization or licensing (including the sharing of research and development costs)	**100**	100	100
Provision of guarantee	**1,000**	1,000	1,000
Total	**3.20 billion**	2.75 billion	2.50 billion

The Company believes that advancement in technology is one of the key growth factors. With respect to advanced nodes of 28nm and 40nm, which is one of the development focuses of the Group, the Group recorded a revenue growth of more than 90% in 2016 as compared to the year of 2015, and more than 30% during the first three quarters of 2017 as compared to the corresponding period in 2016. The continuous cooperation with SMNC, throughout the various steps in production as reflected in the Continuing CTs, helps the Company to meet demand from its customers and to attain higher profitability, especially for the advanced nodes.

The business partnership between the Company and SMNC has helped to eliminate some duplicated efforts on introducing and manufacturing advanced nodes for IC design houses, therefore reducing the time to market and some overhead expenses for both parties. With the expansion of its capacity and continuous innovation, the Company believes that it will be able to enhance its position in the industry and benefit from the increase in its economies of scale.

As SMNC had been continuously expanding its manufacturing capacity, the Company can therefore leverage SMNC's manufacturing capacity to expand the Company capacity based on its advanced technology in a capital-efficient manner.

As China IC Fund holds approximately 15.06% equity interest in the Company at the time of entering into the Framework Agreement with SMNC 2018–2020 through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As China IC Fund holds 32% equity interest in the registered capital of SMNC at the date of entering into the Framework Agreement with SMNC 2018–2020, SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules. The Framework Agreement with SMNC 2018–2020 and the transactions contemplated thereunder constitute non-exempt continuing connected transactions subject to the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Framework Agreement with SMNC 2018–2020 and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with SMNC 2018–2020 were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on February 8, 2018 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

The actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SMNC during the year ended December 31, 2018 are set out below.

Transactions

	Actual Transaction Amounts for the year ended December 31, 2018 US$ million
Purchase and sale of goods	561.8
Rendering of or receiving services	84.5
Leasing of assets	0.3
Transfer of equipment	—
Provision of technical authorization or licensing (including the sharing of research and development costs)	—
Provision of guarantee	7.4
Total	654.0

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Framework Agreement with SMNC 2018–2020 that took place between the Company and its majority owned subsidiary SMNC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Framework Agreement with SMNC 2018–2020 on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with SMNC 2018–2020 and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

8. *Centralized Fund Management Agreement with Semiconductor Manufacturing South China Corporation — 2017 to 2020*

On June 1, 2017, the Company and its subsidiaries, SMIC Beijing and SMSC entered into the Centralized Fund Management Agreement, pursuant to which: (i) the Company will procure its wholly-owned subsidiary SMIC Beijing to out Centralized management of the Company's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMSC and its Controlling Subsidiaries will participate in the Company's centralized fund management system, which will be managed by SMIC Beijing in accordance with the relevant PRC laws and regulations. The Centralized Fund Management Agreement is for a term commencing on June 1, 2017 and ending on December 31, 2020.

The price of the services provided by SMIC Beijing to SMSC contemplated under the Centralized Fund Management Agreement will be fair in the context of connected transactions and determined according to the market principle on an arm's length basis, and will be subject to compliance with regulatory requirements of the Stock Exchange and relevant requirements for connected transactions that are applicable to the parties.

1. *Internal Deposit Services*

The terms in respect of the Internal Deposit Services provided by SMIC Beijing to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

2. *Collection and Payment Services and Foreign Exchange Services*

The terms in respect of the Collection and Payment Services and Foreign Exchange Services provided by SMIC Beijing to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

3. *Internal Loan Services*

The terms in respect of the Internal Loan Services provided by SMIC Beijing to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

4. *Provision of Letter of Credit Services*

The terms in respect of the Letters of Credit Services provided by the Company to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

5. *Other Financial Services*

The terms in respect of the Other Financial Services provided by SMIC Beijing to SMSC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations.

The Annual Caps under the Centralized Fund Management Agreement are set out below.

Annual Caps	**For the year ending December 31,**		
	2020 US$ million	2019 US$ million	2018 US$ million
Internal Deposit Cap	**2,000**	2,000	2,000
Collection and Payment and Foreign Exchange Cap	**2,000**	2,000	2,000
Internal Loan Cap	**2,000**	2,000	2,000
Letter of Credit Cap	**2,000**	2,000	2,000
Other Financial Services Cap	**50**	50	50

The Company considers that the entry into of the Centralized Fund Management Agreement and the transactions contemplated thereunder will have the following benefits:

1. Open up the domestic and foreign funding channels of the Group;

2. Reduce the Group's overall debt levels and increase efficient fund usage;

3. Reduce the Group's interest expense; and

4. Obtain favorable exchange rate for the Group

China IC Fund holds approximately 24.71% of the equity interest in SMSC, SMSC is a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and is thus a connected person of the Company under the Listing Rules.

The Centralized Fund Management Agreement with SMSC and all transactions contemplated thereunder; and the annual caps in respect of the Centralized Fund Management Agreement with SMSC were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on November 7, 2018 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement during the year ended December 31, 2018 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31,	
	2018 US$ million	2017 US$ million
Internal Deposit Services	1,956.8	53
Collection and Payment Services and Foreign Exchange Services	—	—
Internal Loan Services	—	0
Letter of Credit Services	—	—
Other Financial Services	—	—

No Director is considered to have a material interest in the Centralized Fund Management Agreement with SMSC which would have required the Director to abstain from voting at the board meeting authorising the Centralized Fund Management Agreement with SMSC.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Centralized Fund Management Agreement with SMSC that took place between the Company and its majority owned subsidiary SMNC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Centralized Fund Management Agreement on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Agreement and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

9. *Framework Agreement with Semiconductor Manufacturing South China Corporation — 2018 to 2019*

On June 11, 2018, the Company and its subsidiaries, SMSC entered into the Framework Agreement in relation to the supply of goods, rendering of or receiving services, leasing of assets, transfer of assets, provision of technical authorization or licensing and provision of guarantee. The Framework Agreement is with a term commenced on April 26, 2018 and ending on December 31, 2019 ("Framework Agreement with SMSC").

The Company and SMSC agreed to enter into one or more of the following types of transactions with each other including the supply of goods and services, leasing of assets, transfer of equipment and provision of technical authorization or licensing:

1. Purchase and sale of spare parts, raw materials, photomasks and finished products;

2. Rendering of or receiving services, including, without limitation, (a) processing and testing service; (b) sales service; (c) overseas market promotion and customer service; (d) procurement service; (e) research, development and experiment support service; (f) comprehensive administration, logistics, production management, IT and other service; and (g) water, electricity, gas and heat provision service;

3. Leasing of assets, such as plant, office premises and equipment;

4. Transfer of assets;

5. Provision of technical authorization or licensing as well as the sharing of research and development costs; and

6. Provision of guarantee by the Company and/or its subsidiaries (other than SMSC and its subsidiaries ("Group A") for SMSC's financing activities.

The price of the Continuing Connected Transactions will be determined in accordance with the following general principles in ascending order:

(1) the price prescribed or approved by state or local price control department (if any);

(2) a reasonable price in accordance with the industry guided price;

(3) the comparable local market price, which shall be determined after arm's length negotiation between both parties with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender;

(4) where there is no comparable local market price, the price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate;

(5) where none of the above general pricing principles are applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.

Where general pricing principles (2) to (5) apply, to the extent possible, each of Group A and SMSC will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price.

The breakdown for the Annual Caps for the Continuing Connected Transactions is set out below:

Annual Caps	**For the year ending December 31,**	
	2019 US$ million	2018 US$ million
Purchase and sale of goods	**61**	1
Rendering of or receiving services	**31**	11
Leasing of assets	**65**	7
Transfer of equipment	**316**	—
Provision of technical authorization or licensing (including the sharing of research and development costs)	**300**	100
Provision of guarantee	**500**	500
Total	**1.273 billion**	619 million

The Company considers that the entry into the Framework Agreement with SMSC and the transactions contemplated thereunder will bring the Company an effective and complete wafer production needs.

The business partnership between the Company and SMSC will help to eliminate some duplicated efforts in introducing and manufacturing advanced nodes for IC design houses, thereby reducing the time to market and some overhead expenses for both parties. With the expansion of its capacity and continuous innovation, the Company believes that it will be able to enhance its position in the industry and benefit from the increase in its economies of scale.

China IC Fund holds approximately 24.71% of the equity interest in SMSC, SMSC is a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and is thus a connected person of the Company under the Listing Rules.

The Framework Agreement with SMSC and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement with SMSC were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on November 7, 2018 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

The actual transaction amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement with SMSC during the year ended December 31, 2018 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31,	
	2018 US$ million	2017 US$ million
Purchase and sale of goods	—	—
Rendering of or receiving services	2.2	5.88
Leasing of assets	—	—
Transfer of equipment	—	—
Provision of technical authorization or licensing	—	—
Provision of guarantee	—	—
Total	2.2	5.88

No Director is considered to have a material interest in the Framework Agreement with SMSC which would have required the Director to abstain from voting at the board meeting authorising the Framework Agreement with SMSC.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Framework Agreement with SMSC that took place between the Company and its majority owned subsidiary SMSC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Framework Agreement with SMSC on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement with SMSC and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

10. *Centralized Fund Management Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2019 to 2021*

On November 29, 2018, the Company, SMIC Beijing and SMNC entered into centralized fund management agreement ("Centralized Fund Management Agreement with SMNC") in relation to: (i)the Company authorising its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SMNC participating in the Group's centralized fund management system. SMIC Beijing will provide internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SMNC pursuant to the Centralized Fund Management Agreement with SMNC. The Centralized Fund Management Agreement with SMNC is for a term of three years commencing on January 1, 2019 and ending on December 31, 2021.

The Company will authorise its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations. Based on such authorization, SMIC Beijing will provide the following fund management services to SMNC within the scope permitted by the relevant PRC policies.

The price of the services provided by SMIC Beijing to SMNC contemplated under the Centralized Fund Management Agreement with SMNC will be fair and reasonable under the Listing Rules, determined according to the market principle on arm's length basis, subject to compliance with requirements for connected transactions of the Stock Exchange and relevant requirements for connected transactions that are applicable to the parties. The Company will ensure that the prices charged to SMNC will not be more favourable than prices charged to its other subsidiaries which are not connected persons under the Listing Rules.

1. *Internal Deposit Services*

In relation to the transactions contemplated under the Centralized Fund Management Agreement with SMNC, the Internal Deposit Services to be provided by SMIC Beijing to SMNC will constitute continuing connected transactions by way of financial assistance received by SMIC Beijing from a connected person. Pursuant to Rule 14A.90 of the Listing Rules, as the Internal Deposit Services are conducted on normal commercial terms and not secured by the assets of the Group, the provision of the Internal Deposit Services is fully exempt from the reporting, announcement and/or the Independent Shareholders' approval requirements under the Listing Rules.

2. *Collection and Payment Services and Foreign Exchange Services*

The terms (including fees charged by SMIC Beijing and exchange rates) in respect of the Collection and Payment Services and Foreign Exchange Services provided by SMIC Beijing to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SMNC for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third-party commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

3. *Internal Loan Services*

The terms (including interest rates) in respect of the Internal Loan Services provided by SMIC Beijing to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SMNC by SMIC Beijing will be based on arm's length negotiations by the parties. The Company will make reference to the benchmark interest rate (if any) prescribed by the PBOC applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

4. *Provision of Letter of Credit Services*

The terms (including fees charged by the Company) in respect of the letters of credit provided by the Company to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by the Company to SMNC for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third party-commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

5. *Other Financial Services*

The terms (including fees charged by SMIC Beijing) in respect of Other Financial Services provided by SMIC Beijing to SMNC will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SMNC for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third party-commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

The Annual Caps under the Centralized Fund Management Agreement with SMNC are set out below.

Annual Caps	**For the year ending December 31,**		
	2021 **US$ million**	2020 US$ million	2019 US$ million
Collection and Payment and Foreign Exchange Cap	**200**	200	200
Internal Loan Cap	**500**	500	500
Letter of Credit Cap	**500**	500	500
Other Financial Services Cap	**50**	50	50

The Company considers that the entry into of the Centralized Fund Management Agreement with SMNC and the transactions contemplated thereunder will open up the domestic and foreign funding channels of the Group, increase efficient fund usage and reduce the Group's overall debt levels and interest expense. The centralized management of foreign exchange risk exposure will also reduce the risks of exchange loss of the Group.

As China IC Fund holds approximately 15.82% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As at the date of this announcement, the registered capital of SMNC is held as to approximately 51% and 32% by the Group and China IC Fund, respectively. SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, holds the position of president in China IC Fund's sole manager Sino IC Capital Co., Ltd. and Mr. Ren Kai, who is a Class III non-executive Director and a member of the strategic advisory committee of the Company, holds the position of vice president in China IC Fund's sole manager Sino IC Capital Co., Ltd. Both Mr. Lu Jun and Mr. Ren Kai have abstained from voting on the relevant Board resolution in respect of the Centralized Fund Management Agreement with SMNC.

The Centralized Fund Management Agreement with SMNC and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on January 11, 2019 as required under Chapter 14A of the Listing Rules.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Centralized Fund Management Agreement with SMNC that took place between the Company and its majority owned subsidiary SMNC for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Centralized Fund Management Agreement with SMNC on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Agreement with SMNC and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

11. *Centralized Fund Management Contract with SJ Semiconductor Corporation — 2019 to 2021*

On December 6, 2018, the Company, SMIC Beijing and SJ Cayman entered into centralized fund management agreement ("Centralized Fund Management Agreement with SJ Cayman") in relation to: (i) the Company authorising its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations; and (ii) SJ Cayman participating in the Group's Centralized fund management system. The principal terms of the Centralized Fund Management Agreement with SJ Cayman. The Centralized Fund Management Agreement with SJ Cayman is for a term of three years commencing on January 1, 2019 and ending on December 31, 2021.

The Company will authorise its wholly-owned subsidiary SMIC Beijing to carry out Centralized management of the Group's RMB fund and foreign exchange in accordance with the relevant PRC laws and regulations. Based on such authorization, SMIC Beijing will provide the following fund management services to SMNC within the scope permitted by the relevant PRC policies.

The price of the services provided by SMIC Beijing to SJ Cayman contemplated under the Centralized Fund Management Agreement with SJ Cayman will be fair and reasonable under the Listing Rules, determined according to the market principle on arm's length basis, subject to compliance with requirements for connected transactions of the Stock Exchange and relevant requirements for connected transactions that are applicable to the parties. The Company will ensure that the prices charged to SMNC will not be more favourable than prices charged to its other subsidiaries which are not connected persons under the Listing Rules.

1. *Internal Deposit Services*

In relation to the transactions contemplated under the Centralized Fund Management Agreement with SJ Cayman, the Internal Deposit Services to be provided by SMIC Beijing to SJ Cayman will constitute continuing connected transactions by way of financial assistance received by SMIC Beijing from a connected person. Pursuant to Rule 14A.90 of the Listing Rules, as the Internal Deposit Services are conducted on normal commercial terms and not secured by the assets of the Group, the provision of the Internal Deposit Services is fully exempt from the reporting, announcement and/or the Independent Shareholders' approval requirements under the Listing Rules.

2. *Collection and Payment Services and Foreign Exchange Services*

The terms (including fees charged by SMIC Beijing and exchange rates) in respect of the Collection and Payment Services and Foreign Exchange Services provided by SMIC Beijing to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Cayman for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third-party commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

3. *Internal Loan Services*

The terms (including interest rates) in respect of the Internal Loan Services provided by SMIC Beijing to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SJ Cayman by SMIC Beijing will be based on arm's length negotiations by the parties. The Company will make reference to the benchmark interest rate (if any) prescribed by the PBOC applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

4. *Provision of Letter of Credit Services*

The terms (including fees charged by the Company) in respect of the letters of credit provided by the Company to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by the Company to SJ Cayman for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third party-commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

5. *Other Financial Services*

The terms (including fees charged by SMIC Beijing) in respect of Other Financial Services provided by SMIC Beijing to SJ Cayman will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The fees charged by SMIC Beijing to SJ Cayman for providing such services will be determined based on arm's length negotiations by the parties which will not be less favourable to SMIC Beijing than (1) fees charged by SMIC Beijing to other subsidiaries which are not connected persons under the Listing Rules; and (2) fees charged to SMIC Beijing by other third party commercial banks or financial institutions providing fund management services to SMIC Beijing for services of the same type during the same period.

The Annual Caps under the Centralized Fund Management Agreement with SJ Cayman are set out below.

Annual Caps	**For the year ending December 31,**		
	2021	2020	2019
	US$ million	US$ million	US$ million
Collection and Payment and Foreign Exchange Cap	**130**	130	130
Internal Loan Cap	**130**	130	130
Letter of Credit Cap	**130**	130	130
Other Financial Services Cap	**50**	50	50

The Company considers that the entry into of the Centralized Fund Management Agreement with SJ Cayman and the transactions contemplated thereunder will open up the domestic and foreign funding channels of the Group, increase efficient fund usage and reduce the Group's overall debt levels and interest expense. The centralized management of foreign exchange risk exposure will also reduce the risks of exchange loss of the Group.

As China IC Fund holds approximately 15.82% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As at the date of this announcement, the registered capital of SMNC is held as to approximately 51% and 32% by the Group and China IC Fund, respectively. SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules.

On November 29, 2018, the Company and SMIC Beijing entered into a centralized fund management agreement with SMNC, another connected subsidiary of the Company (as defined under Rule 14A.16 of the Listing Rules), which is owned as to approximately 51% and 32% by the Group and China IC Fund, respectively, details of which are set out in the announcement of the Company dated November 29, 2018. Pursuant to Rule 14A.81 of the Listing Rules, as the nature of the transactions entered into by the Company and SMIC Beijing are similar, the transactions contemplated under the Centralized Fund Management Agreement with SJ Cayman shall be aggregated.

Mr. Lu Jun, who is a Class II non-executive Director and a member of the nomination committee of the Company, holds the position of president in China IC Fund's sole manager Sino IC Capital Co., Ltd. and Mr. Ren Kai, who is a Class III non-executive Director and a member of the strategic advisory committee of the Company, holds the position of vice president in China IC Fund's sole manager Sino IC Capital Co., Ltd. Both Mr. Lu Jun and Mr. Ren Kai have abstained from voting on the relevant Board resolution in respect of the Centralized Fund Management Agreement with SJ Cayman.

The Centralized Fund Management Agreement with SJ Cayman and all transactions contemplated thereunder and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on January 11, 2019 as required under Chapter 14A of the Listing Rules.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed and approved the continuing connected transactions above and confirmed that the continuing connected transactions under the Centralized Fund Management Agreement with SJ Cayman that took place between the Company and its majority owned subsidiary SJ Cayman for year ended December 31, 2018 had been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the Centralized Fund Management Agreement with SJ Cayman on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Centralized Fund Management Contract and had provided to the Board an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

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

(1) have not been approved by the Board;

(2) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involved provision of goods or services by the Group;

(3) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the caps.

RELATED PARTY TRANSACTIONS

In addition to the above, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards which are not regarded as connected transactions as defined under the Hong Kong Stock Exchange Listing Rules. Details of these related party transactions are disclosed in Note 40 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

Set out below are the names of the parties (not being a Director or chief executive of the Company) which were interested in 5% or more of the nominal value of the share capital of the Company and the respective numbers of Ordinary Shares in which they were interested as at December 31, 2018 as recorded in the register kept by the Company under section 336 of the SFO.

Name of Shareholder	Nature of Interests	Long/Short Position	Number of Shares held	Percentage of Shares Held to Total Issued Share Capital of the Company (Note 1)	Derivatives	Total Interests	Percentage of Total interests to Total Issued Share Capital of the Company (Note 1)
Datang Telecom Technology & Industry Holdings Co., Ltd.	Interest of corporation controlled	Long Position	859,522,595 (Note 2)	17.06%	122,118,935 (Note 3)	981,641,530	19.48%
Pagoda Tree Investment Company Limited	A concert party to an agreement to buy shares described in s.317(1)(a)	Long Position	859,522,595 (Note 4)	17.06%	122,118,935 (Note 4)	981,641,530	19.48%
China Integrated Circuit Industry Investment Fund Co., Ltd.	Interest of corporation controlled	Long Position	797,054,901 (Note 5)	15.82%	183,178,403 (Note 6)	980,233,304	19.45%
Tsinghua University	Interest of corporation controlled	Long Position	374,665,110 (Note 7)	7.43%	—	374,665,110	7.43%
Zhao Weiguo	Interest of corporation controlled	Long position	350,301,600 (Note 7)	6.95%	—	350,301,600	6.95%

REPORT OF THE DIRECTORS

Notes:

(1) Based on 5,039,819,199 Shares in issue as at December 31, 2018.

(2) 859,522,595 Shares are held by Datang HK which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang").

(3) On April 23, 2018, the Company entered into the Datang PSCS Subscription Agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the Datang PSCS Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the Datang PSCS which are convertible into 122,118,935 Shares (assuming full conversion of the Datang PSCS at the initial Conversion Price of HK$12.78 per Share). In this regard, Datang and Datang HK are deemed to be interested in these 122,118,935 Shares under the SFO. Completion of the Datang PSCS Subscription Agreement has occurred on June 29, 2018.

(4) Lightmane Holdings Company Limited, a wholly-owned subsidiary of CNIC Corporation Limited, of which Compass Investment Company Limited, a wholly owned subsidiary of Pagoda Tree Investment Company Limited, has a 90% control, signed an agreement with Datang Holdings (Hongkong) Investment Company Limited ("Datang HK") with terms falling under the Section 317(1)(a) or (b) of the SFO. Lightmane Holdings Company Limited, CNIC Corporation Limited, Compass Investment Company Limited, Pagoda Tree Investment Company Limited are therefore deemed to be interested in 981,641,530 Shares of the Company.

(5) 797,054,901 Shares are held by Xinxin (Hongkong) Capital Co., Ltd ("Xinxin HK"), a wholly-owned subsidiary of Xunxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.

(6) On April 23, 2018, the Company entered into the China IC Fund PSCS Subscription Agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the China IC Fund PSCS Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the China IC Fund PSCS which are convertible into 183,178,403 Shares (assuming full conversion of the China IC Fund PSCS at the initial Conversion Price of HK$12.78 per Share). In this regard, China IC Fund and Xinxin HK are deemed to be interested in these 183,178,403 Shares under the Securities and Futures Ordinance (Cap. 571) (the "SFO"). Completion of the China IC Fund PSCS Subscription Agreement has occurred on August 29, 2018.

(7) Tsinghua University holds 374,665,110 Shares in long position through Tsinghua Unigroup Co., Ltd. (a 51% indirectly held subsidiary of Tsinghua University and a 49% indirectly held subsidiary of Zhao Weiguo) and another corporation controlled by it. On September 4, 2018, Tsinghua Holdings Co., Ltd., a subsidiary of Tsinghua University, entered into equity transfer agreements with each of Suzhou High-speed Rail New Town State-owned Assets Management and Operation Co., Ltd. and Hainan Union Asset Management Corporation to transfer 30% and 6% of the entire equity interest in Tsinghua Unigroup Co., Ltd. respectively.

(8) Zhao Weiguo holds 70% of Beijing Jiankun Investment Group Co., Ltd. which in turns holds 49% of Tsinghua Unigroup Co., Ltd. Zhao Weiguo is therefore deemed to be interested in 350,301,600 Shares held in long position through Tsinghua Unigroup Co., Ltd.

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.

DIRECTOR'S INTERESTS IN SECURITIES

As at December 31, 2018, the interests or short positions of the Directors and the chief executive officer in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Long/Short Position	Nature of Interests	Number of Shares held (Note 22)	Derivatives Share Options (Note 22)	Derivatives Other (Note 22)	Total Interests (Note 22)	Percentage of aggregate interests to total issued share capital of the Company (Note 1)
Executive Directors							
Zhou Zixue	Long Position	Beneficial Owner	—	2,521,163 (Note 2)	1,080,498 (Note 3)	3,601,661	0.071%
Zhao Haijun	Long Position	Beneficial Owner	49,311	1,875,733 (Note 4)	1,687,500 (Note 5)	3,612,544	0.072%
Liang Mong Song	—	—	—	—	—	—	—
Gao Yonggang	Long Position	Beneficial Owner	—	1,964,003 (Note 6)	85,505 (Note 7)	2,049,508	0.041%
Non-executive Directors							
Chen Shanzhi	Long Position	Beneficial Owner	—	602,187 (Note 8)	287,656 (Note 9)	889,843	0.018%
Zhou Jie	—	—	—	—	—	—	—
Ren Kai	—	—	—	—	—	—	—
Lu Jun	—	—	—	—	—	—	—
Tong Guohua	Long Position	Beneficial Owner	—	187,500 (Note 10)	187,500 (Note 11)	375,000	0.007%
Independent non-executive Directors							
William Tudor Brown	Long Position	Beneficial Owner	—	87,500 (Note 12)	87,500 (Note 13)	175,000	0.003%
Chiang Shang-Yi	Long Position	Beneficial Owner	—	187,500 (Note 14)	187,500 (Note 15)	375,000	0.007%
Cong Jingsheng Jason	Long Position	Beneficial Owner	61,875	187,500 (Note 16)	125,625 (Note 17)	375,000	0.007%
Lau Lawrence Juen-Yee	Long Position	Beneficial Owner	—	187,500 (Note 18)	187,500 (Note 19)	375,000	0.007%
Fan Ren Da Anthony	Long Position	Beneficial Owner	—	187,500 (Note 20)	187,500 (Note 21)	375,000	0.007%

REPORT OF THE DIRECTORS

Notes:

(1) Based on 5,039,819,199 Shares in issue as at December 31, 2018.

(2) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Shares at a price of HK$8.30 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(3) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of March 6, 2015, shall fully vest on March 6, 2019. As of December 31, 2018, 810,373 Restricted Share Units were vested.

(4) These options comprise: (a) options which were granted to Dr. Zhao on June 11, 2013 to purchase 1,505,854 Shares at a price of HK$6.40 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 10, 2023 or 90 days after termination of his service, (b) options which were granted to Dr. Zhao on September 7, 2017 to purchase 1,687,500 Shares at a price of HK$7.9 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of September 6, 2027 or 90 days after termination of his service as Co-Chief Executive Officer. As of December 31, 2018, 1,317,621 of these options have been exercised.

(5) On September 7, 2017, Dr. Zhao was granted an award of 1,687,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs will vest over one year commencing on the date on which Dr. Zhao commenced his term of office as Chief Executive Officer. As of December 31, 2018, none of these RSUs has been exercised.

(6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 314,531 Shares at a price of HK$6.4 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 1,360,824 Shares at a price of HK$6.24 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 288,648 Shares at a price of HK$6.4 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(7) On November 17, 2014, Dr. Gao was granted an award of 291,083 Restricted Share Units pursuant to the 2014 Equity Incentive Plan, consisting of (a) 240,145 Restricted Share Units, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017; and (b) 50,938 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. As of December 31, 2018, a total of 291,083 Restricted Share Units were vested, among which, 205,578 were settled in cash.

(8) These options comprise: (a) On May 24, 2010, Dr. Chen was granted options to purchase 314,531 Shares at a price of HK$6.4 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2016, options to purchase 98,958 Shares at a price of HK$6.42 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (c) On September 12, 2016, options to purchase 1,198 Shares at a price of HK$8.72 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. (d) On April 5, 2017, options to purchase 62,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. (e) On May 23, 2018, options to purchase 125,000 Shares at a price of HK$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(9) These Restricted Share Units comprise: (a) On May 25, 2016, 98,958 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (b) On September 12, 2016, 1,198 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (c) On April 5, 2017, 62,500 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (d) On May 23, 2018, 125,000 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Among the 125,000 Restricted Share Units, 62,500 Restricted Share Units are vested immediately and 62,500 Restricted Share Units will vest on January 1, 2019. As of December 31, 2018, none of these RSUs has been exercised.

REPORT OF THE DIRECTORS

(10) On April 5, 2017, Dr. Tong was granted options to purchase 187,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(11) On April 5, 2017, Dr. Tong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of February 14, 2017, shall fully vest on February 14, 2020. As of December 31, 2018, none of these RSUs has been exercised.

(12) These options comprise: (a) On September 6, 2013, Mr. Brown was granted options to purchase 449,229 Shares at a price of HK$5.62 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of his service as a Director to the Board. (b) On May 23, 2018, options to purchase 87,500 Shares at a price of HK$10.512 per Share pursuant to the 2014 Stock Option Plan were granted to Mr. Brown. These options will expire on the earlier of May 22, 2028 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, 449,229 options have been exercised.

(13) On May 23, 2018, 87,500 Restricted Share Units were granted to Mr. Brown pursuant to the 2014 Equity Incentive Plan. Among the 87,500 Restricted Share Units, 25,000 Restricted Share Units are vested immediately and 62,500 Restricted Share Units will vest on January 1, 2019. As of December 31, 2018, none of these RSUs has been exercised.

(14) On April 5, 2017, Dr. Chiang was granted options to purchase 187,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(15) On April 5, 2017, Dr. Chiang was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of December 20, 2016, shall fully vest on December 20, 2019. As of December 31, 2018, none of these RSUs has been exercised.

(16) On April 5, 2017, Dr. Cong was granted options to purchase 187,500 Shares at a price of HK$9.834 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of April 4, 2027 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(17) On April 5, 2017, Dr. Cong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of February 14, 2017, shall fully vest on February 14, 2020. As of December 31, 2018, 61,875 of these Restricted Share Units were exercised.

(18) On September 13, 2018, Professor Lau was granted options to purchase 187,500 Shares at a price of HK$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(19) On September 13, 2018, Professor Lau was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of December 31, 2018, none of these Restricted Share Units was exercised.

(20) On September 13, 2018, Mr. Fan was granted options to purchase 187,500 Shares at a price of HK$8.574 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of September 12, 2028 or 120 days after termination of his service as a Director to the Board. As of December 31, 2018, none of these options has been exercised.

(21) On September 13, 2018, Mr. Fan was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, over a period of three years at the rate of 33%, 33% and 34% of which will vest on each anniversary of June 22, 2018, shall fully vest on June 22, 2021. As of December 31, 2018, none of these Restricted Share Units was exercised.

(22) These interests have been adjusted upon the Share Consolidation taking effect from December 7, 2016 on the basis of consolidating every ten ordinary shares of US$0.0004 each into one ordinary share of US$0.004 each.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclose din the section headed "Connected Transactions", 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 2018.

DIRECTOR'S SERVICE CONTRACTS

No Director proposed for re-election at the 2018 AGM has or proposes to have a service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Article of Association of the Company, subject to relevant laws, every Director shall be indemnified out of the assets of the Company against all losses and liabilities which the Directors may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Company.

EMOLUMENTS TO THE DIRECTORS

Details regarding the emoluments to each of the Directors in 2018, 2017 and 2016 are set out in Note 12 to the consolidated financial statements.

During the year ended December 31, 2018, the Board granted 712,500 Restricted Share Units to Directors as compensation for their service on the Board.

EMOLUMENTS TO THE KEY MANAGEMENT

The emoluments of senior management personnel, included Liang Mong Song (Executive Director and Co-Chief Executive Officer), Zhao Haijun (Executive Director and Co-Chief Executive Officer) and Gao Yonggang (Executive Director, Chief Financial Officer and Joint Company Secretary), details of whose remuneration are set out in Note 12 to the consolidated financial statements, for the year ended December 31, 2018, 2017 and 2016 are as follows:

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Salaries, bonus and benefits	**2,419**	2,553	3,887
Equity-settled share-based payments	**825**	1,955	1,668
	3,244	4,508	5,555

REPORT OF THE DIRECTORS

The number of senior management whose remuneration fell within the following bands for the year ended December 31, 2018, 2017 and 2016 are as follows:

	Number of individuals		
Emoluments to Senior Management	2018	2017	2016
HK$500,001 (US$63,846) to HK$1,000,000 (US$127,950)	—	2	—
HK$3,000,001 (US$383,071) to HK$3,500,000 (US$446,915)	—	—	1
HK$3,500,001 (US$446,916) to HK$4,000,000 (US$510,760)	1	—	3
HK$4,000,001 (US$510,761) to HK$4,500,000 (US$574,605)	—	—	2
HK$4,500,001 (US$574,606) to HK$5,000,000 (US$638,450)	2	1	—
HK$5,000,001 (US$638,451) to HK$5,500,000 (US$702,295)	—	1	1
HK$6,500,001 (US$829,986) to HK$7,000,000 (US$893,830)	—	1	—
HK$12,000,001 (US$1,532,281) to HK$12,500,000 (US$1,596,125)	1	—	—
HK$15,000,001 (US$1,915,351) to HK$15,500,000 (US$1,979,195)	—	—	1
HK$17,500,001 (US$2,234,576) to HK$18,000,000 (US$2,298,420)	—	1	—
	4	6	8

The fees paid or payable to other senior management (excluded Liang Mong Song, Zhao Haijun and Gao Yonggang) and other key management of the Company during the year were as follows:

2018	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
Other senior management:			
Zhou Meisheng	620	—	620
Other key management:			
Li Zhi	401	27	428
Peng Jin	350	29	379
Sun Xiaobei	379	42	421
Zhang Xin	391	30	421
Chang Shun-Teh	311	28	339
Ge Hong	231	44	275
Ning Xianjie	253	22	275
Chen Chi-Chun	173	—	173
Wu Jingang	254	26	280
Yu Bo	268	33	301
Lin Hsin-Fa	242	20	262
	3,873	301	4,174

FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2018, included Zhou Zixue (Chairman and Executive Director of the Company), Zhao Haijun (Co-Chief Executive Officer and Executive Director of the Company) and Gao Yonggang (Executive Director, Chief Financial Officer and Joint Company Secretary).

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2017, included Zhou Zixue (Chairman and Executive Director of the Company), Tzu-Yin Chiu (former Chief Executive Officer and Non-executive Director of the Company) and Zhao Haijun (Co-Chief Executive Officer and Executive Director of the Company).

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2016, included Zhou Zixue (Chairman and Executive Director of the Company) and Tzu-Yin Chiu (former Chief Executive Officer and Non-executive Director of the Company).

The five highest paid individuals information are set out in Note 13 to the consolidated financial statements.

EMPLOYEES

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

	As of December 31,		
Position	Y2016	Y2017	Y2018
Managers	1,210	1,380	1,058
Professionals[1]	7,978	8,230	8,735
Technicians	8,100	7,549	7,468
Clerical staff	679	667	754
Total[2]	17,967	17,826	18,015

Notes:

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

(2) Includes 56, 49 and 73 temporary and part-time employees in 2016, 2017 and 2018 respectively.

The following table sets forth, as of the dates indicated, a breakdown of the number of the Group's employees by geographic location:

	As of December 31,		
Location	Y2016	Y2017	Y2018
Shanghai	8,404	8,077	8,084
Beijing	4,721	4,607	4,699
Tianjin	1,663	1,636	1,981
Chengdu	10	10	10
Shenzhen	1,284	1,477	1,217
Jiangyin	314	356	479
Ningbo	—	82	—
United States	20	23	15
Europe	1,537	1,541	1,516
Japan	2	4	3
Taiwan Office	9	10	9
Hong Kong	3	3	2
Total	17,967	17,826	18,015

REPORT OF THE DIRECTORS

The Group's success depends to a significant extent upon, among other factors, the Group's ability to attract, retain and motivate qualified personnel.

As of December 31, 2018, 3,043 and 252 of the Group's employees held master's degrees and doctorate degrees, respectively. As of the same date, 6,040 of the Group's employees possessed a bachelor's degree.

The Group's Employees received an average of 30.3 hours of internal and external training per person in 2018.

To support the Group's business growth and develop more talents, SMIC partners with Peking University, Fudan University, Tianjin University, Shanghai University, Beihang University, Beijing Institute of Petrochemical Technology University and Shenzhen University to offer junior college, undergraduate and graduate programs to technical employees. Employees who are eligible will also receive tuition subsidies. SMIC provides a good learning environment to employees.

As a supplement to their salaries, the Group's employees have the opportunity to earn performance bonuses based on profitability, business achievements, and individual performance. Additional benefits include participation in the Group's global equity incentive compensation program, paid leave, social welfare benefits and the global medical insurance plan for qualified employees, optional housing benefits and educational programs for employees with families.

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

REMUNERATION POLICY

The Group's employees are compensated by cash and a variety of additional incentives. As a supplement to their salaries, the Group's employees have the opportunity to earn performance bonus based on the Group's profitability, business achievement, and individual performance. Additional benefits include participation in the Group's global equity incentive compensation program, paid leave, social welfare benefits for qualified employees, a global medical insurance plan for qualified employees and optional housing benefits and educational programs for employees with families.

The Directors are compensated for their services as Directors, primarily by salaries and grants of options to purchase Ordinary Shares under the Stock Option Plan (as defined below) and Restricted Share Units. The compensation committee of the Company (the "Compensation Committee") proposes, and the Board, other than interested Directors, approves, for the Directors, a remuneration package, which is comparable with the compensation received by directors in other similarly situated publicly-traded companies.

The Group's local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. We are required to make contributions to the state-managed retirement plan at a rate equal to 19.0% to 20.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly salary of current employees. Employees are required to make contributions at a rate equal to 8% of their monthly salary. The Group's contribution to such pension plan is approximately US$56.2 million, US$50.0 million and US$39.8 million for the years ended December 31, 2018, 2017 and 2016, respectively. The retirement benefits apply to expatriate employees according to the requirements of local government.

Besides, LFoundry S.r.l. ("LFoundry", the Company's majority-owned subsidiary in Avezzano, Italy) employees are entitled to retirement plans either. The total amount that LFoundry contributes to such retirement plans for current employees is approximately USD$1.3 million, USD$1.2 million and USD$0.4 million for the years ended December 31, 2018, 2017 and for the period from August 1, 2016 to December 31, 2016.

In addition, LFoundry's employees are entitled to a defined benefit plan. The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit obligation.

STOCK INCENTIVE SCHEMES

2004 STOCK OPTION PLAN

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

Movement of the 2004 Stock Option Plan during the year ended December 31, 2018 is as follows:

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/17	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/18	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Employees	02/12/2008	2/12/2008–2/11/2018	126,941,000	$0.83	557,030	—	439,230	—	117,800	—	—	$1.44	$0.81
Others	02/12/2008	2/12/2008–2/11/2018	600,000	$0.83	30,000	—	—	—	30,000	—	—	$1.61	$0.81
Employees	11/18/2008	11/18/2008–11/17/2018	117,224,090	$0.23	301,923	—	46,200	—	255,723	—	—	$1.02	$0.20
Employees	02/17/2009	2/17/2009–2/16/2019	131,943,000	$0.35	703,600	—	4,000	—	219,900	—	479,700	$1.15	$0.32
Lip-Bu Tan	02/17/2009	2/17/2009–2/16/2019	1,000,000	$0.35	100,000	—	—	—	100,000	—	—	$0.98	$0.32
Others	02/17/2009	2/17/2009–2/16/2019	400,000	$0.35	5,000	—	—	—	5,000	—	—	$1.11	$0.32
Employees	05/11/2009	5/11/2009–5/10/2019	24,102,002	$0.43	290,600	—	—	—	—	—	290,600	$—	$0.44
Lip-Bu Tan	02/23/2010	2/23/2010–2/22/2020	3,134,877	$0.99	313,487	—	313,487	—	—	—	—	$—	$1.00
Employees	02/23/2010	2/23/2010–2/22/2020	337,089,466	$0.99	5,739,951	—	262,391	—	683,929	—	4,793,631	$1.38	$1.00
Gao Yonggang	05/24/2010	5/24/2010–5/23/2020	3,145,319	$0.82	314,531	—	—	—	—	—	314,531	$—	$0.72
Chen Shanzhi	05/24/2010	5/24/2010–5/23/2020	3,145,319	$0.82	314,531	—	—	—	—	—	314,531	$—	$0.72
Employees	05/24/2010	5/24/2010–5/23/2020	18,251,614	$0.82	65,700	—	—	—	—	—	65,700	$—	$0.72
Employees	09/08/2010	9/8/2010–9/7/2020	46,217,577	$0.67	266,631	—	—	—	101,136	—	165,495	$0.77	$0.68
Employees	11/12/2010	11/12/2010–11/11/2020	39,724,569	$0.83	541,881	—	3,116	—	151,200	—	387,565	$1.31	$0.78
Employees	05/31/2011	5/31/2011–5/30/2021	148,313,801	$0.85	3,277,363	—	80,800	—	497,353	—	2,699,210	$1.31	$0.83
Others	09/08/2011	9/8/2011–9/7/2021	21,746,883	$0.58	594,688	—	—	—	—	—	594,688	$—	$0.56
Tzu-Yin Chiu	09/08/2011	9/8/2011–9/7/2021	86,987,535	$0.58	5,398,753	—	—	—	5,398,753	—	—	$0.92	$0.56
Employees	09/08/2011	9/8/2011–9/7/2021	42,809,083	$0.58	339,936	—	6,623	—	16,400	—	316,913	$1.29	$0.56
Employees	11/17/2011	11/17/2011–11/16/2021	16,143,147	$0.51	304,800	—	—	—	176,600	—	128,200	$1.63	$0.51
Employees	05/22/2012	5/22/2012–5/21/2022	252,572,706	$0.45	7,044,725	—	44,295	—	1,212,167	—	5,788,263	$1.31	$0.45
Employees	09/12/2012	9/12/2012–9/11/2022	12,071,250	$0.37	112,837	—	3,562	—	16,000	—	93,275	$1.31	$0.37
Employees	11/15/2012	11/15/2012–11/14/2022	18,461,000	$0.47	258,766	—	11,800	—	42,800	—	204,166	$1.32	$0.47
Employees	05/07/2013	5/7/2013–5/6/2023	24,367,201	$0.76	638,477	—	31,236	—	225,045	—	382,196	$1.30	$0.77
Employees	06/11/2013	6/11/2013–6/10/2023	102,810,000	$0.82	3,890,776	—	83,041	—	565,306	—	3,242,429	$1.33	$0.79
Senior Management	06/11/2013	6/11/2013–6/10/2023	74,755,756	$0.82	188,233	—	—	—	—	—	188,233	$—	$0.79
Gao Yonggang	06/17/2013	6/17/2013–6/16/2023	13,608,249	$0.80	1,360,824	—	—	—	—	—	1,360,824	$—	$0.78
Employees	09/06/2013	9/6/2013–9/5/2023	22,179,070	$0.72	405,349	—	25,413	—	25,599	—	354,337	$1.20	$0.73
Employees	11/04/2013	11/4/2013–11/3/2023	19,500,000	$0.74	496,244	—	2,183	—	35,825	—	458,236	$1.38	$0.72
					33,856,636	—	1,357,377	—	9,876,536	—	22,622,723		

Summary of the share incentive scheme is as follows:

Purpose

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

Participants

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

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

Maximum number of shares

The number of the Ordinary Shares that may be issued pursuant to our 2004 Stock Option Plan shall not, in the aggregate, exceed 243,466,873 Ordinary Shares adjusted as impact of the Share Consolidation, representing 4.83% of the issued Ordinary Shares as at December 31, 2018.

Maximum entitlement of each participant

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

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

Option period

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

Options to purchase Ordinary Shares issued to new employees and then-existing employees generally vest at a rate pursuant to which 25% of the shares shall vest on the first anniversary of the vesting commencement date, an additional 1/36 of the remaining shares shall vest monthly thereafter over 3 years 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

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

Remaining life of the scheme

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

2014 STOCK OPTION PLAN

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

Movement of the 2014 Stock Option Plan during the year ended December 31, 2018 is as follows:

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding as of 12/31/17	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/18	Weighted Average Closing Price of Shares immediately before Dates on which Options were Exercised (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Options were Granted (USD)
Gao Yonggang	6/12/2014	6/12/2014–6/11/2024	2,886,486	$0.82	288,648	—	—	—	—	—	288,648	$—	$0.82
Employees	6/12/2014	6/12/2014–6/11/2024	26,584,250	$0.82	650,758	—	—	—	35,550	—	615,208	$1.32	$0.82
Carmen I-Hua Chang	11/17/2014	11/17/2014–11/16/2024	4,887,303	$1.09	488,730	—	122,183	—	366,547	—	—	$1.18	$1.10
Senior Management	11/17/2014	11/17/2014–11/16/2024	11,758,249	$1.09	582,778	—	—	—	—	—	582,778	$—	$1.10
Employees	11/17/2014	11/17/2014–11/16/2024	107,881,763	$1.09	5,234,792	—	310,669	—	795,067	—	4,129,056	$1.38	$1.10
Employees	2/24/2015	2/24/2015–2/23/2025	12,293,017	$0.91	748,383	—	176,858	—	89,777	—	481,748	$1.58	$0.88
Employees	5/20/2015	5/20/2015–5/19/2025	12,235,000	$1.06	567,112	—	102,999	—	98,657	—	365,456	$1.39	$1.05
Zhou Zixue	5/20/2015	5/20/2015–5/19/2025	25,211,633	$1.06	2,521,163	—	—	—	—	—	2,521,163	$—	$1.05
Employees	9/11/2015	9/11/2015–9/10/2025	1,120,000	$0.89	52,400	—	—	—	—	—	52,400	$—	$0.91
Employees	5/25/2016	5/25/2016–5/24/2026	5,146,000	$0.82	293,352	—	25,755	—	53,083	—	214,514	$1.10	$0.83
Lip-Bu Tan	5/25/2016	5/25/2016–5/24/2026	1,145,833	$0.82	114,583	—	—	—	114,583	—	—	$0.98	$0.83
Chen Shanzhi	5/25/2016	5/25/2016–5/24/2026	989,583	$0.82	98,958	—	—	—	—	—	98,958	$—	$0.83
Tzu-Yin Chiu	5/25/2016	5/25/2016–5/24/2026	7,031,061	$0.82	703,106	—	632,787	—	70,319	—	—	$1.08	$0.83
Senior Management	5/25/2016	5/25/2016–5/24/2026	280,000	$0.82	28,000	—	15,167	—	12,833	—	—	$1.28	$0.83
Lip-Bu Tan	9/12/2016	9/12/2016–9/11/2026	8,561	$1.12	856	—	856	—	—	—	—	$—	$1.13
Chen Shanzhi	9/12/2016	9/12/2016–9/11/2026	11,986	$1.12	1,198	—	—	—	—	—	1,198	$—	$1.13
Tzu-Yin Chiu	9/12/2016	9/12/2016–9/11/2026	1,502,528	$1.12	150,252	—	150,252	—	—	—	—	$—	$1.13
Senior Management	9/12/2016	9/12/2016–9/11/2026	4,574,317	$1.12	457,431	—	242,629	—	214,802	—	—	$1.29	$1.13
Employees	11/18/2016	11/18/2016–11/17/2026	76,650	$1.38	7,665	—	7,665	—	—	—	—	$—	$1.31
Tong Guohua	4/05/2017	4/5/2017–4/4/2027	187,500	$1.26	187,500	—	—	—	—	—	187,500	$—	$1.24
Cong Jingshen Jason	4/05/2017	4/5/2017–4/4/2027	187,500	$1.26	187,500	—	—	—	—	—	187,500	$—	$1.24
Lip-Bu Tan	4/05/2017	4/5/2017–4/4/2027	62,500	$1.26	62,500	—	62,500	—	—	—	—	$—	$1.24
Chiang Shang-Yi	4/05/2017	4/5/2017–4/4/2027	187,500	$1.26	187,500	—	—	—	—	—	187,500	$—	$1.24
Chen Shanzhi	4/05/2017	4/5/2017–4/4/2027	62,500	$1.26	62,500	—	—	—	—	—	62,500	$—	$1.24
Tzu-Yin Chiu	4/05/2017	4/5/2017–4/4/2027	2,109,318	$1.26	2,109,318	—	2,109,318	—	—	—	—	$—	$1.24
Employees	5/22/2017	5/22/2017–5/21/2027	345,000	$1.09	308,000	—	87,438	—	10,562	—	210,000	$1.35	$1.07
Tzu-Yin Chiu	5/22/2017	5/22/2017–5/21/2027	1,054,659	$1.09	1,054,659	—	1,054,659	—	—	—	—	$—	$1.07
Zhao Haijun	9/07/2017	9/7/2017–9/6/2027	1,687,500	$1.01	1,687,500	—	—	—	—	—	1,687,500	$—	$1.00
Tzu-Yin Chiu	9/07/2017	9/7/2017–9/6/2027	187,500	$1.01	187,500	—	187,500	—	—	—	—	$—	$1.00
Employees	5/23/2018	5/23/2018–5/22/2028	18,493,834	$1.34	—	18,493,834	2,107,490	—	—	—	16,386,344	$—	$1.32
Lip-Bu Tan	5/23/2018	5/23/2018–5/22/2028	125,000	$1.34	—	125,000	125,000	—	—	—	—	$—	$1.32
Chen Shanzhi	5/23/2018	5/23/2018–5/22/2028	125,000	$1.34	—	125,000	—	—	—	—	125,000	$—	$1.32
William Tudor Brown	5/23/2018	5/23/2018–5/22/2028	87,500	$1.34	—	87,500	—	—	—	—	87,500	$—	$1.32
Fan Ren Da Anthony	9/13/2018	9/13/2018–9/12/2028	187,500	$1.09	—	187,500	—	—	—	—	187,500	$—	$1.07
Lau Lawrence Juen-Yee	9/13/2018	9/13/2018–9/12/2028	187,500	$1.09	—	187,500	—	—	—	—	187,500	$—	$1.07
Employees	11/19/2018	11/19/2018–11/18/2028	138,000	$0.87	—	138,000	—	—	—	—	138,000	$—	$0.88
					19,024,642	19,344,334	7,521,725	—	1,861,780	—	28,985,471		

REPORT OF THE DIRECTORS

Summary of the share incentive scheme is as follows:

Purpose

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

Participants

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

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

Maximum number of shares

The number of Ordinary Shares that may be issued pursuant to the 2014 Stock Option Plan shall not, in the aggregate, exceed 320,737,712 Ordinary Shares adjusted as impact of the Share Consolidation, representing 6.36% of the issued Ordinary Shares as at December 31, 2018.

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

Maximum entitlement of each participant

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

Option period

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

Options to purchase Ordinary Shares granted before January 1, 2018 and issued to new employees and then-existing employees generally vest at a rate pursuant to which 25% of the shares shall vest on the first anniversary of the vesting commencement date, an additional 1/36 of the remaining shares shall vest monthly thereafter over 3 years 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 anniversaries of the vesting commencement date, respectively.

Acceptance and payments

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

Exercise price

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

Remaining life of the scheme

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

2014 EQUITY INCENTIVE PLAN

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

Movement of the 2014 Equity Incentive Plan during the year ended December 31, 2018 is as follows:

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	RSUs Outstanding as of 12/31/17	Additional RSUs Granted During Period	RSUs Lapsed During Period	RSUs Lapsed Due to Repurchase of Ordinary Shares During Period	RSUs Exercised During Period	RSUs Cancelled During Period	RSUs Outstanding as of 12/31/18	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Vested (USD)	Weighted Average Closing Price of Shares immediately before Dates on which Restricted Share Units were Granted (USD)
Gao Yonggang	11/17/2014	11/17/2014–11/16/2024	2,910,836	$0.00	85,505	—	—	—	—	—	85,505	$1.35	$1.10
Senior Management	11/17/2014	11/17/2014–11/16/2024	2,476,456	$0.00	61,911	—	—	—	61,911	—	—	$0.97	$1.10
Employees	11/17/2014	11/17/2014–11/16/2024	109,339,600	$0.00	2,350,376	—	12,655	—	2,337,721	—	—	$1.35	$1.10
Employees	5/20/2015	5/20/2015–5/19/2025	134,008,000	$0.00	5,962,600	—	592,525	—	2,964,000	—	2,406,075	$1.35	$1.05
Zhou Zixue	5/20/2015	5/20/2015–5/19/2025	10,804,985	$0.00	1,080,498	—	—	—	—	—	1,080,498	$1.33	$1.05
Employees	9/11/2015	9/11/2015–9/10/2025	1,640,000	$0.00	62,000	—	18,000	—	31,000	—	13,000	$1.33	$0.91
Employees	11/23/2015	11/23/2015–11/22/2025	400,000	$0.00	20,000	—	—	—	10,000	—	10,000	$1.01	$1.11
Employees	5/25/2016	5/25/2016–5/24/2026	68,070,000	$0.00	4,756,450	—	883,850	—	1,556,500	—	2,316,100	$1.34	$0.83
Chen Shanzhi	5/25/2016	5/25/2016–5/24/2026	989,583	$0.00	98,958	—	—	—	—	—	98,958	$—	$0.83
Senior Management	5/25/2016	5/25/2016–5/24/2026	220,000	$0.00	16,500	—	16,500	—	—	—	—	$—	$0.83
Lip-Bu Tan	9/12/2016	9/12/2016–9/11/2026	8,561	$0.00	—	—	—	—	—	—	—	$—	$1.13
Tzu-Yin Chiu	9/12/2016	9/12/2016–9/11/2026	1,502,528	$0.00	—	—	—	—	—	—	—	$—	$1.13
Chen Shanzhi	9/12/2016	9/12/2016–9/11/2026	11,986	$0.00	1,198	—	—	—	—	—	1,198	$—	$1.13
Employees	9/12/2016	9/12/2016–9/11/2026	1,560,000	$0.00	117,000	—	39,000	—	26,000	—	52,000	$1.32	$1.13
Senior Management	9/12/2016	9/12/2016–9/11/2026	4,574,317	$0.00	306,479	—	306,479	—	—	—	—	$—	$1.13
Employees	11/18/2016	11/18/2016–11/17/2026	2,268,600	$0.00	140,145	—	29,145	—	37,000	—	74,000	$1.15	$1.31
Employees	4/05/2017	4/5/2017–4/4/2027	376,000	$0.00	276,000	—	24,000	—	78,000	—	174,000	$1.06	$1.24
Tong Guohua	4/05/2017	4/5/2017–4/4/2027	187,500	$0.00	187,500	—	—	—	—	—	187,500	$1.15	$1.24
Cong Jingsheng Jason	4/05/2017	4/5/2017–4/4/2027	187,500	$0.00	187,500	—	—	—	61,875	—	125,625	$1.15	$1.24
Lip-Bu Tan	4/05/2017	4/5/2017–4/4/2027	62,500	$0.00	62,500	—	—	—	62,500	—	—	$—	$1.24
Chiang Shang-Yi	4/05/2017	4/5/2017–4/4/2027	187,500	$0.00	187,500	—	—	—	—	—	187,500	$0.95	$1.24
Chen Shanzhi	4/05/2017	4/5/2017–4/4/2027	62,500	$0.00	62,500	—	—	—	—	—	62,500	$—	$1.24
Tzu-Yin Chiu	4/05/2017	4/5/2017–4/4/2027	2,109,318	$0.00	2,109,318	—	—	—	2,109,318	—	—	$—	$1.24
Employees	5/22/2017	5/22/2017–5/21/2027	7,469,000	$0.00	7,195,000	—	1,390,450	—	1,776,900	—	4,027,650	$1.34	$1.07
Tzu-Yin Chiu	5/22/2017	5/22/2017–5/21/2027	1,054,659	$0.00	1,054,659	—	—	—	1,054,659	—	—	$—	$1.07
Zhao Haijun	9/07/2017	9/7/2017–9/6/2027	1,687,500	$0.00	1,687,500	—	—	—	—	—	1,687,500	$1.30	$1.00
Tzu-Yin Chiu	9/07/2017	9/7/2017–9/6/2027	187,500	$0.00	187,500	—	125,625	—	—	—	61,875	$1.44	$1.00
Employees	9/07/2017	9/7/2017–9/6/2027	120,000	$0.00	80,000	—	70,000	—	10,000	—	—	$1.36	$1.00
Employees	12/07/2017	12/7/2017–12/6/2027	364,000	$0.00	364,000	—	84,000	—	70,000	—	210,000	$0.97	$1.32
Employees	5/23/2018	5/23/2018–5/22/2028	6,957,966	$0.00	—	6,957,966	928,000	—	23,736	—	6,006,230	$0.93	$1.32
Lip-Bu Tan	5/23/2018	5/23/2018–5/22/2028	125,000	$0.00	—	125,000	62,500	—	62,500	—	—	$1.73	$1.32
Chen Shanzhi	5/23/2018	5/23/2018–5/22/2028	125,000	$0.00	—	125,000	—	—	—	—	125,000	$1.73	$1.32
William Tudor Brown	5/23/2018	5/23/2018–5/22/2028	87,500	$0.00	—	87,500	—	—	—	—	87,500	$1.73	$1.32
Employees	9/13/2018	9/13/2018–9/12/2028	344,000	$0.00	—	344,000	—	—	—	—	344,000	$—	$1.07
Fan Ren Da Anthony	9/13/2018	9/13/2018–9/12/2028	187,500	$0.00	—	187,500	—	—	—	—	187,500	$—	$1.07
Lau Lawrence Juen-Yee	9/13/2018	9/13/2018–9/12/2028	187,500	$0.00	—	187,500	—	—	—	—	187,500	$—	$1.07
Employees	11/19/2018	11/19/2018–11/18/2028	54,000	$0.00	—	54,000	—	—	—	—	54,000	$—	$0.88
					28,701,097	8,068,466	4,582,729	—	12,333,620	—	19,853,214		

Summary of the share incentive scheme is as follows:

Purpose

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

Participants

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

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

Maximum number of shares

The aggregate number of the Ordinary Shares that may be issued pursuant to the 2014 Equity Incentive Plan may not exceed 80,184,428 Ordinary Shares adjusted as impact of the Share Consolidation, representing 1.59% of the issued Ordinary Shares as at December 31, 2018.

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

Maximum entitlement of each participant

The total number of Ordinary Shares issued and to be issued upon exercise of awards (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.

Awards period

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

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

Acceptance and payments

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

Exercise price

The price HKD0.031 of each restricted share units was determined by the compensation committee.

Remaining life of the scheme

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

SHARE OPTION PLAN FOR SUBSIDIARY

The subsidiary of the Company, SJ Semiconductor Corporation, adopted a share option plan (the "Subsidiary Plan") that became effective on January 5, 2015 to eligible participants such as employees, directors and service providers of the Group that was approved by the shareholders.

Movement of the Subsidiary Plan during the year ended December 31, 2018 is as follows:

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No of Options of the Subsidiary Granted	Exercise Price per Share (USD)	Options of the Subsidiary Outstanding as of 12/31/17	Additional Options Granted During Period	Options Exercised During Period	Options cancelled During Period	Options Lapsed During Period	Options of the Subsidiary Outstanding as of 12/31/18
Employees	1/4/2015	1/4/2015–1/3/2024	4,560,000	$0.05	3,180,000	—	—	—	50,000	3,130,000
Employees	5/4/2015	5/4/2015–5/3/2024	1,380,000	$0.06	1,330,000	—	—	—	104,167	1,225,833
Employees	9/15/2015	9/15/2015–9/14/2024	2,390,000	$0.08	1,840,000	—	—	—	200,000	1,640,000
Employees	12/27/2016	12/27/2016–12/26/2025	7,698,750	$0.31	6,970,052	—	—	—	606,250	6,363,802
Employees	8/9/2017	8/9/2017–8/8/2026	1,598,750	$0.31	1,598,750	—	—	—	297,500	1,301,250
Employees	3/13/2018	3/13/2018–3/12/2019	7,349,500	$0.36	—	7,349,500	192,500	—	771,250	6,385,750
	Total		24,977,000		14,918,802	7,349,500	192,500	—	2,029,167	20,046,635

Summary of the Subsidiary Plan is as follows:

Purpose

The purposes of the Subsidiary Plan are to attract, retain and motivate employees and directors of and other service providers to the Group, to provide a means of compensating them through the grant of stock options for their contributions to the growth and profits of the Group, and to allow such employees, directors and service providers to participate in such growth and profitability.

Participants

The compensation committee of the board of directors of the subsidiary (the "Subsidiary Committee") may, at its discretion, invite any employee, officer or other service provider of the Group whether located in China, the United States or elsewhere to take up options to subscribe for shares ("Subsidiary Shares") in the subsidiary. The Subsidiary Committee may also grant stock options to a director who is not an employee of the subsidiary.

A subsidiary stock option is personal to the subsidiary participant and shall be exercisable by such subsidiary participant or his permitted transferee only. A subsidiary option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order.

Maximum number of shares

The Subsidiary Plans, under which no more than 56,666,666 Subsidiaries Shares can be issued, representing 10.00% of outstanding Subsidiaries Shares on the date of approval of Subsidiary Plan by the board of directors of the relevant subsidiary.

The number of Subsidiary Shares which may be issued pursuant to any outstanding Subsidiary Stock Options granted and yet to be exercised under the Subsidiary Plan must not exceed in aggregate 30% of the issued and outstanding Subsidiary Shares of the subsidiary in issuance from time to time.

Maximum entitlement of each participant

The total number of Subsidiary Shares underlying Subsidiary Stock Options in any 12-month period may not exceed at any time 1% (or 0.1% in the case of an independent non-executive Director of the subsidiary) of the then issued and outstanding Subsidiary Shares.

Option period

A Subsidiary Stock Option shall terminate or lapse automatically upon the expiry of ten years from the date of grant or the termination of a subsidiary participant's employment or service with the subsidiary.

Options to purchase ordinary shares of subsidiaries issued to new employees and then-existing employees of subsidiaries 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 thereafter over 3 years of the vesting commencement date, respectively.

Acceptance and payments

The Subsidiary Plan does not provide for any payment upon application or acceptance of an option.

Exercise price

In the absence of an established market for the Subsidiary Shares, the fair market value thereof shall be determined in good faith by the Subsidiary Committee in accordance with any applicable law, rule or regulation.

Remaining life of the scheme

The form of the Subsidiary Plan shall be approved by the shareholders of the Company and of the subsidiary respectively, and shall become effective upon its approval by the board of directors of the subsidiary ("Subsidiary Board"), that is January 5, 2015. Each Subsidiary Plan shall remain in force for a period of ten years commencing on the date of Subsidiary Board approval of the Subsidiary Plan.

The Subsidiary Plan may be changed, altered, amended in whole or in part, suspended and terminated by the Subsidiary Board, subject to such prior approval by the Board of Directors of the Company.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

MAJOR SUPPLIERS AND CUSTOMERS

In 2018, the Group's largest and five largest raw materials suppliers, as a group, accounted for approximately 13.8% and 43.3%, respectively, of the Group's overall raw materials purchases. None of the 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. Almost all of the Group's materials are imported free of value-added tax and import duties due to concessions granted to the semiconductor industry in China.

In 2018, the Company's largest and five largest customers, as a group, accounted for approximately 17.3% and 46.2%, respectively, of the Company's total overall sales. To the best of our knowledge, China IC Fund, which owned more than 5% of the Company's issued share capital, owned 10.97% interests in one of the Company's five largest customers in 2018. Save as disclosed above and to the best of the Company's knowledge, none of the other Directors or 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 Company's five largest customers.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP who retire and, being eligible, offer themselves for re-appointment.

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

Shanghai, China
March 29, 2019

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The HKSE's Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules contains code provisions (the "Code Provisions") to which an issuer, such as the Company, is expected to comply or advise as to reasons for deviations and recommends best practices which an issuer is encouraged to implement (the "Recommended Practices"). The Company has adopted a set of Corporate Governance Policy (the "CG Policy") since January 25, 2005 as its own code of corporate governance, which was amended from time to time to comply with the CG Code. The CG Policy, a copy of which can be obtained on the Company's website at www.smics.com under "Investor Relations > Corporate Governance > Policy and Procedures", incorporates all of the Code Provisions of the CG Code except for Code Provision E.1.3, which relates to the notice period of general meetings of the Company, and many of the Recommended Practices. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

During the year ended December 31, 2018, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.4.2 of the CG Code requires that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. According to Article 126 of the Articles of Association of the Company, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office only until the next following annual general meeting of the Company after appointment and shall then be eligible for re-election at that meeting.

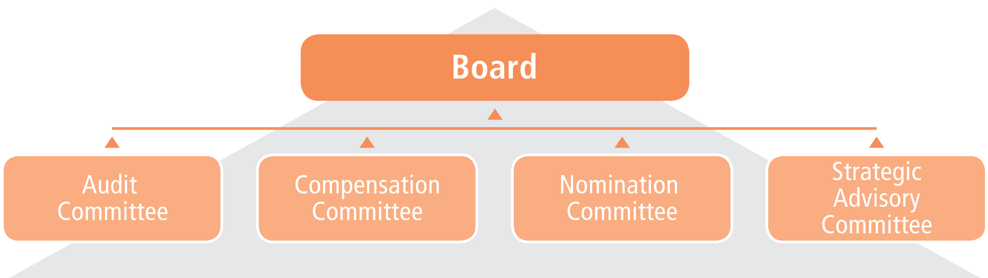
Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted an Insider Trading Compliance Program (the "Insider Trading Policy") which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the "Model Code"). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the year ended December 31, 2018. The senior management of the Company as well as all officers, Directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

THE BOARD

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



CORPORATE GOVERNANCE REPORT

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

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

Name of Director	Category of Director	Class of Director	Year of Re-election
Zhou Zixue	Chairman, Executive Director	Class I	2020
Gao Yonggang	Chief Financial Officer, Executive Director	Class I	2020
William Tudor Brown	Independent Non-executive Director	Class I	2020
Tong Guohua	Non-executive Director	Class I	2020
Zhao Haijun[1]	Co-Chief Executive Officer, Executive Director	Class II	2021
Chen Shanzhi	Non-executive Director	Class II	2021
Lu Jun	Non-executive Director	Class II	2021
Lau Lawrence Juen-Yee[1]	Independent Non-executive Director	Class II	2019 & 2021
Fan Ren Da Anthony[2]	Independent Non-executive Director	Class II	2019 & 2021
Liang Mong Song	Co-Chief Executive Officer, Executive Director	Class III	2019
Zhou Jie	Non-executive Director	Class III	2019
Ren Kai	Non-executive Director	Class III	2019
Chiang Shang-Yi	Independent Non-executive Director	Class III	2019
Cong Jingsheng Jason	Independent Non-executive Director	Class III	2019

1 Professor Lau Lawrence Juen-Yee, whose initial appointment as Director took effect from June 22, 2018, shall retire from office at the 2019 AGM pursuant to Article 126 of the Company's Articles of Association. Professor Lau will, being eligible, offer himself for re-election as a Class II Director at the 2019 AGM to hold office until the 2021 AGM.

2 Mr. Fan Ren Da Anthony, whose initial appointment as Director took effect from June 22, 2018, shall retire from office at the 2019 AGM pursuant to Article 126 of the Company's Articles of Association. Mr. Fan will, being eligible, offer himself for re-election as a Class II Director at the 2019 AGM to hold office until the 2021 AGM.

The Company confirms that each independent non-executive Director ("INED") has given an annual confirmation of his/her independence to the Company, and the Company considers each of them independent under Rule 3.13 of the Hong Kong Stock Exchange Listing Rules. There are no relationships among members of the Board, including between the Chairman of the Board and the Co-Chief Executive Officers.

During the year ended December 31, 2018, the roles of the Chairman and the Co-Chief Executive Officers are segregated and such roles are exercised by Dr. Zhou Zixue as the Chairman and Dr. Zhao Haijun and Dr. Liang Mong Song as the Co-Chief Executive Officers.

The Board meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the Company. The Board meeting schedule for the year is planned in the preceding year. The Company Secretary assists the Chairman in preparing the agenda for meetings and the Board in complying with relevant 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 comment and review prior to their approval of the minutes at the following or subsequent Board meeting. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed. Transactions in which Directors are considered to have a conflict of interest or material interests are dealt with by a physical board meeting rather than by written resolutions and the interested Directors are not counted in the quorum and abstain from voting on the relevant matters.

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

CORPORATE GOVERNANCE REPORT

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

BOARD STRATEGIC MEETING

The Board considers strategy planning is important for the sustainability and development of the Company. Together with Strategic Advisory Committee, the Board holds strategic meeting once a year to:

- assess opportunities and challenges of the Company;
- set strategic goals and measurable targets;
- determines the scope of Company's business operation to support the goals;
- review and evaluate the progress of strategies implementation.

During the year ended December 31, 2018, the Board held a total of five (5) meetings on February 8, May 9, June 22, August 9, and November 7 in 2018. The directors' attendance at the Board meetings and general meetings is set out below:

	Number of meetings attended/held			
	Board Meetings	Board Strategic Meeting	Annual General Meeting	Extraordinary General Meetings
Executive Director				
Zhou Zixue (Chairman)	5/5	1/1	1/1	4/4
Zhao Haijun	5/5	1/1	1/1	4/4
Liang Mong Song	5/5	0/1	1/1	4/4
Gao Yonggang	5/5	1/1	1/1	4/4
Non-executive Director				
Tzu-Yin Chiu (resigned on June 30, 2018)	2/3	0/1	0/1	2/3
Chen Shanzhi	4/5	1/1	0/1	2/4
Zhou Jie	3/5	1/1	1/1	4/4
Ren Kai	4/5	1/1	1/1	4/4
Lu Jun	2/5	0/1	0/1	2/4
Tong Guohua	3/5	1/1	1/1	4/4
Independent Non-executive Director				
Lip-Bu Tan (retired on June 22, 2018)	2/2	N/A	N/A	2/2
William Tudor Brown	5/5	1/1	1/1	4/4
Carmen I-Hua Chang (retired on June 22, 2018)	1/2	N/A	N/A	1/2
Chiang Shang-Yi	5/5	1/1	1/1	4/4
Cong Jingsheng Jason	5/5	1/1	1/1	4/4
Lau Lawrence Juen-Yee (appointed on June 22, 2018)	2/2	1/1	N/A	1/1
Fan Ren Da Anthony (appointed on June 22, 2018)	2/2	1/1	N/A	1/1

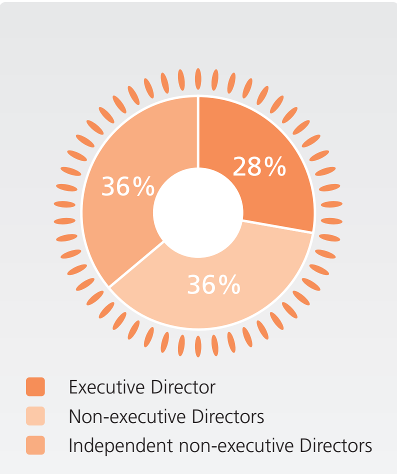
DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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 and funding suitable training for its Directors. Each new Director is provided with training with respect to such Director's responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices. From time to time, the Company updates the Directors on the latest changes and development of the Hong Kong Stock Exchange Listing Rules, the corporate governance practices and other law and regulations applicable to the Company, organizes in-house seminars on the latest development of regulatory requirements related to director's duties and responsibilities, and arranges fab visit to provide directors a better understanding of the operation and latest technology and products developments of the Group. The Company Secretary maintains the training records of all Directors. In 2018, the Directors complied with Code Provision A.6.5 of the CG Code through participation in the above-mentioned continuous professional development and reading relevant materials and journals to develop and refresh their knowledge and skills.

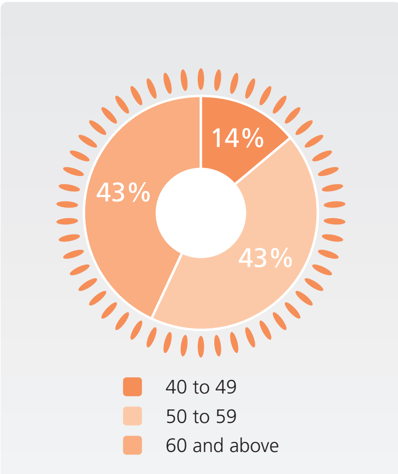
BOARD DIVERSITY POLICY

The Board has adopted a Board Diversity Policy since August 8, 2013 to comply with a new Code Provision A.5.6 of the CG Code on board diversity which has become effective from September 1, 2013. The Nomination Committee of the Board will give consideration to that policy when identifying suitably qualified candidates to become members of the Board. Nonetheless, Board appointments will always be made on merit against objective criteria, taking into account factors based on the Company's business model and specific needs from time to time, as well as the benefits of diversity on the Board, and the Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

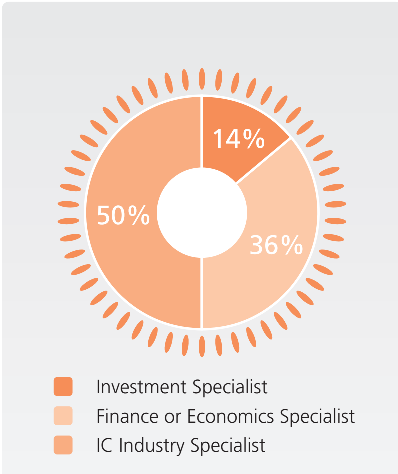
Designation



Age



Speciality



PROCEDURE REGARDING THE APPOINTMENT OF DIRECTORS

The standard procedure regarding the appointment of Directors, which was adopted by the Board on September 22, 2005, sets forth the process by which individuals are appointed as members of the Board. Under the policy, the Board will consider, among other factors, (i) the skills, qualifications and experience of the nominee, including other directorships held in listed public companies in the last three years and other major appointments; (ii) the nominee's shareholding in the Company; (iii) the independence of the nominee under United States and/or Hong Kong listing rules; and (iv) the impact with respect to the Company's status as a "foreign private issuer" under the United States securities laws. The Board will then decide whether to appoint such nominee to fill a casual vacancy on the Board or to add the nominee to the existing Directors and to appoint such nominee into one of the three classes of Directors as stipulated in the Articles of Association of the Company.

BOARD COMMITTEES

The Board has established the following principal committees to assist it in exercising its obligations. These committees consist of a majority of independent non-executive Directors who have been invited to serve as members. The committees are governed by their respective charters setting out clear terms of reference. The updated terms of reference of the committees are available on the websites of the Company and the Hong Kong Stock Exchange.

COMPENSATION COMMITTEE

As of December 31, 2018, the members of the Company's Compensation Committee ("Compensation Committee") are Mr. William Tudor Brown (Chairman of Compensation Committee), Mr. Zhou Jie, Professor Lau Lawrence Juen-Yee, Dr. Tong Guohua, and Dr. Chiang Shang-Yi. None of these members has been an executive officer or employee of the Company or any of its subsidiaries.

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

- approving and overseeing the total compensation package for the Company's executive officers and any other officer, evaluating the performance of and determining and approving the compensation to be paid to the Company's Co-Chief Executive Officers and reviewing the results of the Co-Chief Executive Officers' evaluation of the performance of the Company's other executive officers;

- determining the compensation packages of executive Directors and making recommendations to the Board with respect to non-executive Director compensation, including equity-based compensation;

- administering and periodically reviewing and making recommendations to the Board regarding the long- term incentive compensation or equity plans made available to the Directors, employees and consultants;

- reviewing and making recommendations to the Board regarding executive compensation philosophy, strategy and principles and reviewing new and existing employment, consulting, retirement and severance agreements proposed for the Company's executive officers; and

- ensuring appropriate oversight of the Company's human resources policies and reviewing strategies established to fulfill the Company's ethical, legal, and human resources responsibilities.

The Compensation Committee shall have the delegated authority to determine the remuneration packages of individual executive Directors and the Company's executive officers/senior management, and make recommendations to the Board on the remuneration of non-executive Directors. During the year ended December 31, 2018, in addition to reviewing the remuneration of executive Directors and the members of the Company's management, the Compensation Committee reviewed:

- short-term incentive and long-term incentive proposal for executives;

- retention incentive proposal for employees;

- long term compensation strategy, including the granting of stock options and RSU pursuant to the terms of the stock option plans;

- salary increment and bonus proposals for some employees;

- compensation package of Co-CEO Dr. Zhao Haijun;

- compensation package for new Independent non-executive Directors;

- company performance achievement results in 2018 and the short-term incentive proposals for executives based on the performance achievement rate; and

- proposed bonus and stock grant plan to non-executive Directors.

The Compensation Committee reports its work, findings and recommendations to the Board during each quarterly Board meeting.

The Compensation Committee meets in person at least on a quarterly basis and on such other occasions as may be required to discuss and vote upon significant issues affecting the compensation policy of the Company. The meeting schedule for a given year is planned in the preceding year. The Company Secretary assists the chairman of the Compensation Committee in preparing the agenda for meetings and assists the Compensation Committee in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meetings were dispatched to Committee members in accordance with the CG Code. Members of the Compensation Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Compensation Committee meeting, minutes are circulated to the Committee members for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

During the year ended December 31, 2018, the Compensation Committee held a total of five (5) meetings. Details of Directors' attendance at the Compensation Committee meetings are set forth below:

Compensation Committee	Attendance	Note
Independent Non-executive Director		
William Tudor Brown	5/5	—
Lau Lawrence Juen-Yee (appointed on June 22, 2018)	2/2	—
Chiang Shang-Yi	5/5	—
Lip-Bu Tan	1/2	1
Non-executive Director		
Zhou Jie	5/5	—
Tong Guohua	4/5	—

Note: During the year ended December 31, 2018, there were two meetings of the Compensation Committee held before the cessation of Mr. Lip-Bu Tan as a member of the Compensation Committee on June 22, 2018. One of these meetings was attended by proxy.

NOMINATION COMMITTEE

As of December 31, 2018, the members of the Company's Nomination Committee ("Nomination Committee") were Dr. Zhou Zixue (Chairman of Nomination Committee), Mr. Lu Jun, Mr. William Tudor Brown, Lau Lawrence Juen-Yee and Fan Ren Da Anthony.

BOARD NOMINATION POLICY

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

NOMINATION CRITERIA

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

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

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

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

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

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

NOMINATION PROCEDURES

1. If the Nomination Committee determines that an additional or replacement director is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate.

2. The Nomination Committee may propose to the Board a candidate as a nominee for election to the Board.

3. The Board may appoint the candidate as director to fill a casual vacancy or as an addition to the Board or recommend.

4. The Shareholders approve the election of candidate, who stands for election at the next following annual general meeting, as a director.

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

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- monitor the implementation of Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensure that appropriate disclosures are made regarding board diversity in the Corporate Governance Report set out in the Company's annual report;

- identifying individuals suitably qualified to become Board members and making recommendations to the Board on the selection of individuals nominated for directorships;

- assessing the independence of independent non-executive directors; and

- making recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

The Nomination Committee meets at least once a year and on such other occasions as may be required to discuss and vote upon significant issues relating to Board composition. The Company Secretary assists the chairman of the Nomination Committee in preparing the agenda for meetings and assists the Committee in complying with the relevant rules and regulations. The relevant papers for the Nomination Committee meetings were dispatched to Committee members in accordance with the CG Code. Members of the Nomination Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Nomination Committee meeting, minutes are circulated to the Nomination Committee members for their comment and review prior to their approval of the minutes at the following or a subsequent Committee meeting. During the year ended December 31, 2018, the Nomination Committee:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;

- set criteria and reviewed potential nominees for directorships;

- evaluated the independence of the independent non-executive directors;

- reviewed the re-election of Directors;

- nominated independent non-executive directors; and

- nominated new members for compensation committee, audit committee, nomination committee and strategic advisory committee.

During the year ended December 31, 2018, the Nomination Committee held two (2) meetings. Details of Directors' attendance at the Nomination Committee meetings are set forth below:

Nomination Committee	Attendance	Note
Executive Director		
Zhou Zixue (Chairman)	2/2	—
Non-executive Director		
Lu Jun	1/2	—
Independent Non-executive Director		
Lip-Bu Tan	0/0	3
Carmen I-Hua Chang	0/0	4
Lau Lawrence Juen-Yee (appointed on June 22, 2018)	1/1	1
William Tudor Brown	2/2	—
Fan Ren Da Anthony (appointed on June 22, 2018)	1/1	2

Notes:

(1) During the year ended December 31, 2018, there was one meeting of the Nomination Committee held after the appointment of Professor Lawrence Lau Juen-Yee as a member of the Nomination Committee on June 22, 2018.

(2) During the year ended December 31, 2018, there was one meeting of the Nomination Committee held after the appointment of Mr. Fan Ren Da Anthony as a member of the Nomination Committee on June 22, 2018.

(3) During the year ended December 31, 2018, there were no meetings of the Nomination Committee held before the cessation of Mr. Lip-Bu Tan as a member of the Nomination Committee on June 22, 2018.

(4) During the year ended December 31, 2018, there were no meetings of the Nomination Committee held before the cessation of Ms. Carmen I-Hua Chang as a member of the Nomination Committee on June 22, 2018.

AUDIT COMMITTEE

As of December 31, 2018, the members of the Company's Audit Committee ("Audit Committee") are Fan Ren Da Anthony (Chairman of Audit Committee), Mr. Zhou Jie and Mr. William Tudor Brown. None of these members has been an executive officer or employee of the Company or any of its subsidiaries.

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

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;
- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;
- pre-approving all non-audit services to be provided by the Company's independent auditor;
- approving the remuneration and terms of engagement of the Company's independent auditor;
- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between the Company and the independent auditor;

- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor holding senior positions regardless of whether that person was a member of the Company's audit team;

- reviewing the Company's annual, interim and quarterly financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;

- reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below), the quality, adequacy and effectiveness of the Company's internal controls (including financial, operational and compliance controls) and any significant deficiencies or material weaknesses in the design or operation of internal controls;

- considering the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

- reviewing the Company's internal controls, risk assessment and management policies;

- reviewing any legal matters that may have a material impact and the adequacy and effectiveness of the Company's legal and regulatory compliance procedures;

- establishing procedures for the treatment of complaints received by the Company regarding financial reporting, internal control or possible improprieties in other matters; and

- obtaining and reviewing reports from management, the Company's internal auditor and the Company's independent auditor regarding compliance with applicable legal and regulatory requirements.

During the year ended December 31, 2018, the Audit Committee reviewed:

- the Company's budget for 2018;

- the financial reports for the year ended December 31, 2017 and the six months ended June 30, 2018;

- the quarterly financial statements, earnings releases and any updates thereto;

- the report and management letter submitted by the Company's outside auditors summarizing the findings of and recommendations based on their audit of the Company's financial reports;

- the findings and recommendations of the Company's outside auditors regarding the Company's compliance with the requirements of the Sarbanes-Oxley Act of 2002 (the "SOX");

- the effectiveness of the Company's internal control structure in operations, financial reporting integrity and compliance with applicable laws and regulations;

- 2017 risk management systems and assessment results;

- 2018 audit plan and audit team;

- 2018 SOX audit scope and SOX audit results for the year ended 2017 and six months ended 2018;

- the quarterly audit plan and quarterly audit items result;

- the quarterly risk assessment early warning index;

- the reports of the Company's ethics hotline; and

- the audit fees and non-audit related fees for the Company's independent auditors and the independent auditors' engagement letters.

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

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

During the year ended December 31, 2018, the Audit Committee held a total of four (4) meetings. Details of individual members' attendance at the Audit Committee meetings are set forth below:

Audit Committee	Attendance	Note
Independent Non-executive Director		
Fan Ren Da Anthony (Chairman, appointed on June 22, 2018)	2/2	1
William Tudor Brown	4/4	—
Lip-Bu Tan	2/2	2
Non-executive Director		
Zhou Jie	4/4	—

Notes:

(1) During the year ended December 31, 2018, there were two meetings of the Audit Committee held after the appointment of Mr. Fan Ren Da Anthony as chairman of the Audit Committee on June 22, 2018.

(2) During the year ended December 31, 2018, there were two meetings of the Audit Committee held before the cessation of Mr. Lip-Bu Tan as chairman of the Audit Committee on June 22, 2018.

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

STRATEGIC ADVISORY COMMITTEE

As of December 31, 2018, the members of the Company's Strategic Advisory Committee ("Strategic Advisory Committee") were Dr. Chen Shanzhi (Chairman of Strategic Advisory Committee), Mr. Ren Kai, Mr. William Tudor Brown.

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

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

- to evaluate and consider any strategic alternative;

- to contribute and participate in discussions with potential strategic partners with respect to any strategic alternative; and

- to make recommendations to the Board and the management of the Company with respect to any strategic alternative.

CORPORATE GOVERNANCE FUNCTIONS

Pursuant to the Board Delegation Policy of the Company which came into effect on September 22, 2005, the Board (or any of its committees) is responsible for performing the following corporate governance duties:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

During the year ended December 31, 2018, the aforesaid corporate governance functions had been carried out by the Board pursuant to the Board Delegation Policy.

AUDITORS' REMUNERATION

The following table sets forth the aggregate audit fees, Sarbanes-Oxley compliance testing fee, audit- related fees, tax fees and all other fees we paid or incurred for audit and audit-related services, tax services and other services rendered by our auditors during the fiscal year ended December 31, 2018.

	2018 USD'000
Audit and Audit-Related Fees	1,372
Tax Fees	38
All Other Fees	1,217
Total	2,627

RISK MANAGEMENT AND INTERNAL CONTROLS

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

Based on the Enterprise Risk Management — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), with the assistance of the management team, the Board identifies, analyzes and assesses enterprise-wide risks, and monitors the risk management systems to ensure the effectiveness of risk management programs by:

- identifying risks, such as operational risk, strategy risk, market risk, legal risk and financial risk;

- assessing the identified risks by considering the impacts (including financial, reputation, business continuity & operational) and likelihoods of their occurrence;

- designing, operating and monitoring internal control systems to mitigate and control such risks; and

- monitoring the risk early warning index on the material risks.

In June 2004, the Public Company Accounting Oversight Board, or PCAOB, adopted rules for purposes of implementing Section 404 of the Sarbanes-Oxley Act. Pursuant to the Sarbanes-Oxley Act and the various rules and regulations adopted pursuant thereto or in conjunction therewith, the Company is required to perform, on an annual basis, an evaluation of internal control over financial reporting and, beginning in fiscal year 2006, to include management's assessment of the effectiveness of internal control over financial reporting in the Company's annual report on Form 20-F to be filed with the United States Securities and Exchange Commission.

The Board has reviewed the effectiveness of risk management and internal control systems of the Group and ensured that the risk management and internal control systems in place are effective. The effectiveness of internal control over financial reporting as of December 31, 2018 has been audited by the independent accounting firm as stated in its report.

INTERNAL AUDIT

Internal Audit works with and supports the Group's management team and the Audit Committee to evaluate the effectiveness of and contribute to the improvement of risk management, internal control, and corporate governance systems. On an annual basis, the risk-based audit plan and resources are reviewed and approved by the Audit Committee. In addition to its agreed plan, the Internal Audit audits areas of concern identified by senior management or conducts reviews and investigations on an ad hoc basis. Audit results are reported to the Chairman of the Board, the Co-Chief Executive Officers and relevant management of audited departments. A summary of audit reports is quarterly reported to the Audit Committee.

Based on this annual audit plan, the Internal Audit audits the practices, procedures, and internal controls in the Group. The scope of the audit includes:

- reviewing management's controls to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;

- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Group is in compliance;

- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;

- appraising the economy and efficiency with which resources are employed;

- identifying significant risks, including fraud risks, to the ability of the Group to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and

- evaluating the effectiveness of controls supporting the operations of the Group and providing recommendations as to how those controls could be improved.

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

After completing an audit, the Internal Audit furnishes the Group's management team with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. Appropriate managers of the Group are notified of any deficiencies cited by the Internal Audit, which will follow up with the implementation of audit recommendations. In addition, the Internal Audit reports their findings directly to the Audit Committee on at least a quarterly basis.

The Internal Audit has direct access to the Board through the chairman of the Audit Committee and may meet privately with the Audit Committee, without the presence of members of the Group's management or the independent accounting firm upon request.

JOINT COMPANY SECRETARIES

The biographical details of joint Company Secretaries Dr. Gao Yonggang and Dr. Liu Wei are set out on page 25 and page 30 of this annual report.

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

Pursuant to Rule 3.29 of the Hong Kong Stock Exchange Listing Rules, Dr. Gao and Dr. Liu had taken no less than 15 hours of relevant professional training for the year ended December 31, 2018.

SHAREHOLDER RIGHTS

The Company's shareholders may put forth proposals at an annual general meeting of the Company's shareholders by written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the principal executive offices of the Company. In order for a shareholder to put a proposal before the Company's shareholders, such shareholder must (a) 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 and (b) comply with the notice requirements, in each case, as specified in the Articles of Association. The notice requirements include requirements regarding the timing of delivery of the notice as well as the contents of such notice. The detailed procedures for the notice requirements vary depending on whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to a nomination for election of a Director. The procedures for shareholders to propose a person for election as a Director is available on the Company's website. The procedures for shareholders to put forward proposals at an annual general meeting are also available upon request from the Company Secretary at the Company's Hong Kong office as stated below:

Semiconductor Manufacturing International Corporation
Suite 3003, 30th Floor, 9 Queen's Road Central
Hong Kong

Enquiries may be submitted to the Board by contacting either the Company Secretary at the above address, or directly by questions at an annual general meeting or an extraordinary general meeting. Questions on the procedures for putting forward proposals at an annual general meeting may also be raised to the Company Secretary by the same means.

According to Article 61 of the Company's Articles of Association, only the Board or the Chairman of the Board may, whenever they or he think fit to proceed, convene a general meeting of the Company. The ability of shareholders to call any general meeting of the Company is specifically denied.

SHAREHOLDER COMMUNICATIONS

The Company and the Board recognizes the importance of maintaining open and frequent communications with its shareholders. At the annual general meeting of the Company, which was held on June 22, 2018 at the Company's headquarters in Shanghai, China ("2018 AGM"), Directors, members of the management team, as well as the Company's outside auditors, were present to answer questions from the shareholders. The 2018 AGM circular was distributed to all shareholders within the prescribed time period required by the Hong Kong Stock Exchange Listing Rules. The circular and the accompanying materials set forth information relevant to the proposed resolutions. Separate resolutions are proposed at these annual general meetings on each substantially separate issue, including the re-election of individual Directors. The chairman of the meeting reveals how many proxies for and against have been filed in respect to each resolution. The poll results will be published in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.

During the 2018 AGM, the Company's shareholders:

- received and considered the audited consolidated financial statements and the reports of the Directors and Auditors of the Company for the year ended December 31, 2017;

- re-elected Dr. Chen Shanzhi, Mr. Lu Jun, Dr. Zhao HaiJun as Class II directors to hold office until 2021 AGM, re-elected Dr. Liang Mong Song as Class III director to hold office until 2019 AGM and authorized the Board to fix their remuneration;

- appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the auditors of the Company for Hong Kong financial reporting and U.S. financial reporting purposes, respectively and authorized the Audit Committee of the Board to fix their remuneration;

- approved the general mandate to the Board to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding 20% of the issued share capital of the Company as at the date of 2018 AGM;

- approved the general mandate to the Board to repurchase shares of the Company, not exceeding 10% of the issued share capital of the Company as at the date of 2018 AGM;

- authorized the Board to exercise the powers to allot, issue, grant, distribute and otherwise deal with the additional authorized but unissued shares repurchased by the Company.

A key element of effective communication with shareholders and investors is the timely dissemination of information relating to the Company. In addition to announcing annual and interim reports, the Company announces its quarterly financial results approximately one month after the end of each quarter. In connection with such announcements, the Company holds conference calls which are open and available to the Company's shareholders. During these conference calls, the Co-chief Executive Officers and senior management report about the latest developments in the Company and answer questions from participants. The members of the Company's Investor Relations Department and senior members of the Company's management also hold regular meetings with equity research analysts and other institutional shareholders and investors.

A table setting forth information regarding the beneficial owners as of December 31, 2018 of the Ordinary Shares, who is known by the Company to beneficially own 5% or more of the Company's outstanding shares, is contained on page 77.

The market capitalization of the Company as of December 31, 2018 was approximately HK$34,522,761,513 (issued share capital of 5,039,819,199 Ordinary Shares at the closing market price of HK$6.85 per Ordinary Share). The public float as of such date was approximately 67.13%.

The 2019 AGM is scheduled to be held at the Company's headquarters at 18 Zhangjiang Road, PuDong New Area, Shanghai 201203, China on or around June 21, 2019. All shareholders of the Company are invited to attend.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board has adopted a code of business conduct and ethics (the "Code of Conduct") which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues including among others, fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the Company's Compliance Office, which will subsequently report such violation to the Audit Committee.

US CORPORATE GOVERNANCE PRACTICES

Companies listed on the New York Stock Exchange must comply with certain corporate governance standards under Section 303A of the New York Stock Exchange Listed Company Manual, or the NYSE Standards. Because the Company's American Depositary Shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange, the Company is also subject to certain U.S. corporate governance requirements, including many provisions of the Sarbanes- Oxley Act of 2002. However, because the Company is a "foreign private issuer", the Company is permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of certain corporate governance standards contained in the NYSE Standards.

CORPORATE GOVERNANCE REPORT

Set forth below is a brief summary of the significant differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers:

NO REQUIREMENT FOR MAJORITY OF INDEPENDENT DIRECTORS

NYSE Section 303A.01 requires a NYSE-listed U.S. domestic company to have a majority of independent directors on the board of directors. We have elected to follow the Hong Kong Stock Exchange Listing Rules, which require a company's board to include at least one-third (but not less than three) of the members of a company's board to be independent non-executive directors. The laws of the Cayman Islands do not contain definition or requirements relating to "independent directors" nor require any member of a company's board be independent.

DIFFERENT STANDARDS TO EVALUATE DIRECTOR INDEPENDENCE

NYSE Section 303A.02 provides detailed tests that NYSE-listed U.S. domestic issuers must use for determining independence of directors. While we may not specifically apply the NYSE tests, our Board, through its nomination committee, assesses independence in accordance with Hong Kong Stock Exchange Listing Rules, and in accordance with Rule 10A-3 under the Exchange Act in the case of audit committee members, and considers whether there are any relationships or circumstances that are likely to affect such director's independence from management.

EXECUTIVE SESSIONS

NYSE Section 303A.03 requires the non-executive directors of a NYSE-listed U.S. domestic company to meet in regularly scheduled executive sessions without management at least once a year. Our non-executive directors and independent directors meet with the Chairman of the Board, who is an executive director, at least once a year. Our executive directors and management are not present at these meetings.

NO NOMINATING/CORPORATE GOVERNANCE COMMITTEE COMPOSED ENTIRELY OF INDEPENDENT DIRECTORS

NYSE Section 303A.04 requires NYSE-listed U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. The nominating/corporate governance committee must have a written charter that sets out its purpose and certain minimum responsibilities required under NYSE Section 303A.04 (b)(i) and provides for an annual performance evaluation of the committee.

Instead of a nominating/corporate governance committee, our Board has established a nomination committee with five members. Three members are independent non-executive directors while one member is an executive director and one is a non-executive director. We are not required under the laws of the Cayman Islands or the Hong Kong Stock Exchange Listing Rules to have a nominating/corporate governance committee composed entirely of independent directors. The nomination committee is tasked to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, make recommendations on any proposed changes to the Board to complement our corporate strategy, identify individuals suitably qualified to become Board members consistent with criteria approved by the Board, assess the independence of independent non-executive Directors, make recommendations to the Board on the selection of individuals nominated for directorships, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the Chief Executive Officer. The Board also adopted a Board Diversity Policy on August 8, 2013 that sets out diversity criteria considered by the Board in identifying candidates. However, such nomination committee is not responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company and overseeing the evaluation of the Board and management.

NO COMPENSATION COMMITTEE COMPOSED ENTIRELY OF INDEPENDENT DIRECTORS

NYSE Section 303A.05 requires NYSE-listed U.S. domestic issuers to have a compensation committee composed entirely of independent directors. The compensation committee must have a written charter that sets out its purpose and certain minimum responsibilities and provides for an annual performance evaluation of the committee.

Our Board has established a compensation committee with five members. Three members are independent non-executive directors while two members are non-executive directors. We have elected to follow the Hong Kong Stock Exchange Listing Rules, which require that a majority of the members of the compensation committee be independent non-executive directors. The laws of the Cayman Islands do not define or contain requirements relating to "independent directors" nor require a Cayman Islands exempted company to have a compensation committee.

We believe that the composition of our compensation committee and its duties and responsibilities, as described in our annual report for the relevant year, are generally responsive to the relevant NYSE Standards applicable to NYSE-listed U.S. domestic issuers. However, the charter of our compensation committee does not address all aspects of NYSE Section 303A.05. For example, NYSE Section 303A.05(c) and Item 407(e)(5) of Regulation S-K under the Securities Act require compensation committees of NYSE- listed U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We have not addressed this in our compensation committee charter as we are not required under the laws of the Cayman Islands to have a compensation committee, or under the Hong Kong Stock Exchange Listing Rules to have such a compensation committee report, though we are required to disclose certain corporate governance matters in relation to the compensation committee in our annual report filed with the Hong Kong Stock Exchange. We disclose the amounts of compensation of our directors on a named basis, remuneration payable to members of the senior management by band, and remuneration payable to the five highest individuals on an aggregate basis in our annual report in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.

NO AUDIT COMMITTEE COMPOSED ENTIRELY OF INDEPENDENT DIRECTORS

NYSE Sections 303A.07(a) requires NYSE-listed U.S. domestic issuers to have an audit committee composed entirely of independent directors. We have elected to follow the Hong Kong Stock Exchange Listing Rules, which require that a majority of the members of the audit committee be independent non-executive directors. Our Board has established an audit committee with three members. Two members are independent non-executive directors while the third is a non-executive director. The laws of the Cayman Islands do not define or contain requirements relating to "independent directors" nor require a Cayman Islands exempted company to have an audit committee.

AUDIT COMMITTEE REQUIREMENTS

NYSE Sections 303A.06 and 303A.07 require NYSE-listed U.S. domestic issuers to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act, whose members meet certain requirements such as financial literacy and capacity for service in an audit committee, and have a written charter that sets out its purpose and certain minimum responsibilities. We believe that the composition of our audit committee and its duties and responsibilities, as described in our annual report for the relevant year, are generally responsive to the relevant NYSE Standards applicable to NYSE-listed U.S. domestic issuers. However, the charter for our audit and compensation committees may not address all aspects of NYSE Section 303A.06 and Rule 10A-3 under the Exchange Act. For example, NYSE Section 303A.07(a) requires the Board to evaluate the capacity of an audit committee member if he or she is simultaneously a member of the audit committee of more than three public companies. NYSE Section 303A.07(b)(iii)(G) requires an audit committee to draft clear policies for hiring external auditor's employees. Our audit committee has not drafted explicit policies regarding these matters, although our nomination committee continually evaluates the qualifications and capacity of directors and candidates for director (including audit committee members). Further, our audit committee pre-approves the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the three years preceding such hiring and the hiring of any employee or former employee of the independent auditor for senior positions regardless of whether that person was a member of the Company's audit team.

INTERNAL AUDIT REQUIREMENTS

NYSE Section 303A.07(c) requires NYSE-listed U.S. domestic issuers to have an internal audit function that provides ongoing assessments on the company's risk management processes and internal control system. Our Company has established an Internal Audit Department whose findings, as well as our Company's internal controls in general, are reviewed by our audit committee and has substantially the same functions as those contemplated by NYSE Section 303A.07(c).

NO SHAREHOLDER VOTE ON EQUITY COMPENSATION PLANS

NYSE Section 303A.08 requires that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We comply with the requirements of Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in determining whether shareholder approval is required, and we do not take into consideration the NYSE's detailed definition of what are considered "material revisions".

NO EXPLICIT INTERNAL POLICY REGARDING FOR BOARD SELF-EVALUATION AND SUCCESSION PLANNING

NYSE Section 303A.09 requires the board of directors of a NYSE-listed U.S. domestic issuer to conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively and draft succession planning policies which should include policies and principles for CEO selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the CEO.

Neither the requirements of Cayman Islands law nor the Hong Kong Stock Exchange Listing Rules require explicit procedures for these matters, although our Board continually evaluates its performance and the performance of its committees, and reviews the professional development of directors and senior management.

CODE OF BUSINESS CONDUCT AND ETHICS

NYSE Section 303A.10 requires a NYSE-listed U.S. domestic issuer to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We have adopted a Code of Business Conduct and Ethics, which is available on the Company website, whose scope is similar but not identical to what is required under NYSE Section 303A.10.

NO EXPLICIT REQUIREMENT FOR CORPORATE GOVERNANCE CERTIFICATION

NYSE Section 303A.12(a) requires the CEO of a NYSE-listed U.S. domestic issuer to certify to the NYSE each year that he or she is not aware of any violation by the listed company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.

Neither the requirements of Cayman Islands law nor the Hong Kong Stock Exchange Listing Rules require such certification. However, our CEO is required to certify in the Company's 20-F annual report that, to his or her knowledge the information contained therein fairly represents in all material respects the financial condition and results of operation of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

In 2018, the Group has complied with the substantial laws and regulations promulgated by the Chinese government in relation to the integrated circuit industry in China which have a significant impact on the Group.

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

SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential industrial policies described below.

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013 and March 10, 2015, the Chinese government encourages (1) the design of integrated circuits, (2) the production of integrated circuits with a line width of less than 0.11 micron (including 0.11 micron) and (3) the advanced packaging and testing of BGA, PGA, CSP and MCM.

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

ENVIRONMENTAL REGULATIONS

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations promulgated by the central and local governments, and our majority-owned Italian subsidiary (LFoundry) is subject to a variety of Italian and European Union environmental laws and regulations promulgated by the central and local governments, concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project's construction and operation phases.

A key document that must be submitted for approval of a project's construction is an environmental impact assessment report that is reviewed by the relevant environmental protection authorities. Upon completion of construction, and prior to commencement of operations, an additional examination and acceptance by the relevant environmental authority of such project is also required. After receiving approval of the environmental impact assessment report, a semiconductor manufacturer is required to apply to and register with (in Italy, it also includes a declaration to) the competent environmental authority of the types and quantities of liquid, solid and gaseous wastes it plans to discharge, the manner of discharge or disposal, as well as the level of industrial noise and other related factors. If the above wastes and noise are found by the authorities to have been managed within regulatory levels, renewable discharge registrations for the above wastes and noise are then issued for a specified period of time. SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC and SJ Jiangyin have all received approval with respect to their relevant environmental impact assessment reports and discharge registrations. LFoundry has received approval with respect to its discharge registrations.

From time to time during the operation of our Chinese subsidiaries and our majority-owned Italian subsidiary, and also prior to renewal of the necessary discharge registrations, the relevant environmental protection authority will monitor and audit the level of environmental protection compliance of these subsidiaries. Discharge of liquid, solid or gaseous waste over permitted levels may result in imposition of fines or penalties, imposition of a time period within which rectification must occur or even suspension of operations.

PREFERENTIAL TAXATION POLICIES

The Company is incorporated in the Cayman Islands and not currently subject to taxation in the Cayman Islands. The subsidiaries of the Company are subject to different preferential taxation policies.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax, or the EIT Law (became effective on January 1, 2008), the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

The EIT law applies a uniform 25% enterprise income tax rate to both tax resident enterprise and non-tax resident enterprise, except where a special preferential rate applies. In addition, according to the law of Italy on enterprise income tax, LFoundry income tax ("IRES") rate is 24%.

Pursuant to Caishui Circular [2008] No. 1 ("Circular No. 1") promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years' tax losses and 50% reduction of the tax for the following five years. Pursuant to Caishui Circular [2009] No. 69 ("Circular No. 69"), the 50% reduction should be based on the statutory tax rate of 25%.

On January 28, 2011, the State Council of China issued Guofa [2011] No. 4 ("Circular No. 4"), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No. 1 for the software and integrated circuit enterprises.

CORPORATE GOVERNANCE REPORT

On April 20, 2012, State Tax Bureau issued CaiShui [2012] No. 27 ("Circular No. 27"), stipulating the income tax policies for the development of integrated circuit industry. Circular No. 1 was partially abolished by Circular No. 27 and the preferential taxation policy in Circular No. 1 was replaced by Circular No. 27.

On July 25, 2013, State Tax Bureau issued [2013] No. 43 ("Circular No. 43"), clarifying that the accreditation and preferential tax policy of integrated circuit enterprise established before December 31, 2010, is applied pursuant to Circular No. 1.

On May 4, 2016, State Tax Bureau, Ministry of Finance and other joint ministries issued Caishui [2016] No. 49 ("Circular No. 49"), which highlights the implementation of the record-filing system, clarification on certain criteria for tax incentive entitlement and establishment of a post-record filing examination mechanism and enhancement of post-administration.

On March 28, 2018, State Tax Bureau, Ministry of Finance and other joint ministries issued Caishui [2018] No. 27 ("2018 Circular No. 27"), which further announced the tax encouragement for integrated circuit production enterprises established before and after January 1, 2018 and also updated the certain criteria for tax incentive entitlement. Circular No. 49 is partially abolished by 2018 Circular No. 27.

SOCIAL RESPONSIBILITY

At SMIC, we comply with strict legal requirements for corporate governance, financial accounting, and transparent reporting. Our business practices also are ethical, safe, environmental friendly, and fair to our employees, in accordance with all the laws, rules, and regulations of the countries where we operate. In addition to obeying the letter and mandates of such laws, we seek to promote their spirits. Through our CSR Program (http://www.smics.com/en/site/responsibility_social), we hope to advance social, environmental, and ethical responsibility according to internationally recognized standards.

To achieve these goals:

- Declare our support for the Responsible Business Alliance (Formerly the Electronic Industry Citizenship Coalition) Code of Conduct (http://www.responsiblebusiness.org/standards/code-of-conduct/) and will actively pursue conformance to the Code and participation by our suppliers.

- Uphold the human rights of our staff and the highest standards of business integrity, as required by the RBA Code, the SMIC Code of Business Conduct & Ethics (http://www.smics.com/uploads/ethic_codebusiness.pdf), SMIC Human Resources policies, and all other SMIC policies.

- Strive to maintain a safe workplace for our employees and a healthy environment for the public while minimizing adverse effects on the community, environment, and natural resources, consistent with our Environmental Protection, Safety & Health Policy and our related ISO and other international certifications (http://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 CSR Report at http://www.smics.com/uploads/2017%20SMIC%20CSR%20Report%20_EN.pdf.

Our CSR practices comply with all the laws where we operate and align with the leading international standards for our industry. These practices help us to reduce costs and risks, increase efficiency and integration, and improve employee morale and retention, all while benefiting our local communities and contributing to a cleaner and greener electronics industry supply chain. Visit our CSR Web page at http://www.smics.com/en/site/responsibility_social. To help us preserve and develop our socially responsible culture, key managers serve on our CSR Committee to oversee our CSR program and reporting.

Our CSR practices have led to our ongoing inclusion in the Hang Seng Corporate Sustainability Index Series for maintaining a "high standard of performance in environmental, social, and corporate governance" areas. See www.hsi.com.hk. In 2018, we received the "Outstanding Corporate Social Responsibility Award" for a fifth consecutive year in the 7th Corporate Social Responsibility Award hosted by Mirror Post for its excellence in corporate social responsibility. The selection process involved a number of strict criteria in "shareholder commitment, employee care, environmental protection, customer commitment, community ties and leadership skills" for the companies selected.

SMIC 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, and through charitable outreach to the larger community. For example, in 2018, we and our cooperative partner donated an additional RMB4.27 million to our "SMIC Liver Transplant Program for Children" to fund liver transplants for impoverished children. To date, a grand total of RMB21 million were donated towards the program. By the end of 2018, 385 children from around China had received another chance at life. We also encourage individual efforts by our employees, who support local charities and churches, 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

Our award-winning company schools serve our employees' children at low cost. They also provide a highly-affordable education for non-SMIC children who live in the communities where we operate. Together with our employees, we also support education in many other ways. For example, we donate books to children of rural and migrant workers and provide gift bags of winter clothes and school supplies for school children from migrant communities.

SOCIAL RESPONSIBILITY

SUPPORT FOR THE ENVIRONMENT

SMIC is a conscientious steward of natural resources. This commitment to the environment is reflected in our environmental protection, safety, and health ("ESH") policies and international standards certifications. See our ESH Web page at http://www.smics.com/en/site/about_ESH.

SMIC first earned ISO 14001 certification in 2002. To retain this certification, we must maintain a world- class environmental management system that abides by a rigorous set of international standards. This management system helps us ensure responsible use of energy and materials through recycling, waste reduction, and pollution prevention.

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

SMIC also established ISO 14064 carbon verification certification at all sites in 2010. We maintain systems to monitor greenhouse gas emissions, and are prepared for increasingly stringent carbon emission controls and regulations.

We achieve environmental protection largely through:

- Expanding environmental protection projects, such as energy saving, and waste reduction;
- Promoting green products and supply chains while sorting and recycling waste products;
- Managing the transfer and safe handling of hazardous waste by qualified vendors;
- Controlling hazardous substances in our products and processes; and
- Monitoring environmental impact, including carbon verification, and publicizing the results.

Our ISO and other international standards certificates are available on our Web pages for ESH (link above) and for Quality and Reliability (http://www.smics.com/en/site/about_quality).

EMPLOYEE WELL-BEING

Our group's success depends on the well-being of our staff and the communities where we operate. We ensure that our employees receive fair treatment, good health and safety benefits, and meaningful opportunities for advancement. Together, we fuel the economic and social development of our communities. From our founding in 2000, SMIC has attracted far-sighted people who make a difference across our industry and around the world. Our employees and their families have inspired and led our good corporate citizenship. For more information, see our latest CSR report at the link above.

EMPLOYEE HEALTH & SAFETY

SMIC attained OHSAS 18001 (Occupational Health and Safety Assessment Series) certification in 2003. The OHSAS 18001 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. This safety management philosophy is implemented through:

- Mandatory, recurrent safety training for employees and vendors;
- Equipment and facilities compliance with domestic and international safety standards, such as those of Semiconductor Equipment and Materials International (SEMI), the National Fire Protection Association (NFPA), and Factory Mutual Research Corporation (FMRC);

SOCIAL RESPONSIBILITY

- Maintenance of process standards;
- An Emergency Response Center to centralize response at each site, staffed 24 hours a day;
- Continuous monitoring of work area conditions via gas monitoring system and closed-circuit TV;
- Constant monitoring of airborne chemicals, radiation, noise, and drinking water;
- Regular occupational hazards monitoring for work area by third-party professionals;
- Regular occupational health examinations;
- Regular emergency drills and routine emergency training and drills.

SMIC provides occupational health and hygiene management for the welfare of employees. In addition, SMIC provides on-site health monitoring and primary care services such as:

- A 24-hour, professionally staffed health clinic at each manufacturing site;
- Medical emergency response and disaster planning;
- Occupational physical examinations and record keeping;
- General physical examinations and record keeping; and
- Injury and illness case management.

For more information, visit our ESH Web page and our latest CSR report at the links above.

EMPLOYEE CARE

At SMIC, we enable better living and continuous self-improvement for our employees. 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 clinics located at our manufacturing sites, residential campuses, and schools. We also care for our employees through on-the-job training, subsidized university education, counseling services, social clubs and activities, and athletic and recreational facilities.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of
Semiconductor Manufacturing International Corporation
(incorporated in the Cayman Islands with limited liability)

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Semiconductor Manufacturing International Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 121 to 216, which comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

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, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matters identified in our audit are summarised as follows:

- Accounting for the sale and leaseback arrangements;
- Fair value measurement of joint ventures and associates' portfolio investments.

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for the sale and leaseback arrangements Refer to note 7 and note 40 to the consolidated financial statements. The Group entered into arrangements to sell and leaseback a batch of production equipment with a repurchase option. Management made judgements on whether the arrangements are lease arrangements and whether they are operating lease. Management concluded that: (i) The arrangements fell under the scope of IAS 17 Leases and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease as the repurchase option was not almost certain to be exercised, considering: — the repurchase option was not set at a significant discount to the expected fair value when it becomes exercisable; and — there were no other factors that would compel the Group to exercise the repurchase option. (ii) The lease was an operating lease because: — the repurchase option was not reasonably certain to exercise at the inception of the lease; — ownership of the equipment would not be transferred to the Group by the end of the lease term; — the lease term was not for the major part of the economic life of the equipment; — the present value of the minimum lease payments did not amount to substantially all of the fair value of the equipment; and	**Our procedures in relation to the sale and leaseback arrangements include:** (i) We examined the legal documents to ascertain the key terms of the arrangements. (ii) For the purpose of assessing management's judgements that the repurchase option was not almost certain to be exercised: — we assessed management's expected fair value of the equipment when the repurchase option becomes exercisable by independently analyzing the price trend of similar equipment and semiconductor market outlook; — we assessed management's judgement that the repurchase option was not set at a significant discount to the expected fair value by comparing the exercise price with the expected fair value; — we examined the legal documents and assessed the magnitude of replacement cost to assess if any other factors might indicate economic compulsion on the Group to exercise the repurchase option. (iii) For the purpose of assessing management's judgement that the lease was an operating lease: — we examined the legal documents to ascertain that ownership of the production equipment would not be transferred to the Group by the end of the lease term; — we assessed management's estimated economic life of the equipment by gathering data of similar equipment and comparing the economic life to the lease term;

Key Audit Matter	How our audit addressed the Key Audit Matter
— the equipment was not of such a specialised nature that only the Group could use them without major modifications. Management focused on this area because the sale and leaseback arrangements have material impact on the consolidated financial statements and significant management judgements were required in accounting for these arrangements.	— we recalculated the present value of the minimum lease payments and compared it with the fair value of the production equipment; and — we understood the nature of the equipment and ascertained that the equipment was commonly used by semiconductor fabrication plants by checking open market information for such equipment.
Fair value measurement of joint ventures and associates' portfolio investments Refer to note 4, note 19 and note 20 to the consolidated financial statements. Acting as limited partner, the Group has invested in a number of investment funds. Based on the assessments performed by management, the Group accounted for such investment funds as investments in joint ventures or associate by using equity method. The investment funds measured their investments in portfolio investments at fair value. These investment funds held a number of portfolio investments. 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. We identified the fair value measurement of joint ventures or associates' portfolio investments as a key audit matter due to the significance of the balance of the investment funds, a huge quantity of the Group's joint ventures and associates' portfolio investments, the degree of complexity involved in valuing certain investment funds and the significant degree of judgement exercised by management in determining the valuation methodology and assumptions used in the valuation process.	**Our procedures in relation to the fair value measurement of joint ventures and associates' portfolio investments include:** (i) We tested the key controls in relation to the valuation process including management's approval of assumptions used in the valuation model. (ii) With the assistance of our internal valuation experts, we assessed the appropriateness of valuation methodology and assumptions used. We have performed the following procedures on a sample basis: — for portfolio investment that traded in active markets, we assessed the fair value by comparing the fair values applied by the Group with publicly available market data; — for portfolio investment that have recent equity transaction, we assessed the fair value by reading the recent investment agreements, understanding the relevant investment terms and comparing the fair value of investment with the transaction price specified in related agreements; — for portfolio investment that did not have direct open market quoted values 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; and — we tested the accuracy of mathematical calculation applied in the valuation models.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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. We report our opinion 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 judgment 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

INDEPENDENT AUDITOR'S REPORT

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.

We communicate with those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, 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 Jane Kong.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2019

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018, 2017 and 2016

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

	Notes	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Revenue	5	3,359,984	3,101,175	2,914,180
Cost of sales		(2,613,307)	(2,360,431)	(2,064,499)
Gross profit		746,677	740,744	849,681
Research and development expenses, net		(558,110)	(427,111)	(318,247)
Sales and marketing expenses		(30,455)	(35,796)	(35,034)
General and administration expenses		(199,818)	(198,036)	(167,582)
Net impairment losses (recognized) reversal on financial assets	38	(937)	137	10,211
Other operating income, net	7	57,283	44,957	177
Profit from operations		14,640	124,895	339,206
Interest income		64,339	27,090	11,243
Finance costs	8	(24,278)	(18,021)	(23,037)
Foreign exchange losses		(8,499)	(12,694)	(1,640)
Other gains (losses), net	9	24,282	16,499	(2,113)
Share of gain (loss) of investment accounted for using equity method		21,203	(9,500)	(13,777)
Profit before tax		91,687	128,269	309,882
Income tax (expense) benefit	10	(14,476)	(1,846)	6,552
Profit for the year	11	77,211	126,423	316,434
Other comprehensive income (loss)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		(35,919)	23,213	(19,031)
Change in value of available-for-sale financial assets		—	(2,381)	807
Cash flow hedges	27	35,931	35,143	(34,627)
Share of other comprehensive income of investment accounted for using the equity method	27	—	17,646	—
Others		—	(131)	1
Items that will not be reclassified to profit or loss				
Actuarial gains or losses on defined benefit plans	27	129	(436)	1,520
Total comprehensive income for the year		77,352	199,477	265,104
Profit (loss) for the year attributable to:				
Owners of the Company		134,055	179,679	376,630
Non-controlling interests		(56,844)	(53,256)	(60,196)
		77,211	126,423	316,434
Total comprehensive income (loss) for the year attributable to:				
Owners of the Company		133,977	251,135	326,191
Non-controlling interests		(56,625)	(51,658)	(61,087)
		77,352	199,477	265,104
Earnings per share*				
Basic	14	$0.03	$0.04	$0.09
Diluted	14	$0.03	$0.04	$0.08

* The basic and diluted earnings per share for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US$0.0004 each consolidated into one ordinary share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016 ("Share Consolidation"). Please refer to Note 14 for more details.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018, 2017 and 2016

(In USD'000)

	Notes	12/31/18	12/31/17	12/31/16
Assets				
Non-current assets				
Property, plant and equipment	16	**6,777,970**	6,523,403	5,687,357
Land use right		**105,436**	97,477	99,267
Intangible assets	17	**122,854**	219,944	248,581
Investments in associates	19	**1,135,442**	758,241	240,136
Investments in joint ventures	20	**15,687**	31,681	14,359
Deferred tax assets	10	**45,426**	44,875	45,981
Financial assets at fair value through profit or loss	21	**55,472**	—	—
Derivative financial instruments	21	**5,266**	—	32,894
Other financial assets	21	**—**	17,598	—
Restricted cash	22	**—**	13,438	20,080
Other assets	21	**11,176**	42,810	42,870
Total non-current assets		**8,274,729**	7,749,467	6,431,525
Current assets				
Inventories	23	**593,009**	622,679	464,216
Prepayment and prepaid operating expenses		**28,161**	34,371	27,649
Trade and other receivables	24	**837,828**	616,308	645,822
Financial assets at fair value through profit or loss	21	**41,685**	—	—
Financial assets at amortized cost	21	**1,996,808**	—	—
Derivative financial instruments	21	**2,583**	—	—
Other financial assets	21	**—**	683,812	31,543
Restricted cash	22	**592,290**	336,043	337,699
Cash and cash equivalent	39	**1,786,420**	1,838,300	2,126,011
		5,878,784	4,131,513	3,632,940
Assets classified as held-for-sale	25	**270,807**	37,471	50,813
Total current assets		**6,149,591**	4,168,984	3,683,753
Total assets		**14,424,320**	11,918,451	10,115,278

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2018, 2017 and 2016

(In USD'000)

	Notes	12/31/18	12/31/17	12/31/16
Equity and liabilities				
Capital and reserves				
Ordinary shares, $0.004 par value, 10,000,000,000 shares authorized, 5,039,819,199, 4,916,106,889 and 4,252,922,259 shares issued and outstanding at December 31, 2018, 2017 and 2016, respectively	26	20,159	19,664	17,012
Share premium	26	4,993,163	4,827,619	4,950,948
Reserves	27	109,346	134,669	93,563
Retained earnings (accumulated deficit)	28	331,298	187,008	(910,849)
Equity attributable to owners of the Company		5,453,966	5,168,960	4,150,674
Perpetual subordinated convertible Securities	29	563,848	64,073	—
Non-controlling interests		2,905,766	1,488,302	1,252,553
Total equity		8,923,580	6,721,335	5,403,227
Non-current liabilities				
Borrowings	30	1,760,763	1,743,939	1,233,594
Convertible bonds	31	418,592	403,329	395,210
Bonds payable	32	—	496,689	494,909
Medium-term notes	33	—	228,483	214,502
Deferred tax liabilities	10	1,639	16,412	15,382
Deferred government funding	34	393,902	299,749	265,887
Derivative financial instruments	21	15,540	—	—
Other financial liabilities	21	11,948	1,919	74,170
Other liabilities	21	39,128	99,817	37,497
Total non-current liabilities		2,641,512	3,290,337	2,731,151
Current liabilities				
Trade and other payables	35	964,860	1,007,424	897,606
Contract liabilities	5	44,130	43,036	42,947
Borrowings	30	530,005	440,608	209,174
Convertible bonds	31	—	—	391,401
Bonds payable	32	498,551	—	—
Short-term notes		—	—	86,493
Medium-term notes	33	218,247	—	—
Deferred government funding	34	244,708	193,158	116,021
Accrued liabilities	36	164,604	180,912	230,450
Derivative financial instruments	21	15,806	—	—
Other financial liabilities	21	—	744	6,348
Current tax liabilities	10	2,607	270	460
Other liabilities	21	32,263	40,627	—
		2,715,781	1,906,779	1,980,900
Liabilities directly associated with assets classified as held-for-sale	25	143,447	—	—
Total current liabilities		2,859,228	1,906,779	1,980,900
Total liabilities		5,500,740	5,197,116	4,712,051
Total equity and liabilities		14,424,320	11,918,451	10,115,278

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2018, 2017 and 2016

(In USD'000)

	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available-for-sale financial assets	Convertible bonds equity reserve
	(Note 26)	(Note 26)	(Note 27)	(Note 27)	(Note 27)	(Note 27)
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956)	447	29,564
Profit for the year	—	—	—	—	—	—
Other comprehensive income (losses) for the year	—	—	—	(18,131)	798	—
Total comprehensive income (losses) for the year	—	—	—	(18,131)	798	—
Exercise of stock options	140	36,064	(18,594)	—	—	—
Share-based compensation	—	—	13,838	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—
Conversion options of convertible bonds exercised during the year	42	11,023	—	—	—	(821)
Recognition of equity component of convertible bonds	—	—	—	—	—	52,935
Business combination	—	—	—	—	—	—
Subtotal	182	47,087	(4,756)	—	—	52,114
Balance at December 31, 2016	17,012	4,950,948	65,703	(22,087)	1,245	81,678
Profit for the year	—	—	—	—	—	—
Other comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—
Total comprehensive income (losses) for the year	—	—	—	21,590	(2,356)	—
Issuance of ordinary shares	966	325,174	—	—	—	—
Exercise of stock options	130	35,178	(18,220)	—	—	—
Share-based compensation	—	—	17,495	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—
Conversion options of convertible bonds exercised during the year	1,556	427,168	—	—	—	(29,625)
Perpetual subordinated convertible securities	—	—	—	—	—	—
Share premium reduction	—	(910,849)	—	—	—	—
Non-controlling interest on transfer of business operation	—	—	—	—	—	—
Subtotal	2,652	(123,329)	(725)	—	—	(29,625)
Balance at December 31, 2017	19,664	4,827,619	64,978	(497)	(1,111)	52,053
Adoption of IFRS 9	—	—	—	—	1,111	—
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497)	—	52,053
Profit for the year	—	—	—	—	—	—
Other comprehensive income (losses) for the year	—	—	—	(36,138)	—	—
Total comprehensive income (losses) for the year	—	—	—	(36,138)	—	—
Issuance of ordinary shares	474	160,404	—	—	—	—
Cancellation of treasury stock	(76)	(19,981)	—	—	—	—
Exercise of stock options	97	25,121	(17,211)	—	—	—
Share-based compensation	—	—	10,912	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—
Perpetual subordinated convertible securities	—	—	—	—	—	—
Distribution to perpetual subordinated convertible securities	—	—	—	—	—	—
Deconsolidation of subsidiaries due to loss of control	—	—	—	(1,774)	—	—
Share of other capital reserve of associates accounted for using equity method	—	—	—	—	—	—
Subtotal	495	165,544	(6,299)	(1,774)	—	—
Balance at December 31, 2018	20,159	4,993,163	58,679	(38,409)	—	52,053

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2018, 2017 and 2016

(In USD'000)

Defined benefit pension reserve	Cash flow hedges	Share of other comprehensive income of joint ventures accounted for using equity method	Others	Retained earnings (accumulated deficit)	Attributable to owner of the Company	Perpetual subordinated convertible securities	Non-controlling interest	Total equity
(Note 27)	(Note 27)	(Note 27)		(Note 28)		(Note 29)		
—	—	—	130	(1,287,479)	3,729,856	—	460,399	4,190,255
—	—	—	—	376,630	376,630	—	(60,196)	316,434
1,520	(34,627)	—	1	—	(50,439)	—	(891)	(51,330)
1,520	(34,627)	—	1	376,630	326,191	—	(61,087)	265,104
—	—	—	—	—	17,610	—	—	17,610
—	—	—	—	—	13,838	—	372	14,210
—	—	—	—	—	—	—	831,254	831,254
—	—	—	—	—	10,244	—	—	10,244
—	—	—	—	—	52,935	—	—	52,935
—	—	—	—	—	—	—	21,615	21,615
—	—	—	—	—	94,627	—	853,241	947,868
1,520	(34,627)	—	131	(910,849)	4,150,674	—	1,252,553	5,403,227
—	—	—	—	179,679	179,679	—	(53,256)	126,423
(436)	35,143	17,646	(131)	—	71,456	—	1,598	73,054
(436)	35,143	17,646	(131)	179,679	251,135	—	(51,658)	199,477
—	—	—	—	—	326,140	—	—	326,140
—	—	—	—	—	17,088	—	17	17,105
—	—	—	—	—	17,495	—	719	18,214
—	—	—	—	—	—	—	294,000	294,000
—	—	—	—	—	399,099	—	—	399,099
—	—	—	—	—	—	64,073	—	64,073
—	—	—	—	910,849	—	—	—	—
—	—	—	—	7,329	7,329	—	(7,329)	—
—	—	—	—	918,178	767,151	64,073	287,407	1,118,631
1,084	516	17,646	—	187,008	5,168,960	64,073	1,488,302	6,721,335
—	—	(17,646)	—	16,535	—	—	—	—
1,084	516	—	—	203,543	5,168,960	64,073	1,488,302	6,721,335
—	—	—	—	134,055	134,055	—	(56,844)	77,211
129	35,931	—	—	—	(78)	—	219	141
129	35,931	—	—	134,055	133,977	—	(56,625)	77,352
—	—	—	—	—	160,878	—	—	160,878
—	—	—	—	—	(20,057)	—	—	(20,057)
—	—	—	—	—	8,007	—	69	8,076
—	—	—	—	—	10,912	—	749	11,661
—	—	—	—	—	—	—	1,488,900	1,488,900
—	—	—	—	—	—	499,775	—	499,775
—	—	—	—	(6,300)	(6,300)	—	—	(6,300)
—	—	—	—	—	(1,774)	—	(15,629)	(17,403)
—	—	—	(637)	—	(637)	—	—	(637)
—	—	—	(637)	(6,300)	151,029	499,775	1,474,089	2,124,893
1,213	36,447	—	(637)	331,298	5,453,966	563,848	2,905,766	8,923,580

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018, 2017 and 2016

(In USD'000)

	Notes	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Operating activities				
Profit for the year		**77,211**	126,423	316,434
Adjustments for:				
Income tax expense (benefit)	10	**14,476**	1,846	(6,552)
Depreciation and amortization expense	11	**1,048,410**	971,382	729,866
Expense recognized in respect of equity-settled share-based payments	11	**11,661**	18,214	14,210
Interest income		**(64,339)**	(27,090)	(11,243)
Finance costs	8	**24,278**	18,021	23,037
(Gain) loss on disposal of property, plant and equipment and assets classified as held-for-sale	7	**(30,838)**	(17,513)	1,846
Gain on deconsolidation of subsidiaries		**(3,466)**	—	—
Gain on disposal of associates		**—**	(18,884)	—
Impairment losses on assets	11	**16,567**	46,720	1,024
Net (gain) loss arising on financial instruments at fair value through profit or loss	9	**(9,773)**	(6,890)	7,617
Net loss (gain) on foreign exchange		**8,632**	26,101	(26,236)
Share of (gain) loss of investment accounted for using equity method		**(21,203)**	9,500	13,777
Other non-cash loss		**—**	—	175
		1,071,616	1,147,830	1,063,955
Operating cash flows before movements in working capital:				
(Increase) decrease in trade and other receivables		**(106,404)**	59,084	(100,980)
Increase in inventories		**(31,063)**	(205,320)	(51,344)
Increase in restricted cash relating to operating activities		**(325,512)**	(81,795)	(147,834)
Decrease (increase) in prepayment and prepaid operating expense		**2,000**	(6,722)	17,615
Decrease in other operating assets		**6,660**	2,938	1,576
Increase in trade and other payables		**56,598**	109,285	72,836
Increase (decrease) in contract liabilities		**1,094**	89	(13,790)
Increase in deferred government funding		**143,485**	110,999	126,845
Increase (decrease) in other operating liabilities		**17,866**	(40,604)	25,031
Cash generated from operations		**836,340**	1,095,784	993,910
Interest paid		**(47,850)**	(34,086)	(27,497)
Interest received		**34,840**	19,425	12,464
Income taxes paid		**(23,904)**	(437)	(1,675)
Net cash generated from operating activities		**799,426**	1,080,686	977,202

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018, 2017 and 2016

(In USD'000)

	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16
Investing activities			
Payments to acquire financial assets at fair value through profit or loss	(447,717)	—	—
Proceeds from sale of financial assets at fair value through profit or loss	540,166	—	—
Payments to acquire financial assets at amortized cost	(4,407,790)	—	—
Proceeds from maturity of financial assets at amortized cost	2,954,346	—	—
Payments to acquire financial assets	—	(829,371)	(917,272)
Proceeds on sale of financial assets	—	186,509	1,175,768
Payments for property, plant and equipment	(1,808,253)	(2,287,205)	(2,757,202)
Proceeds from disposal of property, plant and equipment and assets classified as held-for-sale	398,162	688,192	259,799
Payments for joint ventures, associates and other financial assets	(427,197)	(467,885)	(87,645)
Proceeds from disposal of joint ventures and other financial assets	9,251	1,028	5,523
Distributions received from joint ventures and associates	12,322	255	2,027
Payments for intangible assets	(9,817)	(43,755)	(85,729)
Payments for land use right	(14,425)	—	—
Payments for deposit of investing activities	(45,503)	—	—
Proceeds from release of restricted cash relating to investing activities	54,743	90,093	34,614
Net cash outflow from deconsolidation of subsidiaries[1]	(5,549)	—	—
Payment for business combination	—	—	(73,216)
Net cash used in investing activities	(3,197,261)	(2,662,139)	(2,443,333)
Financing activities			
Proceeds from borrowings	782,402	1,194,659	1,239,265
Repayment of borrowings	(536,752)	(537,016)	(228,928)
Proceeds from issuance of new shares	160,878	326,351	—
Proceeds from issuance of convertible bonds	—	—	441,155
Proceeds from issuance of short-term and medium-term notes	—	—	314,422
Repayment of short-term notes	—	(87,858)	—
Proceeds from issuance of perpetual subordinated convertible securities	499,775	64,350	—
Distribution paid to perpetual subordinated convertible securities holders	(6,300)	—	—
Proceeds from exercise of employee stock options	8,076	17,105	17,610
Payments to acquire treasury shares	(20,057)	—	—
Proceeds from non-controlling interests — capital contribution	1,488,900	294,000	831,254
Net cash from financing activities	2,376,922	1,271,591	2,614,778
Net (decrease) increase in cash and cash equivalent	(20,913)	(309,862)	1,148,647
Cash and cash equivalent at the beginning of the year	1,838,300	2,126,011	1,005,201
Effects of exchange rate changes on the balance of cash held in foreign currencies	(16,413)	22,151	(27,837)
	1,800,974	1,838,300	2,126,011
Cash and cash equivalent of disposal group as held-for-sale	(14,554)	—	—
Cash and cash equivalent at the end of the year	1,786,420	1,838,300	2,126,011

(1) The net cash outflow was from deconsolidation of subsidiaries due to the Company lost control of Ningbo Semiconductor International Corporation on April 13, 2018. Please refer to Note 19 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

1. GENERAL INFORMATION

Semiconductor Manufacturing International Corporation (the "Company" or "SMIC") was established as an exempt company incorporated under the laws of the Cayman Islands on April 3, 2000. The 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. Semiconductor Manufacturing International Corporation is an investment holding company.

Semiconductor Manufacturing International Corporation and its subsidiaries (hereinafter collectively referred to as the "Group") are mainly engaged in the computer-aided design, manufacturing, testing, packaging, and trading of integrated circuits and other semiconductor services, as well as designing and manufacturing semiconductor masks. The principal subsidiaries and their activities are set out in Note 18.

These financial statements are presented in US dollars, unless otherwise stated.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

NEW AND REVISED IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

(i) Classification and measurement

(1) Reclassification from available-for-sale to fair value through profit or loss ("FVPL")

The group elected to present in profit or loss changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of US$24.8 million were reclassified from available-for-sale financial assets to financial assets at FVPL on January 1, 2018.

Related gains of US$16.5 million were transferred from reserves to retained earnings on January 1, 2018. For the year ended December 31, 2018, net fair value gains of US$2.0 million relating to these investments were recognized in profit or loss.

(2) Reclassification from other financial assets to FVPL

Certain investments in financial products sold by banks were reclassified from other financial assets to financial assets at FVPL (US$117.9 million as at January 1, 2018). They do not meet the IFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest.

(3) Reclassification from other financial assets to amortized cost

Certain investments in over 3 months bank deposits were reclassified from other financial assets to amortized cost (US$559.0 million as at January 1, 2018). At the date of initial application the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount. There was no impact on retained earnings at January 1, 2018.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

NEW AND REVISED IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 *(continued)*

***IFRS 9 Financial Instruments** (continued)*

(ii) Impairment of financial assets

The Group has the following types of financial assets subject to IFRS 9 new expected credit loss model:

- Trade receivables; and
- Other financial assets at amortized cost.

For trade receivable, the Group applies the simplified approach for expected credit losses prescribed by IFRS 9. Based on the assessments performed by management, the changes in the loss allowance for trade receivables are insignificant.

Impairment on other financial assets at amortized cost is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the changes in the loss allowance for other financial assets at amortized cost are insignificant.

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognize revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The standard permits either a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Group has performed a detailed assessment on the impact of the adoption of IFRS 15 and decided to adopt a full retrospective approach. The adoption of IFRS 15 did not have any significant impact on the Group's financial statements.

The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. Contract liabilities has been presented in the balance sheet to reflect the terminology of IFRS 15, in relation to advance payment received from customers were previously included in trade and other payables (US$43.0 million as at January 1, 2018). Based on the assessment, the timing of revenue recognition on sale of goods is nearly unchanged.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

NEW AND REVISED IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2018 *(continued)*

Impact on the financial statements

The following tables show the adjustments as the impact of the adoption of IFRS 15 and IFRS 9 on the Group's financial statements and also disclose the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

The Group has adopted IFRS 15 retrospectively with restating comparatives for the 2016 and 2017 financial years.

(In USD'000)

	12/31/16	Impact on IFRS 15	12/31/16	12/31/17	Impact on IFRS 15	12/31/17
Consolidated statement of financial position (extract)	**As originally presented**	**Contract liabilities**	**Restated**	**As originally presented**	**Contract liabilities**	**Restated**
Trade and other payables	940,553	(42,947)	897,606	1,050,460	(43,036)	1,007,424
Contract liabilities	—	42,947	42,947	—	43,036	43,036
	940,553	—	940,553	1,050,460	—	1,050,460

The Group has adopted IFRS 9 without restating comparative information as at December 31, 2017.

(In USD'000)

	12/31/17	Impact on IFRS 9						01/01/18
Consolidated statement of financial position (extract)	**As originally presented**	**Cross currency swap contracts**	**Foreign currency forward contracts**	**Financial products sold by banks**	**Over 3 months bank deposits**	**Equity securities**	**Contingent consideration**	**Restated**
Non-current assets								
Other assets	42,810	—	—	—	—	(24,844)	—	17,966
Financial assets at fair value through profit or loss	—	—	—	—	—	24,844	—	24,844
Derivative financial instruments	—	17,598	—	—	—	—	—	17,598
Other financial assets	17,598	(17,598)	—	—	—	—	—	—
Current assets								
Financial assets at fair value through profit or loss	—	—	—	117,928	—	—	—	117,928
Financial assets at amortized cost	—	—	—	—	559,034	—	—	559,034
Derivative financial instruments	—	4,739	2,111	—	—	—	—	6,850
Other financial assets	683,812	(4,739)	(2,111)	(117,928)	(559,034)	—	—	—
	744,220	—	—	—	—	—	—	744,220
Non-current liabilities								
Derivative financial instruments	—	1,919	—	—	—	—	—	1,919
Other financial liabilities	1,919	(1,919)	—	—	—	—	12,549	12,549
Other Liabilities	99,817	—	—	—	—	—	(12,549)	87,268
Current liabilities								
Derivative financial instruments	—	742	2	—	—	—	—	744
Other financial liabilities	744	(742)	(2)	—	—	—	—	—
	102,480	—	—	—	—	—	—	102,480
Equity								
Reserves	134,669	—	—	—	—	(16,535)	—	118,134
Retained earnings	187,008	—	—	—	—	16,535	—	203,543
	321,677	—	—	—	—	—	—	321,677

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

NEW OR REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or revised IFRS	Effective date
IFRS 16 — Lease	On or after January 1, 2019
IFRS 17 — Insurance Contracts	On or after January 1, 2022
IFRIC 23 — Uncertainty over Income Tax Treatments	On or after January 1, 2019
Amendments to IFRS 9 — Prepayment Features with Negative Compensation	On or after January 1, 2019
Amendments to IAS 28 — Long-term Interests in Associates and Joint Ventures	On or after January 1, 2019
Amendments to IFRS 3 — Definition of Business	On or after January 1, 2020
Amendments to IAS 1 and IAS 8 — Definition of material	On or after January 1, 2020
Annual Improvements to IFRS Standards 2015–2017 Cycle	On or after January 1, 2019
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its association or joint venture	Not yet determined

The new IFRS 16 standard will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases and sales and leaseback transaction.

As at the reporting date, the Group has lease expense of US$303.5 million on non-cancellable operating lease commitments (see note 41).

The Group expects to recognize right-of-use assets and lease liabilities of approximately US$279.7 million on January 1, 2019.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with all applicable IFRS issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as explained in the accounting policies set out below. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 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 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group. Control is achieved when the Group:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BASIS OF CONSOLIDATION *(continued)*

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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SEPARATE PRINCIPAL STATEMENT

Investments in subsidiaries are accounted for at the equity method in accordance with IAS 27 and IAS 28. Under the equity method, the investments are initially recognized at cost and adjusted thereafter to recognize 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

INVESTMENTS IN ASSOCIATES

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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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 recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 28 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. The difference between the recoverable amount and the carrying amount is recognized as impairment loss in the profit or loss. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held-for-sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS IN ASSOCIATES *(continued)*

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In accordance with IAS 28, when the financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the Group, adjustments are made by the Group for the effects of significant transactions or events. In no circumstances can the difference between the reporting date of the associate and that of the Group be more than three months and the length of the reporting periods and any difference in the reporting dates are the same from period to period.

INVESTMENTS IN JOINT VENTURES

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

The Group manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Group also sells certain semiconductor standard products to customers.

Revenues are recognized 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 recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized 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 standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgements on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods and services that the Group has transferred to a customer.

Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as contract assets and subsequently amortized when the related revenue is recognized.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION *(continued)*

Transfer of intellectual property

The group transferred certain pieces of intellectual property to customers. If the license to a customer is to provide the customer a right to access the Group's intellectual property as it exists throughout the license period, revenues from licensing are recognized over time when the control of the license is transferred to the customer. If the license to a customer is to provide the customer a right to use the Group's intellectual property as it exists at the point in time at which the license is granted, revenues from licensing are recognized at a point in time as the control of the technology license is transferred to the customer.

GAIN ON SALE OF REAL ESTATE PROPERTY

Gain from sales of real estate property is recognized when all the following conditions are satisfied: 1) sales contract executed, 2) full payment collected, or down payment collected and non-cancellable mortgage contract is executed with borrowing institution, 3) the legal title has passed to the buyers, 4) and the control over the property has been transferred to the buyers.

INTEREST INCOME

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Untied States dollar ("US dollar"), which is the Company's functional and the Group's presentation currency.

In preparing the financial statements of each individual group entity transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into United States dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BORROWING COSTS

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

GOVERNMENT FUNDING

Government funding relating to property, plant and equipment, whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government funding that is receivable as compensation for expenses or losses already incurred is recorded as a liability upon receipt and recognized as reduction of expenses or losses until the requirements (if any) specified in the terms of the funding have been reached.

RETIREMENT BENEFITS

The Group's local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a rate equal to 19.0% to 20.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid. The costs are recognized in profit or loss when incurred.

Besides, LFoundry S.r.l.'s ("LFoundry", the Company's majority-owned subsidiary in Avezzano, Italy) employees are entitled to a retirement plan and a defined benefit plan. The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated quarterly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related defined benefit obligation.

SHARE-BASED PAYMENT ARRANGEMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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 recognized 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 recognized in the reserve will be transferred to share premium.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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 any subsequent accumulated depreciation and subsequent accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

The Group constructs certain of its plant and equipment. In addition to costs under the construction contracts, external costs that are directly related to the construction and acquisition of such plant and equipment are capitalized. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROPERTY, PLANT AND EQUIPMENT *(continued)*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An item at property, plant and equipment is derecognized 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 recognized in profit or loss.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation.

Buildings	25 years
Plant and equipment	5–10 years
Office equipment	3–5 years
Leasehold equipment under finance leases	Over the lease terms

LAND USE RIGHT

Land use rights, which are all located in the PRC, are recorded at cost and are charged to profit or loss ratably over the term of the land use agreements which range from 50 to 70 years.

INTANGIBLE ASSETS

Acquired intangible assets which consists primarily of technology, licenses and patents, are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization is computed using the straight-line method over the expected useful lives of the assets of three to ten years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

GOODWILL

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit ("CGU") to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the CGU retained.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized as income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASES

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subjected to an insignificant risk of changes in value, with original maturities of three months or less.

RESTRICTED CASH

Restricted cash consists of bank deposits pledged against letters of credit, short-term and long-term credit facilities, and unused government funding for certain research and development projects. Changes of restricted cash pledged against letter of credit, short-term and long-term credit facilities and changes of restricted cash paid for property, plant and equipment are presented as investing activity in consolidated statement of cash flows. Changes of restricted cash of unused government funding for expensed research and development activities are presented as operating activity in consolidated statement of cash flows.

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

PROVISIONS

Provisions are recognized 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 recognized 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).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

From January 1, 2018 the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded in profit or loss.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three below measurement categories and the Group recognizes its debt instruments as amortized cost and FVPL only:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains or losses, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income ("FVOCI") are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. The Group subsequently measures all equity investments at fair value through profit or loss. Changes in the fair value of financial assets at FVPL are recognized in other gains or losses in the statement of profit or loss as applicable.

Impairment

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Derivatives and hedging

The Group has made the accounting policy choice to continue applying hedge accounting under IAS 39.

Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Classification

Until December 31, 2017 the group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9.

Subsequent to the initial, recognition loans and receivables were subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for 'financial assets at FVPL' — in profit or loss within other gains/(loss)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortized cost of the security were recognized in profit or loss and other changes in the carrying amount were recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognized in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a Group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Accounting policies applied until December 31, 2017 *(continued)*

Assets carried at amortized cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognized in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss was recognized in profit or loss.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — was removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss was reversed through profit or loss.

CONVERTIBLE BONDS

The component parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

The Group assesses if the embedded derivatives in respect of the early redemption features are deemed to be clearly and closely related to the host debt contract. Embedded derivatives need not be separated if they are regarded as closely related to its host contract. If they are not, they would be separately accounted for.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities 'at FVPL' or 'other financial liabilities'.

Financial liabilities at FVPL

Financial liabilities are classified as at FVPL (including foreign currency forward contracts, cross currency swap contracts and contingent consideration) when the financial liability is held for trading.

Financial liabilities at FVPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables, long-term payables, long-term financial liabilities, short-term and medium-term notes and bonds payable) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or (where appropriate) shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACCOUNTING

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including a put option, foreign exchange forward contracts and cross currency swap contracts. Further details of derivative financial instruments are disclosed in Note 21 and Note 38.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized 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.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of gain or loss on cash flow hedges.

The effective portion of the gain or loss on cash flow hedges is recognized directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognized immediately in the statement of profit or loss.

Amounts recognized in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CRITICAL ACCOUNTING JUDGMENTS

In the application of the Group's accounting policies, which are described in Note 3, the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF 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.

Inventories

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

Long-lived assets

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

An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or CGU. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

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

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

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4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Share-based compensation expense

The fair value of options and shares issued pursuant to the Group's option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The Group estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. The Group uses projected volatility rates based upon the Group's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect the Group's calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly. Further details on share-based compensation are disclosed in Note 37.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

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

The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

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 engages third party qualified valuers to perform the valuation.

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. Notes 38 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Acting as limited partner, the Group has invested in a number of investment funds. Based on the assessments performed by management, the Group accounted for such investment funds as investments in joint ventures or associate by using equity method. The investment funds measured their investments in portfolio investments at fair value. These investment funds held a number of portfolio investments. 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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Impairment of financial instruments

The Group recognizes lifetime expected credit losses ("ECL") for trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instruments has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instruments at an amount equal to 12-month ECL.

Sales and lease back

The Group entered into arrangements to sell and leaseback a batch of production equipment with a repurchase option at a pre-determined price. The Group made judgements on whether the arrangements are lease arrangements and whether they are operating lease. The Group estimates the fair value of production equipment based on the price of similar production equipment to judge whether the repurchase option was set at a significant discount to the estimated fair value when it becomes exercisable and whether the repurchase option will be almost certain to be exercised under the scope of IAS 17 Leases and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

5. SEGMENT INFORMATION

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group is engaged principally in the computer-aided design, manufacturing and trading of integrated circuits. The Group's chief operating decision makers have been identified as the Co-Chief Executive Officers, who review consolidated results when making decisions about resources allocation and assessing performance of the Group. The Group operates in one segment. The measurement of segment profits is based on profit from operation as presented in the statements of profit or loss and other comprehensive income.

The Group deriving revenue from the transfer of goods and services only at a point in time in the three geographical areas — United States, Europe, and Asia Pacific. The Group's operating revenue from customers, based on the location of their headquarters, is detailed below.

	Revenue from external customers		
At a point in time	**Year ended 12/31/18 USD'000**	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
United States[1]	**1,062,134**	1,240,906	858,858
Mainland China and Hong Kong	**1,985,292**	1,465,553	1,447,427
Eurasia[2]	**312,558**	394,716	607,895
	3,359,984	3,101,175	2,914,180

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

(2) Not including Mainland China and Hong Kong.

5. SEGMENT INFORMATION *(continued)*

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS *(continued)*

The Group's operating revenue transferred by product and service type only at a point in time is detailed below:

	Revenue from external customers		
At a point in time	**Year ended 12/31/18 USD'000**	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Sales of wafers	**3,031,770**	3,038,947	2,803,819
Mask making, testing and others[1]	**328,214**	62,228	110,361
	3,359,984	3,101,175	2,914,180

(1) Including the recognized technology licensing revenue of US$163.8 million for the year ended December 31, 2018. The technology licensing internally developed and not capitalized was authorized to Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC", an associate of the Group) with no related cost of sales recognized by the Group.

LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

The Group has recognized the liabilities related to contracts with customers as contract liabilities of US$44.1 million as of December 31, 2018 (December 31, 2017: US$43.0 million and December 31, 2016: US$42.9 million). The contract liabilities comprises of the prepayments received from customers, to which wafers have not been transferred. Revenue recognized that was included in the contract liabilities balance at the beginning of the year was US$43.0 million (2017: US$42.9 million and 2016: US$56.7 million).

UNSATISFIED PERFORMANCE OBLIGATIONS

The Group selected to choose a practical expedient and omitted disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

SEGMENT ASSETS

The Group's business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. 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 following table summarizes property, plant and equipment of the Group by geographical location. As of December 31, 2018, 2017 and 2016, substantially all of the non-current assets other than financial instruments, deferred tax assets and property, plant and equipment listed below of the Group were located in Mainland China.

	Property, plant and equipment		
	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
United States	**15**	45	69
Europe	**1,603**	137,778	125,339
Asia[1]	**66**	117	97
Hong Kong	**2,415**	2,618	2,839
Mainland China	**6,773,871**	6,382,845	5,559,013
	6,777,970	6,523,403	5,687,357

(1) Not including Mainland China and Hong Kong.

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6. SIGNIFICANT CUSTOMERS

The following table summarizes net revenue or gross accounts receivable for customers, which accounted for 10% or more of net revenue and gross accounts receivable:

	Net revenue Year ended December 31,			Gross accounts receivable December 31,		
	2018	2017	2016	2018	2017	2016
Customer A	582,349	538,102	609,802	75,510	95,575	129,619
Customer B	527,633	636,662	382,853	67,734	133,281	78,639
Customer A	17%	17%	21%	18%	23%	26%
Customer B	16%	21%	13%	16%	33%	16%

7. OTHER OPERATING INCOME, NET

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Gain (loss) on disposal of property, plant and equipment and assets classified as held-for-sale[1]	30,838	17,513	(1,846)
Impairment loss recognized on tangible and intangible assets (Note 11)	(9,218)	—	(7,529)
Government funding (Note 34)	32,198	27,444	9,542
Others	3,465	—	10
	57,283	44,957	177

(1) The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2018 was primarily from the gain arising from the disposal of equipment.

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2017 was primarily due to the gain arising from the disposal of equipment of which US$6.9 million was related to sale and leaseback transactions as disclosed in Note 40.

The loss on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2016 was primarily due to the loss of the disposal of equipment and the gain arising from the sales of the staff living quarters in Beijing to employees.

8. FINANCE COSTS

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Interest on:			
Bank and other borrowings	**44,668**	25,543	17,793
Finance leases	**190**	232	62
Convertible bonds	**15,263**	15,818	16,352
Corporate bonds	**22,487**	22,405	22,327
Medium-term notes	**8,335**	8,185	4,625
Short-term notes	**—**	1,164	1,509
Less: government funding (Note 34)	**(19,496)**	(24,182)	(11,639)
	71,447	49,165	51,029
Less: amounts capitalized	**(47,169)**	(31,144)	(27,992)
	24,278	18,021	23,037

The weighted average effective interest rate on the above borrowed funds covered by government funding generally is 2.10% per annum (2017: 1.65% per annum and 2016: 2.12% per annum).

9. OTHER GAINS (LOSSES), NET

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Net gain (loss) arising on financial instruments at FVPL			
Cross currency swap contracts — cash flow hedges	**2,265**	2,150	(14,989)
Cross currency swap contracts	**1,158**	—	—
Foreign currency forward contracts	**(2,108)**	2,109	—
Financial products sold by banks	**6,443**	1,087	4,651
Equity securities	**2,015**	—	—
Other derivative financial instrument[(1)]	**—**	1,544	2,721
	9,773	6,890	(7,617)
Others[(2)]	**14,509**	9,609	5,504
	24,282	16,499	(2,113)

(1) Other derivative financial instrument was a put option with the right of Siltech Semiconductor (Shanghai) Corporation Limited ("SilTech Shanghai", an indirectly wholly-owned subsidiary of the Company) to sell Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke") to Jiangsu Changjiang Electronics Technology Co., Ltd. ("JCET"), pursuant to an investment exit agreement entered in December 2014 and exercised in June 2017.

(2) In 2017, others included a gain of US$18.5 million arising from the disposal agreement and the subscription agreement entered by SilTech Shanghai and JCET on April 27, 2016, and a loss of potential cash compensation accrued at US$12.5 million that may be incurred depending on the profit of Changjiang Xinke during the three years of 2017, 2018 and 2019. The potential cash compensation was deemed as the terms of the supplemental agreement entered by SilTech Shanghai and JCET on December 9, 2016.

10. INCOME TAXES

INCOME TAX EXPENSE (BENEFIT)

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Current tax — Land Appreciation Tax	**(172)**	179	731
Current tax — Enterprise Income Tax	**15,598**	(469)	1,306
Deferred tax	**(950)**	2,136	(8,589)
	14,476	1,846	(6,552)

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

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Profit before tax	**91,687**	128,269	309,882
Income tax expense calculated at 15% (2017: 15% and 2016: 15%)	**13,753**	19,240	46,482
Effect of tax holiday	**(69,581)**	(50,258)	(41,484)
Additional deduction for research and development expenditures	**(47,541)**	(25,260)	(13,107)
Tax losses for which no deferred tax assets were recognized[1]	**127,686**	70,341	39,777
Reversal (utilization) of previously unrecognized tax losses and temporary differences	**—**	5,687	(43,440)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(9,669)**	(18,082)	4,517
Others	**(172)**	178	703
	14,476	1,846	(6,552)

(1) The tax losses were calculated from the profit or loss of some subsidiaries after adjusting the additional deduction for research and development expenditures and the effect of different tax rates and cannot be carried forward from prior years to offset future profits in five years.

The tax rate used for the 2018, 2017 and 2016 reconciliation above is the corporate tax rate of 15% payable by most of the Group's entities in Mainland China under tax law in that jurisdiction.

CURRENT TAX LIABILITIES

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Income tax payable	**2,607**	270	460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

10. INCOME TAXES *(continued)*

DEFERRED TAX BALANCES

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statement of financial position:

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Deferred tax assets			
Property, plant and equipment	42,613	41,271	45,981
Intangible assets	1,688	1,844	—
Others	1,125	1,760	—
	45,426	44,875	45,981
Deferred tax liabilities			
Property, plant and equipment	(1,588)	(16,412)	(15,382)
Others	(51)	—	—
	(1,639)	(16,412)	(15,382)
	43,787	28,463	30,599

December 31, 2018	Opening balance USD'000	Deconsolidation of subsidiary USD'000	Reclassified as held-for-sale USD'000	Recognize in profit or loss USD'000	Closing balance USD'000
Net deferred tax assets in relation to					
Property, plant and equipment	24,859	—	14,437	1,729	41,025
Intangible assets	1,844	—	—	(156)	1,688
Others	1,760	(63)	—	(623)	1,074
	28,463	(63)	14,437	950	43,787

December 31, 2017	Opening balance USD'000	Recognize in profit or loss USD'000	Closing balance USD'000
Net deferred tax assets in relation to			
Property, plant and equipment	30,599	(5,740)	24,859
Intangible assets	—	1,844	1,844
Others	—	1,760	1,760
	30,599	(2,136)	28,463

December 31, 2016	Opening balance USD'000	Business Combination USD'000	Recognize in profit or loss USD'000	Closing balance USD'000
Net deferred tax assets in relation to				
Property, plant and equipment	37,233	(15,639)	9,005	30,599
Capitalized interest	(3)	—	3	—
Others	419	—	(419)	—
	37,649	(15,639)	8,589	30,599

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation. According to the law of Italy on enterprise income tax, LFoundry income tax rate is 24%.

10. INCOME TAXES *(continued)*

DEFERRED TAX BALANCES *(continued)*

The detailed tax status of SMIC's principal PRC entities with tax holidays is elaborated as follows:

Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai")

Pursuant to the relevant tax regulations, SMIS is qualified as an integrated circuit enterprise and enjoyed a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2004 after utilizing all prior years' tax losses. The income tax rate for SMIS was 15% in 2018 (2017: 15% and 2016: 15%).

Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin")

In accordance with Caishui Circular [2013] No. 43 ("Circular No. 43") and Caishui Circular [2008] No. 1 ("Circular No. 1"), SMIT is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2013 after utilizing all prior years' tax losses. The income tax rate for SMIT was 0% from 2013 to 2017 and 12.5% from 2018 to 2022.

Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing")

In accordance with Circular No. 43 and Circular No. 1, SMIB is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2015 after utilizing all prior years' tax losses. The income tax rate for SMIB was 0% from 2015 to 2019 and 12.5% from 2020 to 2024.

Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIC Shenzhen"), Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC") and SJ Semiconductor (Jiangyin) Corporation ("SJ Jiangyin")

In accordance with Circular No. 43, Circular No. 1 and Caishui Circular [2012] No. 27 ("Circular No. 27"), SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to its first profit-making year after utilizing all prior tax losses on or before December 31, 2018. SMIC Shenzhen, SMNC and SJ Jiangyin were in accumulative loss positions as of December 31, 2018 and the tax holiday has not begun to take effect.

Other PRC entities

All the other PRC entities of SMIC are subject to income tax rate of 25%.

UNUSED TAX LOSSES

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US$457.3 million (December 31, 2017: US$235.1 million and December 31, 2016: US$444.0 million) due to the unpredictability of future profit streams, of which US$20.5 million, US$33.0 million, US$90.1 million, US$62.0 million and US$251.7 million will expire in 2019, 2020, 2021, 2022 and 2023, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Impairment losses on assets			
Bad debt allowance on trade receivables (Note 38)	964	301	201
Reversal of bad debt allowance on doubtful trade receivables (Note 38)	(27)	(438)	(1,603)
Reversal of bad debt allowance on doubtful other receivables	—	—	(8,809)
Impairment losses on inventory (Note 23)	6,412	46,857	3,706
Impairment losses on tangible assets (Note 16)	990	—	7,529
Impairment losses on intangible assets (Note 17)	8,228	—	—
	16,567	46,720	1,024
Depreciation and amortization expense			
Depreciation of property, plant and equipment (Note 16)	994,642	906,034	673,161
Amortization of intangible assets (Note 17)	51,595	63,098	55,080
Amortization of land use right	2,173	2,250	1,625
	1,048,410	971,382	729,866
Employee benefits expense			
Wages, salaries and social security contributions	550,060	499,238	378,709
Bonus	64,130	57,289	123,313
Non-monetary benefits	48,837	47,204	31,686
Equity-settled share-based payments (Note 37)	11,661	18,214	14,210
	674,688	621,945	547,918
Royalties expense	30,678	37,466	37,023
Government funding			
For specific R&D projects (Note 34)	(105,258)	(82,245)	(52,517)
For specific intended use (Note 34)	(51,695)	(51,626)	(21,181)
	(156,953)	(133,871)	(73,698)
Auditors' remuneration			
Audit services	1,372	1,413	1,529
Non-audit services	1,255	85	587
	2,627	1,498	2,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

12. DIRECTORS' REMUNERATION

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Salaries, bonus and benefits	3,353	4,490	2,367
Equity-settled share-based payments	2,390	8,158	2,214
	5,743	12,648	4,581

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

During the year ended December 31, 2018, 712,500 stock options were granted to the directors (2017: 5,726,477 and 2016: 1,068,955*), 6,050,202 stock options were exercised (2017: 1,949,229 and 2016: 1,800,000*) and 4,758,542 stock options were expired (2017: nil and 2016: 732,820*).

During the year ended December 31, 2018, 712,500 RSUs were granted to the directors (2017: 5,726,477 and 2016: 1,068,955*), 2,367,859 RSUs automatically vested (2017: 3,774,432 and 2016: 1,411,851*) and 188,125 RSUs were forfeited (2017: nil and 2016: nil).

In 2018, 2017 and 2016 no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the waiver of all salaries and wages since Lu Jun was appointed as non-executive director subject to his request in 2017 and all options previously granted to Ren Kai subject to his request in 2016, no other directors waived any emoluments in 2018, 2017 and 2016.

* The number of share option and RSUs for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares and preferred shares of US$0.0004 each consolidated into one ordinary share and preferred share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid or payable to independent non-executive directors of the Company during the year were as follows:

2018	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
William Tudor Brown	90	188	278
Chiang Shang-Yi	65	100	165
Cong Jingsheng Jason	58	119	177
Lau Lawrence Juen-Yee	32	110	142
Fan Ren Da Anthony	34	110	144
Lip-Bu Tan*	51	269	320
Carmen I-Hua Chang*	39	14	53
	369	910	1,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

12. DIRECTORS' REMUNERATION *(continued)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

2017	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
Lip-Bu Tan*	91	128	219
William Tudor Brown	89	8	97
Carmen I-Hua Chang*	70	40	110
Chiang Shang-Yi	47	250	297
Cong Jingsheng Jason	35	217	252
	332	643	975

2016	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
Lip-Bu Tan*	100	156	256
William Tudor Brown	85	24	109
Sean Maloney	72	23	95
Carmen I-Hua Chang*	68	78	146
Chiang Shang-Yi	—	—	—
	325	281	606

There were no other emoluments payable to the independent non-executive directors during the year (2017: nil and 2016: nil).

EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR

2018	**Salaries, bonus and benefits USD'000**	**Equity-settled share-based payment USD'000**	**Total remuneration USD'000**
Executive directors:			
Zhou Zixue	**695**	**129**	**824**
Zhao Haijun**	**714**	**824**	**1,538**
Liang Mong Song**	**478**	**—**	**478**
Gao Yonggang	**607**	**1**	**608**
	2,494	**954**	**3,448**
Non-executive directors:			
Chen Shanzhi	**70**	**269**	**339**
Zhou Jie	**—**	**—**	**—**
Ren Kai	**65**	**—**	**65**
Lu Jun	**—**	**—**	**—**
Tong Guohua	**63**	**119**	**182**
Tzu-Yin Chiu***	**292**	**138**	**430**
	490	**526**	**1,016**

12. DIRECTORS' REMUNERATION *(continued)*

EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR *(continued)*

2017	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
Executive directors:			
Zhou Zixue	765	311	1,076
Zhao Haijun**	726	1,514	2,240
Liang Mong Song**	65	—	65
Gao Yonggang	634	24	658
	2,190	1,849	4,039
Non-executive directors:			
Tzu-Yin Chiu***	1,783	5,321	7,104
Chen Shanzhi	75	128	203
Zhou Jie	—	—	—
Ren Kai	70	—	70
Lu Jun	—	—	—
Tong Guohua	40	217	257
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
	1,968	5,666	7,634

2016	Salaries, bonus and benefits USD'000	Equity-settled share-based payment USD'000	Total remuneration USD'000
Executive directors:			
Zhou Zixue	527	655	1,182
Tzu-Yin Chiu***	920	1,038	1,958
Gao Yonggang	413	82	495
	1,860	1,775	3,635
Non-executive directors:			
Chen Shanzhi	80	136	216
Zhou Jie	—	—	—
Ren Kai	63	22	85
Lu Jun	39	—	39
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
	182	158	340

* Lip-Bu Tan and Carmen I-Hua Chang did not offer themselves for re-election to independent non-executive directors and their term as independent non-executive directors expired on June 22, 2018.

** Zhao Haijun and Liang Mong Song are also the Co-Chief Executive Officers of the Company.

*** Tzu-Yin Chiu resigned as non-executive director with effect from June 30, 2018.

There was no other arrangement under which a director waived or agreed to waive any remuneration in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included three (2017: three and 2016: two) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining two (2017: two and 2016: three) non-directors, highest paid individuals for the year are as follows:

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Salaries and benefits	954	630	692
Bonus	325	746	611
Equity-settled share-based payment	—	338	412
	1,279	1,714	1,715

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

In 2018, 2017 and 2016, 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.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees		
	2018	2017	2016
HK$4,000,001 (US$510,761) to HK$4,500,000 (US$574,605)	—	—	2
HK$4,500,001 (US$574,606) to HK$5,000,000 (US$630,450)	1	—	—
HK$5,000,001 (US$630,451) to HK$5,500,000 (US$702,295)	1	—	1
HK$6,500,001 (US$829,986) to HK$7,000,000 (US$893,830)	—	2	—
	2	2	3

14. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	(In USD'000, except share and per share data)		
	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16*
Profit for the year attributable to owners of the Company	134,055	179,679	376,630
Distribution to perpetual subordinated convertible securities holders	(6,300)	—	—
Earnings used in the calculation of basic earnings per share	127,755	179,679	376,630
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,976,275,431	4,628,850,686	4,221,765,945
Basic earnings per share	$0.03	$0.04	$0.09

* The basic earnings per share and weighted average number of ordinary shares for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US$0.0004 each consolidated into one ordinary share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

14. EARNINGS PER SHARE *(continued)*

DILUTED EARNINGS PER SHARE

The earnings used in the calculation of diluted earnings per share are as follows:

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

	Year ended 12/31/18	Year ended 12/31/17	Year ended 12/31/16*
Earnings used in the calculation of basic earnings per share	127,755	179,679	376,630
Interest expense from convertible bonds	—	905	16,352
Earnings used in the calculation of diluted earnings per share	127,755	180,584	392,982
Weighted average number of ordinary shares used in the calculation of basic earnings per share	4,976,275,431	4,628,850,686	4,221,765,945
Employee option and restricted share units	36,411,011	44,496,788	36,240,710
Convertible bonds	—	38,241,356	575,099,614
Perpetual subordinated convertible securities	—	1,848,513	—
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	5,012,686,442	4,713,437,343	4,833,106,269
Diluted earnings per share	$0.03	$0.04	$0.08

During the year ended December 31, 2018, the Group had 14,115,014 weighted average outstanding employee stock options (2017: 5,214,138 and 2016: 19,757,421*) excluded from the computation of diluted earnings per share due to the exercise price higher than the average market price of the ordinary shares, 371,589,975 potential shares upon the conversion of convertible bonds (2017: 377,137,509 and 2016: nil) and 163,815,024 potential shares upon the conversion of perpetual subordinated convertible securities (2017: nil and 2016: nil) excluded from the computation of diluted earnings per share due to anti-dilutive effect.

* The diluted earnings per share and weighted average number of ordinary shares and options for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US$0.0004 each consolidated into one ordinary share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

15. DIVIDEND

The Board did not recommend the payment of any dividend for the year ended December 31, 2018 (December 31, 2017: nil and December 31, 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. PROPERTY, PLANT AND EQUIPMENT

	Land USD'000	Buildings USD'000	Plant and equipment USD'000	Office equipment USD'000	Construction in progress (CIP) USD'000	Total USD'000
Cost						
Balance at December 31, 2015	—	588,820	9,404,456	134,858	1,206,831	11,334,965
Business combination	2,485	42,612	63,519	290	4,213	113,119
Transfer from (out) CIP	—	93,535	2,338,662	34,546	(2,466,743)	—
Addition	—	—	—	—	2,597,970	2,597,970
Disposals	—	—	(283,420)	(2,136)	(9,257)	(294,813)
Balance at December 31, 2016	2,485	724,967	11,523,217	167,558	1,333,014	13,751,241
Transfer from (out) CIP	—	174,143	1,696,092	31,355	(1,901,590)	—
Addition	—	—	—	—	2,425,697	2,425,697
Disposals	—	(28,543)	(767,210)	(3,588)	(5,518)	(804,859)
Balance at December 31, 2017	2,485	870,567	12,452,099	195,325	1,851,603	15,372,079
Transfer from (out) CIP	—	44,127	1,142,788	32,997	(1,219,912)	—
Addition	—	—	—	—	1,757,031	1,757,031
Disposals	—	(1,089)	(593,647)	(2,528)	(27,862)	(625,126)
Deconsolidation of subsidiary due to loss of control	—	—	(375)	—	(8,275)	(8,650)
Reclassified as held-for-sale (Note 25)	(2,485)	(43,182)	(98,253)	(8,550)	(13,790)	(166,260)
Exchange differences	—	—	(19,615)	(322)	(2,723)	(22,660)
Balance at December 31, 2018	—	870,423	12,882,997	216,922	2,336,072	16,306,414
Accumulated depreciation and impairment						
Balance at December 31, 2015	—	135,538	7,157,258	111,457	26,894	7,431,147
Disposal	—	(289)	(33,917)	(2,136)	(11,611)	(47,953)
Depreciation expense	—	18,133	639,986	15,042	—	673,161
Impairment loss	—	—	—	—	7,529	7,529
Balance at December 31, 2016	—	153,382	7,763,327	124,363	22,812	8,063,884
Disposal	—	(5,819)	(108,370)	(1,822)	(5,231)	(121,242)
Depreciation expense	—	41,243	839,351	25,440	—	906,034
Balance at December 31, 2017	—	188,806	8,494,308	147,981	17,581	8,848,676
Disposal	—	(924)	(266,143)	(2,459)	(7,011)	(276,537)
Depreciation expense	—	37,031	928,978	28,633	—	994,642
Impairment loss	—	—	990	—	—	990
Deconsolidation of subsidiary due to loss of control	—	—	(78)	—	—	(78)
Reclassified as held-for-sale (Note 25)	—	(4,206)	(28,017)	(4,514)	—	(36,737)
Exchange differences	—	—	(2,431)	(81)	—	(2,512)
Balance at December 31, 2018	—	220,707	9,127,607	169,560	10,570	9,528,444
Net carrying amount						
Balance at December 31, 2016	2,485	571,585	3,759,890	43,195	1,310,202	5,687,357
Balance at December 31, 2017	2,485	681,761	3,957,791	47,344	1,834,022	6,523,403
Balance at December 31, 2018	—	649,716	3,755,390	47,362	2,325,502	6,777,970

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

CONSTRUCTION IN PROGRESS

The construction in progress balance of approximately US$2,325.5 million as of December 31, 2018, primarily consisted of US$543.3 million used for the machinery and equipment of the two 300mm fabs in Beijing; US$434.9 million, US563.2 million and US$480.1 million used for the facilities construction, machinery and equipment of the fabs in Shanghai, the fabs in Shenzhen and the 200mm fab in Tianjin, respectively; US$251.9 million used for purchasing machinery and equipment acquired for more research and development activities; in addition, US$52.1 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the end of 2019.

IMPAIRMENT LOSSES RECOGNIZED IN THE YEAR

In 2018, the Group recorded US$1.0 million (2017: nil and 2016: US$7.5 million) impairment loss of equipment. The whole amount of impairment loss in 2018 and 2016 was recognized as other operating expense in profit or loss.

ASSETS PLEDGED AS SECURITY

Property, plant and equipment with carrying amount of approximately US$207.2 million (2017: approximately US$362.3 million and 2016: approximately US$631.4 million) have been pledged to secure borrowings of the Group under mortgages (Note 30). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

CAPITALIZED INTEREST

Interest, after netting off government funding received, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interest of US$47.2 million in 2018 (2017: US$31.1 million and 2016: US$28.0 million) was added to the cost of the underlying assets and was amortized over the respective useful life of the assets. In 2018, the Group recorded depreciation expenses relating to the capitalized interest of US$27.5 million (2017: US$22.7 million and 2016: US$19.4 million).

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17. INTANGIBLE ASSETS

	Goodwill USD'000	Other intangible assets USD'000	Total USD'000
Cost			
Balance at December 31, 2015	—	391,177	391,177
Business combination	3,933	8,088	12,021
Additions	—	67,936	67,936
Expired and disposal	—	(21,164)	(21,164)
Balance at December 31, 2016	3,933	446,037	449,970
Additions	—	34,461	34,461
Balance at December 31, 2017	3,933	480,498	484,431
Additions	—	8,749	8,749
Deconsolidation of subsidiary due to loss of control	—	(40,509)	(40,509)
Reclassified as held-for-sale	(3,933)	(8,340)	(12,273)
Exchange differences	—	(2,790)	(2,790)
Balance at December 31, 2018	—	437,608	437,608
Accumulated amortization and impairment			
Balance at December 31, 2015	—	166,898	166,898
Amortization expense for the year	—	55,080	55,080
Expired and disposal	—	(20,589)	(20,589)
Balance at December 31, 2016	—	201,389	201,389
Amortization expense for the year	—	63,098	63,098
Balance at December 31, 2017	—	264,487	264,487
Amortization expense for the year[(1)]	—	51,595	51,595
Impairment loss[(2)]	—	8,228	8,228
Deconsolidation of subsidiary due to loss of control	—	(4,748)	(4,748)
Reclassified as held-for-sale	—	(4,061)	(4,061)
Exchange differences	—	(747)	(747)
Balance at December 31, 2018	—	314,754	314,754
Net carrying amount			
Balance at December 31, 2016	3,933	244,648	248,581
Balance at December 31, 2017	3,933	216,011	219,944
Balance at December 31, 2018	—	122,854	122,854

(1) Amortization expenses are mainly included in cost of sales (US$31.0 million, 2017: US$36.8 million and 2016: US$37.8 million) and research and development expenses, net (US$18.8 million, 2017: US$20.5 million and 2016: US$17.2 million).

(2) In 2018, the Group recorded US$8.2 million (2017: nil and 2016: nil) impairment loss of other intangible assets due to the recoverable amount of a batch of intellectual property was estimated to be less than its carrying amount. The whole amount of impairment loss in 2018 was recognized as other operating expense in profit or loss.

18. SUBSIDIARIES

The details of the Company's subsidiaries at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
Better Way Enterprises Limited ("Better Way")#	Samoa	Ordinary	USD1	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai")#	People's Republic of China (the "PRC")	Ordinary	USD1,770,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America	Ordinary	USD500,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing")#	PRC	Ordinary	USD1,000,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Japan Corporation	Japan	Ordinary	JPY10,000,000	Directly	100%	100%	Provision of marketing related activities
SMIC Europe S.R.L	Italy	Ordinary	EUR100,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Cayman Islands	Ordinary	USD11,000	Directly	100%	100%	Investment holding
SMIC Investment (Shanghai) Corporation (formerly "SMIC Commercial (Shanghai) Limited Company")	PRC	Ordinary	USD465,800,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin")#	PRC	Ordinary	USD770,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Development (Chengdu) Corporation ("SMICD")#	PRC	Ordinary	USD5,000,000	Directly	100%	100%	Construction, operation, and management of SMICD's living quarters, schools, and supermarket
Semiconductor Manufacturing International (BVI) Corporation ("SMIC (BVI)")#	British Virgin Islands	Ordinary	USD10	Directly	100%	100%	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands	Ordinary	USD10	Directly	100%	100%	Investment holding
SMIC Shanghai (Cayman) Corporation	Cayman Islands	Ordinary	USD50,000	Directly	100%	100%	Investment holding
SMIC Beijing (Cayman) Corporation	Cayman Islands	Ordinary	USD50,000	Directly	100%	100%	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands	Ordinary	USD50,000	Directly	100%	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	Ordinary	USD10,000	Directly	100%	100%	Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands	Ordinary	USD50,000	Directly	100%	100%	Investment holding
SMIC New Technology Research & Development (Shanghai) Corporation	PRC	Ordinary	USD400,000,000	Indirectly	97.45%	97.45%	Research and development activities
SMIC Holdings Corporation ("SMIC Holdings")#	PRC	Ordinary	USD50,000,000	Directly	100%	100%	investment holding
SJ Semiconductor Corporation	Cayman Islands	Ordinary and preferred	USD5,668	Directly	56.045%	56.045%	Investment holding
Magnificent Tower Limited	British Virgin Islands	Ordinary	USD50,000	Indirectly	100%	100%	investment holding
SMIC Hong Kong (International) Company Limited	Hong Kong	Ordinary	HK$1	Indirectly	100%	100%	investment holding
SMIC Beijing (HK) Company Limited	Hong Kong	Ordinary	HK$1	Indirectly	100%	100%	Investment holding
SMIC Tianjin (HK) Company Limited	Hong Kong	Ordinary	HK$1	Indirectly	100%	100%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong	Ordinary	HK$1	Indirectly	100%	100%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong	Ordinary	HK$1	Indirectly	100%	100%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	Ordinary	HK$1,000	Indirectly	100%	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIZ" or "SMIC Shenzhen")#	PRC	Ordinary	USD700,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited ("SilTech Shanghai")#	PRC	Ordinary	USD12,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation ("SMNC")# (2)	PRC	Ordinary	USD3,900,000,000	Indirectly	51%	51%	Manufacturing and trading of semiconductor products
China IC Capital Co., Ltd	PRC	Ordinary	RMB1,342,500,000	Indirectly	100%	100%	Investment holding
China IC Capital (Ningbo) Co., Ltd	PRC	Ordinary	RMB199,500,000	Indirectly	100%	100%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC	Ordinary	RMB50,000,000	Indirectly	99%	99%	Investment holding
SJ Semiconductor (HK) Limited	Hong Kong	Ordinary	HK$1,000	Indirectly	56.045%	56.045%	Investment holding
SJ Semiconductor (Jiangyin) Corp. ("SJ Jiangyin")#	PRC	Ordinary	USD259,500,000	Indirectly	56.045%	56.045%	Bumping and circuit probe testing activities
LFoundry S.r.l. ("LFoundry")# (3)	Italy	Ordinary	EUR2,000,000	Indirectly	70%	70%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing South China Corporation ("SMSC")# (1)	PRC	Ordinary	USD2,152,475,706	Indirectly	51.320%	51.320%	Manufacturing and trading of semiconductor products
SJ Semiconductor USA Co.	United States of America	Ordinary	USD500,000	Indirectly	56.045%	56.045%	Provision of marketing related activities
SMIC (Sofia) EOOD	Bulgaria	Ordinary	BGN1,800,000	Indirectly	100%	100%	Designing activities
SMIC Innovation Design Center (Ningbo) Co., Ltd.	PRC	Ordinary	—	Indirectly	100%	100%	Designing activities
North China IC Innovation Center (Beijing) Co., Ltd	PRC	Ordinary	RMB1,000,000	Indirectly	51%	51%	Designing activities

Abbreviation for identification purposes.

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For the year ended December 31, 2018

18. SUBSIDIARIES *(continued)*

(1) On January 30, 2018, SMIC Holdings Corporation ("SMIC Holdings"), SMIC Shanghai, China Integrated Circuit Industry Investment Fund Co., Ltd ("China IC Fund") and Shanghai Integrated Circuit Industry Investment Fund Co., Ltd ("Shanghai IC Fund") entered into the joint venture agreement and the capital contribution agreement pursuant to which SMIC Holdings, China IC Fund and Shanghai IC Fund agreed to make cash contribution to the registered capital of SMSC in the amount of US$1.5435 billion, US$946.5 million and US$800.0 million, respectively. As a result of the capital contribution: (i) the registered capital of SMSC will increase from US$210.0 million to US$3.5 billion; (ii) the Company's equity interest in SMSC, through SMIC Holdings and SMIC Shanghai, will decrease from 100% to 50.1%; and (iii) SMSC will be owned as to 27.04% and 22.86% by China IC Fund and Shanghai IC Fund, respectively. The capital contribution is not completed as of the date of this annual report.

(2) On August 10, 2017, the Company, SMIC Beijing, SMIC Holdings, China Integrated Circuit Industry Investment Fund Co., Ltd., Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership), Beijing Industrial Development Investment Management Co., Ltd., Zhongguancun Development Group and Beijing E-Town International Investment & Development Co., Ltd. agreed to amend the previous joint venture agreement through the amended joint venture agreement, pursuant to which: (i) the Company, SMIC Beijing and SMIC Holdings have agreed to make further cash contribution of US$1,224.0 million into the registered capital of SMNC. The Company's aggregate shareholding in SMNC will remain at 51%; (ii) China IC Fund has agreed to make further cash contribution of US$900.0 million into the registered capital of SMNC. Its shareholding in SMNC will increase from 26.5% to 32%; and (iii) E-Town Capital has agreed to make cash contribution of US$276.0 million into the registered capital of SMNC representing 5.75% of the enlarged registered capital of SMNC. The capital contribution is expected to be completed before the end of 2019.

(3) On June 24, 2016, the Company, LFoundry Europe GmbH ("LFoundry Europe") and Marsica Innovation S.p.A ("Marsica") entered into a sale and purchase agreement pursuant to which LFoundry Europe and Marsica agreed to sell and the Company agreed to purchase 70% of the corporate capital of LFoundry for an aggregate cash consideration of EUR49.0 million (approximately US$54.4 million), including a goodwill amounted to US$3.9 million. The goodwill attributable to the workforce and the high profitability of the acquired business will not be deductible for tax purposes. The acquisition was completed on July 29, 2016.

DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS ("NCI")

The table below shows details of the non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of company	Place of establishment and operation	Proportion of ownership interests and voting rights held by non-controlling interests			Profit (loss) allocated to non-controlling interests			Accumulated non-controlling interests		
		12/31/18	12/31/17	12/31/16	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
SMNC and its subsidiaries	Beijing, PRC	49.0%	49.0%	49.0%	(39,213)	(39,113)	(55,868)	1,726,377	1,324,590	1,069,703
SMSC	Shanghai, PRC	48.7%	—	—	(5,349)	—	—	1,042,551	—	—
SJ Semiconductor Corporation and its subsidiaries	Cayman Islands	44.0%	44.0%	44.0%	(2,493)	(4,896)	(3,545)	122,505	124,180	135,669
					(47,055)	(44,009)	(59,413)	2,891,433	1,448,770	1,205,372

According to the joint venture agreements entered into by the Group and the NCI of SMNC, additional capital injection into SMNC was completed in 2018, 2017 and 2016. The additional capital injection from NCI amounted to US$441.0 million in 2018, US$294.0 million in 2017 and US$754.1 million in 2016 respectively.

According to the joint venture agreements entered into by the Company and the NCI of SMSC, additional capital injection into SMSC was completed in 2018. The additional capital injection from NCI amounted to US$1,047.9 million in 2018.

According to the joint venture agreements entered into by the Company and the NCI of SJ Semiconductor Corporation, additional capital injection into SJ Semiconductor Corporation was completed in 2016. The additional capital injection from NCI amounted to US$60.0 million in 2016.

18. SUBSIDIARIES *(continued)*

DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS ("NCI") *(continued)*

SMNC shared part of the Group's advanced technology R&D expenses in 2017 and 2016, which also caused the change in loss of year attributable to non-controlling interests.

Summarized financial information in respect of the Company's subsidiaries that have material non-controlling interests are set out below. The summarized financial information below represents amounts before intragroup eliminations.

SMNC AND ITS SUBSIDIARIES

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Current assets	**2,582,534**	1,559,016	1,103,214
Non-current assets	**1,918,935**	2,046,290	1,807,207
Current liabilities	**(629,152)**	(596,500)	(409,898)
Non-current liabilities	**(358,793)**	(315,718)	(327,995)
Net assets	**3,513,524**	2,693,088	2,172,528
Equity attributable to owners of the Company	**1,787,147**	1,368,498	1,102,825
Non-controlling interests	**1,726,377**	1,324,590	1,069,703
Net assets	**3,513,524**	2,693,088	2,172,528

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Revenue	**597,257**	471,174	243,715
Expense	**(709,627)**	(574,386)	(339,910)
Other income (expense)	**32,345**	23,389	(19,480)
Loss for the year	**(80,025)**	(79,823)	(115,675)
Loss attributable to owners of the Company	**(40,812)**	(40,710)	(59,807)
Loss attributable to the non-controlling interests	**(39,213)**	(39,113)	(55,868)
Loss for the year	**(80,025)**	(79,823)	(115,675)
Total comprehensive loss attributable to owners of the Company	**(40,812)**	(40,710)	(59,807)
Total comprehensive loss attributable to the non-controlling interests	**(39,213)**	(39,113)	(55,868)
Total comprehensive loss for the year	**(80,025)**	(79,823)	(115,675)
Dividends paid to non-controlling interests	**—**	—	—
Net cash inflow (outflow) from operating activities	**101,384**	188,115	(13,082)
Net cash outflow from investing activities	**(936,942)**	(820,606)	(1,627,788)
Net cash inflow from financing activities	**890,109**	590,091	1,655,011
Net cash inflow (outflow)	**54,551**	(42,400)	14,141

18. SUBSIDIARIES *(continued)*

SMSC

	12/31/18 USD'000
Current assets	2,031,682
Non-current assets	166,037
Current liabilities	(58,254)
Net assets	2,139,465
Equity attributable to owners of the Company	1,096,914
Non-controlling interests	1,042,551
Net assets	2,139,465

	Year ended 12/31/18 USD'000
Revenue	—
Expense	(19,625)
Other income	4,336
Loss for the year	(15,289)
Loss attributable to owners of the Company	(9,940)
Loss attributable to the non-controlling interests	(5,349)
Loss for the year	(15,289)
Total comprehensive loss attributable to owners of the Company	(9,940)
Total comprehensive loss attributable to the non-controlling interests	(5,349)
Total comprehensive loss for the year	(15,289)
Dividends paid to non-controlling interests	—
Net cash outflow from operating activities	(10,775)
Net cash outflow from investing activities	(1,937,066)
Net cash inflow from financing activities	1,951,830
Net cash inflow	3,989

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For the year ended December 31, 2018

18. SUBSIDIARIES *(continued)*

SJ SEMICONDUCTOR CORPORATION AND ITS SUBSIDIARIES

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Current assets	**141,016**	205,957	224,737
Non-current assets	**180,061**	131,041	102,790
Current liabilities	**(38,280)**	(46,608)	(11,656)
Non-current liabilities	**(4,257)**	(7,002)	(5,421)
Net assets	**278,540**	283,388	310,450
Equity attributable to owners of the Company	**156,035**	159,208	174,781
Non-controlling interests	**122,505**	124,180	135,669
Net assets	**278,540**	283,388	310,450

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Revenue	**51,042**	21,862	12,782
Expense	**(68,011)**	(39,504)	(27,300)
Other income	**11,303**	6,505	6,564
Loss for the year	**(5,666)**	(11,137)	(7,954)
Loss attributable to owners of the Company	**(3,173)**	(6,241)	(4,409)
Loss attributable to the non-controlling interests	**(2,493)**	(4,896)	(3,545)
Loss for the year	**(5,666)**	(11,137)	(7,954)
Total comprehensive loss attributable to owners of the Company	**(3,173)**	(6,241)	(4,409)
Total comprehensive loss attributable to the non-controlling interests	**(2,493)**	(4,896)	(3,545)
Total comprehensive loss for the year	**(5,666)**	(11,137)	(7,954)
Dividends paid to non-controlling interests	**—**	—	—
Net cash inflow (outflow) from operating activities	**14,429**	6,115	(1,194)
Net cash inflow (outflow) from investing activities	**1,144**	(65,993)	(147,752)
Net cash inflow (outflow) from financing activities	**69**	(1,983)	109,291
Net cash inflow (outflow)	**15,642**	(61,861)	(39,655)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19. INVESTMENTS IN ASSOCIATES

The details of the Company's associates, which are all unlisted companies except for JCET listed on the Shanghai Stock Exchange, at the end of the reporting period are as follows:

Name of entity	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group		
			12/31/18	12/31/17	12/31/16
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	Shanghai, PRC	Ordinary	30.0%	30.0%	30.0%
Zhongxin Xiecheng Investment (Beijing) Co., Ltd ("Zhongxin Xiecheng")	Beijing, PRC	Ordinary	49.0%	49.0%	49.0%
Brite Semiconductor (Shanghai) Corporation ("Brite Shanghai")(3)	Shanghai, PRC	Ordinary	46.6%	46.6%	47.3%
Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke")	Jiangsu, PRC	Ordinary	—	—	19.6%
Jiangsu Changjiang Electronics Technology Co., Ltd. ("JCET")(5)	Jiangsu, PRC	Ordinary	14.3%(1)	14.3%(1)	NA
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")(6)	Shanghai, PRC	Ordinary	7.4%(1)	8.1%(1)	11.4%(1)
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	Shanghai, PRC	Ordinary	19.5%(1)	30.0%	30.0%
Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin")(2)	Beijing, PRC	Limited partner interest	32.6%	32.6%	32.6%
Shanghai Fortune-Tech Qitai Invest Center (Limited Partnership) ("Fortune-Tech Qitai")(2)	Shanghai, PRC	Limited partner interest	33.0%	33.0%	33.0%
Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing")(2)	Shanghai, PRC	Limited partner interest	66.2%(1)	66.2%(1)	66.2%(1)
Suzhou Fortune-Tech Oriental Invest Fund Center (Limited Partnership) ("Fortune-Tech Oriental")(2)	Jiangsu, PRC	Limited partner interest	44.8%	44.8%	44.8%
Juyuan Juxin Integrated Circuit Fund ("Juyuan Juxin")(2)	Shanghai, PRC	Limited partner interest	31.6%	31.6%	40.9%
Ningbo Semiconductor International Corporation ("NSI")(4)	Ningbo, PRC	Ordinary	38.6%	NA	NA
Semiconductor Manufacturing Electronics (Shaoxing) Corporation ("SMEC")	Shaoxing, PRC	Ordinary	23.5%	NA	NA
Semiconductor Global Solutions ("SGS")	Ningbo, PRC	Ordinary	35.0%	NA	NA
Shanghai IC Manufacturing Innovation Center Co., Ltd ("Shanghai Innovation Center")	Shanghai, PRC	Ordinary	50.0%(1)	NA	NA

(1) In accordance with investment agreements, the Group has significant influence, but not control, over JCET, Sino IC Leasing, China Fortune-Tech, Fortune-Tech Zaixing and Shanghai Innovation Center through the right the Group owned to appoint director(s) to the Board of directors of these companies or to cast voters at the partners meeting of the partnership entity.

(2) The Group invested in these associates indirectly though China IC Capital Co., Ltd (the "Fund"), a wholly-owned investment fund company of SMIC, as set out in Note 18. The Fund is intended to invest primarily in integrated circuits related fund products and investment projects.

(3) Since September 30, 2017, the Group invested Brite Shanghai directly with no more investment in Brite Semiconductor Corporation, the holding company of Brite Shanghai.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19. INVESTMENTS IN ASSOCIATES *(continued)*

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

On March 23, 2018, NSI, SMIC Holdings, China IC Fund, Ningbo Senson Electronics Technology Co., Ltd, Beijing Integrated Circuit Design and Testing Fund, Ningbo Integrated Circuit Industry Fund and Infotech National Emerging Fund entered into the capital increase agreement, pursuant to which (i) SMIC Holdings has agreed to make further cash contribution of RMB565.0 million (approximately US$89.4 million) into the registered capital of NSI. Its shareholding in NSI will decrease from approximately 38.59% to approximately 38.57%; (ii) China IC Fund has agreed to make further cash contribution of RMB500.0 million (approximately US$79.2 million) into the registered capital of NSI. Its shareholding in NSI will increase from approximately 28.17% to approximately 32.97%. The all above parties' performance of the Capital Contribution obligations will lead to an increase in the registered capital from RMB355 million to RMB1.82 billion (approximately US$56.2 million to US$288.1 million).

On April 13, 2018, the Group lost control of NSI, but still has significant influence over it. The Group recorded its ownership interest of NSI as investment in associate. The remeasurement gain at the date of deconsolidation of NSI was US$3.5 million. The deconsolidation has no material impact on the consolidated financial statements.

(5) On August 30, 2018, the Company has, through its wholly-owned subsidiary Siltech Semiconductor (Shanghai) Corporation Limited, completed a subscription for 34,696,198 shares in JCET in cash by way of private placement (the "Subscription"). The shares were subscribed at a price of RMB14.89 per share, with the total subscription price being RMB516.6 million (approximately US$75.9 million). Immediately before and after completion of the Subscription, the shareholding interest of the Company in JCET is 14.28%. The Company understands that JCET has completed the issue and registration procedures of these shares, including listing of the shares on the Shanghai Stock Exchange. The newly subscribed shares will not be transferrable by the Company for 36 months after completion of the Subscription.

(6) On August 10, 2018, SMIC Holdings, Sino IC Leasing and other investors had agreed to amend the joint venture agreement dated March 1, 2018 through the Amended JV Agreements, pursuant to which: (i) SMIC Holdings will not make additional capital contribution, but Sino IC Leasing and other investors will make additional capital contributions in the registered capital of SGS in US$5.0 million and US$5.0 million, respectively (ii) the Company's equity interest in SGS, through SMIC Holdings, will decrease from 60.00% to 30.00%; and (iii) SGS will be owned by China IC Fund, through Sino IC Leasing, as to approximately 8.08%. The capital contribution is not completed as of the date of this annual report.

Subject to the amended joint venture agreement, revised on July 20, 2017, the Company agreed to increase its capital contribution obligation towards Sino IC Leasing from RMB600.0 million to RMB800.0 million (from approximately US$88.3 million to US$117.8 million), while its shareholding in Sino IC Leasing decreased to approximately 7.44%.

All of these associates are accounted for using the equity method in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19. INVESTMENTS IN ASSOCIATES *(continued)*

JCET AND ITS SUBSIDIARIES

The Group applies the equity method accounted for its investment in JCET on one quarter lag by basis since the annual financial statements of JCET were not available as of December 31, 2018.

	09/30/18 USD'000	09/30/17 USD'000
Current assets	**1,803,128**	1,401,575
Non-current assets	**3,456,513**	3,305,615
Current liabilities	**(2,214,747)**	(1,639,114)
Non-current liabilities	**(1,081,027)**	(1,661,532)
Net assets	**1,963,867**	1,406,544
Equity attributable to owners of the associate	**1,942,894**	1,385,372
Non-controlling interests	**20,973**	21,172
Net assets	**1,963,867**	1,406,544

	Twelve months ended 09/30/18 USD'000	Three months ended 09/30/17 USD'000
Total revenue	**3,645,925**	985,087
Profit attributable to owners of the associate	**28,439**	11,480
Profit attributable to the non-controlling interests	**3,252**	628
Profit for the period	**31,691**	12,108
Other comprehensive income (loss) for the period	**47,529**	(19,986)
Total comprehensive income (loss) for the period	**79,220**	(7,878)
Total comprehensive income (loss) attributable to owners of the associate	**76,299**	(8,496)
Total comprehensive income attributable to the non-controlling interests	**2,921**	618
Total comprehensive income (loss) for the period	**79,220**	(7,878)
Dividends received from the associate during the period	**761**	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	09/30/18 USD'000	09/30/17 USD'000
Equity attributable to owners of the associate	**1,942,894**	1,385,372
Proportion of the Group's ownership interest in JCET	**14.3%**	14.3%
	277,446	197,832
Valuation premium	**338,967**	340,561
Carrying amount of the Group's interest in JCET	**616,413**	538,393

As at December 31, 2018 the closing share price of JCET listed on the Shanghai Stock Exchange was RMB8.24, approximately US$1.20.

19. INVESTMENTS IN ASSOCIATES *(continued)*

SINO IC LEASING AND ITS SUBSIDIARIES

The Group applies the equity method accounted for its investment in Sino IC Leasing on one quarter lag by basis since the annual financial statements of Sino IC Leasing were not available as of December 31, 2018.

	09/30/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Current assets	2,423,414	1,038,538	702,570
Non-current assets	4,056,971	3,464,412	1,859,267
Current liabilities	(1,441,959)	(523,228)	(117,287)
Non-current liabilities	(3,241,264)	(2,509,732)	(1,653,206)
Net assets	1,797,162	1,469,990	791,344
Equity attributable to owners of the associate	1,682,794	1,366,367	776,959
Non-controlling interests	114,368	103,623	14,385
Net assets	1,797,162	1,469,990	791,344

	Nine months ended 09/30/18 USD'000	Twelve months ended 12/31/17 USD'000	Twelve months ended 12/31/16 USD'000
Total revenue	214,515	215,538	36,085
Profit attributable to owners of the associate	48,505	39,003	12,938
Profit attributable to the non-controlling interests	1,610	460	48
Profit for the period	50,115	39,463	12,986
Other comprehensive income (loss) for the period	16,253	(10,206)	3,594
Total comprehensive income for the period	66,368	29,257	16,580
Total comprehensive income attributable to owners of the associate	64,758	28,797	16,532
Total comprehensive income attributable to the non-controlling interests	1,610	460	48
Total comprehensive income for the period	66,368	29,257	16,580
Dividends received from the associate during the period	—	255	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	09/30/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Equity attributable to owners of the associate	1,682,794	1,366,367	776,959
Proportion of the Group's ownership interest in Sino IC Leasing	7.4%	8.1%	11.4%
	125,156	110,162	88,651
Dividends received in advance	(316)	—	—
Less: unrealized profit from Sino IC Leasing	(580)	—	—
Carrying amount of the Group's interest in Sino IC Leasing	124,260	110,162	88,651

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19. INVESTMENTS IN ASSOCIATES *(continued)*

NSI

	12/31/18 USD'000
Current assets	137,120
Non-current assets	146,664
Current liabilities	(18,291)
Net assets	265,493

	Nine months ended 12/31/18 USD'000
Total revenue	4,186
Profit for the period	3,131
Total comprehensive income for the period	3,131
Dividends received from the associate during the period	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/18 USD'000
Net assets of the associate	265,493
Proportion of the Group's ownership interest in NSI	38.6%
	102,405
Valuation premium	1,509
Less: unrealized profit from NSI	(816)
Carrying amount of the Group's interest in NSI	103,098

20. INVESTMENTS IN JOINT VENTURES

The details of the Group's joint ventures, which are all unlisted entities invested indirectly through China IC Capital (Ningbo) Co., Ltd, at the end of the reporting period are as follow:

Name of entity	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group		
			12/31/18	12/31/17	12/31/16
Shanghai Xinxin Investment Centre (Limited Partnership) ("Shanghai Xinxin")	Shanghai, PRC	Limited partner interest	49.0%	49.0%	49.0%
Shanghai Chengxin Investment Center (Limited Partnership) ("Shanghai Chengxin")	Shanghai, PRC	Limited partner interest	31.5%	31.5%	42.0%

Summarized financial information in respect of the Group's material joint venture is set out below.

SHANGHAI XINXIN

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Current assets	3,956	1,453	10,679
Non-current assets	16,462	53,782	13,283
Current liabilities	(268)	(6)	(7)
Net assets	20,150	55,229	23,955

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Total revenue	—	—	—
Profit (loss) for the year	4,827	(390)	4,540
Other comprehensive income for the year	—	30,441	—
Total comprehensive income for the year	4,827	30,051	4,540
Dividends received from the joint venture during the year	13,324	—	2,027

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Net assets of the joint venture	20,150	55,229	23,955
Proportion of the Group's ownership interest in Shanghai Xinxin	49.0%	49.0%	49.0%
	9,874	27,062	11,740
Distribution to general partner	3,179	—	—
Carrying amount of the Group's interest in Shanghai Xinxin	13,053	27,062	11,740

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21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

Financial assets	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Non-current			
Financial assets at fair value through profit or loss			
Listed equity securities	1,508	—	—
Unlisted equity securities	53,964	—	—
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	5,266	—	—
Other derivative financial instrument	—	—	32,894
Other financial assets			
Cross currency swap contracts			
— cash flow hedges	—	17,598	—
Other assets			
Available-for-sale financial assets	—	24,844	21,966
Current			
Financial assets at fair value through profit or loss			
Financial products sold by banks	41,685	—	—
Financial assets at amortized cost			
Bank deposits will mature over 3 months[(1)]	1,952,106	—	—
Debentures[(2)]	44,702	—	—
Trade and other receivables (Note 24)	837,828	616,308	645,822
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	1,425	—	—
Cross currency swap contracts	1,158	—	—
Other financial assets			
Cross currency swap contracts			
— cash flow hedges	—	4,739	—
Foreign currency forward contracts	—	2,111	—
Financial products sold by banks	—	117,928	24,931
Bank deposits will mature over 3 months	—	559,034	6,612
	2,939,642	1,342,562	732,225

(1) The credit risk on bank deposits will mature over 3 months is limited because the counterparties are banks with high credit-ratings.

(2) On July 6, 2018 and August 10, 2018, SMIC Beijing has respectively subscribed for, an amount of RMB200.0 million (approximately US$30.2 million) and RMB100.0 million (approximately US$14.6 million) out of the total issue of an aggregate principal amount of RMB500.0 million of the oriented debt financing instrument issued by Sino IC Leasing, which was recorded as financial assets at amortized cost.

The Group's exposure to various risks associated with the financial instruments is discussed in Note 38. The maximum exposure to credit risk at the end of the year is the carrying amount of each class of financial assets mentioned above.

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

Financial liabilities	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Non-current			
Liabilities at amortized cost			
Borrowings (Note 30)	1,760,763	1,743,939	1,233,594
Convertible bonds (Note 31)	418,592	403,329	395,210
Bonds payable (Note 32)	—	496,689	494,909
Medium-term notes (Note 33)	—	228,483	214,502
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	15,540	—	—
Other financial liabilities			
Contingent consideration[1]	11,948	—	—
Cross currency swap contracts			
— cash flow hedges	—	1,919	74,170
Other liabilities			
Contingent consideration[1]	—	12,549	—
Long-term payables[2]	39,128	57,593	—
Current			
Liabilities at amortized cost			
Trade and other payables (Note 35)	964,860	1,007,424	897,606
Borrowings (Note 30)	530,005	440,608	209,174
Convertible bonds (Note 31)	—	—	391,401
Bonds payable (Note 32)	498,551	—	—
Medium-term notes (Note 33)	218,247	—	—
Short-term notes	—	—	86,493
Derivative financial instruments			
Cross currency swap contracts			
— cash flow hedges	15,806	—	—
Other financial liabilities			
Cross currency swap contracts			
— cash flow hedges	—	742	6,348
Foreign currency forward contracts	—	2	—
Other liabilities			
Long-term payables[2]	32,263	40,627	—
	4,505,703	4,433,904	4,003,407

[1] The Group had contingent consideration in respect of a potential cash compensation accrued in 2017 that may be incurred depending on the profit of Changjiang Xinke during the three years of 2017, 2018 and 2019. Contingent consideration was reclassified from other liabilities to other financial liabilities as of January 1, 2018, compliment with IFRS 9.

[2] Long-term payables for the purchased tangible and intangible assets were classified into the non-current and current liabilities respectively amounted to US$39.1 million and US$32.3 million as of December 31, 2018.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments carried at amortized cost

The Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value of financial instruments based on quoted market prices in active markets, 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 recognized 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, 2018, 2017 and 2016:

- 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).

December 31, 2018	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets					
Financial assets at fair value through profit or loss					
Listed equity securities	Using quoted market prices	1,508	—	—	1,508
Unlisted equity securities	Using discounted cash flow analysis	—	—	53,964	53,964
Financial products sold by banks	Using indicated return rate provided by financial institution	—	—	2,345	2,345
Monetary funds	Using observable prices	—	39,340	—	39,340
Derivative financial instruments					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	6,691	—	6,691
Cross currency swap contracts	Using forward exchange rates at the balance sheet date	—	1,158	—	1,158
		1,508	47,189	56,309	105,006
Financial liabilities					
Derivative financial instruments					
Cross currency swap contracts — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	31,346	—	31,346
Other financial liabilities					
Contingent consideration	Using discounted cash flow analysis	—	—	11,948	11,948
		—	31,346	11,948	43,294

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21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Fair value measurements recognized in the consolidated statement of financial position (continued)

December 31, 2017	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets measured at fair value					
Short-term investment carried at fair value through profit or loss	Using indicated return rate provided by financial institution	—	—	117,928	117,928
Available-for-sale investment	Using quoted market prices	2,531	—	—	2,531
Available-for-sale investment	Using discounted cash flow analysis	—	—	20,134	20,134
Cross currency swap contracts classified as other financial assets in the statement of financial position — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	22,337	—	22,337
Foreign currency forward contracts classified as other financial assets in the statement of financial position	Using forward exchange rates at the balance sheet date	—	2,111	—	2,111
		2,531	24,448	138,062	165,041
Financial liabilities measured at fair value					
Cross currency swap contracts classified as other financial liabilities in the statement of financial position — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	2,661	—	2,661
Foreign currency forward contracts classified as other financial liabilities in the statement of financial position	Using forward exchange rates at the balance sheet date	—	2	—	2
Contingent consideration	Using discounted cash flow analysis	—	—	12,549	12,549
		—	2,663	12,549	15,212

December 31, 2016	Valuation techniques	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets measured at fair value					
Short-term investment carried at fair value through profit or loss	Using indicated return rate provided by financial institution	—	—	24,931	24,931
Available-for-sale investment	Using quoted market prices	4,713	—	—	4,713
Available-for-sale investment	Using discounted cash flow analysis	—	—	16,067	16,067
Other Derivative financial Instrument	Measured by Binomial Model with key assumptions including exercise multiple (75%), risk free rate of interest (0.51%), expected volatility (24.5%) and rate of return (10%)	—	—	32,894	32,894
		4,713	—	73,892	78,605
Financial liabilities measured at fair value					
Cross currency swap contracts classified as other financial liabilities in the statement of financial position — cash flow hedges	Using the present value of the estimated future cash flows based on observable yield curves	—	80,518	—	80,518

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22. RESTRICTED CASH

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Non-current	—	13,438	20,080
Current[(1)]	592,290	336,043	337,699
	592,290	349,481	357,779

(1) As of December 31, 2018, the current restricted cash consisted of US$185.8 million (December 31, 2017: US$14.9 million and December 31, 2016: US$2.9 million) of bank time deposits, which was pledged against letters of credit and short-term borrowings.

As of December 31, 2018, the current restricted cash consisted of US$406.5 million (December 31, 2017: US$235.3 million and December 31, 2016: US$191.9 million) of government funding received, within which US$404.2 million was mainly for the reimbursement of research and development expenses to be incurred.

23. INVENTORIES

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Raw materials	143,990	149,574	126,526
Work in progress	331,782	321,695	280,216
Finished goods	117,237	151,410	57,474
	593,009	622,679	464,216

The cost of inventories recognized as an expense during the year in respect of inventory provision was US$6.4 million (2017: US$46.9 million and 2016: US$3.7 million).

24. TRADE AND OTHER RECEIVABLES

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Trade receivables	412,053	407,975	491,018
Allowance on doubtful trade receivables (Note 38)	(2,155)	(1,335)	(1,491)
	409,898	406,640	489,527
Other receivables[(1)]	364,143	203,410	146,583
Refundable deposits[(2)]	63,787	6,258	9,712
	837,828	616,308	645,822

(1) As of December 31, 2018, the balance included the receivable from the sales of machinery and equipment to SMEC, amounted to US$68.9 million and the charge of purchase machinery and equipment to SMEC, amounted to US$35.6 million.

(2) As of December 31, 2018, the balance included a deposit of investing in land use right, amounted US$45.5 million.

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

Age of receivables	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Within 30 days	219,813	148,131	274,087
31–60 days	141,852	187,623	179,453
Over 60 days	50,388	72,221	37,478
Total trade receivables	412,053	407,975	491,018

24. TRADE AND OTHER RECEIVABLES *(continued)*

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in Note 38.

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.

25. ASSETS AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Assets classified as held-for-sale			
Assets of disposal group as held-for-sale	255,330	—	—
Machinery and equipment	5,846	—	—
Assets related to employee's living quarters	9,631	37,471	50,813
	270,807	37,471	50,813
Liabilities directly associated with assets classified as held-for-sale			
Liabilities of disposal group as held-for-sale	143,447	—	—

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

As at December 31, 2018, investment in LFoundry of US$111.9 million was classified as held-for-sale assets and liabilities as the effect to sell the subsidiary has commenced and the sales are expected by December 31, 2019 and the details are disclosed as follows:

	12/31/18 USD'000
Assets of disposal group as held-for-sale	
Property, plant and equipment	123,677
Goodwill	3,933
Inventories	54,451
Restricted cash	12,960
Trade and other receivables	37,796
Cash and cash equivalent	14,554
Other assets	7,959
	255,330
Liabilities of disposal group as held-for-sale	
Borrowings	58,467
Trade and other payables	37,296
Deferred tax liabilities	14,437
Defined benefited obligation	26,475
Other liabilities	6,772
	143,447

Considerations to be received for the disposal will be equivalent or higher than the carrying value of the net assets and liabilities of LFoundry.

26. SHARES AND ISSUED CAPITAL

FULLY PAID ORDINARY SHARES

	Number of shares	Share capital USD'000	Share premium USD'000
Balance at December 31, 2015	42,073,748,961	16,830	4,903,861
Issuance of shares under the Company's employee share option plan	329,531,926	132	35,367
Conversion of convertible bonds during the year	105,128,132	42	11,023
Adjustment arising from the Share Consolidation	(38,257,568,118)	—	—
Issuance of shares under the Company's employee share option plan after the Share Consolidation	2,081,358	8	697
Balance at December 31, 2016	4,252,922,259	17,012	4,950,948
Issuance of shares under the Company's employee share option plan	32,723,622	130	35,178
Conversion of convertible bonds during the year	389,042,383	1,556	427,168
Share premium reduction	—	—	(910,849)
Ordinary shares issued at December 6, 2017	241,418,625	966	325,174
Balance at December 31, 2017	4,916,106,889	19,664	4,827,619
Issuance of shares under the Company's employee share option plan (Note 37)	24,071,936	97	25,121
Ordinary shares issued at June 29, 2018	61,526,473	246	83,256
Ordinary shares issued at August 29, 2018	57,054,901	228	77,148
Shares bought back on-market and cancelled	(18,941,000)	(76)	(19,981)
Balance at December 31, 2018	5,039,819,199	20,159	4,993,163

On April 23, 2018, the Company entered into the China IC Fund Pre-emptive Share Subscription Agreement with China IC Fund and Xinxin (Hongkong) Capital Co., Ltd ("Xinxin HK", wholly-owned by China IC Fund), pursuant to which, on and subject to the terms of the China IC Fund Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for, the 57,054,901 Ordinary Shares at the price of HK$10.65 per Ordinary Share. On August 29, 2018, the Company completed the issue of the China IC Fund pre-emptive shares in the principal amount of HK$607.6 million (approximately US$77.4 million).

On April 23, 2018, the Company entered into the Datang Pre-emptive Share Subscription Agreement with Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang") and Datang Holdings (Hongkong) Investment Company Limited ("Datang HK"), pursuant to which, on and subject to the terms of the Datang Pre-emptive Share Subscription Agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for, the 61,526,473 Ordinary Shares at the price of HK$10.65 per Ordinary Share. On June 29, 2018, the Company completed the issue of the Datang pre-emptive shares in the principal amount of HK$655.3 million (approximately US$83.5 million).

On September 27, 2018, the company repurchased 7,291,000 ordinary shares on Hong Kong Stock Exchange. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK$8.32 per share, with prices ranging from HK$8.27 to HK$8.36. The total cost of HK$60.8 million (approximately US$7.8 million) was deducted from the shareholder equity.

26. SHARES AND ISSUED CAPITAL *(continued)*

FULLY PAID ORDINARY SHARES *(continued)*

On October 4, 2018, the company repurchased 11,650,000 ordinary shares on Hong Kong Stock Exchange. The buy-back was approved by shareholders at the annual general meeting on June 22, 2018. The ordinary shares were acquired at an average price of HK$8.23 per share, with prices ranging from HK$8.11 to HK$8.32. The total cost of HK$96.1 million (approximately US$12.3 million) was deducted from the shareholder equity. On October 25, 2018, the company cancelled 18,941,000 ordinary shares amounted at US$20.0 million, in respect of the repurchase on September 27, 2018 and October 4, 2018.

On December 6, 2017, pursuant to the terms and conditions of the placing agreement entered by the Company and joint placing agents, the Company allotted and issued 241,418,625 placing shares, representing approximately 4.92% of the issued share capital of the Company as enlarged by the issue of the placing shares, to not less than six independent placees at the price of HK$10.65 per placing share. The net proceeds are recorded as share capital of approximately US$1.0 million and share premium of approximately US$325.2 million in the statements of financial position after the deduction of issue expenses of US$2.9 million. Net proceeds of issue are measured after deducting directly attributable transaction costs of the share issue.

On June 23, 2017, the Board has been approved by the shareholders at the Annual General Meeting to reduce the amount standing to the credit of the share premium account of the Company by an amount of US$910.8 million and to apply such amount to eliminate the accumulated losses of the Company as of December 31, 2016.

On June 23, 2017, the Board has been approved by the shareholders at the Annual General Meeting to increase the authorized share capital of the Company to US$42,000,000 divided into 10,000,000,000 ordinary shares and 500,000,000 preferred shares by the creation of an additional 5,000,000,000 ordinary shares in the share capital of the Company, which will rank pari passu with all existing ordinary shares.

In 2016, the Company proposed to implement the Share Consolidation on the basis that every ten issued and unissued shares of US$0.0004 each of the Company will be consolidated into one ordinary share of US$0.004 each. The proposed Share Consolidation was approved by the Company's shareholders at the Extraordinary General Meeting held on December 6, 2016 and the Share Consolidation became effective on December 7, 2016.

STOCK INCENTIVE PLANS

The Company has adopted the stock incentive plans under which options to subscribe for the Company's shares have been granted to certain employees, officers and other service providers (Note 37).

27. RESERVES

EQUITY-SETTLED EMPLOYEE BENEFITS RESERVE

The equity-settled employee benefits reserve related to share options and RSUs granted by the Company to the Group's employees and service providers under stock incentive plans. Items included in equity-settled employee benefits 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 recognized 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 both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal/deconsolidation of the foreign operation.

27. RESERVES *(continued)*

CHANGE IN VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The changes in the carrying amount of available-for-sale financial assets, which were initially recognized at fair value plus transaction costs and subsequently carried at fair value, recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. Related fair value losses of US$1.1 million were transferred from the available-for-sale financial assets reserve to retained earnings on January 1, 2018.

CONVERTIBLE BONDS EQUITY RESERVE

The conversion option from the issuance of convertible bonds classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument (i.e. convertible bond) as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to ordinary shares and share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

DEFINED BENEFIT PENSION RESERVE

Defined benefit plan reserve recorded the changes of fair value of the defined benefit obligation due to LFoundry's employees. LFoundry's employees are entitled to a defined benefit plan. Actuarial gains and losses can result from increases or decreases in the present value of a defined benefit obligation due to experience adjustments or changes in actuarial assumptions.

Trattamento di Fine Rapport ("TFR") relates to the amounts that employees in Italy are entitled to receive when they leave the Group and is calculated based on the period of employment and the taxable earnings of each employee. Under certain conditions, the entitlement may be partially advanced to an employee during the employee's working life.

Under the amendments of the Italian legislation in the first half of 2007, companies with at least 50 employees are obliged to transfer the TFR to the "Treasury Fund" managed by the Italian state-owned social security body ("INPS") or to supplementary pension funds. Prior to the amendments, accruing TFR for employees of all Italian companies could be managed by the Group itself.

Consequently, the Italian companies' obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19 revised, of "Defined contribution plans" whereas the amounts recorded in the TFR liability retain the nature of "Defined benefit plans". Accordingly, TFR liability consists of the residual obligation for TFR until December 31, 2006. This is an unfunded defined benefit plan as the benefits have already been almost entirely earned, with the sole exception of future revaluations. Since 2007 the scheme has been classified as a defined contribution plan, and the companies under IFRS recognize the associated cost, being the required contributions to the pension funds, over the period in which the employee renders service.

The Group operates defined benefit plans in Italy under broadly similar regulatory frameworks, which is an unfunded plan where the Group meets the benefit payment obligation as it falls due. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The TFR in payment is generally updated in line with the retail price index.

27. RESERVES *(continued)*

DEFINED BENEFIT PENSION RESERVE *(continued)*

The amounts recognized in the statement of financial position and the movements in the net defined benefit obligation over the year are as follows:

	USD'000
As at August 1, 2016	27,569
Interest expense recognized in profit or loss	87
Actuarial gains recognized in other comprehensive income	(1,520)
Exchange differences	(1,875)
Contribution to employees	(48)
Balance at December 31, 2016	24,213
Interest expense recognized in profit or loss	376
Actuarial losses recognized in other comprehensive income	436
Exchange differences	3,455
Contribution to employees	(318)
Balance at December 31, 2017	28,162
Interest expense recognized in profit or loss	314
Actuarial gains recognized in other comprehensive income	(129)
Exchange differences	(1,223)
Contribution to employees	(649)
Balance at December 31, 2018	26,475

The defined benefit obligation has been included in liabilities directly associated with assets classified as held-for-sale.

The significant actuarial assumptions used by Lab4Value S.r.l., an Italian company operated in the consultancy of TFR actuarial valuation, were as follows:

	12/31/18	12/31/17	12/31/16
Discount rate (%)	1.38%	1.18%	1.37%
Inflation rate (%)	1.50%	1.50%	1.50%
Salary growth rate (%)	1.50%	1.50%	1.50%
Labor turnover rate (%)	2.65%	2.65%	2.65%
Probability of request of advances of TFR (%)	1.50%	1.50%	1.50%
Percentage required in case of advance (%)	70.00%	70.00%	70.00%
Number of employees with TFR	1,390	1,485	1,421
Average age (years)	48	47	46
Average seniority (years)	22	20	20

The sensitivity analysis of the defined benefit obligation was as follows:

	12/31/18	12/31/17	12/31/16
Discount rate (+0.5%)	–5.59%	–5.85%	–6.05%
Discount rate (–0.5%)	6.07%	6.38%	6.61%
Rate of payments increases (+20%)	–0.33%	–0.65%	–0.57%
Rate of payments decreases (–20%)	0.35%	0.71%	0.63%
Rate of price inflation increases (+0.5%)	3.62%	3.80%	3.94%
Rate of price inflation decreases (–0.5%)	–3.56%	–3.72%	–3.86%
Rate of salary increases (+0.5%)	0.00%	0.00%	0.00%
Rate of salary decreases (–0.5%)	0.00%	0.00%	0.00%
Increase the retirement age (+1 year)	0.40%	0.49%	0.38%
Decrease the retirement age (–1 year)	–0.43%	–0.52%	–0.40%
Increase longevity (+1 year)	0.00%	0.00%	0.00%
Decrease longevity (–1 year)	0.00%	0.00%	0.00%

27. RESERVES *(continued)*

DEFINED BENEFIT PENSION RESERVE *(continued)*

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized in the statement of financial position.

CASH FLOW HEDGES

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognized in other comprehensive income, as described in Note 38. Amounts will be reclassified to profit or loss when the associated hedged transaction affects profit or loss.

SHARE OF OTHER COMPREHENSIVE INCOME OF JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

The reserve of share of other comprehensive income of joint ventures accounted for using the equity method was recognized as the Group's share of the change in value of available-for-sale financial assets of the joint ventures.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. Related fair value gains of US$17.6 million were transferred from the reserve of share of other comprehensive income of joint ventures accounted for using the equity method to retained earnings on January 1, 2018.

28. RETAINED EARNINGS (ACCUMULATED DEFICIT)

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 registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law.

As of December 31, 2018, 2017 and 2016, the accumulated non-distributable reserve was US$145.5 million, US$90.6 million and US$34.3 million respectively.

In 2018, 2017 and 2016 the Company did not declare or pay any cash dividends on the ordinary shares.

In 2018, the Company paid the distribution to perpetual subordinated convertible securities holders amounted to US$6.3 million.

On June 23, 2017, the accumulated losses of the Company as of December 31, 2016 were eliminated by an amount of US$910.8 million. Please refer to Note 26 for more details.

On December 29, 2017, SMIC Shanghai and SJ Jiangyin had entered into an asset transfer agreement in relation to the disposal and sale of unvalued assets. The purpose of the disposal was to transfer the business operation of the Shanghai Testing Centre from SMIC Shanghai to SJ Jiangyin and merge the business operation of Shanghai Testing Centre to SJ Jiangyin. The transfer of business operation raised a retained earning of US$7.3 million for the Company and a corresponding loss for non-controlling interests.

29. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

On April 23, 2018, the Company entered into the perpetual subordinated convertible securities ("PSCS") subscription agreement with China IC Fund and Xinxin HK, pursuant to which, on and subject to the terms of the PSCS subscription agreement, the Company conditionally agreed to issue, and China IC Fund, through Xinxin HK, conditionally agreed to subscribe for PSCS in an aggregate principal amount of US$300.0 million. On August 29, 2018, the Company completed the issue of the PSCS in the principal amount of US$300.0 million.

On April 23, 2018, the Company entered into the PSCS subscription agreement with Datang and Datang HK, pursuant to which, on and subject to the terms of the PSCS subscription agreement, the Company conditionally agreed to issue, and Datang, through Datang HK, conditionally agreed to subscribe for PSCS in an aggregate principal amount of US$200.0 million. On June 29, 2018, the Company completed the issue of the PSCS in the principal amount of US$200.0 million.

On December 14, 2017, the Company issued the PSCS at a par value of US$250,000 each in the principal amount of US$65.0 million.

The PSCS are included in equity in the Group's consolidated financial statements as the Group does not have a contractual obligation to deliver cash or other financial assets arising from the issue of the PSCS. The PSCS will remain as equity reserve until the PSCS are converted, in which case, the balance recognized in equity will be transferred to ordinary shares and share premium.

As at the issue date and the year ended December 31, 2018, the net book value of PSCS amounted to US$563.8 million after the deduction of issue expenses of US$1.2 million.

As at December 31, 2018, assuming full conversion of the PSCS, the PSCS will be convertible into 344,985,992 ordinary shares.

Up to the date of the authorization of the Group's consolidated financial statements for the year ended December 31, 2018 no PSCS have been converted into ordinary shares of the Company, and the Company paid the distribution amounted to US$6.3 million.

KEY TERMS OF THE PSCS

The PSCS will be paid semi-annually in arrears at 2.00% per annum with distribution payment date on June 14, and December 14, in each year, commencing on June 14, 2018.

The Company may elect to defer distribution unless payments is not made in full on a distribution payment date or a compulsory distribution payment event has occurred. The Company will procure that no dividend or other payment is made on any junior securities or parity securities; or redeem, reduce, cancel, buy-back or acquire for any consideration any junior securities or parity securities unless and until the Company satisfies in full all outstanding arrears of distribution and any additional distribution amounts; or it is permitted to do so by an extraordinary resolution of the securityholders.

The PSCS has no fixed redemption date. The Company may redeem the PSCS in whole, but not in part, at their principal amount, together with distribution accrued on or at any time after December 14, 2020 in certain specified circumstances specified in the agreements.

In the event of the winding-up of the Company, the rights and claims of the securityholders shall rank ahead of those persons whose claims are in respect of any junior securities of the Company, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company, other than the claims of holders of parity securities.

Securityholders may convert their PSCS into ordinary shares at any time on or after 40 days from the Issue date at the conversion price in effect on the relevant conversion date. The initial conversion ratio was 152,648.6697 shares per US$250,000 principal amount at the initial conversion price, HK$12.78 per Share with a fixed exchange rate of 7.8034 HK$/US$. The Conversion Price will be adjusted in certain circumstances, including subdivisions, consolidation or redenomination, rights issue, bonus issue, reorganization, capital distributions and certain other dilutive event.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

29. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES *(continued)*

KEY TERMS OF THE PSCS *(continued)*

Upon the occurrence of any delisting or suspension arising from or as a result of an application to HKSE having been initiated or made by the Group, the securityholders will have the right to require the Company to redeem all or some only of PSCS at their principal amount, together with any distribution accrued. In the opinion of the management of the Company, the occurrence of such events is highly remote.

30. BORROWINGS

At amortized cost	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Short-term commercial bank loans[1]	192,198	308,311	176,957
Short-term borrowings	192,198	308,311	176,957
2013 USD loan (SMIC Shanghai)	—	10,760	10,760
2015 USD loan (SMIC Shanghai)	—	—	39,641
2015 CDB USD loan (SJ Jiangyin)	—	—	2,000
2015 CDB RMB loan I (SMIC Shanghai)[2]	145,705	153,041	144,155
2015 CDB RMB loan II (SMIC Shanghai)[3]	64,839	72,694	68,473
2015 CDB RMB loan (SMIC Beijing)[4]	26,227	29,231	28,110
2016 CDB RMB loan (SMIC Beijing)[5]	202,529	223,440	210,466
2017 CDB RMB loan (SMIC Shenzhen)[6]	322,153	185,792	—
2015 EXIM RMB loan (SMIC Shanghai)[7]	72,852	76,520	72,077
2017 EXIM RMB loan (SMIC Shanghai)[8]	145,705	153,041	—
2018 EXIM RMB loan I (SMIC Shanghai)[9]	138,419	—	—
2016 EXIM RMB loan I (SMIC Beijing)	—	36,730	34,597
2016 EXIM RMB loan II (SMIC Beijing)[10]	58,282	61,216	57,662
2017 EXIM RMB loan (SMIC Beijing)[11]	69,938	76,520	—
2018 EXIM RMB Loan I (SMIC Beijing)[12]	29,141	—	—
2018 EXIM RMB Loan II (SMIC Beijing)[13]	34,969	—	—
2016 EXIM RMB loan (SMIC)[14]	72,852	76,520	72,077
2017 EXIM RMB loan (SMIC Tianjin)[15]	72,852	76,520	—
2017 EXIM USD loan (SMIC Tianjin)	—	25,000	—
2018 EXIM RMB loan (SMIC Tianjin)[16]	78,680	—	—
2017 EXIM RMB loan (SMIC Shenzhen)[17]	68,481	76,520	—
Loan to LFoundry	—	55,036	43,214
Others[18]	494,946	487,655	482,579
Long-term borrowings	2,098,570	1,876,236	1,265,811
	2,290,768	2,184,547	1,442,768
Current			
Short-term borrowings	192,198	308,311	176,957
Current maturities of long-term borrowings	337,807	132,297	32,217
	530,005	440,608	209,174
Non-current			
Non-current maturities of long-term borrowings	1,760,763	1,743,939	1,233,594
	2,290,768	2,184,547	1,442,768
Borrowing by repayment schedule:			
Within 1 year	530,005	440,608	209,174
Within 1–2 years	434,998	399,301	171,900
Within 2–5 years	895,135	877,315	698,070
Over 5 years	430,630	467,323	363,624
	2,290,768	2,184,547	1,442,768

30. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS

(1) As of December 31, 2018, the Group had 33 short-term credit agreements that provided total credit facilities up to US$2,710.7 million on a revolving credit basis. As of December 31, 2018, the Group had drawn down US$192.2 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 1.93% to 4.35% in 2018.

(2) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS' 300mm fab. As of December 31, 2018, SMIS had drawn down RMB1,000.0 million (approximately US$145.7 million) on this loan facility. The outstanding balance is repayable from November 2021 to November 2030. The interest rate on this loan facility was 1.20% in 2018.

(3) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475.0 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS' 300mm fab. As of December 31, 2018, SMIS had drawn down RMB475.0 million and repaid RMB30.0 million on this loan facility. The outstanding balance of RMB445.0 million (approximately US$64.8 million) is repayable from June 2019 to December 2025. The interest rate on this loan facility was 1.20% in 2018.

(4) In December 2015, SMIB entered into an RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB195.0 million with China Development Bank, which is unsecured. As of December 31, 2018, SMIB had drawn down RMB195.0 million and repaid RMB15.0 million on this loan facility. The outstanding balance of RMB180.0 million (approximately US$26.2 million) is repayable from June 2019 to December 2030. The interest rate on this loan facility was 1.20% in 2018.

(5) In May 2016, SMIB entered into the RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460.0 million with China Development Bank, which is guaranteed by SMIC. As of December 31, 2018, SMIB had drawn down RMB1,460.0 million and repaid RMB70.0 million on this loan facility. The outstanding balance of RMB1,390.0 million (approximately US$202.5 million) is repayable from May 2019 to May 2031. The interest rate on this loan facility was 1.20% in 2018.

(6) In December 2017, SMIZ entered into a loan facility in the aggregate principal amount of RMB5,400.0 million with China Development Bank, which is unsecured. This seven-year bank facility was used to finance the planned expansion for SMIZ's 300mm fab. As of December 31, 2018, SMIZ had drawn down RMB2,211.0 million (approximately US$322.2 million) on this loan facility. The outstanding balance is repayable from December 2019 to December 2024. The interest rate on this loan facility is 4.46% per annum in 2018.

(7) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. In December 2018, the tenor of this bank facility was extended for one and a half years. As of December 31, 2018, SMIS had drawn down RMB500.0 million (approximately US$72.9 million) on this loan facility. The outstanding balance is repayable in June 2020. The interest rate on this loan facility was 2.65% in 2018.

(8) In March 2017, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2018, SMIS had drawn down RMB1,000.0 million (approximately US$145.7 million) on this loan facility. The outstanding balance is repayable in March 2019. The interest rate on this loan facility is 2.65% per annum in 2018.

(9) In October 2018, SMIS entered into a loan facility in the aggregate principal amount of RMB950.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2018, SMIS had drawn down RMB950.0 million (approximately US$138.4 million) on this loan facility. The outstanding balance is repayable in October 2020. The interest rate on this loan facility is 2.92% per annum in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

30. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS *(continued)*

(10) In January 2016, SMIB entered into the RMB loan, a three-year working capital loan facility in the principal amount of RMB400.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of December 31, 2018, SMIB had drawn down RMB400.0 million (approximately US$58.3 million) on this loan facility. The outstanding balance is repayable in January 2019. The interest rate on this loan facility was 2.65% in 2018.

(11) In September 2017, SMIB entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIB's 300mm fab. As of December 31, 2018, SMIB had drawn down RMB500.0 million and repaid RMB20.0 million on this loan facility. The outstanding balance of RMB480.0 million (approximately US$69.9 million) is repayable from March 2019 to September 2022. The interest rate on this loan facility is 2.92% per annum in 2018.

(12) In June 2018, SMIB entered into a loan facility in the aggregate principal amount of RMB200.0 million with The Export-Import Bank of China, which is secured by bank time deposits. This two-year bank facility was used for SMIB's 300mm fab. As of December 31, 2018, SMIB had drawn down RMB200.0 million (approximately US$29.1 million) on this loan facility. The outstanding balance is repayable in June 2020. The interest rate on this loan facility is 2.92% per annum in 2018.

(13) In December 2018, SMIB entered into the RMB loan, a two-year working capital loan facility in the principal amount of RMB240.0 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2018, SMIB had drawn down RMB240.0 million (approximately US$35.0 million) on this loan facility. The outstanding balance is repayable in December 2020. The interest rate on this loan facility was 2.92% in 2018.

(14) In May 2016, SMIC entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of December 31, 2018, SMIC had drawn down RMB500.0 million (approximately US$72.9 million) on this loan facility. The outstanding balance is repayable in May 2019. The interest rate on this loan facility is 4.04% in 2018.

(15) In February 2017, SMIT entered into a RMB loan, a three-year working capital loan facility in the principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of December 31, 2018, SMIT had drawn down RMB500.0 million (approximately US$72.9 million) on this loan facility. The outstanding balance is repayable in February 2020. The interest rate on this loan facility is 4.04% per annum in 2018.

(16) In December 2018, SMIT entered into a loan facility in the aggregate principal amount of RMB540.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used to finance the planned expansion for SMIT's 300mm fab. As of December 31, 2018, SMIT had drawn down RMB540.0 million (approximately US$78.7 million) on this loan facility. The outstanding balance of RMB540.0 million is repayable in December 2023. The interest rate on this loan facility is 2.92% per annum in 2018.

(17) In December 2017, SMIZ entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used to finance the planned expansion for SMIZ's 300mm fab. As of December 31, 2018, SMIZ had drawn down RMB500.0 million and repaid RMB30.0 million on this loan facility. The outstanding balance of RMB470.0 million (approximately US$68.5 million) is repayable from March 2019 to September 2022. The interest rate on this loan facility is 3.40% per annum in 2018.

30. BORROWINGS *(continued)*

SUMMARY OF BORROWING ARRANGEMENTS *(continued)*

(18) Other borrowings represented several batches of production equipment of the Group sold and leased back under the below arrangements:

US$35.2 million of borrowings under new two arrangements entered into by the Group and third-party financing companies in the form of a sale and leaseback transaction with a repurchase option.

US$459.7 million (December 31, 2017: US$487.7 million and December 31, 2016: US$482.6 million) of borrowings under three arrangements entered into by the Group and third-party financing companies in the form of a sale and leaseback transaction with a repurchase option.

As the repurchase prices are set at below US$1.0 which are minimal compared to the expected fair value and the Group is certain that it will exercise the repurchase options, the above arrangements have been accounted for as collateralized borrowings of the Group.

As of December 31, 2018, property, plant and equipment and land use right with carrying amount of approximately US$207.2 million (December 31, 2017: US$362.3 million and December 31, 2016: US$631.4 million) have been pledged to secure borrowings of the Group.

31. CONVERTIBLE BONDS

REDEMPTION OF ZERO COUPON CONVERTIBLE BOND

The Company exercised its right to redeem the US$200.0 million zero coupon convertible bonds due 2018, the US$86.8 million zero coupon convertible bonds due 2018, the US$95.0 million zero coupon convertible bonds due 2018 and the US$22.2 million zero coupon convertible bonds due 2018 (the "Bonds") on March 10, 2017 being the option redemption date when all of the Bonds would be redeemed in cash at 100% of the Bonds' principal amount. The conversion price is HK$7.965, approximately US$1.027. On March 3, 2017, the Company received notices from all holders of the Bonds for the full conversion of the outstanding Bonds. As all outstanding Bonds have been fully converted and no Bonds remain outstanding, no redemption of the Bonds will be carried out. The Company delisted the Bonds from the Singapore Exchange Securities Trading Limited.

ISSUE OF US$450 MILLION ZERO COUPON CONVERTIBLE BONDS DUE 2022

The Company issued convertible bonds at a par value of US$250,000 each with an aggregate principal amount of US$450,000,000 on July 7, 2016 (the "2016 Convertible Bonds").

The 2016 Convertible Bonds issued on July 7, 2016 is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the 2016 Convertible Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. As at the date of issue, the fair value of the liability component of the 2016 Convertible Bonds was approximately US$387.9 million and the equity component was approximately US$52.9 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD'000
Principal amount	450,000
Transaction cost	(9,194)
Liability component as at the date of issue	(387,871)
Equity component as at the date of issue	52,935

31. CONVERTIBLE BONDS *(continued)*

ISSUE OF US$450 MILLION ZERO COUPON CONVERTIBLE BONDS DUE 2022 *(continued)*

Subsequent to the initial recognition, the liability component of the 2016 Convertible Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the 2016 Convertible Bonds was 3.78% per annum. The movement of the liability component and the equity component of the 2016 Convertible Bonds for the year ended December 31, 2018 is set out below:

	Liability Component	Equity Component	Total
	USD'000	USD'000	USD'000
As at the date of issue	387,871	52,935	440,806
Interest charged	7,339	—	7,339
Balance at December 31, 2016	395,210	52,935	448,145
Interest charged	14,913	—	14,913
Conversion options exercised	(6,794)	(882)	(7,676)
Balance at December 31, 2017	403,329	52,053	455,382
Interest charged	15,263	—	15,263
Balance at December 31, 2018	418,592	52,053	470,645

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the 2016 Convertible Bonds mature.

As at December 31, 2018, 371,589,975 ordinary shares will be issued upon full conversion of the 2016 Convertible Bonds.

KEY TERMS OF THE 2016 CONVERTIBLE BONDS

The 2016 Convertible Bonds with no interest born will mature on July 7, 2022. If payment of principal or premium is improperly withheld or refused, such unpaid amount shall bear interest at the rate of 2.00% per annum. All the 2016 Convertible Bonds which are redeemed, converted or purchased by the Company will forthwith be cancelled.

The Company will redeem the outstanding 2016 Convertible Bonds at principal amount on July 7, 2022 or in certain specified circumstances specified in the agreements.

The Company may at any time and from time to time purchase the 2016 Convertible Bonds at any price in the open market or otherwise.

Bondholders may convert their bonds into ordinary shares at any time on or after August 17, 2016. 3,778,881,081 conversion shares will be issued upon full conversion of the 2016 Convertible Bonds based on the conversion price of HK$9.25 with a fixed exchange rate of 7.7677 HK$/US$.

Upon the occurrence of a change of control of the Company, the bondholders will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the change of control put date at their principal amount of the 2016 Convertible Bonds.

32. BONDS PAYABLE

On October 7, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US$500.0 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the date of issue, the net book value of the liabilities amounted to US$491.2 million after the deduction of (1) a discount of US$5.2 million and (2) issue expenses of US$3.6 million.

	USD'000
Principal amount	500,000
Discount of bonds payable	(5,185)
Transaction cost	(3,634)
Bonds payable as at the date of issue	491,181

32. BONDS PAYABLE *(continued)*

The movement of the corporate bonds for the year ended December 31, 2018 is set out below:

	USD'000
Balance at December 31, 2015	493,207
Interest charged	22,327
Interest payable recognized	(20,625)
Balance at December 31, 2016	494,909
Interest charged	22,405
Interest payable recognized	(20,625)
Balance at December 31, 2017	496,689
Interest charged	22,487
Interest payable recognized	(20,625)
Balance at December 31, 2018	498,551

33. MEDIUM-TERM NOTES

On June 8, 2016, the Company issued the three-year medium-term notes of RMB1,500.0 million (approximately US$226.2 million) through National Association of Financial Market Institutional Investors ("NAFMII"). The medium-term notes carry a coupon interest rate of 3.35% per annum with note interest due annually on June 8, 2017, June 8, 2018 and June 10, 2019. As at the date of issue, the net book value of the liabilities of medium-term notes amounted to RMB1,485.2 million (approximately US$223.9 million).

	USD'000
Principal amount	226,162
Transaction cost	(2,226)
Notes payable as at the date of issue	223,936

The movement of the medium-term notes for the period ended December 31, 2018 is set out below:

	USD'000
As at the date of issue	223,936
Interest charged	4,625
Interest payable recognized	(4,225)
Foreign exchange gain	(9,834)
Balance at December 31, 2016	214,502
Interest charged	8,185
Interest payable recognized	(7,450)
Foreign exchange loss	13,246
Balance at December 31, 2017	228,483
Interest charged	8,335
Interest payable recognized	(7,593)
Foreign exchange gain	(10,978)
Balance at December 31, 2018	218,247

34. DEFERRED GOVERNMENT FUNDING

GOVERNMENT FUNDING UNDER SPECIFIC R&D PROJECTS

The Group received government funding (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US$265.0 million, US$178.3 million and US$181.1 million and recognized US$105.3 million, US$82.2 million and US$52.5 million as reductions of certain R&D expenses in 2018, 2017 and 2016 for several specific R&D projects respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of depreciation over the useful life of R&D equipment and of R&D expenses until the milestones specified in the terms of the funding have been reached.

GOVERNMENT FUNDING FOR SPECIFIC INTENDED USE

The Group received government funding of US$51.7 million, US$51.6 million and US$21.2 million in 2018, 2017 and 2016, respectively. The Group recognized US$19.5 million, US$24.2 million and US$11.6 million as reduction of interest expense (Note 8) and recognized US$32.2 million, US$27.4 million and US$9.5 million as other operating income (Note 7) in 2018, 2017 and 2016, respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of interest expense or as other operating income until the requirements (if any) specified in the terms of the funding have been reached.

35. TRADE AND OTHER PAYABLES

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Trade payables	823,443	837,843	781,161
Deposit received	38,713	54,895	41,324
Other payable	102,704	114,686	75,121
	964,860	1,007,424	897,606

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

As of December 31, 2018, 2017 and 2016, trade payables were US$823.4 million, US$837.8 million and US$781.2 million, within which the payables for property, plant and equipment were US$461.6 million, US$506.7 million and US$483.0 million, respectively.

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

Age of payables	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Within 30 days	657,172	658,804	630,896
31–60 days	50,815	68,358	43,984
Over 60 days	115,456	110,681	106,281
	823,443	837,843	781,161

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

36. ACCRUED LIABILITIES

The amounts of accrued liabilities as of December 31, 2018, 2017 and 2016 were US$164.6 million, US$180.9 million and US$230.5 million, within which the amounts of accrued payroll expenses were US$73.7 million, US$116.7 million and US$163.6 million, respectively.

37. SHARE-BASED PAYMENTS

STOCK INCENTIVE PLANS

The Company's stock incentive plans allow the Company to offer a variety of incentive awards to employees, consultants or external service advisors of the Group.

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 four years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

Restricted share units ("RSUs")

The Company adopted the Equity Incentive Plan ("EIP") whereby the Company provided additional incentives to the Group's employees, directors and external consultants through the issuance of restricted shares, RSUs and stock appreciation rights to the participants at the discretion of the Board of Directors. The RSUs vest over a requisite service period of 4 years and expire 10 years from the date of grant.

The fair value of each RSU granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted.

Share option plan for subsidiary ("Subsidiary Plan")

The options granted under the Subsidiary Plan shall entitle a participant of the Subsidiary Plan to purchase a specified number of subsidiary shares during a specified period at the price fixed by the relevant subsidiary committee at the time of grant or by a method specified by the relevant subsidiary committee at the time of grant and expire 10 years from the date of grant. The options vest over a requisite service period of four years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

The expense recognized for employee services received during the year is shown in the following table:

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Expense arising from equity-settled share-based payment transactions	**11,661**	18,214	14,210

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37. SHARE-BASED PAYMENTS *(continued)*

MOVEMENTS DURING THE YEAR

(i) The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year (excluding Restricted Share Units ("RSUs") and share option plan for subsidiary ("Subsidiary Plan"):

	2018 Number	2018 WAEP	2017 Number	2017 WAEP	2016 Number*	2016 WAEP*
Outstanding at January 1	52,881,278	US$0.83	72,482,764	US$0.82	100,295,578	US$0.82
Granted during the period	19,344,334	US$1.33	6,071,477	US$1.14	2,076,652	US$0.92
Forfeited and expired during the period	(8,879,102)	US$1.13	(3,842,461)	US$1.33	(6,430,431)	US$1.16
Exercised during the period	(11,738,316)	US$0.68	(21,830,502)	US$0.78	(23,459,035)	US$0.75
Outstanding at December 31	51,608,194	US$1.00	52,881,278	US$0.83	72,482,764	US$0.82
Exercisable at December 31	25,796,944	US$0.79	39,511,002	US$0.78	50,708,535	US$0.77

As at December 31, 2018, the 25,796,944 outstanding share options were exercisable (December 31, 2017: 39,511,002 and December 31, 2016: 50,708,535*).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2018 was 5.66 years (2017: 5.21 years and 2016: 5.29 years).

The range of exercise prices for options outstanding at the end of the year was from US$0.34 to US$1.34 (2017: from US$0.23 to US$1.38 and 2016: from US$0.23* to US$1.48*).

The weighted average closing price of the Company's shares immediately before the dates while the share options were exercised was US$1.12 (2017: US$1.44 and 2016: US$1.24*).

During the year ended December 31, 2018, share options were granted on May 23, 2018, September 13, 2018 and November 19, 2018. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.50, US$0.73 and US$0.38, respectively.

During the year ended December 31, 2017, share options were granted on April 5, 2017, May 22, 2017 and September 7, 2017. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.56, US$0.42 and US$0.40, respectively.

During the year ended December 31, 2016, share options were granted on May 25, 2016, September 12, 2016 and November 18, 2016. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.36*, US$0.42* and US$0.52*, respectively.

* The number, price and fair value of share options for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares and preferred shares of US$0.0004 each consolidated into one ordinary share and preferred share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

37. SHARE-BASED PAYMENTS *(continued)*

MOVEMENTS DURING THE YEAR *(continued)*

(i) *(continued)*

The following table list the inputs to the Black-Scholes Option Pricing models used for the option granted during the years ended December 31, 2018, 2017 and 2016 respectively:

	2018	2017	2016
Dividend yield (%)	—	—	—
Expected volatility	40.16%	42.80%	44.80%
Risk-free interest rate	2.84%	1.84%	1.39%
Expected life of share options	5 years	6 years	6 years

The risk-free rate for periods within the contractual life of the option is based on the yield of the US Treasury Bond. The expected term of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the average volatility of the Company's stock prices with the time period commensurate with the expected term of the options. The dividend yield is based on the Company's intended future dividend plan.

The valuation of the options are based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

(ii) The following table illustrates the number and weighted average fair value ("WAFV") of, and movements in, RSUs during the year (excluding stock option plan and Subsidiary Plan):

	2018 Number	2018 WAFV	2017 Number	2017 WAFV	2016 Number*	2016 WAFV*
Outstanding at January 1	28,701,097	US$1.05	26,489,152	US$0.98	30,451,268	US$0.99
Granted during the period	8,068,466	US$1.27	14,055,477	US$1.11	8,738,247	US$0.86
Forfeited during the period	(4,582,729)	US$1.07	(950,412)	US$1.04	(1,124,847)	US$0.98
Exercised during the period	(12,333,620)	US$1.03	(10,893,120)	US$0.97	(11,575,516)	US$0.91
Outstanding at December 31	19,853,214	US$1.12	28,701,097	US$1.05	26,489,152	US$0.98

As at December 31, 2018, the number of outstanding RSUs granted 19,853,214 (December 31, 2017: 28,701,097 and December 31, 2016: 26,489,152*).

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2018 was 8.29 years (2017: 8.51 years and 2016: 8.37 years).

The weighted average closing price of the Company's shares immediately before the dates on which the RSUs were exercised was US$1.33 (2017: US$1.29 and 2016: US$0.83*).

During the year ended December 31, 2018, RSUs were granted on May 23, 2018, September 13, 2018 and November 19, 2018. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US$1.30, US$1.09 and US$0.87, respectively.

* The number and fair value of RSUs for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares and preferred shares of US$0.0004 each consolidated into one ordinary share and preferred share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

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For the year ended December 31, 2018

37. SHARE-BASED PAYMENTS *(continued)*

MOVEMENTS DURING THE YEAR *(continued)*

(ii) *(continued)*

During the year ended December 31, 2017, RSUs were granted on April 5, 2017, May 22, 2017, September 7, 2017 and December 7, 2017. The fair values of the RSUs determined at the date of grant using the Black-Scholes Option Pricing model were US$1.24, US$1.09, US$1.01 and US$1.31, respectively.

During the year ended December 31, 2016, RSUs were granted on May 25, 2016, September 12, 2016 and November 18, 2016. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.82*, US$1.11* and US$1.39*, respectively.

The following table list the inputs to the models used for the plans for the years ended December 31, 2018, 2017 and 2016, respectively:

	2018	2017	2016
Dividend yield (%)	—	—	—
Expected volatility	39.77%	39.45%	39.66%
Risk-free interest rate	2.54%	1.24%	0.91%
Expected life of share options	2 years	2 years	2 years

The risk-free rate for periods within the contractual life of the RSUs is based on the yield of the US Treasury Bond. The expected term of RSUs granted represents the period of time that RSUs granted are expected to be outstanding. Expected volatilities are based on the average volatility of the Company's stock prices with the time period commensurate with the expected term of the RSUs. The dividend yield is based on the Company's intended future dividend plan.

The valuation of the RSUs is based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these RSUs.

* The number and fair value of RSUs for 2016 have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares and preferred shares of US$0.0004 each consolidated into one ordinary share and preferred share of US$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016.

(iii) The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options of the Subsidiary Plan during the year (excluding stock option plan and RSUs):

	2018 Number	2018 WAEP	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Outstanding at January 1	14,918,802	US$0.20	14,598,750	US$0.19	7,000,000	US$0.06
Granted during the period	7,349,500	US$0.36	1,598,750	US$0.31	7,698,750	US$0.31
Forfeited and expired during the period	(2,029,167)	US$0.29	(934,948)	US$0.05	(100,000)	US$0.05
Exercised during the period	(192,500)	US$0.36	(343,750)	US$0.25	—	—
Outstanding at December 31	20,046,635	US$0.25	14,918,802	US$0.20	14,598,750	US$0.19
Exercisable at December 31	10,333,724	US$0.17	7,079,401	US$0.15	3,297,135	US$0.07

The weighted average remaining contractual life for the share options outstanding as at December 31, 2018 was 7.9 years (2017: 8.3 years and 2016: 9.2 years).

37. SHARE-BASED PAYMENTS *(continued)*

MOVEMENTS DURING THE YEAR *(continued)*

(iii) *(continued)*

The range of exercise prices for options outstanding at the end of the year was from US$0.05 to US$0.36 (2017: from US$0.05 to US$0.31 and 2016: from US$0.05 to US$0.31).

During the year ended December 31, 2018, share option of the Subsidiary Plan was granted on March 13, 2018. The fair values of the option of the Subsidiary Plan determined at the dates of grant using the Black-Scholes Option Pricing model was US$0.19.

During the year ended December 31, 2017, share options of the Subsidiary Plan were granted on August 9, 2017. The fair values of the options of the Subsidiary Plan determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.11.

During the year ended December 31, 2016, share options of the Subsidiary Plan were granted on December 27, 2016. The fair values of the options of the Subsidiary Plan determined at the dates of grant using the Black-Scholes Option Pricing model were US$0.14.

The following table list the inputs to the Black-Scholes Option Pricing models used for the option of the Subsidiary Plan granted during the years ended December 31, 2018:

	2018	2017	2016
Dividend yield (%)	—	—	—
Expected volatility	53.0%	32.0%	41.5%
Risk-free interest rate	2.70%	1.90%	2.10%
Expected life of share options	6 years	6 years	6 years

The risk-free rate for periods within the contractual life of the option of the Subsidiary Plan is based on the yield of the US Treasury Bond. The expected term of options of the Subsidiary Plan granted represents the period of time that options of the Subsidiary Plan granted are expected to be outstanding. Expected volatilities are based on the average volatility of the relevant subsidiary's set of public comparables with the time period commensurate with the expected term of the options. The dividend yield is based on the relevant subsidiary's intended future dividend plan.

The valuation of the options of the Subsidiary Plan are based on the best estimates from the relevant subsidiary by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

38. RISK MANAGEMENT

CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debt (debt as detailed in Note 30, Note 31, Note 32 and Note 33 offset by cash and cash equivalent) and equity of the Group.

The Group manages its capital through issuing/repurchasing shares and raising/repayment of debts and reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

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For the year ended December 31, 2018

38. RISK MANAGEMENT *(continued)*

CAPITAL MANAGEMENT *(continued)*

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

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Debt*	**3,426,158**	3,313,048	3,025,283
Cash and cash equivalent	**(1,786,420)**	(1,838,300)	(2,126,011)
Financial asset at fair value through profit or loss — current	**(41,685)**	—	—
Financial assets at amortized cost	**(1,996,808)**	—	—
Other financial assets — current	**—**	(683,812)	(31,543)
Net debt	**(398,755)**	790,936	867,729
Equity	**8,923,580**	6,721,335	5,403,227
Net debt to equity ratio	**−4.5%**	11.8%	16.1%

* Debt is defined as long-term and short-term borrowings (excluding derivatives), convertible bonds, short-term and medium-term notes, and bonds payables as described in Note 30, Note 31, Note 32 and Note 33.

FINANCIAL RISK MANAGEMENT

The Group's corporate treasury function co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import from suppliers;
- interest rate swaps to mitigate the risk of rising interest rates; and
- cross-currency interest rate swap contracts to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debts and financial asset at amortized cost denominated in a currency other than the US dollar.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as at December 31, 2018, 2017 and 2016.

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

38. RISK MANAGEMENT *(continued)*

FOREIGN CURRENCY RISK

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities			Assets		
	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
EUR	50,601	125,171	112,827	37,800	72,181	39,619
JPY	54,166	30,422	41,976	41,589	29,245	35,237
RMB	2,757,762	2,410,284	2,714,492	2,989,434	1,765,846	1,633,433
Others	51,829	43,824	27,083	905	8,688	3,860

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of RMB, Japanese Yen ("JPY") and Euros ("EUR").

The following table details the Group's sensitivity to a 5% increase in the foreign currencies against USD. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. For a 5% decrease of the foreign currency against USD, there would be an equal and opposite impact on the profit or equity below predicted.

	EUR			JPY			RMB			Others		
	2018 USD'000	2017 USD'000	2016 USD'000	2018 USD'000	2017 USD'000	2016 USD'000	2018 USD'000	2017 USD'000	2016 USD'000	2018 USD'000	2017 USD'000	2016 USD'000
Profit or loss	(640)	(2,650)	(3,660)	(662)	(62)	(355)	12,193	(33,918)	(6,611)	(2,679)	(1,848)	(1,222)
Equity	(640)	(2,650)	(3,660)	(662)	(62)	(355)	12,193	(33,918)	(6,611)	(2,679)	(1,848)	(1,222)

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within the exposure generated. The Group also enters into forward foreign exchange contracts to manage the foreign currency exposure from purchases/sales and financing activities.

The following table details the forward foreign currency ("FC") contracts outstanding at the end of the reporting period:

	Average exchange rate			Foreign currency			Notional value			Net fair value assets (liabilities)		
	2018	2017	2016	12/31/18 FC'000	12/31/17 FC'000	12/31/16 FC'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Buy EUR												
Less than 3 months	—	1.2019	—	—	2,080	—	—	2,500	—	—	(2)	—
Buy RMB												
Less than 3 months	—	6.7622	—	—	648,364	—	—	95,881	—	—	2,111	—
							—	98,381	—	—	2,109	—

The Group does not enter into foreign currency exchange contracts for speculative purposes.

38. RISK MANAGEMENT *(continued)*

FOREIGN CURRENCY RISK *(continued)*

Cross currency swap contracts

It is the policy of the Group to enter into cross currency swap contracts to protect against volatility of future cash flows caused by the changes in exchange rates associated with outstanding debt denominated in a currency other than the US dollar.

In 2018, 2017 and 2016, the Group entered into or issued several RMB denominated loan facility agreements, short-term notes and medium-term notes (the "RMB Debts") in the aggregate principal amount of RMB3,321.5 million, RMB3,714.0 million and RMB5,447.0 million (approximately US$484.0 million, US$568.4 million and US$785.2 million), respectively. In addition, the Group held several RMB denominated financial assets at amortized cost (the "RMB Assets") in the aggregate principal amount of RMB2,130.1 million (approximately US$258.0 million). The Group was primarily exposed to changes in the exchange rate for the RMB.

To minimize the currency risk, the Group entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the whole part of these RMB Debts and repurchase schedule of the whole part of these RMB Assets to protect against the adverse effect of exchange rate fluctuations arising from the RMB Debts and Assets. As of December 31, 2018, the Group had outstanding cross currency swap contracts with notional amounts of RMB9,527.5 million (approximately US$1,388.2 million, as of December 31, 2017: US$979.2 million and 2016: US$854.4 million) to buy RMB and notional amounts of RMB3,028.8million (approximately US$441.3 million, as of December 31, 2017: nil and 2016: nil) to sell RMB.

The cross currency swap contracts were designated as hedging instrument of cash flow hedges since October 2016. Any gains or losses arising from changes in fair value of cross currency swap contracts are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

During the year, US$2.3 million gain of fair value change of cross currency swap as cash flow hedges was recognized in other gains or losses, net (Note 9, 2017: US$2.2 million gain and 2016: US$15.0 million loss). The following foreign-exchange related amounts of cash flow hedges were recognized in profit or loss and other comprehensive income or loss:

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Other comprehensive income (loss) on cash flow hedges recognized during the year:			
Total fair value (loss) gain included in other comprehensive income (loss)	(48,714)	95,185	(66,861)
Reclassified from other comprehensive income (loss) to offset foreign exchange gains or losses	84,645	(60,042)	32,234
	35,931	35,143	(34,627)
Balance of cash flow hedges reserve at beginning of the year	516	(34,627)	—
Balance of cash flow hedges reserve at end of the year	36,447	516	(34,627)

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38. RISK MANAGEMENT *(continued)*

FOREIGN CURRENCY RISK *(continued)*

Cross currency swap contracts *(continued)*

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

	Average exchange rate			Foreign currency			Notional value			Net fair value assets (liabilities)		
	2018	2017	2016	12/31/18 FC'000	12/31/17 FC'000	12/31/16 FC'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Buy RMB												
3 months to 1 year	6.8681	6.6369	6.6592	5,852,000	1,040,000	787,000	852,663	159,163	113,450	(11,650)	3,997	(6,348)
1 year to 5 years	6.8635	6.6356	6.5830	3,675,529	5,358,000	5,140,000	535,542	819,993	740,954	(10,274)	15,679	(74,170)
Sell RMB												
3 months to 1 year	6.8912	—	—	3,028,809	—	—	441,312	—	—	(1,573)	—	—
							1,829,517	979,156	854,404	(23,497)	19,676	(80,518)

The Group does not enter into cross currency swap contracts for speculative purposes.

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 and cross currency swap contracts.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

A 10 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 10 basis points higher and all other variables were held constant, the Group's profit for the year ended December 31, 2018 would increase by US$0.9 million (2017: profit increase by US$0.4 million and 2016: profit decrease by US$0.5 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

PRICE RISK

The group's exposure to equity securities price risk arises from investments held by the group and classified in the balance sheet as at fair value through profit or loss (Note 21).

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

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 financial assets at amortized cost and financial assets at FVPL.

38. RISK MANAGEMENT *(continued)*

CREDIT RISK *(continued)*

Credit risk management

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and is offered credit terms only with the approval from Finance and Sales Division. Credit quality of a customer is assessed using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and credit ratings of its counterparties are continuously monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Apart from Customers A, B, C and D, four largest customers of the Group, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Customers A, B, C and D did not exceed 2%, 2%, 1% and 1% respectively of gross monetary assets at the end of current year. Concentration of credit risk to any other counterparty did not exceed 1% of gross monetary assets at the end of current year.

Net revenue and accounts receivable for customers which accounted for 10% or more of the Group's net sales and gross accounts receivable is disclosed in Note 6.

Trade receivables

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance as at December 31, 2018 and January 1, 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

December 31, 2018	Current USD'000	31–60 days USD'000	61–90 days USD'000	91–120 days USD'000	Over 120 days USD'000	Total USD'000
Expected loss rate	0.1%	2%	4%	14%	44%	
Trade receivables	385,633	11,174	10,742	2,508	1,996	412,053
Allowance on doubtful trade receivables	276	173	481	342	883	2,155

January 1, 2018	Current USD'000	31–60 days USD'000	61–90 days USD'000	91–120 days USD'000	Over 120 days USD'000	Total USD'000
Expected loss rate	0.1%	2%	4%	15%	42%	
Trade receivables	394,079	9,796	1,960	732	1,408	407,975
Allowance on doubtful trade receivables	343	212	79	110	591	1,335

38. RISK MANAGEMENT *(continued)*

CREDIT RISK *(continued)*

Trade receivables *(continued)*

The closing allowance on doubtful trade receivables as at December 31, 2018 reconcile to the opening balance as follows:

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Balance at the beginning of the year	1,335	1,491	41,976
Addition in allowance on doubtful trade receivables	964	301	201
Amounts written off during the year as uncollectible	—	(19)	(39,083)
Reversal of allowance on doubtful trade receivables	(27)	(438)	(1,603)
Reclassified as held-for-sale	(117)	—	—
Balance at the end of the year	2,155	1,335	1,491

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 180 days past due.

Other financial assets at amortized cost

Other financial assets at amortized cost include bank deposits will mature over 3 months, debentures, refundable deposits and other receivables. The main credit risk on bank deposits will mature over 3 months is limited because the counterparties are banks with high credit-ratings. All of the Group's financial assets at amortized cost are considered to have low credit risk as no significant increase in credit risk since the initial recognition.

Based on the assessment, the loss allowance recognized during the year for other financial assets at amortized cost was immaterial to 12 months expected losses. Thus there were no loss allowance for other financial assets at amortized cost as at December 31, 2018 and as at December 31, 2017 reconciles to the opening loss allowance on January 1, 2018.

Financial assets at fair value through profit or loss

The Group is also exposed to credit risk in relation to financial assets that are measured at fair value through profit or loss. The maximum exposure at the end of the year is the carrying amount of these investments, amounted to US$97.2 million.

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

December 31, 2018		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
Interest-bearing bank	Fixed	2.26%	2,192	124,797	282,735	270,316	680,040
and other borrowings	Floating	2.70%	215,561	190,894	1,050,020	161,621	1,618,096
Convertible bonds		3.79%	—	—	442,500	—	442,500
Bonds payable		4.52%	—	500,000	—	—	500,000
Medium-term notes		3.70%	—	226,162	—	—	226,162
Trade and other payables			911,415	15,129	36,105	2,211	964,860
Other liabilities			14,570	19,670	41,820	—	76,060
Contingent consideration			—	—	11,948	—	11,948
			1,143,738	1,076,652	1,865,128	434,148	4,519,666

December 31, 2017		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
Interest-bearing bank	Fixed	3.20%	140,338	24,757	313,497	338,632	817,224
and other borrowings	Floating	2.36%	16,712	87,753	958,367	307,003	1,369,835
Convertible bonds		3.79%	—	—	442,500	—	442,500
Bonds payable		4.52%	—	—	500,000	—	500,000
Medium-term notes		3.70%	—	—	226,162	—	226,162
Finance lease payables		3.68%	434	1,308	4,935	—	6,677
Trade and other payables			880,795	5,492	161,169	3,004	1,050,460
Other liabilities			—	20,661	64,462	—	85,123
Contingent consideration			—	—	12,549	—	12,549
			1,038,279	139,971	2,683,641	648,639	4,510,530

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(continued)*

Liquidity and interest risk tables *(continued)*

December 31, 2016		Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
Interest-bearing bank	Fixed	2.50%	130,728	6,729	131,474	384,382	653,313
and other borrowings	Floating	2.62%	6,039	67,347	785,059	4,781	863,226
Convertible bonds		2.78–3.79%	393,200	—	450,000	—	843,200
Bonds payable		4.52%	—	—	500,000	—	500,000
Medium-term notes		3.70%	—	—	226,162	—	226,162
Short-term notes		2.99%	—	90,465	—	—	90,465
Finance lease payables		3.68%	382	1,147	6,118	—	7,647
Trade and other payables			915,840	1,353	21,706	1,654	940,553
			1,446,189	167,041	2,120,519	390,817	4,124,566

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

December 31, 2018	Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
Trade and other receivables		837,828	—	—	—	837,828
Cash and cash equivalent, restricted cash* and financial assets at amortized cost	2.29%	2,698,067	1,293,246	—	—	3,991,313
Financial assets at fair value through profit or loss		41,805	—	—	55,472	97,277
		3,577,700	1,293,246	—	55,472	4,926,418

December 31, 2017	Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
Trade and other receivables		616,308	—	—	—	616,308
Cash and cash equivalent, restricted cash* and short-term investments	1.25%	2,231,089	276,723	116,282	—	2,624,094
Available-for-sale financial assets		—	—	—	24,844	24,844
		2,847,397	276,723	116,282	24,844	3,265,246

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For the year ended December 31, 2018

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(continued)*

Liquidity and interest risk tables *(continued)*

December 31, 2016	Weighted average effective interest rate	Less than 3 months USD'000	3 months to 1 year USD'000	1–5 years USD'000	5+ years USD'000	Total USD'000
Trade and other receivables		645,822	—	—	—	645,822
Cash and cash equivalent, restricted cash* and short-term investments	1.19%	2,000,717	480,379	21,125	—	2,502,221
Available-for-sale financial assets		—	—	—	21,966	21,966
		2,646,539	480,379	21,125	21,966	3,170,009

* The above restricted cash exclude the cash received from government funds.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The Group has access to short-term financing facilities as described in below section, of which US$2,518.5 million were unused at the end of the reporting period (2017: US$1,810.2 million and 2016: US$1,873.8 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2018	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Above 5 years USD'000	Total USD'000
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
— inflows	—	607,595	508,984	—	1,116,579
— (outflows)	—	(613,270)	(528,383)	—	(1,141,653)
Net settled:					
— net inflows	(8,783)	—	(738)	—	(9,521)
Cross currency swap contracts					
Gross settled:					
— inflows	—	262,652	—	—	262,652
— (outflows)	—	(261,472)	—	—	(261,472)
	(8,783)	(4,495)	(20,137)	—	(33,415)

38. RISK MANAGEMENT *(continued)*

LIQUIDITY RISK *(continued)*

Liquidity and interest risk tables (continued)

December 31, 2017	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Above 5 years USD'000	Total USD'000
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
— inflows	—	37,703	512,067	—	549,770
— (outflows)	—	(34,254)	(480,984)	—	(515,238)
Net settled:					
— net inflows	—	2,854	20,730	—	23,584
	—	6,303	51,813	—	58,116

December 31, 2016	Less than 3 months USD'000	3 months to 1 year USD'000	1 year to 5 years USD'000	Above 5 years USD'000	Total USD'000
Cross currency swap contracts					
— cash flow hedges					
Gross settled:					
— inflows	—	71,120	403,265	—	474,385
— (outflows)	—	(72,872)	(396,332)	—	(469,204)
Net settled:					
— net inflows	—	(1,355)	(1,475)	—	(2,830)
	—	(3,107)	5,458	—	2,351

39. CASH FLOW INFORMATION

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	12/31/2017	Net cash flows in financing activities	Reclassified as held-for-sale	Foreign exchange gain	Other non-cash movement[(1)]	12/31/2018
Short-term borrowings	308,311	(108,348)	—	(7,765)	—	192,198
Long-term borrowings	1,876,236	353,998	(58,467)	(73,197)	—	2,098,570
Convertible bonds	403,329	—	—	—	15,263	418,592
Bonds payable	496,689	—	—	—	1,862	498,551
Medium-term notes	228,483	—	—	(10,978)	742	218,247
Currency swap contracts classified as derivative financial instruments as assets — cash flow hedges	(22,337)	—	—	—	15,646	(6,691)
Currency swap contracts classified as derivative financial instruments as liabilities — cash flow hedges	2,661	—	—	—	28,685	31,346
	3,293,372	245,650	(58,467)	(91,940)	62,198	3,450,813

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For the year ended December 31, 2018

39. CASH FLOW INFORMATION *(continued)*

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(continued)*

	12/31/2016	Net cash flows in financing activities	Conversion options exercised	Foreign exchange loss	Other non-cash movement[1]	12/31/2017
Short-term borrowings	176,957	127,715	—	3,639	—	308,311
Long-term borrowings	1,265,811	529,928	—	80,497	—	1,876,236
Convertible bonds	786,611	—	(399,099)	—	15,817	403,329
Bonds payable	494,909	—	—	—	1,780	496,689
Medium-term notes	214,502	—	—	13,246	735	228,483
Short-term notes	86,493	(87,858)	—	1,365	—	—
Currency swap contracts classified as other financial assets	—	—	—	—	(22,337)	(22,337)
Currency swap contracts classified as other financial liabilities	80,518	—	—	—	(77,857)	2,661
	3,105,801	569,785	(399,099)	98,747	(81,862)	3,293,372

(1) Other non-cash movements were accrued interest expenses for bonds and notes and fair value change of currency swap contracts.

NON-CASH INVESTING ACTIVITIES

The acquisition of tangible and intangible assets by means of long-term payables amounted to zero and US$97.6 million in 2018 and in 2017, respectively.

40. RELATED PARTY TRANSACTIONS

The names of the related parties which had transactions with the Group for the year ended December 31, 2018 and the relationships with the Group are disclosed below:

Related party name	Relationship with the Group
Datang Microelectronics Technology Co., Ltd	A subsidiary of Datang Group
Datang Semiconductor Co., Ltd.	A subsidiary of Datang Group
Leadcore Technology Co., Ltd and Leadcore Technology (Hong Kong) Co., Ltd ("Leadcore")	A subsidiary of Datang Group
Datang Telecom Group Finance Co., Ltd ("Datang Finance")	A subsidiary of Datang Group
Toppan SMIC Electronic (Shanghai) Co., ("Toppan")	An associate of the Group
Brite Semiconductor (Shanghai) Corporation and its subsidiaries ("Brite")	An associate of the Group
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	An associate of the Group
Zhongxin Xiecheng Investment (Beijing) Co., Ltd ("Zhongxin Xiecheng")	An associate of the Group
Jiangsu Changjiang Electronics Technology Co., Ltd ("JCET") and its subsidiaries	An associate of the Group
Sino IC Leasing Co., Ltd ("Sino IC Leasing")	An associate of the Group
Semiconductor Manufacturing Electronics (Shaoxing) Corp. ("SMEC")	An associate of the Group
Ningbo Semiconductor International Corporation ("NSI")	An associate of the Group

40. RELATED PARTY TRANSACTIONS *(continued)*

TRADING TRANSACTIONS

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sale of goods Year ended			Sale of services Year ended		
	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Datang Microelectronics Technology Co., Ltd[1]	9,783	15,667	14,146	—	—	—
Datang Semiconductor Co., Ltd[1]	117	535	464	—	—	—
Leadcore[1]	2,018	3,960	3,267	—	—	—
Toppan	—	—	—	4,050	3,896	3,481
Brite	33,568	44,212	31,506	—	—	—
JCET and its subsidiaries	64	17	—	89	48	—
SMEC	11,346	—	—	—	—	—
NSI	862	—	—	2,128	—	—
China Fortune-Tech	—	—	—	—	—	65

	Purchase of goods Year ended			Purchase of services Year ended		
	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Datang Microelectronics Technology Co., Ltd[1]	—	—	—	106	—	—
Toppan	7,277	11,275	8,869	32	59	856
Zhongxin Xiecheng	—	—	—	—	—	4
Brite	—	—	25	96	2,016	2,887
China Fortune-Tech	—	—	—	352	959	313
Datang Finance[1]	—	—	—	—	—	15
JCET and its subsidiaries	9,923	1,778	1,097	819	620	1,189
Sino IC Leasing[1]	—	—	—	87,071	51,739	—

	Sale of equipment Year ended			Grant of licensing Year ended		
	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Sino IC Leasing[2]	306,750	661,455	249,162	—	—	—
SMEC[3]	68,829	—	—	163,845	—	—

The following balances were outstanding at the end of the reporting period:

	Amounts due from related parties			Amounts due to related parties		
	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Datang Microelectronics Technology Co., Ltd	3,379	4,279	6,354	—	—	—
Datang Semiconductor Co., Ltd	10	302	—	—	—	—
Leadcore	936	—	—	—	—	—
Toppan	2,365	670	615	737	888	2,414
Brite	10,775	12,951	6,507	—	—	279
JCET and its subsidiaries	47	21	—	948	3	736
SMEC	104,506	—	—	—	—	—
NSI	2,922	—	—	—	—	—
China Fortune-Tech	—	—	38	—	—	—
Sino IC Leasing[4]	44,702	—	—	—	—	—

(1) The related party transactions in respect of (1) above constituted non-exempt continuing connected transactions as defined in Chapter 14A of the Listing Rules. Details are disclosed from Page 52 to Page 77 Non-exempt Continuing Connect Transactions. The other party transactions did not constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules.

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For the year ended December 31, 2018

40. RELATED PARTY TRANSACTIONS *(continued)*

TRADING TRANSACTIONS *(continued)*

(2) Several batches of production equipment of the Group was sold and leased back under the below arrangements:

In July 2018, there were four arrangements in consideration of US$306.8 million entered into by the Group with Xinhe Leasing (Tianjin) Co., Ltd. (a wholly-owned subsidiary of Sino IC Leasing) in the form of a sale and leaseback transaction with a repurchase option.

In July 2017, there were seven arrangements in total consideration of US$410.8 million entered into by the Group with Xincheng Leasing (Tianjin) Co., Ltd, Xindian Leasing (Tianjin) Co., Ltd and Xinlu Leasing (Tianjin) Co., Ltd. (the three leasing companies are wholly-owned subsidiaries of Sino IC Leasing) respectively, in the form of a sale and leaseback transaction with a repurchase option.

In February 2017 and December 2016, there were three and two arrangements in consideration of US$250.6 million and US$249.2 million respectively, entered into by the Group with Sino IC Leasing (Tianjin) Co., Ltd. (a wholly-owned subsidiary of Sino IC Leasing) in the form of a sale and leaseback transaction with a repurchase option.

As the repurchase prices are set at the expected fair value and the Group is not reasonably certain that it will exercise the repurchase options, the above transactions have been accounted for a disposal of property, plant and equipment followed with an operating lease. The total future minimum lease payments under the lease arrangements please refer to Note 41.

(3) In 2018, the technology licensing internally developed and not capitalized was authorized to SMEC with the revenue of US$163.8 million and no related cost of sales recognized by the Group.

(4) On July 6, 2018 and August 10, 2018, SMIC Beijing has respectively subscribed for, an amount of RMB200.0 million (approximately US$30.2 million) and RMB100.0 million (approximately US$14.6 million) out of the total issue of an aggregate principal amount of RMB500.0 million of the oriented debt financing instrument issued by Sino IC Leasing, which was recorded as financial assets at amortized cost.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT PERSONNEL

Directors and senior management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

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

	Year ended 12/31/18 USD'000	Year ended 12/31/17 USD'000	Year ended 12/31/16 USD'000
Salaries, bonus and benefits	3,973	4,853	4,921
Equity-settled share-based payments	2,390	8,264	2,762
	6,363	13,117	7,683

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

ARRANGEMENTS/CONTRACTS FOR SALE OF SELF-DEVELOPED LIVING QUARTER UNIT

In January 2018, the Group sold self-developed living quarter unit amounted to US$1.2 million to one director of the Company. In May 2018, the Group entered into arrangement/contracts with one senior management of the company for sale of self-developed living quarter unit and the amount of the consideration was approximately US$1.1 million. The transaction was completed in March 2019.

In July 2018, the Group entered into arrangement/contracts with one director of the company for sale of self-developed living quarter unit and the amount of the consideration was approximately US$0.9 million. The transaction was not completed as of the date of this annual report.

In 2016, the Group entered into arrangement/contracts with one director of the Company for sale of self-developed living quarter unit and the amount of the consideration is approximately US$1.0 million. The transaction was completed in March 2017.

41. COMMITMENTS

CAPITAL COMMITMENTS

As of December 31, 2018, 2017 and 2016, the Group had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Group's facility by December 31, 2019.

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Commitments for the facility construction	333,211	484,468	239,759
Commitments for the acquisition of machinery and equipment	1,209,335	476,132	800,597
Commitments for the acquisition of intangible assets	5,732	5,596	5,491
	1,548,278	966,196	1,045,847

NON-CANCELLABLE OPERATING LEASES

The Group leases certain of its production equipment under operating lease arrangements since 2016. Leases are negotiated for terms ranging from three to five years. Please refer to Note 40 for details.

At December 31, 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	12/31/18 USD'000	12/31/17 USD'000	12/31/16 USD'000
Within one year	121,588	91,181	23,483
Later than one year but not later than five years	230,952	203,684	45,989
	352,540	294,865	69,472

42. FINANCIAL INFORMATION OF PARENT COMPANY

STATEMENT OF FINANCIAL POSITION

(In USD'000)

	12/31/18	12/31/17	12/31/16
Assets			
Non-current assets			
Property, plant and equipment	48,168	47,090	89,404
Intangible assets	32,437	59,138	91,225
Investment in subsidiaries	5,051,780	4,779,485	4,333,604
Investments in associates	145,285	132,427	114,966
Derivative financial instruments	5,266	—	—
Other financial assets	—	11,732	—
Other assets	141,603	372,275	530,566
Total non-current assets	5,424,539	5,402,147	5,159,765
Current assets			
Prepayment and prepaid operating expenses	298	428	671
Trade and other receivables	28,982	29,061	24,749
Due from subsidiaries	2,027,008	1,609,556	908,716
Financial asset at amortized cost	40,000	—	—
Derivative financial instruments	1,323	—	—
Other financial assets	—	95,440	3,000
Cash and cash equivalent	107,795	140,411	317,873
Total current assets	2,205,406	1,874,896	1,255,009
Total assets	7,629,945	7,277,043	6,414,774

42. FINANCIAL INFORMATION OF PARENT COMPANY *(continued)*

STATEMENT OF FINANCIAL POSITION *(continued)*

	(In USD'000)		
	12/31/18	12/31/17	12/31/16
Equity and liabilities			
Capital and reserves			
Ordinary shares, $0.004 par value, 10,000,000,000 shares authorized, 5,039,819,199, 4,916,106,889 and 4,252,922,259 shares issued and outstanding at December 31, 2018, 2017 and 2016	**20,159**	19,664	17,012
Share premium	**4,993,163**	4,827,619	4,950,948
Reserves	**109,346**	134,669	93,563
Retained earnings (accumulated deficit)	**331,298**	187,008	(910,849)
	5,453,966	5,168,960	4,150,674
Perpetual subordinated convertible securities	**563,848**	64,073	—
Total equity	**6,017,814**	5,233,033	4,150,674
Non-current liabilities			
Borrowings	**—**	76,520	72,077
Convertible bonds	**418,592**	403,329	395,210
Bonds payable	**—**	496,689	494,909
Medium-term notes	**—**	228,483	214,502
Derivative financial instruments	**8,711**	—	—
Other financial liabilities	**—**	1,885	60,610
Other liabilities	**—**	520	2,560
Total non-current liabilities	**427,303**	1,207,426	1,239,868
Current liabilities			
Trade and other payables	**18,033**	17,489	1,683
Due to subsidiaries	**351,017**	804,476	522,166
Borrowings	**72,852**	—	—
Convertible bonds	**—**	—	391,401
Bonds payable	**498,551**	—	—
Medium-term notes	**218,247**	—	—
Short-term notes	**—**	—	86,493
Accrued liabilities	**13,789**	13,877	19,570
Derivative financial instruments	**12,339**	—	—
Other financial liabilities	**—**	742	2,919
Total current liabilities	**1,184,828**	836,584	1,024,232
Total liabilities	**1,612,131**	2,044,010	2,264,100
Total equity and liabilities	**7,629,945**	7,277,043	6,414,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

42. FINANCIAL INFORMATION OF PARENT COMPANY *(continued)*

STATEMENT OF CHANGES IN EQUITY

(In USD'000)

	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available-for-sale financial assets	Convertible bonds equity reserve	Defined benefit pension reserve	Cash flow hedges	Share of other comprehensive income of joint ventures accounted for using equity method	Others	Retained earnings (accumulated deficit)	Perpetual subordinated convertible securities	Total equity
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956)	447	29,564	–	–	–	130	(1,287,479)	–	3,729,856
Profit for the year	–	–	–	–	–	–	–	–	–	–	376,630	–	376,630
Other comprehensive income (losses) for the year	–	–	–	(18,131)	798	–	1,520	(34,627)	–	1	–	–	(50,439)
Total comprehensive income (losses) for the year	–	–	–	(18,131)	798	–	1,520	(34,627)	–	1	376,630	–	326,191
Exercise of stock options	140	36,064	(18,594)	–	–	–	–	–	–	–	–	–	17,610
Share-based compensation	–	–	13,838	–	–	–	–	–	–	–	–	–	13,838
Conversion options of convertible bonds exercised during the year	42	11,023	–	–	–	(821)	–	–	–	–	–	–	10,244
Recognition of equity component of convertible bonds	–	–	–	–	–	52,935	–	–	–	–	–	–	52,935
Subtotal	182	47,087	(4,756)	–	–	52,114	–	–	–	–	–	–	94,627
Balance at December 31, 2016	17,012	4,950,948	65,703	(22,087)	1,245	81,678	1,520	(34,627)	–	131	(910,849)	–	4,150,674
Profit for the year	–	–	–	–	–	–	–	–	–	–	179,679	–	179,679
Other comprehensive income (losses) for the year	–	–	–	21,590	(2,356)	–	(436)	35,143	17,646	(131)	–	–	71,456
Total comprehensive income (losses) for the year	–	–	–	21,590	(2,356)	–	(436)	35,143	17,646	(131)	179,679	–	251,135
Exercise of stock options	130	35,178	(18,220)	–	–	–	–	–	–	–	–	–	17,088
Share-based compensation	–	–	17,495	–	–	–	–	–	–	–	–	–	17,495
Conversion options of convertible bonds exercised during the year	1,556	427,168	–	–	–	(29,625)	–	–	–	–	–	–	399,099
Issuance of ordinary shares	966	325,174	–	–	–	–	–	–	–	–	–	–	326,140
Perpetual subordinated convertible securities	–	–	–	–	–	–	–	–	–	–	–	64,073	64,073
Share premium reduction	–	(910,849)	–	–	–	–	–	–	–	–	910,849	–	–
Gain on transfer of business operation	–	–	–	–	–	–	–	–	–	–	7,329	–	7,329
Subtotal	2,652	(123,329)	(725)	–	–	(29,625)	–	–	–	–	918,178	64,073	831,224
Balance at December 31, 2017	19,664	4,827,619	64,978	(497)	(1,111)	52,053	1,084	516	17,646	–	187,008	64,073	5,233,033
Adoption of IFRS 9	–	–	–	–	1,111	–	–	–	(17,646)	–	16,535	–	–
Restated total equity at January 1, 2018	19,664	4,827,619	64,978	(497)	–	52,053	1,084	516	–	–	203,543	64,073	5,233,033
Profit for the year	–	–	–	–	–	–	–	–	–	–	134,055	–	134,055
Other comprehensive income (losses) for the year	–	–	–	(36,138)	–	–	129	35,931	–	–	–	–	(78)
Total comprehensive income (losses) for the year	–	–	–	(36,138)	–	–	129	35,931	–	–	134,055	–	133,977
Issuance of ordinary shares	474	160,404	–	–	–	–	–	–	–	–	–	–	160,878
Cancellation of treasury stock	(76)	(19,981)	–	–	–	–	–	–	–	–	–	–	(20,057)
Exercise of stock options	97	25,121	(17,211)	–	–	–	–	–	–	–	–	–	8,007
Share-based compensation	–	–	10,912	–	–	–	–	–	–	–	–	–	10,912
Perpetual subordinated convertible securities	–	–	–	–	–	–	–	–	–	–	–	499,775	499,775
Distribution to perpetual subordinated convertible securities	–	–	–	–	–	–	–	–	–	–	(6,300)	–	(6,300))
Deconsolidation of subsidiary due to loss of control	–	–	–	(1,774)	–	–	–	–	–	–	–	–	(1,774)
Share of other capital reserve of associates accounted for using equity method	–	–	–	–	–	–	–	–	–	(637)	–	–	(637)
Subtotal	495	165,544	(6,299)	(1,774)	–	–	–	–	–	(637)	(6,300)	499,775	650,804
Balance at December 31, 2018	20,159	4,993,163	58,679	(38,409)	–	52,053	1,213	36,447	–	(637)	331,298	563,848	6,017,814

43. SUBSEQUENT EVENTS

On March 29, 2019, SMIC Shanghai (Cayman) Corporation (the "Vendor", a wholly-owned subsidiary of the Company), and SMIC Hong Kong (International) Company Limited (the "Target Company", a wholly-owned subsidiary of the Vendor) entered into the share purchase agreement with Jiangsu CAS-IGBT Technology Co., Ltd. (the "Purchaser"). Pursuant to the share purchase agreement, the Vendor agreed to sell and the Purchaser agreed to purchase the sale shares at the consideration subject to the terms and conditions of the share purchase agreement. The Target Company directly owns 70% of the share capital of LFoundry. The consideration of the Target Company and its subsidiaries amounted to US$112.8 million was considered to be fair and reasonable and in the interest of the Company and its shareholders taken as a whole. Further, the Purchaser agreed to purchase from the Target Company the creditor's rights for the outstanding balance (being the total outstanding principal and total aggregate accrued interest) under the loans from the Group. The transaction was not completed as of the date of this annual report.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors of the Company on March 29, 2019.

Semiconductor Manufacturing International Corporation

No.18 Zhangjiang Road, Pudong New Area, Shanghai 201203,
The People's Republic of China

Tel : + 86 (21) 3861 0000 Fax : + 86 (21) 5080 2868

Website : www.smics.com

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