

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP  
Form 20-F/A  
February 15, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 20 F/A

(Amendment No.1)

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REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE  
ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

Commission file number 1 31994

Semiconductor Manufacturing International Corporation

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203

(Address of principal executive offices)

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18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value US\$0.0041	The Stock Exchange of Hong Kong Limited*
American Depositary Shares	The New York Stock Exchange, Inc.

1The par value of the ordinary share of the Company was US\$0.0004 each before December 7, 2016 and US\$0.004 each after December 7, 2016.

Securities registered or to be registered pursuant to Section 12(g) of the Act. None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None

Indicate the number of outstanding shares of each of the issuer's classes of capital or ordinary shares as of the close of the period covered by the annual report.

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As of December 31, 2017, there were 4,916,106,889 ordinary shares, par value US\$0.004 per share, outstanding, of which 12,328,021 ordinary shares were held in the form of 61,640,105 American Depositary Shares (“ADSs”). Each ADS represents 5 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer” and “emerging growth company” in Rule 12b-2 of the Securities Exchange Act of 1934 (Check one):

Large accelerated filer   Accelerated filer   Non-accelerated filer   Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP	International Financial Reporting Standards as issued	Other
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by the International Accounting Standards Board

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes No

\*Not for trading, but only in connection with the listing of American Depositary Shares on the New York Stock Exchange, Inc.

#### EXPLANATORY NOTE

This Amendment No. 1 (this “Amendment No. 1”) to the Annual Report on Form 20-F of Semiconductor Manufacturing International Corporation for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission on April 27, 2018 (the “Original Form 20-F”) is being filed for purposes of amending Item 15 herein and filing of the Certification of the Co-Chief Executive. Accordingly, Item 19 of the Original Form 20-F has also been amended and restated, as set forth herein, to reflect the filing of such certifications.

This Amendment No. 1 is not intended to update other information disclosed in the Original Form 20-F. Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate the information in any other item of the Original Form 20-F or reflect any events that have occurred since the Original Form 20-F was originally filed.

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## INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “ADSs” refers to American Depositary Shares;
- “Average selling price of wafers” refers to simplified average selling price which is calculated as total revenue divided by total shipments;
- “BGN” are to Bulgarian Lev;
- “Board” refers to our board of directors;
- “China” or the “PRC” refers to the People’s Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- “Company,” “SMIC,” “Registrant,” “we,” “our” and “us” refers to Semiconductor Manufacturing International Corporation, Cayman Islands company;
- “Directors” refers to the members of the Board;
- “EUR” refers to Euros;
- “Global Offering” refers to the initial public offering of our ADSs and our ordinary shares, which was completed on March 18, 2004;
- “Group” refers to SMIC and all of its subsidiaries;
- “HK\$” refers to Hong Kong dollars;
- “IFRS” refers 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,” “rmb” or “RMB” refers to Renminbi, the legal currency of China;
- “SEC” refers to the U.S. Securities and Exchange Commission;
- “SEHK,” “HKSE” or “Hong Kong Stock Exchange” refers to The Stock Exchange of Hong Kong Limited;
- “Share Consolidation” are to the consolidation of every ten (10) issued and unissued ordinary shares and preferred shares of US\$0.0004 each in the existing share capital of the Company into one ordinary share and preferred share of US\$0.004 each with effect from December 7, 2016.
- “US\$” or “USD” refers to U.S. dollars.
- “U.S. GAAP” refers to generally accepted accounting principles in the United States; and



- The “Glossary of Technical Terms” contained in Annex A of this annual report sets forth the description of certain technical terms and definitions used in this annual report.

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.

## FORWARD-LOOKING STATEMENTS

This annual report contains, in addition to historical information, “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current assumptions, expectations and projections about future events. We use 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 the judgment of our senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause our 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 cyclical and market conditions in the semiconductor industry;
- intense competition;
- timely wafer acceptance by our customers;
- timely introduction of new technologies;
- our 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;
- our anticipated capital expenditures;
- our anticipated investments in research and development, anticipated changes to our liability for unrecognized tax benefits; and
- financial stability in end markets.

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

Part I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Consolidated Financial Data

The selected consolidated financial data presented below as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with our audited consolidated financial statements, including the related notes, included elsewhere in this annual report.

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	For the year ended December 31,				
	2013	2014	2015	2016	2017
	(in US\$ thousands, except for earnings per share, shares, and units)				
Revenue	2,068,964	1,969,966	2,236,415	2,914,180	3,101,175
Cost of sales	(1,630,528)	(1,486,514)	(1,553,795)	(2,064,499)	(2,360,431)
Gross profit	438,436	483,452	682,620	849,681	740,744
Research and development expenses, net	(145,314)	(189,733)	(237,157)	(318,247)	(427,111)
Sales and marketing expenses	(35,738)	(38,252)	(41,876)	(35,034)	(35,796)
General and administration expenses	(138,167)	(139,428)	(213,177)	(157,371)	(197,899)
Other operating income, net	67,870	14,206	31,594	177	44,957
Profit from operations	187,087	130,245	222,004	339,206	124,895
Interest income	5,888	14,230	5,199	11,243	27,090
Finance costs	(34,392)	(20,715)	(12,218)	(23,037)	(18,021)
Foreign exchange gains or losses	13,726	(5,993)	(26,349)	(1,640)	(12,694)
Other gains or losses, net	4,010	18,210	55,611	(2,113)	16,499
Share of profit (loss) of investment accounted for using equity method	2,278	2,073	(13,383)	(13,777)	(9,500)
Profit before tax	178,597	138,050	230,864	309,882	128,269
Income tax (expense) benefit	(4,130)	(11,789)	(8,541)	6,552	(1,846)
Profit for the year	174,467	126,261	222,323	316,434	126,423
Other comprehensive income (loss)					
Item that may be reclassified subsequently to profit or loss					
Exchange differences on translating	731	(324)	(8,185)	(19,031)	23,213

foreign operations										
Change in value of available-for-sale financial assets	—	—	452	807	(2,381)					
Cash flow hedges	—	—	—	(34,627)	35,143					
Share of other comprehensive income of joint ventures accounted for using equity method	—	—	—	—	17,646					
Others	—	—	130	1	(131)					
Items that will not be reclassified to profit or loss										
Actuarial gains or losses on defined benefit plans	—	—	—	1,520	(436)					
Total comprehensive income for the year	175,198	125,937	214,720	265,104	199,477					
Profit (loss) for the year attributable to:										
Owners of the Company	173,177	152,969	253,411	376,630	179,679					
Non-controlling interests	1,290	(26,708)	(31,088)	(60,196)	(53,256)					
	174,467	126,261	222,323	316,434	126,423					
Total comprehensive income (loss) for the year attributable to:										
Owners of the Company	173,908	152,645	245,803	326,191	251,135					
Non-controlling interests	1,290	(26,708)	(31,083)	(61,087)	(51,658)					
	175,198	125,937	214,720	265,104	199,477					
Earnings per share*										
Basic	\$ 0.05	\$ 0.05	\$ 0.07	\$ 0.09	\$ 0.04					
Diluted	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.04					
Shares issued and outstanding*	3,211,230,710	3,585,609,617	4,207,374,896	4,252,922,259	4,916,106,889					
Financial Ratio										
Gross margin	21.2	% 24.5	% 30.5	% 29.2	% 23.9					%

Net margin	8.4	%	6.4	%	9.9	%	10.9	%	4.1	%
Operating Data										
Wafers shipped										
(in unit)	2,574,119		2,559,245		3,015,966		3,957,685		4,310,779	

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\*The basic and diluted earnings per share for the prior years 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 (“Share Consolidation”).

	As of December 31,				
	2013	2014	2015	2016	2017
	(in US\$ thousands)				
Statements of Financial Position Data:					
Property, plant and equipment	2,528,834	2,995,086	3,903,818	5,687,357	6,523,403
Intangible assets	215,265	207,822	224,279	248,581	219,944
Investments in associates	29,200	57,631	181,331	240,136	758,241
Total non-current assets	2,960,151	3,471,120	4,525,297	6,431,525	7,749,467
Inventories	286,251	316,041	387,326	464,216	622,679
Trade and other receivables	379,361	456,388	499,846	645,822	616,308
Other financial assets	240,311	644,071	282,880	31,543	683,812
Restricted cash - current	147,625	238,051	302,416	337,699	336,043
Cash and cash equivalents	462,483	603,036	1,005,201	2,126,011	1,838,300
Total current assets	1,563,241	2,298,259	2,590,050	3,683,753	4,168,984
Total assets	4,523,392	5,769,379	7,115,347	10,115,278	11,918,451
Total non-current liabilities	991,673	1,311,416	1,157,901	2,731,151	3,290,337
Total current liabilities	938,537	1,150,241	1,767,191	1,980,900	1,906,779
Total liabilities	1,930,210	2,461,657	2,925,092	4,712,051	5,197,116
Non-controlling interest	109,410	359,307	460,399	1,252,553	1,488,302
Total equity	2,593,182	3,307,722	4,190,255	5,403,227	6,721,335

#### B. Capitalization and Indebtedness

Not Applicable

#### C. Reasons for the Offer and Use of Proceeds

Not Applicable

#### D. Risk Factors

##### Risk Factors Related to Our Financial Condition and Business

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

Our profit totaled US\$126.4 million in 2017 and US\$316.4 million in 2016. After the share premium reduction to eliminate the accumulated losses of US\$910.8 million approved on June 23, 2017, we have net retained earnings of US\$187.0 million attributable to owners of the Company as of the end of 2017. We may not be able to maintain or increase profitability on an annual or quarterly basis, primarily because our business is characterized by high fixed

costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. We will continue to incur capital expenditures and depreciation expenses as we equip and ramp-up additional fabs and expand our capacity at our existing fabs. This may result in an increase of our fixed costs and possibly reduce our chances of maintaining or increasing profitability.

In addition, we are competing in the same technology environment as a number of other foundries and our competitors who operate these foundries often use price as a means of securing business, resulting in

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erosion of the average selling price of our product portfolio, which adversely affects our ability to maintain or increase profitability.

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

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

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

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

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

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

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

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

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

- pay dividends;
- repay outstanding shareholder loans and provide loans to subsidiaries; and

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- consolidate, merge, sell or otherwise dispose of any of our assets under certain conditions.

In addition, certain loan agreements of the Group contain, and any future loan agreements may contain, cross-default clauses whereby a default under one of the loan agreements may constitute an event of default under the other loan agreements. We may also be required to satisfy and maintain specified financial ratios and other financial covenants (see “Item 5.B — Operating and Financial Review and Prospects — Liquidity and Capital Resources — Bank borrowing” for details). The Group’s ability to meet such financial ratios and other covenants can be affected by various events, and we cannot assure you that we will meet these ratios and comply with such covenants in the future. A breach of any of these covenants would result in a default under the existing loan agreements of the Group, which may allow the lenders to declare all amounts outstanding thereunder to be due and payable after the lapse of the relevant grace period and terminate all commitments to extend further credit, any of which could result in an event of default under the terms and conditions of the loan agreement.

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

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

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

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

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

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

- our customers’ sales outlook, purchasing patterns and inventory adjustments based on general economic conditions or other factors;
- the loss of one or more key customers or the significant reduction or postponement of orders from such customers;
- timing of new technology development and the qualification of this technology by our customers;
- timing of our expansion and development of our facilities;

- our ability to obtain equipment and raw materials; and
- our ability to obtain financing in a timely manner.

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

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

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

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

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

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

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

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

From time to time, we seek to acquire or invest in businesses that are complementary to ours. For example, in July 2016, we completed the acquisition of 70% ownership interest of LFoundry S.r.l, an integrated circuit wafer foundry headquartered in Italy, and has formally entered into the global automotive electronics market. However, acquisition or investment in businesses may require a significant commitment of management time, capital investment and other management resources. We cannot assure you that we will be successful in

identifying and negotiating acquisitions or investments on terms favorable to us. To integrate acquired businesses, we must implement our technology systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests, and may need to enter new markets, such as the automotive electronics market, in which we have no or limited experience and where competitors in such markets have stronger market positions. Failures or difficulties in integrating the operations of the businesses that we acquire, including their personnel, technology, financial systems, distribution and general business operations and procedures, and supply and other relationships, may affect our ability to increase our revenues and may result in us incurring asset impairment or restructuring charges. Furthermore, acquisitions and investments are often speculative in nature and the actual benefits we derive from them could be lower or take longer to materialize than we expect. If we are unable to execute, manage or integrate our acquisitions and investments effectively, our growth, operating results and financial condition may be materially and adversely affected.

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

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

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

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

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



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

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

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

The semiconductor industry is developing rapidly and the related technologies are constantly evolving. We must be able to anticipate the trends in technology development and rapidly develop and implement new and innovative technologies that our customers require to produce sufficiently advanced products at competitive prices and within the time window of market opportunities. To do this, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources based on forecasts. If there is large variation between our forecasts and the actual outcome, our long-term investments will not yield satisfactory results and our business and operations will be adversely affected.

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

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

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

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

In 2017, our capital expenditures totaled approximately US\$2.5 billion and we currently expect our capital expenditures for foundry operations in 2018 to total approximately US\$1.9 billion, subject to adjustment based on market conditions. We also have budgeted approximately US\$47.7 million as the 2018 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, customer requirements or interest rates. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet our growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

Our operating cash flows may not be sufficient to meet our capital expenditures requirements. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing, as our issuance of ordinary shares and perpetual subordinated convertible securities in 2017. Our ability to obtain external financing is subject to a variety of uncertainties, including:

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

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



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

We spent approximately US\$1,572.7 million, US\$2,694.7 million and US\$2,487.9 million to construct, equip and ramp up our fabs in 2015, 2016 and 2017, respectively. We plan to increase our production capacity through expansion of existing production sites, such as Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”), Semiconductor Manufacturing International (Beijing) Corporation (“SMIC Beijing”), Semiconductor Manufacturing International (Tianjin) Corporation (“SMIC Tianjin”), Semiconductor Manufacturing International (Shenzhen) Corporation, (“SMIC Shenzhen” or “SMIZ”), all of which are our wholly-owned subsidiaries, as well as Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”), our majority-owned subsidiary in Beijing and SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”), our majority-owned bumping facility in Jiangyin. There are a number of events that could delay these expansion projects or increase the costs of building and equipping these or future projects in accordance with our plans. Such potential events include, but are not limited to:

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

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

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

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

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

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

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

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

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

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

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements to enable us to manufacture certain advanced wafers. As of December 31, 2017, we had been granted 7,713 patents worldwide, of which, 70 were in Taiwan, 954 were in the U.S., 6,665 were in China and 24 were in other jurisdictions. In comparison, we believe our competitors and other industry participants have been issued many more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to obtain license necessary for using technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors. We expect there is no group of important patents set to expire in 2018 or 2019.

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

There is frequent intellectual property litigation in our industry, involving patents, copyrights, trade secrets, mask works and other intellectual property subject matters. In some cases, a company attempts to avoid or settle litigation on favorable terms if it possesses patents that can be asserted against the plaintiff. The limited size of our current patent portfolio is unlikely to place us in such a favorable bargaining position. Moreover, some of our technology license agreements with our major technology partners do not provide for us to be indemnified in the event that the processes we obtain license pursuant to such agreements infringe third party intellectual property rights. We could be sued for infringing one or more patents as to which we will be unable to obtain a license and unable to design around. As a result, we would be prohibited from manufacturing or selling the products which are dependent upon such technology, which could have a material adverse effect on our business. We may litigate the issues of whether these patents are valid or infringed, but in the event of loss of such lawsuit, we may be required to pay substantial monetary damages and be enjoined from further production or sale of such products. Please refer to our historical litigation with TSMC on page 18 for details.

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

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

process technology on time, which could adversely affect our competitive position and operating results.

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

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

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

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

Exchange rate fluctuations could increase our costs, which could adversely affect our operating results and the value of our ADSs.

Our financial statements are prepared in U.S. dollars. The majority of our sales are denominated in U.S. dollars and Renminbi. Our manufacturing costs and capital expenditures are generally denominated in U.S. dollars, Japanese Yen, Euros and Renminbi. Although we enter into foreign currency forward exchange contracts and cross currency swap contracts to partially hedge our exposure to exchange rate fluctuations, we are still affected by fluctuations in exchange rates between the U.S. dollar and each of the Japanese Yen, the Euros and the Renminbi. Any significant fluctuations among these currencies may lead to an increase in our costs, which could adversely affect our operating results. See “Item 3.D — Key information — Risk Factors — Risks Related to Conducting Operations in China — Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results” for a discussion of risks relating to the Renminbi.

Fluctuations in the exchange rate of the Hong Kong dollar against the U.S. dollar will affect the U.S. dollar value of the ADSs, since our ordinary shares are listed and traded on the Hong Kong Stock Exchange and the price of such shares are denominated in Hong Kong dollars. While the Hong Kong government has continued to pursue a pegged exchange rate policy, with the Hong Kong dollar trading in the range of HK\$7.7542 to HK\$7.8267 per US\$1.00 for 2017 we cannot assure you that this policy will be maintained. Exchange rate fluctuations also will affect the amount of U.S. dollars received upon the payment of any cash dividends or other distributions paid in Hong Kong dollars and the Hong Kong dollar proceeds received from any sales of ordinary shares. Therefore, such fluctuations could also adversely affect the value of our ADSs.

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

We are required to comply with various PRC, Hong Kong and U.S. laws and regulations. For example, we are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring public companies to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal controls over financial reporting. Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports, compliance with applicable laws and regulations, and to effectively achieve our operation objectives. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal controls, including any failure to implement required new or improved controls, or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, our operating results could be harmed, and investors could lose confidence in the reliability of our financial statements. As a result, our business and the trading price of our securities could be negatively impacted.

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

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

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

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

At the end of each reporting period, we are required to assess whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such

indication exists, the impairment loss will be reversed up to the newly estimated recoverable amount, not to exceed the original value recorded. Goodwill impairment will not be reversed. As of December 31, 2017, the carrying amount of property, plant and equipment was US\$6,523.4 million and the carrying amount of intangible assets was US\$219.9 million.

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

See “Item 5.A — Operating and Financial Review and Prospects — Operating Results — Critical Accounting Policies” for a discussion of how we assess if an impairment charge is required and, if so, how the amount is determined.

We have twice settled pending litigation with TSMC at a substantial cost to us, and, if we materially breach our 2009 settlement agreement with TSMC (or certain related documents), we could be required to pay substantial liquidated damages in addition to the money damages or other remedies TSMC may be entitled to in connection with such material breach.

TSMC has brought legal claims against us and our personnel on several occasions since 2002. On January 31, 2005, we entered into a settlement agreement with TSMC and agreed to pay them \$175 million in installments over a period of six years (“the 2005 Settlement Agreement”).

On August 25, 2006, TSMC filed a lawsuit against us and certain of our subsidiaries in the Superior Court of the State of California for alleged breach of the 2005 Settlement Agreement, alleged breach of promissory notes and alleged trade secret misappropriation by us. We filed counterclaims against TSMC in the same court in September 2006 and also filed suit against TSMC in Beijing in November 2006. We settled these 2006 lawsuits with TSMC (“the Settled Actions”) on November 9, 2009 with a settlement agreement (“the 2009 Settlement Agreement”) which replaced the 2005 Settlement Agreement.

Under the terms of the 2009 Settlement Agreement, our obligation to make the remaining payments of proximately US\$40 million under the 2005 Settlement Agreement was terminated, but we agreed to pay TSMC an aggregate of US\$200 million over a period of four years and committed, subject to certain terms and conditions, to issue TSMC 1,789,493,218 of our shares and one or more warrants exercisable within three years of issuance to subscribe for an aggregate of 695,914,030 of our shares, subject to adjustment, at a purchase price of HK\$1.30 per share, subject to adjustment. See “Item 10 — Additional Information — Material Contracts — Other Contracts” for a more detailed description of the share and warrant issuance agreement entered into by us and TSMC in connection with the 2009 Settlement Agreement and the warrant agreement entered into between us and TSMC in connection with the 2009 Settlement Agreement. The 1,789,493,218 ordinary shares and the warrant to purchase 695,914,030 ordinary shares, subject to adjustment, were issued on July 5, 2010. In addition, the 2009 Settlement Agreement terminated that certain patent cross-license agreement that was entered into in connection with the 2005 Settlement Agreement under which we had previously cross-licensed patent portfolios with TSMC (“the 2005 Patent Cross-License”).

Under the 2009 Settlement Agreement, each party released the other party from all claims arising out of or related to claims and counterclaims that were or could have been brought in the Settled Actions, but this release does not apply to claims of breach of the 2009 Settlement Agreement. In addition, each party covenanted not to sue the other for misappropriation or infringement of intellectual property rights, but this covenant not to sue did not extend to claims for breach of the 2009 Settlement Agreement or claims for patent or trademark infringement.

Further, the 2009 Settlement Agreement provides that if we materially breach the 2009 Settlement Agreement (or certain related documents) and fail to cure that breach within 30 days after notice from TSMC, we will pay TSMC liquidated damages, in addition to any damages arising from such breach, in the amount of US\$44 million plus a royalty equal to 5% of our gross revenues derived from foundry services with respect to our 90nm and larger manufacturing processes during the period commencing on the date of the breach and ending on the date that is



20 years from the date of the 2009 Settlement Agreement.

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There can be no assurance that TSMC will not sue us again in the future. For example, TSMC is not prohibited under the 2009 Settlement Agreement from bringing infringement claims against us which could not have been brought in the Settled Actions. Further, we are subject to several obligations under the 2009 Settlement Agreement, including obligations to protect the confidentiality of certain information, and TSMC could, in the future, allege a breach by us of the 2009 Settlement Agreement. If TSMC were successful in a claim of material breach by us of our obligations under the 2009 Settlement Agreement (or certain related documents), we have agreed to pay substantial liquidated damages as described above.

TSMC is a competitor of ours and has substantially greater resources than we do to investigate and pursue legal actions. If TSMC successfully brings additional legal actions against us, we could be subject to significant penalties which could include monetary payments and/or injunctive relief such as requirements to discontinue sales of products.

The occurrence of any of these events could have a material adverse effect on our business and operating results and, in any event, the cost of litigation could be substantial.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies of which the stocks are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the applicable professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB.

Inspections of other firms that PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to regularly evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Proceedings instituted by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against the Big Four accounting firms, including our independent registered public accounting firm, in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud.

On January 22, 2014, an initial administrative law decision, ("Initial Decision"), was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The accounting firms filed a Petition for review of the Initial Decision to the SEC.



On February 6, 2015, each of the Big Four China-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms' audit documents via the China Securities Regulatory Commission ("the CSRC"). If future document productions fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the accounting firms depending on the nature of the failure. While we cannot predict if the SEC will further review the four China-based accounting firms' compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with the SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with the SEC requirements could ultimately lead to the delisting of our ADSs from the NYSE or the termination of the registration of our ADSs under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

The SEC's "conflict minerals" rule has caused us to incur additional expenses, could limit the supply and increase the cost of certain minerals used in manufacturing our products, and could make us less competitive in our target markets.

The SEC's conflict minerals rule requires disclosure by public companies of the origin, source and chain of custody of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires companies to obtain sourcing data from suppliers, engage in supply chain due diligence, and file annually with the SEC a specialized disclosure report on Form SD covering the prior calendar year. The rule could limit our ability to source at competitive prices and to secure sufficient quantities of certain minerals (or derivatives thereof) used in the manufacture of our products, specifically tantalum, tin, gold and tungsten, as the number of suppliers that provide conflict-free minerals may be limited. We have and will continue to incur material costs associated with complying with the rule, such as costs related to the determination of the origin, source and chain of custody of the minerals used in our products, the adoption of conflict minerals-related governance policies, processes and controls, and possible changes to products or sources of supply as a result of such activities. Within our supply chain, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the data collection and due diligence procedures that we implement, which may harm our reputation. Furthermore, we may encounter challenges in satisfying those customers that require that all of the components of our products be certified as conflict free, and if we cannot satisfy these customers, they may choose a competitor's products. We continue to investigate the presence of conflict materials within our supply chain.

#### Risks Related to Manufacturing

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

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

production cost.

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

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

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

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

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

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

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

On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% ownership interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET’s issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. On May 10, 2017, the Company was notified by JCET that the China Securities Regulatory Commission has granted approval for this transaction, and the disposal agreement and the subscription agreement became effective accordingly. On June 19, 2017, the transactions were completed and SMIC became the single largest shareholder of JCET. The Group recorded its ownership interest of JCET as investment in associate due to its right to nominate directors of JCET’s board.

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

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

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

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers, almost all of which are sourced outside China. We currently purchase approximately 72.5% of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or disrupted; if there are significant increases in their prices; or if the lead time for the supply of raw materials and necessary spare parts are extended, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.

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

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

The semiconductor fabrication process requires extensive amounts of fresh water and a stable source of electricity. As our production capabilities increase and our business grows, our requirements for these resources will grow substantially. While we have not, to date, experienced any instances of the lack of sufficient supplies of water or material disruptions in the electricity supply to any of our fabs, we may not have access to sufficient supplies of water and electricity to accommodate our planned growth. Droughts, pipeline interruptions, power interruptions, electricity shortages or government intervention, particularly in the form of rationing, are factors that could restrict our access to these utilities in the areas in which our fabs are located. In particular, our fabs in Tianjin and Beijing are located in areas that are susceptible to severe water shortages during the summer months. If there is an insufficient supply of fresh water or electricity to satisfy our requirements, we may need to limit or delay our production, which could adversely affect our business and operating results. In addition, a power outage, even of very limited duration, could result in a loss of wafers in production and deterioration in yield. In February 2016, a temporary power supply suspension occurred at our fabs in Beijing but it did not cause any casualty or equipment damage, and there was no material adverse financial impact on the Company.

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

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





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

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

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

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

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

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

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

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

#### Risks related to Our New Investment Fund

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

On February 27, 2014, our wholly-owned subsidiary, SMIC Shanghai, established a wholly-owned investment fund in Shanghai which is called China IC Capital Co., Ltd (the "Fund"). As of December 31, 2017, the Fund has a capital of RMB987.0 million, all funded by SMIC Shanghai. With an operating period of 15 years from the date of the issuance of its business license, the Fund is operated and managed by an equity investment management company named

China Fortune-Tech Capital Co., Ltd (“China Fortune-Tech”), which was established by SMIC Shanghai and an independent third party on February 27, 2014. As of December 31, 2017, we held 30% ownership interest of China Fortune-Tech, which was accounted as investment in associates.

The Fund is intended to invest primarily in the integrated circuits industry but will also invest in other strategic emerging industries such as energy saving and environmental protection, information technology and new energy as well as some other traditional industries. While we generally expect China's integrated circuits industry to develop rapidly in the next decade and we believe that the other industries we will invest in also have a promising prospect of development, uncertainties due to the slow recovery of the world economy, the global market demand and consumption behaviors may lead to weak market demand in the industries in which we may choose to invest and our investees may not be able to execute their business strategies as successfully as they expect.

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

#### Risks Related to Conducting Operations in China

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

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

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

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

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



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

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

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

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

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

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

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

The value of the Renminbi is subject to changes in China's governmental policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China (the "PBOC"), which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to U.S. dollar exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation. On July 21, 2005, the PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. The central parity rate of the U.S. Dollar to Renminbi was set at 6.5342 on December 31, 2017 compared with 6.9370 on December 31, 2016 by the PBOC. The cumulative depreciation of the Renminbi against the U.S. dollar in 2017 was approximately 5.81%. There still remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant fluctuation of exchange rate of the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile which could have an adverse effect on our business and operating results.

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

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. For the year ended December 31, 2017, approximately 30.3% of our sales were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these proceeds into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we may not be able to meet our foreign currency payment obligations.

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

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

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

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

We are a Cayman Islands holding company. Except for the majority-owned subsidiary in Italy in which we acquired its 70% ownership interest on July 29, 2016, most of our operations are conducted through our Chinese operating subsidiaries, SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMIC New Technology Research & Development (Shanghai) Corporation, SMNC, and SJ Jiangyin. The ability of these Chinese subsidiaries to distribute dividends and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. In particular, under Chinese law, these operating subsidiaries may only pay dividends after 10% of their net profit has been set aside as reserve funds, unless such reserves have reached at least 50% of their respective registered capital. In addition, the profit available for distribution from our Chinese operating subsidiaries is determined in accordance with generally accepted accounting principles in China. This calculation may differ from the one performed in accordance with IFRS. As a result, we may not have sufficient distributions from our Chinese subsidiaries to enable necessary profit distributions to us or any distributions to our shareholders in the future.

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

#### Risks Related to Ownership of Our Shares and ADSs

Future sales of securities by us or our shareholders may decrease the value of your investment.

Future sales by us or our existing shareholders of substantial amounts of our ordinary shares or ADSs in the public markets could adversely affect market prices prevailing from time to time.

We cannot predict the effect, if any, of any such future sales or of the perception that any such future sales will occur, on the market price for our ordinary shares or ADSs.

Holder of our ADSs will not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise their right to vote.

Holder of our ADSs may not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs have appointed the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. Holders of our ADSs may not receive voting materials in time to instruct the depositary to vote, and it is possible that holders of our ADSs, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depository will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

The laws of the Cayman Islands and China may not provide our shareholders with benefits provided to shareholders of corporations incorporated in the United States.

Our corporate affairs are governed by our memorandum and articles of association, and by the Companies Law, as revised from time to time, and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands and from English common law, the decisions of whose courts are of persuasive authority but are not binding on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands have a less developed body of securities laws as compared to the United States. Therefore, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than shareholders of a corporation incorporated in a jurisdiction in the United States. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

It may be difficult to enforce any judgment obtained in the United States against our company, which may limit the remedies otherwise available to our shareholders.

Substantially all of our assets are located outside the United States. Except for the majority-owned subsidiary in Italy in which we acquired its 70% ownership interest on July 29, 2016, almost all of our current operations are conducted in China. Moreover, a number of our directors and officers are nationals or residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for a person to effect service of process within the United States upon these persons. In addition, there is uncertainty as to whether the courts of the Cayman Islands or China would recognize or enforce judgments of U.S. courts obtained against us or such persons predicated upon the civil liability provisions of the securities law of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands or China, respectively, against us or such persons predicated upon the securities laws of the United States or any state thereof. See “Item 4.B — Information on the Company — Business Overview — Enforceability of Civil Liabilities.

Item 4. Information on the Company

A. History and Development of the Company

We were established as an exempted company under the laws of the Cayman Islands on April 3, 2000. Our legal name is Semiconductor Manufacturing International Corporation. Our principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203; telephone number: (86) 21 3861 0000. Our registered office is located at PO Box 309, Uglan House, Grand Cayman, KY1 1104, Cayman Islands. Since March 18, 2004, we have been listed on the New York Stock Exchange under the symbol “SMI” and the Stock Exchange of Hong Kong under the stock code “0981.HK”. CT Corporation System is our agent in the United States of America and its address is 111 Eighth Avenue, New York, New York 10011, U.S.A.

We are now the largest and most advanced semiconductor foundry in mainland China. We operate wafer fabrication facilities, including facilities at Beijing, Shanghai, Tianjin and Shenzhen in China and at Avezzano in Italy (we acquired 70% of the ownership interest of LFoundry S.r.l, or LFoundry on July 29, 2016), with an aggregate capacity of up to 442,750 8 inch wafer equivalents per month.

SMIC Shenzhen

SMIC Shenzhen, which is principally engaged in, among others, the testing, development, design, manufacturing, packaging and sale of integrated circuits entered into mass production since the third quarter of 2015.

SMNC

SMNC, our majority-owned subsidiary in Beijing, is principally engaged in, among others, the testing, development, design, manufacturing, packaging and sale of integrated circuits entered into mass production since the fourth quarter of 2015.

On May 10, 2016, the Company, SMIC Beijing, China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership) (“Beijing Semi Fund”), Beijing Industrial Developing Investment Management Co., Ltd. (“IDIMC”) and Zhongguancun Development Group (“ZDG”) have agreed to amend the previous joint venture agreement through an amended joint venture agreement, pursuant to which: (i) the Company and SMIC Beijing’s outstanding aggregate capital contribution obligations as contained in the previous joint venture agreement will decrease from US\$804.38 million to US\$708.38 million, and their aggregate shareholding in SMNC, will decrease from 55% to 51%; and (ii) China IC Fund has agreed to make cash contribution of US\$636 million into the registered capital of SMNC. The parties’ performance of their capital contribution obligations will lead to an increase in the registered capital of SMNC from US\$1.2 billion to US\$2.4 billion. The capital contribution from China IC Fund was completed in June 2016.

On August 10, 2017, the Company, SMIC Beijing, SMIC Holdings Corporation, China IC Fund, Beijing Semi Fund, IDIMC, ZDG and Beijing E-Town International Investment & Development Co., Ltd (“E-Town Capital”) 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 Corporation have agreed to make further cash contribution of US\$1,224 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 million into the registered capital of the Joint Venture Company. Its shareholding in the Joint Venture Company will increase from 26.5% to 32%; and (iii) E-Town Capital has agreed to make cash contribution of US\$276 million into the registered capital of the Joint Venture

Company representing 5.75% of the enlarged registered capital of the Joint Venture Company. The capital contribution is not completed as of the date of this annual report.

According to the joint venture agreements entered into by the Group and the non-controlling interest shareholders of SMNC, additional capital injection into SMNC was completed in 2015, 2016 and 2017. The additional capital injection from non-controlling interest shareholders amounted to US\$61.9 million in 2015, US\$754.1 million in 2016 and US\$294.0 million in 2017, respectively.

#### SilTech Shanghai

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

On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% ownership interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET's issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash.

On May 10, 2017, the Company was notified by JCET that the China Securities Regulatory Commission has granted approval for this transaction, and the disposal agreement and the subscription agreement became effective accordingly. On June 19, 2017, the transactions were completed and SMIC became the single largest shareholder of JCET. The Group recorded its ownership interest of JCET as investment in associate due to its right to nominate directors of JCET's board.

#### SMIC New Technology Research & Development (Shanghai) Corporation

On June 23, 2015, Huawei, Qualcomm Global Trading Pte. Ltd. ("Qualcomm"), IMEC International ("IMEC") and we jointly issued a press release in relation to the formation of SMIC Advanced Technology Research & Development (Shanghai) Corporation, an equity joint venture company renamed as SMIC New Technology Research & Development (Shanghai) Corporation in 2017. The joint venture company focused on research and development ("R&D") towards next generation CMOS logic technology and is designed to build most advanced integrated circuit (IC) development R&D platform in China. SMIC is the major shareholder of the joint venture company, while Huawei, IMEC, and Qualcomm are minority shareholders. The current focus of the joint venture company is on developing 14nm logic technology.

#### LFoundry S.r.l.

On June 24, 2016, we, LFoundry Europe and Marsica entered into a sale and purchase agreement pursuant to which LFoundry Europe and Marsica agreed to sell and we agreed to purchase 70% of the corporate capital of LFoundry S.r.l. for an aggregate cash consideration of EUR49 million subject to adjustment. The acquisition was completed as of July 29, 2016.

#### Ningbo Semiconductor International Corporation

On October 14, 2016, Ningbo Semiconductor International Corporation (“NSI”) was jointly established by China IC Capital (the wholly-owned investment fund of SMIC), Ningbo Senson Electronics Technology Co., Ltd, and Beijing Integrated Circuit Design and Testing Fund with a registered capital of RMB355 million, equal to US\$52.8 million. SMIC holds 66.76% of the ownership interest.

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. There is no gain or loss expected to accrue to the Company as a result of the equity transfer.

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 million (approximately US\$89.4 million) into the registered capital of NSI. Its shareholding in the Joint Venture Company will decrease from approximately 38.59% to approximately 38.57%; (ii) China IC Fund has agreed to make further cash contribution of RMB500 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).

#### Semiconductor Manufacturing South China Corporation

On December 1, 2016, Semiconductor Manufacturing South China Corporation ("SMSC") was established by SMIC Holdings Corporation and SMIC Shanghai. On January 30, 2018, SMIC Holdings, 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 million, respectively. As a result of the capital contribution: (i) the registered capital of SMSC will increase from US\$210 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.

#### SJ Semiconductor Corporation

SJ Semiconductor Corporation, a majority-owned 300mm bumping and probing factory in Jiangyin, entered into mass production in July 2016. Chip probing has been in production for mobile SoC, consumer and memory devices since April 2015. The products manufactured by SJ Semiconductor Corporation adopt most advanced technologies from early stage to mass production with high quality.

According to the joint venture agreements entered into by the Company and the non-controlling interest shareholders of SJ Semiconductor Corporation, additional capital injection into SJ Semiconductor Corporation was completed in 2015 and 2016. The additional capital injection from non-controlling interest shareholders amounted to US\$60.0 million in 2015 and US\$60.0 million in 2016, respectively.

#### Share Consolidation

On December 7, 2016, the Share Consolidation was effective on the basis that every ten authorized ordinary shares (whether issued or not) and preferred shares of US\$0.0004 each in the existing share capital of the Company are consolidated into one ordinary share and preferred share of US\$0.004 each, respectively.





## Capital Expenditures

We spent approximately US\$1,572.7 million, US\$2,694.7 million and US\$2,487.9 million to construct, equip and ramp up our fabs in 2015, 2016 and 2017, respectively. Currently, the planned capital expenditures in 2018 for foundry operations are approximately US\$1.9 billion. See “Item 5. A — Operating and Financial Review and Prospects — Operating Results-Factors that Impact Our Results of Operations — Substantial Capital Expenditures.”

## B. Business Overview

We provide integrated circuit (“IC”) foundry and technology services on process nodes from 0.35 micron to 28 nanometer. Headquartered in Shanghai, China, we have an international manufacturing and service base. In China, We currently have a 300mm wafer fabrication facility (“fab”) and a 200mm fab in Shanghai; a 300mm fab and 200mm fab in Shenzhen; a 300mm fab and a majority-owned 300mm fab for advanced nodes in Beijing; a 200mm fab in Tianjin; and a majority-owned joint-venture 300mm bumping facility in Jiangyin; additionally, we have a majority-owned 200mm fab in Italy.

We also have customer service and marketing offices in the U.S., Europe, Japan, and Taiwan, and a representative office in Hong Kong. The table below sets forth a summary of our current fabs:

	SMIC Shanghai 200mm	300mm	SMIC Beijing 300mm	SMIC Tianjin 200mm	SMIC Shenzhen 200mm	300mm	SMNC 300mm	LFoundry 200mm
Number and Type of fab	fab	fab	fab	fab	fab	fab	fab	fab
Wafer size	200mm	300mm	300mm	200mm	200mm	300mm	300mm	200mm
Current most advanced technology for volume production	0.11 micron	0.028 micron	0.055 micron	0.15 micron	0.11 micron	0.055 micron	0.028 micron	0.09 micron
Production, supporting, testing and maskshop clean room size	35,070m <sup>2</sup>	15,611m <sup>2</sup>	26,276m <sup>2</sup>	17,540m <sup>2</sup>	19,760m <sup>2</sup>	14,305m <sup>2</sup>	37,524m <sup>2</sup>	10,270m <sup>2</sup>

In addition to wafer fabrication, our service offerings include a comprehensive portfolio consisting of IC design libraries, circuit design blocks, design support, mask-making, wafer probing and gold/solder bumping. We have a majority-owned 300mm bumping factory in Jiangyin and we also work with our partners to provide IC assembly and testing services.

We have a global and diversified customer base that includes some of the world's leading IDMs and fabless semiconductor companies.

#### Our Products and Services

##### Manufacturing of Wafers and Our Manufacturing Capacity

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

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The following table sets forth the historical capacity and utilization rate of our wafer fabrication and facilities (all output and capacity data is provided as 8 inch wafers or 8 inch wafer equivalents per month):

Fab	2015	2016	2017
Wafer fabrication capacity as of year-end(1)			
Shanghai 200mm Fab	100,000	108,000	109,000
Shanghai 300mm Fab	31,500	45,000	38,250
Beijing 300mm Fab	83,250	96,750	103,500
Tianjin 200mm Fab	43,000	45,000	50,000
Shenzhen 200mm Fab	13,000	31,000	30,000
Shenzhen 300mm Fab	—	—	6,750
Majority-Owned Beijing 300mm Fab	13,500	40,500	65,250
Majority-Owned Avezzano 200mm Fab	—	40,000	40,000
Total monthly wafer fabrication capacity as of year-end	284,250	406,250	442,750
Wafer Fabrication capacity utilization	100.7	% 97.5	% 86.7 %

(1) Conversion of 12 inch wafers to 8 inch wafer equivalents is achieved by multiplying the number of 12 inch wafers by 2.25.

Our factories manufacture the following types of semiconductors:

- Logic (including Baseband, Application Processor, SoC, Secure ICs, Display Driver IC, ASIC/ASSP, Flash Controller, Interface Controller, Timing Controller, Audio/Video IC and FPGA);
- Mixed-Signal and RF (including RF Combo, Wi-Fi, Bluetooth, RFID, NFC, GPS, Zigbee, RF PA, RF-FEM, RF Tx/Rx, Fingerprint Sensor, Demodulator and Tuner IC);
- Power IC (including BCD, Power Management IC, LED Driver IC, Quick Charging IC, Wireless Charging IC, Linear Regulators, and Switch Regulators);
- Micro Processor (including MCU 64/32/16/8 bits, Touch Controller IC, Touch Display Driver IC, DSP, GPU and MPU);
- Memory related (including SRAM, EEPROM, low-density NAND Flash, NOR Flash, eEEPROM and eFlash, OTP/MTP and etc.);
- Optoelectronics (including FSI and BSI CIS - CMOS Image Sensor, 3D, SPAD, Analog PDs);
- Other Sensors (including MEMS Microphone, Accelerometer, Gyroscope, Smart Sensors, IMU, Micro-display, and etc.);
  - Discrete (IGBT, IPD);
- Others (including TSV, IPD, 3DIC, Hybrid Bonding and Bumping).

The following table sets forth a percentage breakdown of wafer sales by process technology for the years ended December 31, 2015, 2016 and 2017 and each of the quarters in the year ended December 31, 2017:

Process Technologies	For the year ended December 31,		For the three months ended					For the year ended	
	2015	2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017	December 31, 2017	
			(based on sales in US\$)						
0.028 micron	0.13 %	1.59 %	5.00 %	6.62 %	8.83 %	11.30 %	7.97 %		
0.045 micron	15.84 %	22.38 %	20.00 %	19.14 %	20.56 %	23.55 %	20.85 %		
0.065 micron	24.31 %	20.60 %	22.03 %	23.55 %	20.22 %	15.98 %	20.38 %		
0.09 micron	4.13 %	2.28 %	1.34 %	1.36 %	1.38 %	1.81 %	1.48 %		
0.13 micron	10.51 %	12.04 %	15.36 %	17.08 %	8.12 %	6.34 %	11.64 %		
0.15 micron	0.61 %	0.29 %	0.30 %	0.33 %	6.24 %	6.25 %	3.32 %		
0.18 micron	41.09 %	37.82 %	33.37 %	29.12 %	31.59 %	31.60 %	31.45 %		
0.25 micron	0.23 %	0.21 %	0.21 %	0.30 %	0.24 %	0.21 %	0.24 %		
0.35 micron and above	3.15 %	2.79 %	2.39 %	2.50 %	2.82 %	2.96 %	2.67 %		
Total	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %		

### Our Integrated Solutions

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

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

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(1) A portion of this work is outsourced to our service partners.



(2) A portion of these services are outsourced to our service partners.

#### Design Support Services

Our design support services provide our customers with access to the fundamental technology files and libraries that facilitate customers' own integrated circuit design. We also offer design reference flows and access to our design center alliance, as well as layout services to our customers. In addition, we collaborate with industry leaders in electronic design automation, library and IP (intellectual property) services to create a worldwide network of expertise, resources and services that are available to our customers.

#### Libraries and Intellectual Property

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

#### Mask-making Services

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

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

#### Wafer Probing, Bumping, Assembly and Testing Services

We have our own probing facility in Shanghai that provides test program development, probe card fabrication, wafer probing, failure analysis, and failure testing. We also outsource these services to our partners. Our probing facility in Shanghai, China occupies a clean room space of 2,500 square meters, which is rated at Class 1000 cleanliness equipped with advanced testers, probers and laser repair machines. We have experienced engineers to provide test solution development, probe card fabrication, wafer probing, characterization and failure analysis services for most of eMemory, Logics, SoC, Mix-Signal, CIS and MEMS applications.

We also have a probing facility in Avezzano, Italy which occupies a clean room space of about 800 square meters rated at Class 100 cleanliness and equipped with advanced testers and probers to provide test solution development, probe card design, wafer probing, characterization and failure analysis services for most of eMemory, Logics, SoC, Mix-Signal and CIS applications.

In addition, we have a majority-owned 300mm bumping and probing factory in Jiangyin, which entered into mass production in July 2016. Chip probing has been in production for mobile SoC, consumer and memory devices since April 2015. Their products adopt most advanced technologies from early stage to mass production with high

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

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## Customers and Markets

We categorize our sales geographically based on the headquarters of customer operations instead of shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for 2015, 2016 and 2017:

Region	For the year ended December 31, 2015		2016		2017			
	Sales	Percentage	Sales	Percentage	Sales	Percentage		
	(in US\$ thousands, except percentages)							
United States(2)	776,223	34.71	% 858,858	29.47	% 1,240,906	40.01	%	
Mainland China and Hong Kong	1,066,558	47.69	% 1,447,427	49.67	% 1,465,553	47.26	%	
Eurasia(1)	393,634	17.60	% 607,895	20.86	% 394,716	12.73	%	
Total	2,236,415	100.00	% 2,914,180	100.00	% 3,101,175	100.00	%	

(1)Europe and Asia Pacific excluding Mainland China and Hong Kong

(2)Presenting the revenue to those companies whose headquarters are in the United States, but ultimately selling products to their global customers.

The following table sets forth the breakdown of our operating revenue by product and service type for 2015, 2016 and 2017:

Product and Service Type	For the year ended December 31, 2015		2016		2017			
	Sales	Percentage	Sales	Percentage	Sales	Percentage		
	(in US\$ thousands, except percentages)							
Sales of wafers	2,134,943	95.46	% 2,803,819	96.21	% 3,038,947	97.99	%	
Mask making, testing and others	101,472	4.54	% 110,361	3.79	% 62,228	2.01	%	
Total	2,236,415	100.00	% 2,914,180	100.00	% 3,101,175	100.00	%	

We have a global and diversified customer base that includes IDMs, fabless semiconductor companies and systems companies. A significant portion of our sales is attributable to a relatively small number of our customers. For the year ended December 31, 2017, our five largest customers accounted for 51.4% of our total sales.

The following table sets forth a breakdown of our sales by application type for 2015, 2016 and 2017:

Application Type	For the year ended December 31, 2015		2016		2017			
	Sales	Percentage	Sales	Percentage	Sales	Percentage		



	(in US\$ thousands, except percentages)								
Computing(1)	100,958	4.52	%	122,451	4.20	%	192,294	6.20	%
Communication(2)	1,152,509	51.53	%	1,390,716	47.72	%	1,373,251	44.28	%
Consumer(3)	806,862	36.08	%	1,112,821	38.19	%	1,158,313	37.35	%
Auto/Industrial(4)	33,059	1.48	%	112,713	3.87	%	244,818	7.89	%
Other	143,027	6.39	%	175,479	6.02	%	132,499	4.28	%
Total	2,236,415	100.00	%	2,914,180	100.00	%	3,101,175	100.00	%

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- (1) “Computing” consists of integrated circuits such as hard disk drive controllers, DVD-ROM/CD-ROM driver, graphic processors and other components that are commonly used in desktop and notebook computers and peripherals.
- (2) “Communication” consists of integrated circuits used in both wired and wireless data communications and telecommunications applications.
- (3) “Consumer” consists of integrated circuits used for stand-alone DVD players, TV, set top box, game consoles, digital cameras, smart cards and toys.
- (4) “Auto/Industrial” consists of integrated circuits used for automotive control, infotainment, security/safety, industrial controller and power management.

#### Intellectual Property, Patents

We have several thousand patents and patent applications, in addition to third party licenses. Research and development is important for us to maintain our competitiveness. We also have various trademark registrations worldwide. However, we are not dependent on any single patent, license, or trademark, or any group of related patents, licenses or trademarks. Please also see “Item 5.C — Operating and Financial Review and Prospects — Research and Development, Patents and Licenses, etc.” on page 72.

#### Competition and Marketing Channels

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

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

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

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

### Business Seasonality

In general, semiconductor foundry business is subject to seasonal behavior patterns in which business normally would peak in the third quarter of a calendar year and bottom in the first quarter.

### Raw Materials

Our fabrication processes uses many raw materials, primarily silicon wafers, chemicals, gases, and various types of precious and other metals. Raw material costs constituted 28%, 30% and 27% of our manufacturing costs in 2015, 2016 and 2017, respectively.

The three largest components of raw material costs - raw wafers, chemicals and gases - accounted for approximately 34%, 27% and 9%, respectively, of our raw material costs in 2015, approximately 31%, 30% and 10%, respectively, of our raw material costs in 2016, and approximately 31%, 31% and 9%, respectively, of our raw material costs in 2017. Most of our raw materials generally are available from several suppliers, but substantially all of our principal materials requirements must currently be sourced from outside China.

The most important raw material used in our production is silicon in the form of raw wafers. In 2017, we purchased approximately 72.5% of our overall raw wafer requirements from our three major raw wafer suppliers. The prices of our principal raw material are not considered to be volatile.

For 2015, our largest and five largest raw materials suppliers accounted for approximately 10.4% and 39.0% respectively of our overall raw materials purchases. For 2016, our largest and five largest raw materials suppliers accounted for approximately 12.4% and 38.3% respectively of our overall raw materials purchases. For 2017, our largest and five largest raw materials suppliers accounted for approximately 13.8% and 38.3% respectively of our overall raw materials purchases. Our largest two raw materials suppliers were the same in last three years. Most of our materials are imported free of value-added tax and import duties due to concessions granted to our industry in China.

### Electricity and Water

We use substantial amounts of electricity in our manufacturing process. This electricity is sourced from Pudong Electricity Corporation, Beijing Municipal Electricity Department, Tianjin Municipal Electricity Department, Shenzhen PanGuShi Municipal Electricity Department and Jiangyin Municipal Electricity Department for our facilities located in Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin, respectively. We maintain uninterrupted power supply systems and emergency back-up generators and other critical equipment and systems for emergencies.

The electricity for the Avezzano site is “self-produced” by a cogeneration plant owned by LFoundry inside the plant site. The cogeneration plant is connected to the external grid that is used as a backup in case of cogeneration plant shut down. Back up electricity is provided by Enel S.p.A.

The semiconductor manufacturing process also uses extensive amounts of fresh water. We source our fresh water for our Shanghai 200mm and 300mm fabs from Pudong Veolia Water Corporation Limited, for our Beijing 300mm fab from Beijing Waterworks Group Co. Ltd., for our Tianjin 200mm fab from the Tianjin Municipal Water Department, for our majority-owned Beijing 300mm fab from Beijing Bixing High Quality Regeneration Water Co. Ltd., for our Shenzhen 200mm and 300mm fabs from Grand Industrial Zone Water Company of Shenzhen, for our majority-owned Jiangyin 300mm bumping fab from Jiangsu Jiangnan Water Co. Ltd and for our Avezzano 200mm fab from Consorzio Acquedottistico Marsicano. Because Beijing and Tianjin are subject to potential water shortages in the summer, our fabs in Beijing and Tianjin are equipped with back-up reservoirs. Our fab located in Shenzhen is also equipped with back-up reservoirs and our fab in Avezzano uses internal well and reclaims water consumption as a back-up to avoid unpredictable water shortages. We have taken steps to reduce fresh water consumption in our fabs and capture rainwater for use at our Beijing and Tianjin facilities, and our water recycling systems in most of our fabs allow us to recycle up to 80% of the water used during the manufacturing process. The Beijing, Tianjin and Shenzhen sites are also equipped to use recycled/treated industrial waste water for non-critical operations.

### Regulation

The integrated circuit industry in China is subject to substantial regulation by the Chinese government. This section sets forth a summary of the most significant Chinese regulations that affect our business in China.

### Preferential Industrial Policies Relating to ICPEs (“Integrated Circuit Production Enterprises”)

ICPEs which are duly accredited in accordance with relevant laws and regulations may qualify for preferential industrial policies. Under the Accreditation Measures, an integrated circuit enterprise refers to an independent legal entity duly established in the PRC (except for Hong Kong, Macao, and Taiwan) engaging in the production of single chip integrated circuits, multi-chip integrated circuits and hybrid integrated circuits, excluding the integrated circuit design enterprise.

Since 2015, in response to the move of the government to streamline administrative power, the State Council has promulgated various circulars to abolish relevant administrative approval for the qualification assessment, product registration and other administrative/non-administrative licensing examination and approval of IC enterprises.

SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential industrial policies described below.

#### Encouragement of Domestic Investment in ICPEs

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment (the “Interim Provisions”), issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment (the “Guidance Catalogue”), which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013, March 10, 2015 and July 28, 2017, the Chinese government encourages (i) the design of integrated circuits, (ii) the fabrication of integrated circuits with a line width of less than 0.11 micron (including 0.11 micron) and (iii) the advanced packaging and testing of BGA, PGA, FPGA, 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 the Notice of the State Council on Adjusting the Taxation Policies for Imported Equipment (Guo Fa [1997] No.37).

#### Encouragement of Foreign Investment in ICPEs

Pursuant to the Integrated Circuit Policies and the Guideline Catalogue of Foreign Investment Industries promulgated jointly by the State Development and Reform Commission and the Ministry of Commerce on July 28, 2017, the following foreign investment categories are encouraged:

- design of integrated circuits;
- fabrication of large scale integrated circuits with a line width of less than 28 nanometer (including 28 nanometer);
- fabrication of analog and analog digital integrated circuits with a line width of less than 0.11 micron (including 0.11 micron);
- advanced packaging and testing of BGA, PGA, CSP, MCM;
- MEMS and compound semiconductor integrated circuits.

Foreign investment in such encouraged projects may enjoy preferential treatment as stipulated by the laws and regulations.

## Preferential Taxation Policies

SMIC is incorporated in the Cayman Islands and not currently subject to taxation in the Cayman Islands.

The Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") was promulgated on March 16, 2007, which became effective January 1, 2008. Under the EIT Law, domestically-owned enterprises and foreign-invested enterprises ("FIEs") are subject to a uniform tax rate of 25%, except where a special preferential rate applies. The EIT Law provides a five-year transition period starting from its effective date for those companies which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. In accordance with regulations issued by the State Council, the tax rate of such companies may gradually transit to the uniform tax rate within the transition period. For those companies which are enjoying tax holidays, such tax holidays may continue until their expiration in accordance with the regulations issued by the State Council, but where the tax holiday has not yet started because of losses, such tax holiday shall be deemed to commence from the first effective year of the EIT Law.

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.

On April 20, 2012, State Tax Bureau issued Cai Shui [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 assertion and preferential tax policy of integrated circuit enterprise established before December 31, 2010, is 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.

## Preferential Policies Encouraging Research and Development

The EIT Law and the Implementation Regulations of the EIT Law have provided tax incentives in relation to technologies as a means to encourage advancement and adoption of new technologies. The EIT Law provides an additional 50% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new techniques on the basis of the actual deductions when relevant enterprise has no intangible asset to be formed and calculated into the current gains and losses. R&D super deduction is subject

to certain application with the in-charge tax bureau with other supporting documents (i.e. specialized R&D audit report, etc.).

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## Legal Framework Concerning the Protection of Intellectual Property Relating to Integrated Circuits

China has formulated various laws and regulations on intellectual property protection in respect of integrated circuits including:

- the Patent Law of the People's Republic of China, adopted at the fourth meeting of the Standing Committee of the Sixth National People's Congress on March 12, 1984, effective April 1, 1985 and amended by the Ninth National People's Congress on August 25, 2000 and third amended by the Eleventh People's Congress on December 27, 2008, effective October 1, 2009;
- the Paris Convention for the Protection of Industrial Property of the World Intellectual Property Organization, in which China became a member state as of March 19, 1985;
- the General Principles of the Civil Law of the People's Republic of China adopted at the fourth session of the Sixth National People's Congress on April 12, 1986, effective January 1, 1987 and revised at the tenth meeting of the Standing Committee of the Eleventh National People's Congress on August 27, 2009. In this legislation, intellectual property rights were defined in China's basic civil law for the first time as the civil rights of citizens and legal persons. The General Principles of the Civil Law of the People's Republic of China was subsequently developed into the General Provisions of the Civil Law of the People's Republic of China, which was formally adopted at the fifth session of the twelfth National People's Congress on March 15, 2017, effective October 1, 2017;
- the Copyright Law of the People's Republic of China, adopted by the 15th meeting of the Seventh National People's Congress Standing Committee on September 7, 1990, effective June 1, 1991, first amended by the Ninth National People's Congress on October 27, 2001 and amended again by the Eleventh National People's Congress on February 26, 2010, effective April 10, 2010;
- the Regulations for the Protection of the Layout Design of Integrated Circuits, or the Layout Design Regulations, adopted April 2, 2001 at the thirty-sixth session of the executive meeting of the State Council, effective October 1, 2001; and
  - the World Intellectual Property Organization's Washington Treaty on Intellectual Property in Respect of Integrated Circuits, for which China was among the first signatory states in 1990.

### Protection of the Layout Design of Integrated Circuits

Under the Layout Design Regulations, layout design of an integrated circuit refers to a three dimensional configuration in an integrated circuit that has two or more components, with at least one of these being an active component, and part or all of the interconnected circuitry or the three-dimensional configuration prepared for the production of integrated circuits.

Chinese natural persons, legal persons or other organizations that create layout designs are entitled to the proprietary rights in the layout designs in accordance with the Layout Design Regulations. Foreign persons or enterprises that create layout designs and have them first put into commercial use in China are entitled to the proprietary rights in the layout designs in accordance with the Layout Design Regulations. Foreign persons or enterprises that create layout designs and that are from a country that has signed agreements with China regarding the protection of layout designs, or is a party to an international treaty concerning the protection of layout designs to which China is also a party, are entitled to the proprietary rights of the layout designs in accordance with the Layout Design Regulations.



### Proprietary Rights in Layout Design of Integrated Circuits

Holders of proprietary rights in a layout design are entitled to the following proprietary rights:

- to duplicate the whole protected layout design or any part of the design that is original; and
- to make commercial use of the protected layout design, the integrated circuit containing the layout design, or commodities containing the integrated circuit.

Proprietary rights in layout designs become valid after being registered with the administrative department of the State Council responsible for intellectual property. Unregistered layout designs are not protected by the Layout Design Regulations.

The protection period of the proprietary rights in a layout design is ten years, commencing from the date of the application for registration of the layout design or the date that it is first put into commercial use anywhere in the world, whichever is earlier. However, regardless of whether or not a layout design is registered, or whether or not it is put into commercial use, it is not protected after 15 years from the time of its creation.

### Registration of a Layout Design

The administrative departments of the State Council responsible for intellectual property are responsible for the registration of layout designs and accepting applications for the registration of layout designs. If an application for a layout design registration is not made with the administrative department of the State Council responsible for intellectual property within two years after it has been first put into commercial use anywhere in the world, the administrative department of the State Council responsible for intellectual property will not register the application. A holder of proprietary rights in a layout design may transfer the proprietary rights or give permission for other parties to use the layout design.

### Compulsory Licenses for Exploitation of Patents in Respect of Semiconductor Technology

Under the Patent Law and the Implementing Regulations of the Patent Law, three years after a patent right is granted and four years after a patent application is filed, any person or enterprise that has made good faith reasonable proposals to the holder of proprietary rights seeking a license to such right, but has been unable to obtain such license after an extended period of time, may request the administrative department responsible for patents under the State Council to grant a compulsory license for the relevant patent, provided that the patent owner fails to exploit or fails to adequately exploit the patent without justified reasons. However, where a compulsory license involves semiconductor technology, the implementation of a compulsory license is restricted to public and non-commercial uses, or to uses that counteract anti-competitive actions, as determined by judicial or administrative procedures.

### PRC Tax for “Resident Enterprises”

Under China’s EIT Law, an enterprise established under the laws of non-PRC jurisdictions, but whose “de facto management body” is located in the PRC is treated as a resident enterprise for PRC tax purpose. If we are classified as a “resident enterprise” in China, we could be subject to unfavorable tax consequences to us and our non-PRC shareholders. The implementing rules of the EIT Law define de facto management bodies as “management bodies that exercises substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. In April 2009, the State Administration of Taxation further specified criteria for the determination of the location of “de facto management bodies” for foreign enterprises, which include: (i) the enterprise’s day-to-day operational management is primarily exercised in the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

If the PRC tax authorities determine that our Cayman Islands holding company is a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules dividends income between qualified resident enterprises is tax exempted income, it is not clear how a qualified resident enterprise which is incorporated overseas would be treated under the EIT Law. Finally, it is possible that future guidance issued with respect to the “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares or ADSs. Similarly, these unfavorable consequences could apply to our other overseas intermediary holding companies if they are classified as PRC resident enterprises.

### Environmental Regulations

Our Chinese subsidiaries are subject to a variety of Chinese environmental laws and regulations promulgated by the central and local governments, for example, the Environmental Protection Law of the People’s Republic of China, effective December 26, 1989 and amended on April 24, 2014, effective January 1, 2015, and our majority-owned Italian subsidiary is subject to a variety of Italian and European Union environmental laws and regulations promulgated by the central and local governments, for example, our operations in Europe are subject to the Environmental Protection Law Dlgs 152 effective 2006, concerning examination and acceptance of environmental protection measures in construction projects, the use, discharge and disposal of toxic and hazardous materials, the discharge and disposal of waste water, solid waste, and waste gases, control of industrial noise and fire prevention. These laws and regulations set out detailed procedures that must be implemented throughout a project’s construction and operation phases.

A key document that must be submitted for the approval of a project's construction is an environmental impact assessment report that is reviewed by the relevant environmental protection authorities. Upon completion of construction, and prior to commencement of operations, an additional examination and acceptance by the relevant environmental authority of such projects is also required. After receiving approval of the environmental impact assessment report, a semiconductor manufacturer is required to apply to and register with (in Italy, the paperwork needs to be submitted as an environmental permit request also including 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 and is currently under permit renewal process.

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.

#### Enforceability of Civil Liabilities

We are a Cayman Islands holding company. We are incorporated in the Cayman Islands because of the following benefits associated with being a Cayman Islands corporation:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, the Cayman Islands have a less developed body of securities laws as compared to the United States and provide significantly less protection for investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. Substantially all of our assets are located outside the United States. In addition, most of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of our or such persons' assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon us or such persons or to enforce against them or against us, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Conyers Dill & Pearman (Cayman) Limited, our counsel as to Cayman Islands law, DLA Piper Hong Kong, our counsel as to Hong Kong law, and Shanghai LanBai Law Firm, as well as Shanghai All Bright Law

Offices, our counsels as to Chinese law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands, Hong Kong and China, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or
- be competent to hear original actions brought in each respective jurisdiction, against us or our directors or officers predicated upon the securities laws of the United States or any state thereof.

Conyers Dill & Pearman (Cayman) Limited has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the Courts of the Cayman Islands under the common law doctrine of obligation.

### C. Organizational Structure

We operate primarily through SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC, SJ Jiangyin in China and LFoundry in Italy. The chart below sets forth also our other significant operating subsidiaries or affiliates, including their jurisdictions of incorporation and principal activities as of December 31, 2017:

Name of company	Place and date of incorporation/establishment	Direct or Indirect equity ownership held	Principal Activity
Better Way Enterprises Limited (“Better Way”)*	Samoa April 5, 2000	100	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”)*#	People’s Republic of China (the “PRC”) December 21, 2000	100	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America June 22, 2001	100	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation (“SMIB” or “SMIC Beijing”)*#	PRC July 25, 2002	100	Manufacturing and trading of semiconductor products
SMIC Japan Corporation	Japan October 8, 2002	100	Provision of marketing related activities
SMIC Europe S.R.L.	Italy July 3, 2003	100	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Cayman Islands June 30, 2005	100	Investment holding
SMIC Commercial Shanghai Limited Company*#	PRC September 30, 2003	100	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation (“SMIT” or “SMIC Tianjin”)*#	PRC November 3, 2003	100	Manufacturing and trading of semiconductor products
SMIC Development (Chengdu) Corporation (“SMICD”)*#	PRC December 29, 2005	100	Construction, operation and management of SMICD’s living quarters, schools and supermarket
Semiconductor Manufacturing International (BVI) Corporation (“SMIC (BVI)”)*	British Virgin Islands April 26, 2007	100	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands October 10, 2007	100	Investment holding
SMIC Shanghai (Cayman) Corporation	Cayman Islands November 8, 2007	100	Investment holding
SMIC Beijing (Cayman) Corporation	Cayman Islands November 8, 2007	100	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands November 8, 2007	100	Investment holding

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SilTech Semiconductor Corporation	Cayman Islands February 13, 2008	100	%	Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands January 21, 2008	100	%	Investment holding
SMIC New Technology Research & Development (Shanghai) Corporation (formerly SMIC Advanced Technology Research & Development (Shanghai) Corporation)	PRC October 28, 2014	94.874	%	Research and development activities
SMIC Holdings Corporation#	PRC August 26, 2015	100	%	Investment holding
SJ Semiconductor Corporation	Cayman Islands August 19, 2014	56.045	%	Investment holding
SMIC Energy Technology (Shanghai) Corporation (“Energy Science”)*#	PRC September 9, 2005	100	%	Manufacturing and trading of solar cells related semiconductor products
Magnificent Tower Limited	British Virgin Islands January 5, 2006	100	%	Investment holding
SMIC Hong Kong International Company Limited (formerly “SMIC Shanghai (HK) Company Limited”)	Hong Kong December 3, 2007	100	%	Investment holding
SMIC Beijing (HK) Company Limited	Hong Kong December 3, 2007	100	%	Investment holding
SMIC Tianjin (HK) Company Limited	Hong Kong December 3, 2007	100	%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong December 3, 2007	100	%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong January 29, 2008	100	%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong March 20, 2008	100	%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation#	PRC March 20, 2008	100	%	Manufacturing and trading of semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited#	PRC March 3, 2009	100	%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”)*	PRC July 12, 2013	51	%	Manufacturing and trading of semiconductor products
China IC Capital Co., Ltd#	PRC January 17, 2014	100	%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC August 1, 2014	99	%	Investment holding
SJ Semiconductor (HK) Limited (“SJ Hong Kong”)*	Hong Kong September 2, 2014	56.045	%	Investment holding
SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)*	PRC November 25, 2014	56.045	%	Bumping and circuit probe testing activities

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LFoundry S.r.l. (“LFoundry”)*	Italy July 24, 1998, acquired by SMIC on July 29, 2016	70	%	Manufacturing and trading of semiconductor products
Ningbo Semiconductor International Corporation	PRC October 14, 2016	53.725	%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing South China Corporation#	PRC December 1, 2016	100	%	Manufacturing and trading of semiconductor products
SJ Semiconductor USA Co.	United States of America April 6, 2016	56.045	%	Provision of marketing related activities
SMIC (Sofia) EOOD	Bulgaria March 31, 2017	100	%	Designing activities
SMIC Innovation Design Center (Ningbo) Co., Ltd.#	PRC October 13, 2017	100	%	Designing activities

\* For identification purposes only.

# Companies registered as wholly-owned foreign enterprises in the People's Republic of China. (PRC) excluding for the purpose of this report, Hong Kong, Macau, and Taiwan.

D. Property, plant and equipment

#### Equipment

The quality and level of technology of the equipment used in the semiconductor fabrication process are important because they dictate the limits of the process technology that we use. Advances in process technology cannot be achieved without corresponding advances in equipment technology. The principal pieces of equipment used by us to fabricate semiconductors are scanners, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputterers, CVD equipment, testers and probers. We source substantially all of our equipment from vendors located in the United States, Europe and Japan.

In implementing our capacity expansion and technology advancement plans, we expect to make significant purchases of equipment required for semiconductor fabrication. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and in some cases has only recently become commercially available. Our ability to obtain certain kinds of equipment outside of China may be subject to restrictions. See "Item 3.D — Key information — Risk Factors — Risks Related to Conducting Operations in China — Limits placed on exports into China could substantially harm our business and operating results."

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



## Property

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

Location	Size (Land/Building) (in square meters)	Primary Use	Owned(1)or Leased (Land/Building)
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	45,840/26,870	Headquarter	owned/owned
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	361,805/201,772	Wafer fabrication	owned/owned
Beijing Economic and Technological Development Area(2)	240,140/428,958	Wafer fabrication	owned/owned
Xiqing Economic Development Area, Tianjin	215,733/70,578	Wafer fabrication	owned/owned
Shenzhen Export Processing Zone, Shenzhen Pingshan New Area, Guangdong	200,060/225,236	Wafer fabrication	owned/owned
Avezzano (AQ), Italy	240,009/53,583	Wafer fabrication	owned/owned
Jiangyin National High-Tech Industrial Development Zone, Jiangsu Province	182,082/14,194	Bumping and circuit probe testing	owned/leased
Japan	na/103	Marketing activities	na/leased
USA	na/2,092	Marketing activities	na/leased
Milan, Italy	na/309	Marketing activities	na/owned
Taiwan	na/500	Marketing activities	na/leased
Sofia, Bulgaria	na/224	Research and Development	na/leased
Hong Kong(3)	na/300	Representative Office	na/owned

(1) With respect to land located in China, “ownership” refers to holding a valid land use rights certificate. All land within municipal zones in China is owned by the Chinese government. Limited liability companies, joint stock companies, foreign-invested enterprises, privately held companies and individual natural persons must pay fees to be granted rights to use land within municipal zones. Legal use of land is evidenced and sanctioned by land use certificates issued by the local municipal administration of land resources. Land use rights granted for industrial

purposes are limited to a term of no more than 50 years.

- (2) Including SMIC Beijing and SMNC.
- (3) In February 2006, we purchased approximately 300 square meters of property in Hong Kong through our indirect wholly-owned subsidiary, Magnificent Tower Limited, a company incorporated in the British Virgin Islands.

Our right to continued use of the land is subject to our continued compliance with the land use agreement that each of our Chinese subsidiaries has executed. The Chinese government has reserved the right to revoke our land use rights for special eminent domain purposes, in which case the government will compensate us. In addition, pursuant to our domestic bank loan agreements, SMIC Shanghai had pledged a portion of its land use right to the lenders. See “Item 5.A — Operating and Financial Review and Prospects — Operating Results — Liquidity and Capital Resources.”

For further discussion concerning our capacity, capacity utilization rate and capacity expansion plans, please see “Item 5.A — Operating and Financial Review and Prospects — Operating Results — Factors that Impact our Results of Operations.”

### Environmental Matters

The semiconductor production process generates gaseous chemical wastes, liquid waste, waste water, and other industrial wastes in various stages of the fabrication process. We have installed various types of pollution control equipment for the treatment of gaseous chemical waste and liquid waste and equipment for the recycling of treated water in our fabs. Our operations in China and Italy are subject to regulation and periodic monitoring by the PRC’s and Italian State Environmental Protection Ministry, as well as local environmental protection authorities, including those under the Shanghai Pudong Municipal Government, the Beijing Municipal Government, the Tianjin Municipal Government, the Shenzhen Municipal Government, the Jiangyin Municipal Government and local environmental protection authority in Italy, which may in some cases, establish stricter standards than those imposed by the State Environmental Protection Ministry. The Chinese and Italian national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations, and authorize the Chinese and Italian national and local governments to suspend any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage.

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

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

In addition, all fabs, except for SJ Jiangyin, in operation have been QC 080000 certified to be in compliance with the hazardous substances management directives such as RoHS (Restriction of the use of certain Hazardous Substances in electrical and electronic equipment), which bans the use of various chemicals determined to be harmful to humans and the environment. The Jiangyin site plans to apply for QC080000 certification in 2019.

We are also proactively protecting the environment by implementing energy saving measures to reduce greenhouse gas emissions. In order to calculate our greenhouse gas output and to reach a reduction goal, SMIC Shanghai and SMIC Tianjin obtained ISO 14064 certification since 2010, SMIC Beijing obtained external certification from a third party according to Beijing’s local regulation on carbon trading since 2014. ISO 14064 is an international standard pursuant to which greenhouse gas (GHG) emissions reports are voluntarily verified. SMIC Shenzhen, SMNC and the

Jiangyin site plan to apply for the ISO 14064 certification in the future.

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Item 4A. Unresolved Staff Comments

Not applicable

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes prepared in accordance with IFRS as described in “Notes to Consolidated Financial Statements” as of, and for the years ended, December 31, 2015, 2016 and 2017. This report contains forward-looking statements. See “Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3.D — Key Information — Risk Factors” in this annual report on Form 20 F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

Our operations are primarily based in China. We continued to achieve profitability on a full-year basis in 2017. In 2017 we achieved total sales of US\$3,101.2 million, compared to US\$2,914.2 million in 2016. We recorded annual profit of US\$126.4 million and generated US\$1,080.7 million in cash from operating activities in 2017, compared to annual profit of US\$316.4 million and US\$977.2 million in cash from operating activities in 2016. Our China revenue contributed 47.3% of the overall revenue in 2017, compared to 49.7% in 2016.

In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below increased from 46.9% in 2016 to 50.7% in 2017 and, in particular, the revenue contribution percentage from 28nm technology increased from 1.6% in 2016 to 8.0% in 2017.

The major factors affecting our results of operations and financial condition are discussed below.

Factors that Impact Our Results of Operations

Cyclicality of the Semiconductor Industry

The semiconductor industry is highly cyclical due mainly to the cyclicality of demand in the markets of the products that use semiconductors. As these markets fluctuate, the semiconductor market also fluctuates. This fluctuation in the semiconductor market is exacerbated by the tendency of semiconductor companies, including foundries, to make capital investments in plant and equipment during periods of high demand since it may require several years to plan, construct and commence operations at a fab. Absent sustained growth in demand, this increase in capacity often leads to overcapacity in the semiconductor market, which in the past has led to a significant underutilization of capacity and a sharp drop in semiconductor prices. The semiconductor industry is generally slow to react to declines in demand due to its capital-intensive nature and the need to make commitments for equipment purchases well in advance of the planned expansion. See “Item 3.D — Key information — Risk Factors — Risks Related to Our Financial Condition and Business.”

Substantial Capital Expenditures

The semiconductor foundry industry is characterized by substantial capital expenditures. This is particularly true for our company as we have recently constructed and equipped fabs and are continuing to construct and equip new fabs. In connection with the construction and ramp-up of our capacity, we incurred capital expenditures of US\$1,572.7 million, US\$2,694.7 million and US\$2,487.9 million in 2015, 2016 and 2017, respectively. We depreciate our manufacturing machinery and equipment on a straight-line basis over an estimated useful life of five to seven years. We recorded depreciation of US\$473.0 million, US\$673.2 million and US\$906.0 million in 2015, 2016 and 2017, respectively.

The semiconductor industry is also characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, our research and development efforts are essential to our overall success. We spent approximately US\$237.2 million in 2015, US\$318.2 million in 2016 and US\$427.1 million in 2017 on research and development expenses, which represented 10.6%, 10.9% and 13.8%, respectively, of our sales for 2015, 2016 and 2017. Our research and development costs are partially offset by related government fundings and include the costs associated with the ramp-up of a new wafer facility.

We currently expect that our capital expenditures in 2018 for foundry operations will be approximately US\$1.9 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in our majority-owned Beijing 300mm fab, Beijing 300mm fab, Shanghai 200mm fab, Shanghai 300mm fab and Jiangyin Bumping fab, 2) our new project in Tianjin, 3) a majority-owned subsidiary, which we expect will focus on research and development on 14nm FinFET technology, 4) enhancing our portfolio of comprehensive foundry solutions available to our customers, and 5) research and development equipment, mask shops and intellectual property acquisition.

In addition, we have budgeted approximately US\$47.7 million as the 2018 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program.

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

#### Capacity Expansion

We have expanded our production capacity in the past years and plan to continue to expand through organic growth, joint ventures and acquisitions. An increase in capacity may have a significant effect on our results of operations, both by allowing us to produce and sell more wafers and achieve higher sales, and as a cost component in the form of acquisition costs and depreciation expenses. In 2018, we expect most of our expansion will be in majority-owned Beijing 300mm fab and in our new project in Tianjin. Our target, subject to market conditions, is to reach 60,000 8-inch wafers per month installed capacity in our Tianjin 200mm fab and 33,000 12-inch wafers per month installed capacity in our majority-owned Beijing 300mm fab by December 31, 2018.

#### Pricing

We price our foundry services on either a per wafer or a per die basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer, and our capacity utilization. Since a majority of our costs and expenses are fixed or semi-fixed, fluctuations in the average selling prices of semiconductor wafers have historically had a substantial impact on our margins. The average selling price of the wafers we shipped decreased from US\$736 per wafer in 2016 to US\$719 per wafer in 2017.

#### Change in Process Mix and Technology Migration

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our sales and profitability. The value of a wafer is determined principally by the complexity of the process technology used to fabricate the wafer. In addition, production of devices

with higher levels of functionality and greater system-level integration requires more fabrication steps, and these devices generally sell for higher prices.



Prices for wafers of a given level of technology generally decline over the relevant process technology life cycle. As a result, we and our competitors are continuously in the process of developing and acquiring more advanced process technologies and migrating our customers to use such technologies to maintain or improve our profit margins. This technology migration requires continuous investment in research and development and technology-related acquisitions, and we may spend a substantial amount of capital on upgrading our technologies.

#### Capacity Utilization Rates

Operations at or near full capacity utilization have a significant positive effect on our profitability because a substantial percentage of our cost of sales is of a fixed or semi-fixed nature. If we increase our utilization rates, the number of wafers we fabricate will increase, and therefore our average fixed costs per wafer will decrease. Therefore, our capacity utilization rates have a significant effect on our margins. Our capacity utilization rates have varied from period to period mainly due to the mix of wafers produced and fluctuations in customer orders. Our capacity utilization rate was 100.7% in 2015, 97.5% in 2016 and 86.7% in 2017. Factors affecting capacity utilization rates are the overall industry conditions, the level of customer orders, the complexity of the wafers and of the mix of wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, and our ability to manage the production facilities and product flows efficiently.

Our capacity is determined by us based on the capacity ratings for each piece of equipment, as specified by the manufacturers of such equipment, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to set up for production runs and maintenance, and expected product mix. Because these factors include subjective elements, our measurement of capacity utilization rates may not be comparable to those of our competitors.

#### Yield Rates

Yield per wafer is the ratio of the number of functional dies on that wafer to the maximum number of dies that can be produced on that wafer. We continuously upgrade the process technologies that we use. At the beginning of each technology migration, the yield utilizing the new technology is generally lower, sometimes substantially lower, than the yield under the then-current technology. This is because it requires time to stabilize, optimize and test a new process technology. We do not ship wafers to a customer until we have achieved that customer's minimum yield requirements. Yield is generally improved through the expertise and cooperation of our research and development personnel, process engineers, and equipment suppliers.

#### Critical Accounting Policies

We prepare our financial statements in conformity with IFRS, which requires us to make judgments, estimates and assumptions. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from our expectations as a result of changes in our estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their applications and require us to make significant

accounting estimates. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

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## 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.” We estimate 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, we record a write-down to cost of sales for the difference between the carrying cost and NRV.

The cost of inventories recognized as expenses (incomes) in respect of inventory provision (reversal) were US\$(13.3) million, US\$3.7 million and US\$46.9 million in 2015, 2016 and 2017, respectively.

## Long-lived assets

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

We make 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. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of CGU to our 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 used for extrapolation purposes.

In order to remain technologically competitive in the semiconductor industry, we have entered into technology transfer and technology license arrangements with third parties in an attempt to advance our 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. We routinely review the remaining estimated useful lives of these intangible assets and deferred costs. We also evaluate 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, we will impair such assets and write down their carrying amounts to recoverable amount in the year when such determination was made.



### Share-based Compensation Expense

The fair value of options and shares issued pursuant to our 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. We estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. We use projected volatility rates based upon the Company's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect our 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.

For further discussion on our share-based employee compensation plans see "Item 6.E — Directors, Senior Management and Employees — Share Ownership."

### Taxes

As a company incorporated in the Cayman Islands, we are not subject to taxation in the Cayman Islands.

Our other subsidiaries are subject to their respective jurisdictions' income tax laws, including Japan, Taiwan, the United States and Europe. Our income tax obligations to date have been minimal.

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. We established provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries 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 us.

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.

No deferred tax asset, in respect of tax losses of US\$577.3 million for 2015, US\$444.0 million for 2016 and US\$235.1 million for 2017, respectively, were recognized due to the unpredictability of future profit streams. 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. For further details on taxes see "Note 10 to Consolidated Financial Statements".

### Fair value measurements and valuation processes

Some of our assets and liabilities are measured at fair value for financial reporting purposes.

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In estimating the fair value of an asset or a liability, we use market-observable data to the extent it is available. Where Level 1 inputs are not available, we engage third party qualified appraisers to perform the valuation.

We use valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

#### Impairment of trade and other receivable

We assess at the end of each reporting period whether there is any objective evidence that trade and other receivable are impaired. To determine whether there is objective evidence of impairment, we consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

When there is objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

#### Foreign Currency Fluctuations

Our revenue, expenses, and capital expenditures are primarily transacted in U.S. dollars. We also enter into transactions in other currencies. We are primarily exposed to changes in exchange rates for the Euro, the Japanese Yen, and RMB. Accordingly, we are affected by fluctuations in exchange rates between the U.S. dollar and each of the Japanese Yen, the Euro and the RMB. See "Item 3.D — Key Information — Risk Factors — Risks Related to Conducting Operations in China — Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our operating results" and "Risk Factors - Risks Related to Our Financial Condition and Business — Exchange rate fluctuations could increase our costs, which could adversely affect our operating results and the value of our ADSs" for a discussion of the effects on our company of fluctuating exchange rates and "Item 11 — Quantitative and Qualitative Disclosures About Market Risk — Foreign Exchange Rate Fluctuation Risk" for a discussion of our efforts to minimize such risks".

## Recent Accounting Pronouncements

We have not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or revised IFRSs	Effective date
IFRS 9 — Financial Instruments	On or after January 1, 2018
IFRS 15 — Revenue from contracts with customers	On or after January 1, 2018
Amendments to IFRS 2 — Classification and measurement of share-based payment transactions	On or after January 1, 2018
Amendments to IAS 28 — Investments in associates and joint ventures	On or after January 1, 2018
IFRS 16 — Lease	On or after January 1, 2019
IFRS 17 — Insurance Contracts	On or after January 1, 2021
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its associate or joint venture	Not yet determined
IFRIC 22 — Foreign Currency Transactions and Advance Consideration	On or after January 1, 2018
IFRIC 23 — Uncertainty over Income Tax Treatments	On or after January 1, 2019

The new IFRS 9 standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 on a retrospective basis. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognized in the costs of hedging reserve.

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. 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. In 2017, we have performed a detailed assessment on the impact of the adoption of IFRS 15 and decided to adopt a modified retrospective approach. The expected changes in accounting policies will not have any significant impact on the Group's financial statements.

IFRS 16 will result in almost all leases being recognized on the balance sheet, 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 accounting for lessors will not significantly change. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provision permit certain



reliefs. In 2018, We will continue to assess the potential effect of IFRS 16 on our consolidated financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Incentives from the Chinese government

The chart below sets forth a brief summary of the material incentives received by our Chinese subsidiaries as qualified integrated circuit production enterprises (ICPE) from the Chinese government. Our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin subsidiaries are qualified as ICPEs under the Integrated Circuit Policies. Under these policies, ICPEs 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 the benefits listed below. For a more detailed discussion of these incentives, see “Item 4.B — Information on the Company — Business Overview — Regulation.”

Incentive	SMIS; SMIB; SMIT; SMIC Shenzhen; SMNC and SJ Jiangyin
Preferential Enterprise Income Tax Policies	Five-year full exemption and five-year 50% reduction upon approval from the local tax bureau
Incentive	SMIS; SMIB; SMIT; SMNC and SJ Jiangyin
Preferential Customs Duties and Import-related VAT Policies	Exemption from customs duties and imported-related VAT with respect to its qualified spare parts, and raw materials pursuant to the Tax-Exemption Categories (SMIC Shenzhen is located in Shenzhen Export Processing Zone).

## Operating Results

The following table sets forth a summary of our consolidated results of operations for the periods indicated. We believe that period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the year ended December 31,		
	2015	2016	2017
	(in US\$ thousands, except for earnings per share)		
Revenue	2,236,415	2,914,180	3,101,175
Cost of sales	(1,553,795)	(2,064,499)	(2,360,431)
Gross profit	682,620	849,681	740,744
Research and development expenses, net	(237,157)	(318,247)	(427,111)
Sales and marketing expenses	(41,876)	(35,034)	(35,796)
General and administration expenses	(213,177)	(157,371)	(197,899)
Other operating income (expense), net	31,594	177	44,957
Profit from operations	222,004	339,206	124,895
Interest income	5,199	11,243	27,090
Finance costs	(12,218)	(23,037)	(18,021)
Foreign exchange gains or losses	(26,349)	(1,640)	(12,694)
Other gains or losses, net	55,611	(2,113)	16,499
Share of profit (loss) of investment accounted for using equity method	(13,383)	(13,777)	(9,500)
Profit before tax	230,864	309,882	128,269
Income tax (expense) benefit	(8,541)	6,552	(1,846)
Profit for the year	222,323	316,434	126,423
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	(8,185)	(19,031)	23,213
Change in value of available-for-sale financial assets	452	807	(2,381)
Cash flow hedges	—	(34,627)	35,143
Share of other comprehensive income of joint ventures accounted for using equity method	—	—	17,646
Others	130	1	(131)
Items that will not be reclassified to profit or loss			
Actuarial gains or losses on defined benefit plans	—	1,520	(436)
Total comprehensive income for the year	214,720	265,104	199,477
Profit (loss) for the year attributable to:			
Owners of the Company	253,411	376,630	179,679
Non-controlling interests	(31,088)	(60,196)	(53,256)
	222,323	316,434	126,423
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company	245,803	326,191	251,135
Non-controlling interests	(31,083)	(61,087)	(51,658)

	214,720	265,104	199,477
Earnings per share*			
Basic	\$ 0.07	\$ 0.09	\$ 0.04
Diluted	\$ 0.06	\$ 0.08	\$ 0.04

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\*The basic and diluted earnings per share and the number of shares for the prior years 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.

## Revenue

We generate our sales primarily from fabricating semiconductors. We also derive a relatively small portion of our sales from the mask-making, wafer probing, and other services that we perform for third parties separately from our foundry services. A significant portion of our net sales is attributable to a relatively small number of our customers. In 2015, 2016, and 2017 our five largest customers accounted for approximately 52.8%, 54.6% and 51.4%, respectively, of our sales.

## Cost of sales

Our cost of sales consists principally of:

- depreciation and amortization;
- overhead, including maintenance of production equipment, indirect materials, including chemicals, gases and various types of precious and other metals, utilities, royalties and inventory provision;
- direct materials, which consist of raw wafer costs;
- labor, including share-based compensation expenses for employees directly involved in manufacturing activities; and
- production support, including facilities, utilities, quality control, automated systems and management functions.

## Income (expenses) and gains (loss) from operations

- Research and development expenses. Research and development expenses consist primarily of salaries and benefits of research and development personnel, materials costs, depreciation and maintenance on the equipment used in our research and development efforts, contracted technology development costs, and the costs associated with the ramp-up of new fabs. Research and development expenses are partially offset by related government fundings.
- General and administrative expenses. General and administrative expenses consist primarily of salaries and benefits for our administrative support, finance and human resource personnel, commercial insurance, fees for professional services, city maintenance and construction tax expenses, educational surtax expenses and bad debt expenses.
- Selling and marketing expenses. Selling and marketing expenses consist primarily of salaries and benefits of personnel engaged in sales and marketing activities, costs of customer wafer samples, other marketing incentives and related marketing expenses.
- Other operating income (loss). Other operating income (loss) consist primarily of gains or losses arising from disposal of our living quarters, gains or losses arising from disposal of subsidiaries, losses arising from disposal of equipment and impairment loss of long-lived assets.

## Finance cost

Our finance costs consist of:

- interest expenses, net of government fundings and capitalized portions, which have been primarily attributable to our bank loans, corporate bonds, medium-term and short-term notes, finance leases and the imputed interest rate on the outstanding interest-free convertible bonds.

Other gains or losses, net

Our other gains or losses mainly consist of:

- gains and losses from our schools, kindergartens and living quarters;
- the changes of fair value and disposal gains or losses of the financial products sold by banks;
- the changes of fair value of the put option related to our investment in Changjiang Xinke; and
- the changes of fair value of the cross currency swap contracts before being designated as hedging instrument of cash flow hedges.

Comparison of the Years Ended December 31, 2015, 2016 and 2017

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

## Revenue

Revenue increased by 6.4% from US\$2,914.2 million for 2016 to US\$3,101.2 million for 2017, primarily due to an increase in wafer shipments in 2017. The number of wafer shipments increased by 8.9% from 3,957,685 8-inch wafer equivalents for 2016 to 4,310,779 8-inch wafer equivalents for 2017, mainly due to the higher demand for the wafer by using advanced 45nm and below technologies in 2017..

The average selling price of the wafers we shipped decreased from US\$736 per wafer in 2016 to US\$719 in 2017. The percentage of wafer revenues from advanced 45nm and below technologies increased from 24.0%

in 2016 to 28.8% in 2017. The revenue dollar amount contributed from advanced 45nm and below technologies increased from US\$672.1 million in 2016 to US\$875.8 million in 2017.

#### Cost of sales and gross profit

Cost of sales increased by 14.3% from US\$2,064.5 million for 2016 to US\$2,360.4 million for 2017, primarily due to the increase in wafer shipments in 2017 and the increase in depreciation in 2017 caused by the increased capital expenditure. Out of the total cost of sales, US\$583.7 million and US\$774.3 million were attributable to depreciation and amortization for the year ended December 31, 2016 and 2017, respectively.

Our gross profit was US\$740.7 million for 2017 compared to US\$849.7 million for 2016, representing a decrease of 12.8%. Gross margin was 23.9% in 2017 compared to 29.2% in 2016. The decline in gross margin was primarily due to the lower average selling price, the increase in depreciation and the decrease in utilization in 2017.

#### Profit for the year from operations

Profit from operations decreased from US\$339.2 million for the year ended December 31, 2016 to US\$124.9 million for the year ended December 31, 2017 primarily due to the combined effect of the increase in depreciation and in wafer shipments, the decrease in utilization, and the following changes:

Research and development expenses increased by 34.2% from US\$318.2 million for the year ended December 31, 2016 to US\$427.1 million for the year ended December 31, 2017. The increase was mainly due to the higher level of research and development activities in 2017.

General and administrative expenses increased by 25.8% from US\$157.4 million for the year ended December 31, 2016 to US\$197.9 million for the year ended December 31, 2017. The increase was primarily due to 1) the start-up cost relating to our new Shenzhen 300mm fab, 2) less reversal of allowance on doubtful trade and other receivables in 2017 and 3) increased utility cost, depreciation and patent application expenses in 2017.

Sales and marketing expenses increased by 2.2% from US\$35.0 million for the year ended December 31, 2016 to US\$35.8 million for the year ended December 31, 2017.

Other operating incomes increased from US\$0.2 million for the year ended December 31, 2016 to US\$45.0 million for the year ended December 31, 2017. The increase was mainly due to 1) increased gain on disposal of property, plant and equipment and 2) increased government funding received in 2017.

#### Profit for the Year

Finance cost decreased by 21.8% from US\$23.0 million for the year ended December 31, 2016 to US\$18.0 million for the year ended December 31, 2017. The decrease was mainly due to the deduction of the interest subsidies received from the government.

Foreign exchange gains or losses decreased US\$11.1 million from US\$1.6 million net loss for the year ended December 31, 2016 to US\$12.7 million net loss for the year ended December 31, 2017. The change was mainly due to an appreciation of RMB against USD in 2017.

Other gains and losses, net increased by US\$18.6 million from US\$2.1 million net loss for the year ended December 31, 2016 to US\$16.5 million net gain for the year ended December 31, 2017. The increase was mainly due to 1) a gain of US\$18.5 million arising from the consummation of the transactions contemplated by the disposal agreement and the subscription agreement entered by SilTech Shanghai and JCET on April 27, 2016, 2) a loss of contingent cash compensation of US\$12.5 million that may be incurred depending on the profit generated by Changjiang Xinke during a three-year period from 2017 to 2019, which will become



payable in one installment at the end of 2019 and 3) the gains arising from the fair value change of cross currency swap contracts designated as hedging instrument of cash flow hedges in 2017 against losses in 2016.

Income tax (expense) benefit changed from US\$6.6 million benefit for the year ended December 31, 2016 to US\$1.8 million expense for the year ended December 31, 2017. The change was mainly due to the reversal of deferred tax asset for previously recognized temporary differences which will not be utilized.

Due to the factors described above, the Group recorded a profit of US\$126.4 million in 2017 compared to US\$316.4 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

#### Revenue

Revenue increased by 30.3% from US\$2,236.4 million for 2015 to US\$2,914.2 million for 2016, primarily due to 1) an increase in wafer shipments in 2016 including a significant increase in China sales and 2) the revenue of US\$87.4 million contributed from the acquisition of LFoundry. For 2016, the overall wafer shipments were 3,957,685 units of 8 inch equivalent wafers, up 31.2% year-over-year, primarily due to the increasing sales orders received and our expanded capacity to meet growing customer's demands in 2016.

The average selling price of the wafers the Group shipped decreased from US\$742 per wafer in 2015 to US\$736 in 2016. The percentage of wafer revenues from advanced 45nm and below technologies increased from 16.0% in 2015 to 24.0% in 2016. The revenue dollar amount contributed from advanced 45nm and below technologies increased from US\$340.9 million in 2015 to US\$672.1 million in 2016.

#### Cost of sales and gross profit

Cost of sales increased by 32.9% from US\$1,553.8 million for 2015 to US\$2,064.5 million for 2016, primarily due to an increase in wafer shipments and an increase in manufacturing costs as the majority-owned 300mm fab in Beijing entered into mass production in December 2015. Out of the total cost of sales, US\$424.9 million and US\$583.7 million were attributable to depreciation and amortization for the year ended December 31, 2015 and 2016, respectively.

Our gross profit was US\$849.7 million for 2016 compared to US\$682.6 million for 2015, representing an increase of 24.5%. Gross margin was 29.2% in 2016 compared to 30.5% in 2015. The decline in gross margin was primarily due to 1) increased manufacturing costs from our majority-owned 300mm fab in Beijing which entered into mass production in December 2015 and 2) the acquisition of LFoundry in July 2016.

#### Profit for the year from operations

Profit from operations increased from US\$222.0 million for the year ended December 31, 2015 to US\$339.2 million for the year ended December 31, 2016 primarily due to an increase in wafer shipments in 2016, offset by 1) the lower gain realized from the disposal of our living quarters in 2016 and 2) higher level of R&D activities in 2016.

Research and development expenses increased by 34.2% from US\$237.2 million for the year ended December 31, 2015 to US\$318.2 million for the year ended December 31, 2016. The increase was mainly due to higher level of R&D activities.

General and administrative expenses decreased by 26.2% from US\$213.2 million for the year ended December 31, 2015 to US\$157.4 million for the year ended December 31, 2016. The decrease was primarily due to 1) the majority-owned 300mm fab in Beijing entered into mass production in December 2015 and as a result, there were no pre-operating related expenses recorded in 2016 and 2) the reversal of allowance for doubtful debts resulted from the collected part of trade receivables from customers in 2016.

Sales and marketing expenses decreased by 16.3% from US\$41.9 million for the year ended December 31, 2015 to US\$35.0 million for the year ended December 31, 2016. The decrease was because our major customers remained stable in 2016 and we did not need to spend too much effort in sales and marketing to retain those major customers in 2016.

Other operating income, net decreased by 99.4% from US\$31.6 million for the year ended December 31, 2015 to US\$0.2 million for the year ended December 31, 2016. The decrease was due to 1) the lower gain arising from the disposal of our living quarters in 2016, 2) the loss arising from the disposal of equipment in 2016 and 3) an impairment loss of equipment recognized in 2016.

As a result of the foregoing changes, our profit from operations increased to US\$339.2 million for the year ended December 31, 2016 from US\$222.0 million for the year ended December 31, 2015.

#### Profit for the Year

Finance cost increased by 88.5% from US\$12.2 million for the year ended December 31, 2015 to US\$23.0 million for the year ended December 31, 2016. The increase was mainly because we entered into several new loan facility agreements and financing arrangements, and issued the new convertible bonds and the medium-term and short-term notes in 2016.

Foreign exchange gains or losses improved by 93.8% from US\$26.3 million net loss for the year ended December 31, 2015 to US\$1.6 million net loss for the year ended December 31, 2016. The change was mainly due to the loss arising from devaluation of RMB against USD in 2015.

Other gains and losses, net decreased by US\$57.7 million from US\$55.6 million net gain for the year ended December 31, 2015 to US\$2.1 million net loss for the year ended December 31, 2016. The decrease was mainly due to 1) the lower gain from the changes in fair value of the financial products sold by banks, 2) the lower gain from the changes of fair value of the put option related to our investment in Changjiang Xinke and 3) the loss arising from the fair value change of cross currency swap contracts before they were designated as hedging instrument of cash flow hedges in 2016.

Income tax benefit (expense) changed from US\$8.5 million expense for the year ended December 31, 2015 to US\$6.6 million benefit for the year ended December 31, 2016. The change was mainly due to the recognition of deferred tax asset for deductible temporary differences.

Due to the factors described above, we recorded a profit of US\$316.4 million in 2016 compared to US\$222.3 million in 2015.

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## B. Liquidity and Capital Resources

We anticipate our working capital to be sufficient for our present requirements. We will require access to significant capital to fund our future capital expenditures and capacity expansion requirements, which are difficult to plan in the rapidly changing semiconductor manufacturing industry.

In 2017, SMIC Shanghai entered into a loan facility in the aggregate principal amount of RMB1,000.0 million with The Export-Import Bank of China. SMIC Beijing entered into a loan facility in the aggregate principal amount of RMB500.0 million with The Export-Import Bank of China. SMIC Tianjin entered into two new loans, a three-year working capital loan facility in the principal amount of RMB500.0 million with The Export-Import Bank of China and a five-year loan facility in the aggregate principal amount of USD25.0 million with The Export-Import Bank of China. SMIC Shenzhen entered into two new loans, a seven-year loan facility in the aggregate principal amount of RMB1,214 million with China Development Bank and a five-year loan facility in the aggregate principal amount of RMB500 million with The Export-Import Bank of China. Additionally, LFoundry entered into a nine-year soft loan facility in the aggregate principal amount of EUR1.2 million with Banca del Mezzogiorno.

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 places at the price of HK\$10.65 per placing share.

On December 14, 2017, the Company fulfilled all conditions set out in the placed perpetual subordinated convertible securities (the "PSCS") subscription agreement and completed the issue of the PSCS in the principal amount of US\$65.0 million. The net proceeds (after deduction of fees, commissions and expenses) are approximately US\$64.1 million.

In 2017, the capital contributions from non-controlling interests shareholders approximately amounted to US\$294.0 million into the registered capital of SMNC.

We plan to fund our capital expenditure through the cash on hand, cash flows from operations in 2018, borrowings under existing credit facilities, and proceeds from the above described note financings, the capital contribution from non-controlling interest shareholders as well as other external financing. See "Item 3.D — Key information — Risk Factors — Risks Related to Our Financial Condition and Business — Since our operating cash flows may not be sufficient to cover our planned capital expenditures, we will require additional external financing, which may not be available on acceptable terms, or at all. Any failure to raise adequate funds in a timely manner could adversely affect our business and operating results."

The following table sets forth a condensed summary of our statements of cash flows for the periods indicated:

	For the Years Ended December 31,		
	2015	2016	2017
	(in US\$ thousands)		
Cash Flow Data:			
Profit for the year	222,323	316,434	126,423
Non-cash adjustment to reconcile profit to net operating cash flow:			
Depreciation and amortization	523,549	729,866	971,382
Net cash generated from operating activities	669,197	977,202	1,080,686
Payments for property, plant and equipment	(1,230,812)	(2,757,202)	(2,287,205)
Net cash used in investing activities	(789,556)	(2,443,333)	(2,662,139)
Net cash from financing activities	537,078	2,614,778	1,271,591
Net increase (decrease) in cash and cash equivalents	416,719	1,148,647	(309,862)

#### Operating Activities

As of December 31, 2017, we had US\$1,838.3 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash generated from operating activities in 2017 was US\$1,080.9 million, which was primarily due to the net profit of US\$126.4 million and the added back of US\$971.4 million in depreciation and amortization. The cash inflow was mainly generated from selling goods and rendering services, and the cash outflow was mainly for the purchase of goods and services and for payment made to and on behalf of employees. The increase in net cash generated from operating activities is mainly due to the increase in sales of goods partially offset by the decrease in trade and other receivables in 2017.

As of December 31, 2016, we had US\$2,126.0 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash generated from operating activities in 2016 was US\$977.2 million, which was primarily due to the net profit of US\$316.4 million and the add-back of US\$729.9 million in depreciation and amortization, partially offset by an increase of US\$100.9 million in trade and other receivables. The cash inflow was mainly generated from selling goods and rendering services, and the cash outflow was mainly for the purchase of goods and services and for payment made to and on behalf of employees. The increase in net cash generated from operating activities is mainly due to the increase in sales of goods in 2016.

As of December 31, 2015, we had US\$1,005.2 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash generated from operating activities in 2015 was US\$669.2 million, which was primarily due to the net profit of US\$222.3 million and the add-back of US\$523.5 million in depreciation and amortization, partially offset by an increase of US\$57.9 million in inventories.

The majority of our cash and cash equivalents were held by our PRC subsidiaries in the form of United States dollars.

#### Investing Activities

Our net cash used in investing activities was US\$2,662.1 million, US\$2,443.3 million and US\$789.6 million in 2017, 2016 and 2015, respectively. These amounts were primarily attributable to purchases of plant and equipment for our fabs in Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin.

## Financing Activities

Our net cash from financing activities in 2017 was US\$1,271.6 million. This was primarily derived from US\$1,194.7 million in the proceeds from borrowings, US\$326.4 million in the proceeds from issuance of ordinary shares, US\$64.4 million in the proceeds from issuance of perpetual subordinated convertible securities, and US\$294.0 million in the capital contribution from non-controlling interest shareholders, which was partially offset by US\$537.0 million in the repayment of borrowings and by US\$87.9 million in the repayment of short-term notes.

Our net cash from financing activities in 2016 was US\$2,614.8 million. This was primarily derived from US\$1,239.3 million in the proceeds from borrowings, US\$441.2 million in the proceeds from issuance of convertible bonds, US\$314.4 million in the proceeds from issuance of short-term and medium-term notes and US\$831.3 million in the capital contribution from non-controlling interest shareholders, which was partially offset by US\$228.9 million in the repayment of borrowings.

Our net cash from financing activities in 2015 was US\$537.1 million. This was primarily derived from US\$341.2 million in the proceeds from borrowings, US\$508.8 million in the proceeds from issuance of ordinary shares and US\$132.1 million in the capital contribution from non-controlling interest shareholders, which was partially offset by US\$453.7 million in the repayment of borrowings.

## Capital Expenditures

We incurred capital expenditures of US\$1,572.7 million, US\$2,694.7 million and US\$2,487.9 million in 2015, 2016 and 2017, respectively. We currently expect our capital expenditures in 2018 for foundry operations to be approximately US\$1.9 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in our majority-owned Beijing 300mm fab, Beijing 300mm fab, Shanghai 200mm fab, Shanghai 300mm fab and Jiangyin Bumping fab, 2) our new project in Tianjin, 3) a majority-owned subsidiary, which we expect will focus on research and development on 14nm FinFET technology, 4) enhancing our portfolio of comprehensive foundry solutions available to our customers, and 5) research and development equipment, mask shops and intellectual property acquisition.

The construction in progress balance of approximately US\$1,834.0 million as of December 31, 2017, primarily consisted of US\$753.0 million used for purchasing the manufacturing equipment acquired for further expanding the production capacity at two 300mm fabs in Beijing, US\$186.1 million used for purchasing the manufacturing equipment acquired for further expanding the production capacity at the 300mm fab in Shanghai and the investment of a new Shanghai project, US\$601.4 million used for our new 300mm fab in Shenzhen, US\$125.1 million used for expanding the production capacity at the 200mm fab in Tianjin and the investment of a new Tianjin project, and US\$101.8 million used for purchasing machinery and equipment acquired for more research and development activities at the subsidiary for the new technology research and development in Shanghai. In addition, US\$66.6 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the end of 2018.

Any transfer of funds from our company to our Chinese subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval of Chinese governmental authorities, including the relevant administration of foreign exchange and/or the relevant examining and approval authority. In addition, it is not permitted under Chinese law for our Chinese subsidiaries to directly lend money to each other. Therefore, it is difficult to change our capital expenditure plans once the relevant funds have been remitted from our company to our Chinese subsidiaries. These limitations on the free flow of funds between us and our Chinese subsidiaries could

restrict our ability to act in response to changing market conditions and reallocate funds from one Chinese subsidiary to another in a timely manner.

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## Commitments

As of December 31, 2017, we had commitments of US\$484.5 million for facilities construction obligations in connection with our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities. We had commitments of US\$476.1 million to purchase machinery and equipment for our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs. We had US\$5.6 million to purchase intellectual property. In addition, we had commitments for a total future minimum lease payments of US\$294.9 million under the non-cancellable operating leases. We anticipate that the cash on hands, cash flows from operations in 2018, the proceeds from new loans, new ordinary shares and perpetual subordinated convertible securities issued, the capital contribution from non-controlling interest shareholders and other necessary external financing will be sufficient to finance the commitments. For additional information, see “Item 5.A — Operating and Financial Review and Prospects — Operating Results”.

## Bank Borrowing

As of December 31, 2017, our outstanding long-term loans primarily consisted of secured bank loans of US\$532.9 million and unsecured bank loans of US\$1,343.3 million, which are repayable in installments starting in January 2018, with the last payment due in December 2030.

### 2013 USD Loan (SMIC Shanghai)

In August 2013, SMIS entered into a loan facility in the aggregate principal amount of US\$470.0 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS’ 300mm fab. The facility is secured by the manufacturing equipment located in the SMIS’ 300mm fab. As of December 31, 2017, SMIS had drawn down US\$260.0 million and repaid US\$249.2 million on this loan facility. The outstanding balance of US\$10.8 million is repayable in advance from February 2018 to August 2018. The interest rate on this loan facility ranged from 5.03% to 5.71% in 2017. SMIS was in compliance with the related financial covenants as of December 31, 2017.

### 2015 CDB RMB Loan I (SMIC Shanghai)

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, 2017, SMIS had drawn down RMB1,000.0 million (approximately US\$153.0 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 2017.

### 2015 RMB Loan II (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475 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, 2017, SMIS had drawn down RMB475.0 million (approximately US\$72.7 million) on this loan facility. The outstanding balance is repayable from December 2018 to December 2025. The interest rate on this loan facility was 1.20% in 2017.

### 2015 EXIM RMB Loan (SMIC Shanghai)

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. As of December 31, 2017, SMIS had drawn down RMB500.0 million (approximately US\$76.5 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2017.

#### 2017 EXIM RMB Loan (SMIC Shanghai)

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, 2017, SMIS had drawn down RMB1,000.0 million (approximately US\$153.0 million) on this loan facility. The outstanding balance is repayable in March and April 2019. The interest rate on this loan facility is 2.65% per annum in 2017.

#### 2015 CDB RMB Loan (SMIC Beijing)

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, 2017, SMIB had drawn down RMB195.0 million and repaid RMB4.0 million on this loan facility. The outstanding balance of RMB191.0 million (approximately US\$29.2 million) is repayable from June 2018 to December 2030. The interest rate on this loan facility was 1.20% in 2017.

#### 2016 CDB RMB Loan (SMIC Beijing)

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, 2017, SMIB had drawn down RMB1,460.0 million (approximately US\$223.4 million) on this loan facility. The outstanding balance is repayable from May 2018 to May 2031. The interest rate on this loan facility was 1.20% in 2017.

#### 2016 EXIM RMB Loan I (SMIC Beijing)

In December 2016, 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, 2017, SMIB had drawn down RMB240.0 million (approximately US\$36.7 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2017.

#### 2016 EXIM RMB Loan II (SMIC Beijing)

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, 2017, SMIB had drawn down RMB400.0 million (approximately US\$61.2 million) on this loan facility. The outstanding balance is repayable in January 2019. The interest rate on this loan facility was 2.65% in 2017.

#### 2017 EXIM RMB Loan (SMIC Beijing)

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, 2017, SMIB had drawn down RMB500.0 million (approximately US\$76.5 million) on this loan facility. The outstanding balance is repayable from September 2018 to September 2022. The interest rate on this loan facility is 2.92% per annum in 2017.



#### 2016 EXIM RMB Loan (SMIC)

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, 2017, SMIC had drawn down RMB500.0 million (approximately US\$76.5 million) on this loan facility. The outstanding balance is repayable in May 2019. The interest rate on this loan facility ranged from 2.75% to 3.05% in 2017.

#### 2017 EXIM RMB Loan (SMIC Tianjin)

In February 2017, SMIT entered into a new 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, 2017, SMIT had drawn down RMB500.0 million (approximately US\$76.5 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 2017.

#### 2017 EXIM USD Loan (SMIC Tianjin)

In August 2017, SMIT entered into a loan facility in the aggregate principal amount of US\$25.0 million with The Export-Import Bank of China, which is unsecured. This five-year bank facility was used for SMIT's 200mm fab. As of December 31, 2017, SMIT had drawn down US\$25.0 million on this loan facility. The outstanding balance is repayable in August 2022. The interest rate on this loan facility is 2.65% per annum in 2017.

#### 2017 CDB RMB Loan (SMIC Shenzhen)

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, 2017, SMIZ had drawn down RMB1,214.0 million (approximately US\$185.8 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 2017.

#### 2017 EXIM RMB Loan (SMIC Shenzhen)

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, 2017, SMIZ had drawn down RMB500.0 million (approximately US\$76.5 million) on this loan facility. The outstanding balance is repayable from March 2018 to September 2022. The interest rate on this loan facility is 3.40% per annum in 2017.

#### 2014 Cassa Depositie Prestiti loan (LFoundry)

In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR35.8 million with Cassa Depositie Prestiti. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR14.3 million and the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2017, LFoundry had drawn down EUR35.8 million and repaid EUR11.8 million on this loan facility. The outstanding balance of EUR24.4 million (its present value is EUR21.5 million, approximately US\$25.9 million) including principal amount of EUR24.0 million and interest cash

flow of EURO.4 million is repayable from December 2017 to December 2023. The interest rate on this loan facility is 0.5% per annum in 2017.

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#### 2014 MPS Capital Service loan (LFoundry)

In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR4.0 million with MPS Capital Service. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR1.6 million and the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2017, LFoundry had drawn down EUR4.0 million on this loan facility. The outstanding balance of EUR4.8 million (its present value is EUR4.2 million, approximately US\$5.1 million) including principal amount of EUR4.0 million and interest cash flow of EUR0.8 million is repayable from June 2020 to December 2023. The interest rate on this loan facility is approximately 6% per annum in 2017.

#### 2014 Citizen Finetech Miyota Loan (LFoundry)

In June 2014, LFoundry entered into a loan facility in the aggregate principal amount of JPY 480.0 million with Citizen Finetech Miyota Co. Ltd. This five-year facility was used to finance the expansion of LFoundry's 200mm fab. The facility is secured by the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2017, LFoundry had drawn down JPY480.0 million on this loan facility and repaid JPY58.0 million. The outstanding balance of JPY439.0 million (its present value is JPY406.0 million, approximately US\$3.5 million) including principal amount of JPY422.0 million and interest cash flow of JPY17.0 million is repayable from December 2017 to December 2019. The interest rate on this loan facility is 4.04% per annum in 2017.

#### 2017 Banca del Mezzogiorno Loan (LFoundry)

In June 2017, LFoundry entered into a soft loan facility in the aggregate principal amount of EUR1.2 million with Banca del Mezzogiorno, which is unsecured. This nine-year facility was in relation to the admission of LFoundry to the benefits of the European Project called Horizon. As of December 31, 2017, LFoundry had drawn down EUR1.2 million (approximately US\$1.5 million) on this loan facility. The principal amount is repayable from December 2018 to June 2026. The interest rate on this loan facility is 0.8% per annum in 2017.

#### Finance Lease Payables

In 2016, a leasing contract entered into by the Group with one of its suppliers for the construction and installation of gas generation equipment. This transaction was accounted for a finance leasing with remaining lease term of five years. As at December 31, 2017, the total net finance lease payables were US\$6.3 million.

#### Loans from non-controlling interests shareholders

In 2016, LFoundry entered into a loan facility in the aggregate principal amount of EUR15.0 million with non-controlling interests shareholders of LFoundry. This seven-year facility was in relation to the construction of the new co-generation. LFoundry had drawn down EUR10.6 million on this loan facility. The outstanding balance of EUR10.6 million (approximately US\$12.7 million) is repayable from September 2018 to December 2023. The interest rate on this loan facility was 3.5% in 2017.

#### Sales and Leaseback Borrowings

As of December 31, 2017, the three arrangements of sales and leaseback borrowings amounted to US\$487.7 million (December 31, 2016: US\$482.6 million) which were entered into by the Group and third-party financing companies in 2016 in the form of a sale and leaseback transaction with a repurchase option. A batch of production equipment of the

Group was sold and leased back under the arrangements. As the repurchase prices are set at below US\$1.00, which are minimal compared to the expected fair value and the Group is certain that it will exercise the repurchase options, the above arrangements were accounted for as collateralized borrowings of the Group.



### Short-term Credit Agreements

As of December 31, 2017, the Group had 34 short-term credit agreements that provided total credit facilities up to US\$2,118.5 million on a revolving credit basis. As of December 31, 2017, the Group had drawn down US\$308.3 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 0.98% to 3.48% in 2017.

Please see “Item 8.A — Financial Information- Consolidated Statements and Other Financial Information — Dividends and Dividend Policy” on our ability to pay dividends on our ordinary shares.

Please see “Item 11 — Quantitative and Qualitative Disclosures About Market Risk” regarding the risk of loss related to adverse changes in market prices, including foreign currency exchange rates and interest rates of financial instruments.

### C. Research and Development, Patents and Licenses, etc.

Our research and development activities are principally directed toward the development and implementation of new process technology. We spent US\$237.2 million, US\$318.2 million and US\$427.1 million, respectively in 2015, 2016 and 2017 on research and development expenses, which represented 13.8%, 10.9% and 10.9%, respectively, of our sales in those respective years. Our research and development costs were partially offset by related government fundings of US\$34.3 million, US\$52.5 million and US\$82.2 million in 2015, 2016 and 2017, respectively, and included the costs associated with the ramp-up of a new wafer facility. We plan to continue to invest significant amounts in research and development in 2018.

We primarily focus our R&D efforts on advanced logic and value-added specialty technologies, addressing 0.35 micron to 14 nanometer.

In 2017, we achieved key milestones in 14nm R&D development, which included establishing 14nm device performance, SRAM yield, logic yield, and process qualification using various vehicles. In addition, till the end of 2017, we were among the world’s top 5 assignees in patent filing for FinFET related technologies.

We continue to invest in a variety of specialty mature platforms with enhanced ultra-low power features, including embedded nonvolatile memory and power management, segment. These are suitable to address future business opportunities in the IoT, cloud computing, artificial intelligence, smart automobiles, and other growing segments.

We have also worked to enhance its R&D organizational structure in 2017, resulting in expanded capability, high efficiency, and increased resource allocation for accelerating technology developments, including advanced and specialty technologies.

As of December 31, 2017, we had been granted 7,713 patents worldwide, of which, 70 were in Taiwan, 954 were in the U.S., 6,665 were in China, and 24 were in other jurisdictions.

### D. Trend Information

See “Item 5.A — Operating and Financial Review and Prospects — Operating Results — Factors that Impact Our Results of Operations” for a discussion of the most significant recent trends affecting our operations.

E. Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet transactions.

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## F. Tabular Disclosure of Contractual Obligations

Set forth in the table below are the aggregate amounts, as of December 31, 2017, of our future cash payment obligations (excluding estimated interest payment obligations) under our existing contractual arrangements on a consolidated basis:

	Payments due by period (consolidated, in US\$ thousands)				
	Total	Less than 1 year	1 – 2 years	2 – 5 years	Over 5 years
Contractual obligations					
Short-Term Borrowings(1)	308,311	308,311	—	—	—
Long-Term Borrowings(1)	1,876,236	132,297	399,301	877,315	467,323
Convertible bonds	403,329	—	—	403,329	—
Bonds payable	496,689	—	496,689	—	—
Medium-term notes	228,483	—	228,483	—	—
Purchase Obligations(2)	966,196	966,196	—	—	—
Lease Obligations(3)	294,865	91,181	203,684	—	—
Total Contractual Obligations	4,574,109	1,497,985	1,328,157	1,280,644	467,323

(1) These amounts represent outstanding borrowings. Refer to F 74, “Borrowings” for a description of the short-term and long-term borrowings.

(2) These amounts represent commitments for construction or purchase of semiconductor equipment, and other property or services.

(3) These amounts represent commitments for non-cancellable operating leases of equipment.

(4) Please refer to F 98, “Financial instruments” for our non-derivative financial liabilities with both estimated interest and principal.

## Item 6. Directors, Senior Management and Employees

## A. Directors and Senior Management

Members of our Board are elected by our shareholders. As of March 31, 2018, our Board consists of fifteen directors.

The composition of the Board during the year ended December 31, 2017 and up to the date of this report is set forth as follows:

Name	Age	Position
Directors		
Zhou Zixue	61	Chairman, Executive Director
Zhao HaiJun	54	Co-Chief Executive Officer, Executive Director
Liang Mong Song	65	(Appointed on May 10, 2017 and October 16, 2017 respectively) Co-Chief Executive Officer, Executive Director
Gao Yonggang	53	(Appointed on October 16, 2017) Executive Director, Chief Financial Officer, Executive Vice President, and Joint Company Secretary
Tzu-Yin Chiu	61	Vice Chairman, Non-executive Director (Appointed on May 11, 2017 and Resigned on May 11, 2017 respectively )
Chen Shanzhi	49	Non-executive Director
Zhou Jie	50	Non-executive Director
Ren Kai	45	Non-executive Director
Lu Jun	49	Non-executive Director
Tong Guohua	60	Non-executive Director
Lip-Bu Tan	58	(Appointed on February 14, 2017) Independent Non-executive Director
William Tudor Brown	59	Independent Non-executive Director
Carmen I-Hua Chang	70	Independent Non-executive Director
Shang-Yi Chiang	71	Independent Non-executive Director
Jason Jingsheng Cong	55	Independent Non-executive Director
Senior Management		(Appointed on February 14, 2017)
Zhao HaiJun	54	Co-Chief Executive Officer and Executive Director
Liang Mong Song	65	(Appointed on May 10, 2017 and October 16, 2017 respectively) Co-Chief Executive Officer and Executive Director
Gao Yonggang	53	(Appointed on October 16, 2017) Executive Director, Chief Financial Officer, Executive Vice President, and Joint Company Secretary
Liu Jyishyang	65	Executive Vice President, Engineering & Services
Li Zhi	54	(Retired on December 31, 2017) Executive Vice President, Legal/Public Affairs/General Administration

Mike Rekuc	69	Executive Vice President, Worldwide Sales & Marketing  (Retired on December 31, 2017)
Tang Tianshen	61	Executive Vice President, Design Service  (Retired on February 1, 2018)
Zhou Meisheng	59	Executive Vice President, Technology Research and Development  (Appointed on October 12, 2017)
Gareth Kung	53	Executive Vice President, Investment and Strategic Business Development and Finance; and Company Secretary  (Resigned in July, 2017)

Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”), has the right to nominate two members of our board of directors pursuant to the Share Purchase Agreement between us and Datang Holdings dated November 6, 2008 Xinxin (Hongkong) Capital Co., Ltd., a wholly-owned subsidiary of China IC Fund, has the right to nominate one member of our board of directors pursuant to the Share Subscription Agreement between us and China IC Fund dated February 12, 2015. Save as disclosed above, no other shareholder has a contractual right to designate a person to be elected to our board of directors.

There are no family relationships among any of our directors and executive officers.

Board of Directors

Zhou Zixue

Chairman of the Board, Executive Director

Dr. Zhou Zixue joined the company on 6th March 2015 as an executive director and Chairman of the Board. Dr. Zhou received a Master of Management degree from the University of Science and Technology of China, and a Doctor of Economics degree from 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 served 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 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 25 years of experience in semiconductor operations and technology development. Dr. Zhao has also served as an independent director on the board of directors of Zhejiang Juhua Co., Ltd. (Stock Code: 600160), a company which is listed on the Shanghai Stock Exchange, since November 2016. Dr. 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).

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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 the China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group), the chairman of Datang Capital (Beijing) Co., Ltd. and Datang Telecom Group Finance Co., Ltd., and an executive director of Datang Hi-Tech Venture Capital Investment Co., Ltd. He was also a director and the Senior Vice President of Datang Telecom Technology & Industry Holdings Co., Ltd.. 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.

Tzu-Yin Chiu

Vice chairman of the Board, Non-Executive Director

Dr. Tzu-Yin Chiu has over 35 years' experience in the semiconductor industry and a track record of successfully turning around semiconductor manufacturing companies at the executive level. Dr. Chiu's expertise spans technology research, business development, operations and corporate management. Dr. Chiu earned his bachelor's degree in electrical and systems engineering at Rensselaer Polytechnic Institute in New York, and his doctorate in electrical engineering and computer science at the University of California, Berkeley. He has also earned an executive MBA degree from Columbia University in New York. Dr. Chiu returned to SMIC in August 2011 as CEO and Executive Director. Dr. Chiu was Vice Council Chairman of China Semiconductor Industry Association (CSIA) and a board member of Global Semiconductor Alliance (GSA). In 2015, Dr. Chiu was awarded Shanghai Magnolia Award by the Shanghai Municipal Government. In May 2017 Dr. Chiu resigned from the role of SMIC CEO, and now serves as SMIC Vice Chairman and Non-Executive Director. Dr. Chiu is also one of the global experts of "the Thousand Talents Plan" initiated by China, and a member of the Engineering Advisory Board of University of California, Berkeley.

Chen Shanzhi

Non-executive Director

Dr. Chen Shanzhi has been a non-executive Director since 2009. Dr. Chen is the deputy general manager of Telecommunication Science and Technology Research Institute Limited (Datang Telecom Technology industry Group), where he is responsible for strategy development, technology and standards development, corporate IT, strategic alliances and cooperation, investment budget management, and external Industrial Investment. Dr. Chen received his bachelor's degree from Xidian University, his master's degree from the China Academy of Posts and



Telecommunications of the Ministry of Posts and Telecommunications, and his Ph.D. from Beijing University of Posts and Telecommunications. Dr. Chen has 20 years of experience in the field of information and communication technology, during which he has been involved in research and development, technology and strategy management. Dr. Chen has made major contributions in the core technology breakthroughs, international standard formulation and industrialization of China's leading TD-LTE-Advanced 4G technology. Currently he is in charge of 5G technology and standard research and industrialization work.

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

Dr. Chen has five publications, three of which were published by the Springer in English. He has more than 150 papers in domestic and foreign academic conferences and publications, of which more than 70 were published by SCI. Many of his papers have received awards. At present, he has applied for more than 20 national invention patents, some of the patents are included in 3GPP and ITU international standards, which have become the mandatory standard patents and been successfully applied in the global 4G commercial network and China’s high-speed railway communications coverage, etc.

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

Zhou Jie

Non-Executive Director

Mr. Zhou Jie has been Director since 2009. Mr. Zhou is executive director 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). 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 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 Jun 2012 to June 2013 and from May 2016 to July 2016. 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. 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 plentiful 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.

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. He began working in August 1974 and was President and Secretary of Party of Wuhan Institute of Posts and Telecommunications from November 2004.

Dr. Tong has been elected as a “National Model Worker” and he was the representative of the eleventh and twelfth National People’s Congress, and 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.

Lip-Bu Tan

Independent Non-Executive Director

Mr. Lip-Bu Tan has been a Director of the Company since 2001. Mr. Tan is the Founder and Chairman of Walden International, a leading venture capital firm managing over US\$2.0 billion in committed capital. He concurrently serves as President and Chief Executive Officer of Cadence Design Systems, Inc., and has been a member of the Cadence Board of Directors since 2004. He also serves on the boards of Hewlett Packard Enterprise, Quantenna Communications, Inc, Aquantia Corp., the Global Semiconductor Alliance and several other private companies. Mr. Tan received his B.S. from Nanyang University in Singapore, his MBA from the University of San Francisco, and his M.S. in nuclear engineering from the Massachusetts Institute of Technology.

William Tudor Brown

Independent Non-Executive Director

Mr. William Tudor Brown has been a Director of the Company 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 and software design company listed on London Stock Exchange and NASDAQ. In ARM Holdings plc, he served as President during the period from July 2008 to May 2012. His previous roles include Engineering Director and Chief Technology Officer, EVP Global Development and Chief Operating Officer. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. Before joining ARM Holdings plc, Mr. Brown was Principal Engineer at Acorn Computers and worked exclusively on the ARM R&D program since 1984. Mr. Brown served as a director at ARM Holdings plc from October 2001 to May 2012. He was also a director of ARM Ltd. From May 2005 to February 2013, he was a director of ANT Software PLC (a company listed on AIM of London Stock Exchange). Mr. Brown served on the UK Government Asia Task Force until May 2012. He sat on the advisory board of Annapurna Labs until the sale of the company in 2015. Currently Mr. Brown is a director and a member of the compensation committee and chair the nominations and governance committee at Xperi Corporation (previously named as Tessera Technologies, Inc.) (a company listed on NASDAQ). He is also 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) and an independent non-executive director and a member of the Compensation Committee of Marvell Technology Group (a company listed on NASDAQ).

Carmen I-Hua Chang

Independent Non-Executive Director

Ms. Carmen I-Hua Chang has been an independent non-executive Director of the Company since September 2014. Ms. Chang has been involved in seminal cross border transactions between China and the US including the earliest investments by Goldman Sachs in China Netcom and the key transactions of companies such as Lenovo, Foxconn, Google, Tencent, Netease, CEC, China Mobile, Spreadtrum and SMIC. In 2012, Ms. Chang joined New Enterprise Associates (NEA), a venture fund with over US\$14 billion dollars under management, where she serves as Partner and Managing Director, Asia (Ex-India). Prior to joining NEA, she was a partner at a Silicon Valley law firm, where she headed up its China practice. She is an affiliate of the Center for International Security and Cooperation at Stanford University — Stanford University's main research organization on international issues — as well as a fellow at the Stanford Business School and Stanford Law School's Rock Center for Corporate Governance. Ms. Chang also serves as an Independent Non-Executive Director of AAC Technologies Holdings Inc. (SEHK: 2018). Ms. Chang is also on the board of directors for Ruizhang Technologies, Airtake and Availink. Ms. Chang received a graduate degree in modern Chinese history from Stanford University and a Juris Doctor degree from Stanford Law School.

Shang-yi Chiang

Independent Non-Executive Director

Dr. Shang-Yi Chiang 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 0.25  $\mu$ m, 0.18  $\mu$ m, 0.15  $\mu$ m, 0.13  $\mu$ m, 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.

Jason Jingsheng Cong

Independent Non-Executive Director

Dr. Jason Jingsheng Cong 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 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 has served as an Associate Vice Provost for Internationalization and a co-director of the Peking University-UCLA Joint Research Institute since 2009. 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. In addition, he is a distinguished visiting professor at Peking University and the Director of PKU Center for Energy-Efficient Computing and Applications (CECA). 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 11 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.

Senior Management

Dr. Zhao Haijun

Biographical details are set out on page 75 of this annual report.

Dr. Liang Mong Song

Biographical details are set out on page 75 of this annual report.

Dr. Gao Yonggang

Biographical details are set out on page 76 of this annual report.

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Dr. Liu Jyishyang joined SMIC in 2001. He became Vice President of Central Engineering & Services in 2010, and had been acting Vice President of Central Operations since September 2011. In June 2012 he was promoted to Senior Vice President, and on April 25, 2013, he took on the role as Executive Vice President. He has 30 years of experience in the international semiconductor industry, beginning with research & development work at Motorola and Bell Laboratories, as well as operations management at UMC. Dr. Liu received his BS and MS degrees from National Tsing Hua University and completed his Ph.D. in Materials Science and Engineering at the Massachusetts Institute of Technology. He has seven published technical papers and holds two patents. Dr. Liu retired from SMIC on December 31, 2017.

Mr. Li Zhi joined SMIC in March 2013 as Vice President, and was promoted to Executive Vice President in November 2014. He is responsible for overseeing legal, public affairs and general administration. He has over 30 years of engineering, management and operations experience in the electronics and semiconductor industry. In his previous roles, he was the Deputy-Director Secretary of the President's office of the China Electronic Information Industry Group, Deputy-Director Secretary of the Ministry of Electronics Industry, head of General Management Department at Beijing Hua Hong NEC IC Design Co. Ltd., President's Assistant and head of administrative legal department of Beijing Hua Hong IC Design Co. Ltd., Board Secretary of Hua Hong Semiconductor Company (Shanghai Hua Hong NEC Electronics Co. Ltd.), Director of the Board Office (Board Secretary) of Shanghai Hua Hong (Group) Co. Ltd., Executive Vice President, Board Member and CEO of Shanghai Belling Co. Ltd., Vice President of Shanghai Integrated Circuit Industry Association. Mr. Li holds a Bachelor's degree in Engineering from Beijing University of Aeronautics and Astronautics, and an EMBA from the University of Texas at Arlington. He also serves as the Vice President of the China Electronic Information Association.

Mr. Mike Rekuc joined SMIC in 2011 as President of SMIC Americas. In November 2012, he was promoted to Senior Vice President, initially overseeing Worldwide Sales. As of March 2013, he oversees Worldwide Sales and Marketing, and on April 25, 2013, he took on the role as Executive Vice President. Mr. Rekuc is an industry veteran with four decades of semiconductor experience in both the United States and Asia. Before joining SMIC, he was President of Grace Semiconductor USA for Shanghai-based foundry Grace Semiconductor. Before Grace, 1999 through 2010, he was Senior Vice President of Sales and Marketing of Chartered Semiconductor Manufacturing residing in their Singapore headquarters and also served as the President of Chartered American in the US (Chartered was acquired in 2010 by GlobalFoundries). Prior to joining Chartered, Mr. Rekuc spent 23 years at Motorola, rising from a district sales engineer in Motorola's semiconductor sector to become Vice President and Global Sales Director of its World Wide Wireless Subscribers Group. Mr. Rekuc began his career working for the United States Navy as a civilian semiconductor specialist. He holds a Bachelor of Science degree in Electrical Engineering from Lawrence Technological University. Mr. Rekuc retired from SMIC on December 31, 2017.

Dr. Tang Tianshen joined SMIC as Vice President of Business Development in 2010. He became Vice President of Design Service Center in March 2011 and was promoted to Senior Vice President in April 2013. On August 10, 2016, he took on the role as Executive Vice President. Dr. Tang is also a director of Brite Semiconductor Corp. and a Co-Director of SMIC-UCR-PKU Joint Center for ESD Protection Design. Dr. Tang is a semiconductor industry veteran with near 30 years of experience spanning academic and technology research, IC design, business development, sales and marketing, start-up company and corporate management in both United States and China. Prior to joining SMIC, Dr. Tang was Vice President of Design Service at Shanghai Hua Hong NEC Electronics Company. Before Hua Hong NEC, he was a co-founder and Chief Technology Officer of Penstar Technology Company. He also previously held management positions at Intel ITP and New Business Groups and Lanstar Semiconductor USA. Dr. Tang began his career in United States as an assistant professor in Electrical Engineering and Computer Sciences at Texas A&M University-Kingsville, rising to become a turned associate professor. Dr. Tang holds a bachelor's degree in mathematics from Tianjin Nankai University, a master and Ph.D both in electrical

engineering from Texas A&M University, College Station. Dr. Tang published over thirty peer-reviewed technical articles, led seven research programs funded by distinguished sources in both United States and China, and advised more than 20 graduate students. Dr. Tang was honored Scientific Chinese Figures 2015. Dr. Tang retired from SMIC on February 1, 2018.

Dr. Zhou Meisheng, age 59, 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. Prior to serve as vice president of Lam Research China, 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.

Mr. Gareth Kung joined SMIC in July 2012. He worked as Executive Vice President, Investment and Strategic Business Development and Finance and Company Secretary. Mr. Kung has over 25 years’ work experience working as a chief financial officer in publicly listed companies, private equity investment manager, banker and auditor. Between 2003 and 2009, Mr. Kung worked at SMIC as the Group Treasurer and Group Controller. From July 2012 to February 2014 Mr. Kung worked as the Company’s Chief Financial Officer. Mr. Kung holds a MBA from the University of Western Ontario and a bachelor’s degree in accounting from the National University of Singapore. Mr. Kung is a Certified Public Accountant in Hong Kong, Australia and Singapore and a Chartered Accountant of England and Wales. In addition, he is a Chartered Financial Analyst. Mr. Kung resigned from SMIC in July 2017.

Joint Company Secretary

Dr. Gao Yonggang

Biographical details are set out above.

Dr. Liu Wei, aged 60, 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 Director's Information

#### Changes in the Members of the Board of Directors

As previously disclosed by the Company, there are the following changes in the members of the Board, between the period from the date of the 2017 interim report and the date of this annual report:

- Dr. Zhao HaiJun was appointed as Class II Executive Director and his title was changed from Chief Executive Officer into Co-Chief Executive Officer of the Company on October 16, 2017; and
- Dr. Liang Mong Song was appointed as Class III Executive Director and Co-Chief Executive Officer of the Company on October 16, 2017.

#### Changes in, and Updates to, Previously Disclosed Information Relating to the Directors

As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), certain changes in, and updates to, the information previously disclosed regarding the Directors during their respective terms of office are set out below:

- Dr. Gao Yonggang resigned from the position of independent director of China Building Material Test & Certification Group Co., Ltd. and GRINM Semiconductor Materials Co., Ltd with effect from February and April 2018 respectively.
- Dr. Tong Guohua 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 December 2017 and was elected as a member of the thirteenth CPPCC National Committee in January 2018.

#### B. Director and Executive Compensation

Details of the emoluments paid or payable by us to our directors, including Zhou Zixue, our Chairman and Executive director, Zhao HaiJun, our Co-Chief Executive Officer and Executive Director, Liang Mong Song,

our Co-Chief Executive Officer and Executive Director and Gao Yonggang, our Chief Financial Officer and Executive Director, in 2017 are set out as below:

	Salaried and wages (in US\$ thousands)	Employee settled share-base payment	Total remuneration
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
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)***	—	—	—
Independent non-executive directors:			
Lip-Bu Tan	91	128	219
William Tudor Brown	89	8	97
Carmen I-Hua Chang	70	40	110
Shang-Yi Chiang	47	250	297
Jason Jingsheng Cong	35	217	252
Total remuneration	4,490	8,158	12,648

\* Zhao HaiJun and Liang Mong Song are also the Co-Chief Executive Officers of the Company.

\*\* Tzu-Yin Chiu resigned as Chief Executive Officer on May 10, 2017 and remains as non-executive director.

\*\*\* Li Yonghua resigned as alternate director of Chen Shanzhi with effect from February 24, 2017.

The remuneration paid or payable by us to our senior management personnel, including Zhao HaiJun, Liang Mong Song and Gao Yonggang during the year are as follows:

	For the Year ended December 31, 2017 (in US\$ thousands)
Short-term benefits	2,553
Share-based payments	1,955
Total	4,508

We do not provide pension, retirement or similar benefits to our executive officers and directors except statutorily required benefits.

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In 2017, we have granted options to purchase an aggregate of 1,687,500 ordinary shares under our 2014 Stock Option Plan and awarded an aggregate of 1,687,500 restricted share units under our 2014 Equity Incentive Plan to certain executive officers. Our 2014 Stock Option Plan and our 2014 Equity Incentive Plan see "Item 6.E - Stock Incentive Schemes". The exercise price of the options granted to our executive officers in 2017 to purchase ordinary shares under the 2014 Stock Option Plan was US\$1.01 per share. The expiration dates of these options range from May 24, 2026 to September 11, 2026.

### C. Board Practices

#### 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, 2017 and up to the date of this report is set forth as follows:

Name of Director	Position	Class	Appointment Commencement Date
Zhou ZiXue	Chairman and Executive Director	I	2015/3/6
Tzu-Yin Chiu	Vice Chairman, Non-executive Director	I	2011/8/5 (redesignated to Non-executive Director on 2017/5/11)
Gao Yonggang	Chief Financial Officer, Executive Vice President, Joint Company Secretary and Executive Vice	I	2009/6/23
William Tudor Brown	Independent Non-executive Director	I	2013/8/8
Tong Guohua	Non-executive Director	I	2017/2/14
Chen Shanzhi	Non-executive Director	II	2009/6/23
Lip-Bu Tan	Independent Non-executive Director	II	2001/11/3
Carmen I-Hua Chang	Independent Non-executive Director	II	2014/9/1
Lu Jun	Non-executive Director	II	2016/2/18
Zhao HaiJun	Co-Chief Executive Officer, Executive Director	II	2017/10/16
Zhou Jie	Non-executive Director	III	2009/1/23
Ren Kai	Non-executive Director	III	2015/8/11
Shang-Yi Chiang	Independent Non-executive Director	III	2016/12/20
Jason Jingsheng Cong	Independent Non-executive Director	III	2017/2/14
	Co-Chief Executive Officer, Executive Director	III	2017/10/16

Liang Mong  
Song

#### Committees of Our Board of Directors

Our board of directors has an audit committee, a compensation committee and a nomination committee. The composition and responsibilities of these committees are described below.

#### Audit Committee

Currently, the members of the Company's Audit Committee ("Audit Committee") are Mr. Lip-Bu Tan (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.

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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 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, 2017, the audit committee reviewed:

- the Company's budget for 2017;
- the financial reports for the year ended and December 31, 2016 and the six months ended June 30, 2017;
- 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;
- 2016 risk management systems and assessment results;
- 2017 audit plan and audit team;
- 2017 SOX audit scope and SOX audit results for the year ended December 31, 2016 and six months ended June 30, 2017;
- the quarterly audit plan and quarterly audit items result;
- the quarterly risk assessment early warning index;
- the findings of the Company's compliance office, which ensures compliance with the HKSE's Corporate Governance Code ("CG Code") and Insider Trading Policy;
- the reports of the Company's ethics hotline;
- the audit fees for the Company's independent auditors; and
- the Company's 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.

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.

#### Compensation Committee

Currently, the members of the Company's Compensation Committee ("Compensation Committee") are Mr. William Tudor Brown (Chairman of Compensation Committee), Mr. Zhou Jie, Mr. Lip-Bu Tan, Dr. Tong Guohua, and Dr. Shang-Yi Chiang. 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 Chief Executive Officer and reviewing the results of the Chief Executive Officer's evaluation of the performance of the Company's other executive officers;
- determining the compensation packages of executive Directors and making recommendations to the Board with respect to non-executive Director compensation, including equity-based compensation;
- administering and periodically reviewing and making recommendations to the Board regarding the long-term incentive compensation or equity plans made available to the Directors, employees and consultants;
- reviewing and making recommendations to the Board regarding 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, and legal 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, 2017, in addition to reviewing the remuneration of executive Directors and the members of the Company's management, the Compensation Committee reviewed:

- the remuneration policy for employees for the year 2017;
- the profit-sharing and bonus policies and basis of calculation;
- the long term compensation strategy, including the granting of stock options and Restricted Share Units pursuant to the terms of the Option Plans;
- the compensation package of Dr. Tzu-Yin Chiu upon his resignation as the Company's CEO and the compensation package of new appointed CEO;
- the proposed compensation packages of newly-appointed Executive Directors during the year; and

- the proposed compensation change of 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.

#### Nomination Committee

Currently, the members of the Company's Nomination Committee ("Nomination Committee") are Dr. Zhou Zixue (Chairman of Nomination Committee), Mr. Lu Jun, Mr. William Tudor Brown, Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang.

The responsibilities of the Nomination Committee include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- monitor the implementation of Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensure that appropriate disclosures are made regarding board diversity in the Corporate Governance Report set out in the Company's annual report;
- identifying individuals suitably qualified to become Board members and making recommendations to the Board on the selection of individuals nominated for directorships;
- assessing the independence of 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, 2017, 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 director, non-executive director, executive directors; and
- nominated new members for compensation committee.

#### D. Employees

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

Position	As of December 31,			
	2014	2015	2016	2017
Managers	930	962	1,210	1,380
Professionals(1)	4,988	6,112	7,978	8,230
Technicians	5,116	6,170	8,100	7,549
Clerical staff	351	229	679	667
Total(2)	11,385	13,473	17,967	17,826

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

(2) Includes 14, 13, 56 and 49 temporary and part-time employees in 2014, 2015, 2016, and 2017 respectively.

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

Location of Facility	As of December 31,			
	2014	2015	2016	2017
Shanghai	6,896	7,533	8,404	8,077
Beijing	2,518	3,242	4,721	4,607
Tianjin	1,511	1,630	1,663	1,636
Chengdu	10	10	10	10
Shenzhen	405	843	1,284	1,477
Jiangyin	—	174	314	356
Ningbo	—	—	—	82
United States	25	20	20	23
Europe	6	7	1,537	1,541
Japan	2	2	2	4
Taiwan Office	9	9	9	10
Hong Kong	3	3	3	3
Total	11,385	13,473	17,967	17,826

Our employees are not covered by any collective bargaining agreements.





## E. Share Ownership

The table below sets forth the ordinary shares beneficially owned by each of our Directors and options to purchase ordinary shares as of December 31, 2017:

Board Member	Number of Ordinary Shares Held(22)	Derivatives Share Options(22)		Other(22)	Aggregate Interest(22)	Percentage of Aggregate Interests to Total Issued Share Capital of the Company(1)	
Co-Chief Executive Officers							
Zhao HaiJun	49,311	1,875,733	(2)	1,687,500 (3)	3,612,544	0.073	%
Liang Mong Song	—	—		—	—	—	
Executive Director							
Zhou Zixue	—	2,521,163	(4)	1,080,498 (5)	3,601,661	0.073	%
Gao Yonggang	—	1,964,003	(6)	85,505 (7)	2,049,508	0.042	%
Non-executive Director							
Tzu-Yin Chiu	3,519,361	9,603,588	(8)	3,351,477 (9)	16,474,426	0.335	%
Chen Shanzhi	—	477,187	(10)	162,656 (11)	639,843	0.013	%
Zhou Jie	—	—		—	—	—	
Ren Kai	—	—		—	—	—	
Lu Jun	—	—		—	—	—	
Tong Guo Hua	—	187,500	(12)	187,500 (13)	375,000	0.008	%
Independent Non-executive Director							
Lip-Bu Tan	115,439	591,426	(14)	62,500 (15)	769,365	0.016	%
William Tudor Brown	—	—	(16)	—	—	—	
Carmen I-Hua Chang	—	488,730	(17)	—	488,730	0.010	%
Shang-Yi Chiang	—	187,500	(18)	187,500 (19)	375,000	0.008	%
Jason Jingsheng Cong	—	187,500	(20)	187,500 (21)	375,000	0.008	%

Notes:

(1) Based on 4,916,106,889 Ordinary Shares issued by us as at December 31, 2017.

- (2) These options comprise: (a) options which were granted to Dr. Zhao on June 11, 2013 to purchase 1,505,854 Ordinary Shares at a price of HK\$6.40 per Ordinary 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 Ordinary Shares at a price of HK\$7.9 per Ordinary 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, 2017, 1,317,621 of these options have been exercised.
- (3) On September 7, 2017, Dr. Zhao was granted an award of 1,687,500 Restricted Share Units (each representing the right to receive one Ordinary 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 Co-Chief Executive Officer. As of December 31, 2017, none of these RSUs has been exercised.

- (4) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Ordinary Shares at a price of HK\$8.30 per Ordinary 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, 2017, none of these options has been exercised.
- (5) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 Restricted Share Units (each representing the right to receive one Ordinary 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, 2017, 540,249 Restricted Share Units were vested.
- (6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 314,531 Ordinary Shares at a price of HK\$6.4 per Ordinary 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 Ordinary Shares at a price of HK\$6.24 per Ordinary 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 Ordinary Shares at a price of HK\$6.4 per Ordinary 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, 2017, 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 December 31, 2017, a total of 205,578 Restricted Share Units were vested, and were settled in cash.
- (8) These options comprise: (a) On September 8, 2011, Dr. Chiu was granted options to purchase 8,698,753 Ordinary Shares at a price of HK\$4.55 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2016, options to purchase 703,106 shares at a price of HK\$6.42 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. 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 150,252 shares at a price of HK\$8.72 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. 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 2,109,318 shares at a price of HK\$9.834 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. 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 22, 2017, options to purchase 1,054,659 shares at a price of HK\$8.48 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. These options are vested on June 30, 2017 and will expire on the earlier of June 29, 2027 or 120 days after termination of his service as a Director to the Board. (f) On September 7, 2017, options to purchase 187,500 shares at a price of HK\$7.9 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. These options are vested on June 24, 2017 and will expire on the earlier of June 23, 2027 or 120 days after termination of his service as a Director to the Board. As of December 31, 2017, 3,300,000 of these options have been exercised.

- (9) These restricted share units comprise: (a) On May 25, 2016, 703,106 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. Dr. Chiu's Restricted Share Units are vested immediately. (b) On September 12, 2016, 150,252 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. Dr. Chiu's Restricted Share Units are vested immediately. (c) On April 5, 2017, 2,109,318 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. Dr. Chiu's Restricted Share Units are vested immediately. (d) On May 22, 2017, 1,054,659 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. Dr. Chiu's Restricted Share Units are vested on June 30, 2017. (e) On September 7, 2017, 187,500 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. These RSUs will vest over a period of three years at the rate of 33%, 33% and 34% on each anniversary of June 24, 2017, shall fully vest on June 24, 2020. As of December 31, 2017, 853,358 Restricted Share Units have been exercised.
- (10) These options comprise: (a) On May 24, 2010, Dr. Chen was granted options to purchase 314,531 Ordinary Shares at a price of HK\$6.4 per Ordinary 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 Ordinary 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 Ordinary 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 Ordinary 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. As of December 31, 2017, none of these options has been exercised.
- (11) 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. As of December 31, 2017, none of these RSUs has been exercised.
- (12) On April 5, 2017, Dr. Tong was granted options to purchase 187,500 Ordinary Shares at a price of HK\$9.834 per Ordinary 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, 2017, none of these options has been exercised.
- (13) On April 5, 2017, Dr. Tong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Ordinary 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, 2017, none of these RSUs has been exercised.

- (14) These options comprise: (a) options granted to Mr. Tan on February 17, 2009 to purchase 100,000 Ordinary Shares at a price of HK\$2.7 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 16, 2019 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on February 23, 2010 to purchase 313,487 Ordinary Shares at a price of HK\$7.7 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of Mr. Tan's service as a Director to the Board, (c) options granted to Mr. Tan on May 25, 2016 to purchase 114,583 Shares at a price of HK\$6.42 per Ordinary Share pursuant to the 2014 Stock Option Plan. 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, (d) options granted to Mr. Tan on September 12, 2016 to purchase 856 Shares at a price of HK\$8.72 per Ordinary Share pursuant to the 2014 Stock Option Plan. 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, and (e) options granted to Mr. Tan on April 5, 2017 to purchase 62,500 shares at a price of HK\$9.834 per Ordinary Share pursuant to the 2014 Stock Option Plan. 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. As of December 31, 2017, none of these options has been exercised.
- (15) These restricted share units comprise: (a) On May 25, 2016, 114,583 Restricted Share Units were granted to Mr. Tan pursuant to the 2014 Equity Incentive Plan. Mr. Tan's Restricted Share Units are vested immediately. (b) On September 12, 2016, 856 Restricted Share Units were granted to Mr. Tan pursuant to the 2014 Equity Incentive Plan. Mr. Tan's Restricted Share Units are vested immediately. (c) On April 5, 2017, 62,500 Restricted Share Units were granted to Mr. Tan pursuant to the 2014 Equity Incentive Plan. Mr. Tan's Restricted Share Units are vested immediately. As of December 31, 2017, 115,439 Restricted Share Units were exercised.
- (16) On September 6, 2013, Mr. Brown was granted options to purchase 449,229 Ordinary Shares at a price of HK\$5.62 per Ordinary 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. As of December 31, 2017, all of these options have been exercised.
- (17) On November 17, 2014, Ms. Chang was granted options to purchase 488,730 Ordinary Shares at a price of HK\$8.5 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of November 16, 2024 or 120 days after termination of her service as a Director to the Board. As of December 31, 2017, none of these options has been exercised.
- (18) On April 5, 2017, Dr. Chiang was granted options to purchase 187,500 Ordinary Shares at a price of HK\$9.834 per Ordinary 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, 2017, none of these options has been exercised.
- (19) On April 5, 2017, Dr. Chiang was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Ordinary 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, 2017, none of these RSUs has been exercised.
- (20) On April 5, 2017, Dr. Cong was granted options to purchase 187,500 Ordinary Shares at a price of HK\$9.834 per Ordinary 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, 2017, none of these options has been exercised.

- (21) On April 5, 2017, Dr. Cong was granted an award of 187,500 Restricted Share Units (each representing the right to receive one Ordinary 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, 2017, none of these RSUs has been 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. The shareholdings set forth above excludes shares beneficially owned by entities affiliated with our Directors. Each of our Directors disclaims beneficial ownership of the shares beneficially owned by such affiliated entity, except to the extent of such director's pecuniary interest therein as disclosed above.

The exercise price of our options is denominated in Hong Kong dollars. Such exercise prices of our options in Hong Kong dollar was converted into U.S. dollars at the exchange rates that were in effect as of the applicable option grants dates.

The compensation committee has approved the grant of options to each of our executive officers options to purchase ordinary shares pursuant to our 2004 Stock Option Plan and 2014 Stock Option Plan, as applicable, and restricted share units that represent rights to receive ordinary shares pursuant to our 2004 Equity Incentive Plan and 2014 Equity Incentive Plan. The exercise price of the options ranges from US\$0.35 to US\$1.47. The options expire between May 15, 2017 and September 11, 2026. The majority of the options and restricted share units are subject to a four-year vesting period. Each executive officer owns less than 1% of the total outstanding shares.

The purposes of the our stock incentive plans are to attract, retain and motivate employees and our directors, and our other service providers, to provide a means on and after the public offering of compensating them for their contributions to our growth and profits and to allow such employees, directors and service providers to participate in such growth and profitability.

#### 2004 Stock Incentive Plans

##### 2004 Stock Option Plan

Our 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. The number of the Ordinary Shares that may be issued pursuant to our 2004 Stock Option Plan shall not, in the aggregate, exceed 2,434,668,733 Ordinary Shares prior to the Share Consolidation, representing 4.95% of the issued Ordinary Shares as at December 31, 2017.

In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding stock option granted under this 2004 Stock Option Plan exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time. Stock options issued under the 2004 Stock Option Plan are issued in the form of Ordinary Shares or American depository shares. For purposes of determining the number of the Ordinary Shares available under the 2004 Stock Option Plan, the issuance of an American depository share is deemed to equal fifty underlying Ordinary Shares. In addition, Ordinary Shares or American depository shares subject to stock options under our 2004 Stock Option Plan are available again for grant and issuance under our 2004 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depository shares being issued.

Our 2004 Stock Option Plan authorizes the award of incentive stock options (ISOs) within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended (the "Code"), non-qualified stock options and Director options.





Director options are non-qualified options granted to non-employee members of the Board, or non-employee Directors. The terms of Director options may vary among non-employee Directors and the 2004 Stock Option Plan does not impose any requirement to grant Director options subject to uniform terms.

Our 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 compensation committee has the authority to construe and interpret our 2004 Stock Option Plan, grant stock options and make all other determinations necessary or advisable for the administration of the plan.

Our 2004 Stock Option Plan provides for the grant of options to our 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 (including the 2004 Stock Option Plan) for the benefit of those individuals eligible to participate in the 2004 Stock Option Plan; provided that, ISOs may be granted only to our employees. The total number of Ordinary Shares underlying stock granted pursuant to the 2004 Stock Option Plan by a participant (including both exercised and outstanding stock options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1% in the case of an "independent non-executive Director" (as that term is used in the Hong Kong Stock Exchange Listing Rules)) of the then issued and outstanding Ordinary Shares subject to such changes from time to time to applicable Hong Kong Stock Exchange Listing Rules.

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.

In general, 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 our right of repurchase that lapses as the shares vest. The maximum term of options granted under our 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. Unless otherwise permitted by the Company's compensation committee, stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's family members or to a trust or partnership established for the benefit of such family members. Options granted under our 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 Company's compensation committee. Options granted under our 2004 Stock Option Plan generally may be exercised for a period of ninety days after the termination of the optionee's service to us, except that Director options may be exercised for a period of one hundred and twenty days after the termination of the non-employee Director's service to us. Options whether or not vested generally terminate immediately upon termination of employment for cause.

The number and kind of the Ordinary Shares or American depositary shares authorized for issuance under the various limits set forth in the 2004 Stock Option Plan, the number of outstanding stock options and the number and kind of shares subject to any outstanding stock options and the exercise price per share, if any, under any outstanding stock option are equitably adjusted (including by payment of cash to a participant) by the compensation committee of the Company in the event of a capitalization issue, rights issue, subdivision or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the 2004 Stock Option Plan.



Our 2004 Stock Option Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of the Company's then-outstanding shares entitled to vote in the election of the Board, the complete dissolution of the Company, consolidation, merger, or similar transaction involving the Company, the sale of all or substantially all of the assets of the Company or the consolidated assets of the Company and its subsidiaries, a substantial change in the composition of the Board or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee of the Company determines how to treat each outstanding stock award. The compensation committee of the Company may:

- shorten the period during which the stock options are exercisable;
- accelerate the vesting of the stock options or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of stock options by a successor corporation;
- adjust stock options or their replacements so that such stock options are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction;
- cancel the stock option prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the stock option.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding stock options immediately terminate.

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

The Share Consolidation will cause adjustments to the exercise price of such stock options and the number of Ordinary Shares to be issued under the outstanding stock options, pursuant to the terms and conditions of such options and under terms and conditions of the Company's 2004 Stock Option Plan.

#### Amended and Restated 2004 Equity Incentive Plan

Our shareholders approved 2004 Equity Incentive plan on February 16, 2004. Subsequently, our shareholders adopted an Amended and Restated 2004 Equity Incentive Plan that became effective on June 3, 2010. The aggregate number of the Ordinary Shares that may be issued pursuant to the Amended and Restated 2004 Equity Incentive Plan may not exceed 1,015,931,725 Ordinary Shares prior to the Share Consolidation, representing 2.07% of the issued Ordinary Shares as at December 31, 2017. Awards issued under the Amended and Restated 2004 Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Ordinary Shares available under the Amended and Restated 2004 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares may become available for issuance under our Amended and Restated 2004 Equity Incentive Plan:

- Ordinary Shares or American depositary shares forfeited or withheld from issuance to settle an award;
- Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award; and

· Ordinary Shares or American depositary shares subject to awards granted under our Amended and Restated 2004 Equity Incentive Plan that otherwise terminate or lapse without ordinary shares or American depositary shares being issued.

Our Amended and Restated 2004 Equity Incentive Plan authorizes the award of restricted share awards (RSAs), stock appreciation rights (SARs), restricted share units (RSUs), and other equity-based or equity-related awards based on the value of the Ordinary Shares. Cash payments based on criteria determined by the compensation committee may also be awarded under the Amended and Restated 2004 Equity Incentive Plan.

Our Amended and Restated 2004 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 compensation committee has the authority to construe and interpret our Amended and Restated 2004 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

Our Amended and Restated 2004 Equity Incentive Plan provides for the grant of awards to our 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 (including the Amended and Restated 2004 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the Amended and Restated 2004 Equity Incentive Plan.

An RSA is an award of the Ordinary Shares or American depositary shares that are granted for no consideration other than the provision of services (or such minimum payment as may be required under applicable law). The price (if any) of an RSA is determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting ceases on the date the participant no longer provides services to us and unvested shares are forfeited to or repurchased by us. Performance-based RSAs that vest based on the attainment of one or more performance goals over a period of time that the compensation committee determines may also be awarded under the Amended and Restated 2004 Equity Incentive Plan.

Stock appreciation rights provide for a payment, or payments, in cash, Ordinary Shares or American depositary shares, to the holder based upon the difference between the fair market value of the Ordinary Shares or American depositary shares on the date of exercise and the stated exercise price up to a maximum amount of cash or number of Ordinary Shares or American depositary shares. SARs may vest based on time or achievement of performance conditions. The compensation committee may determine whether SARs may be granted alone or in tandem with a stock option granted under our 2004 Stock Option Plan or another award.

Restricted share units represent the right to receive the Ordinary Shares or American depositary shares at a specified date in the future, subject to forfeiture of that right because of termination of employment or failure to achieve certain performance conditions. The price HKD0.031 of an RSA is determined by the compensation committee. If an RSU has not been forfeited, then on the date specified in the RSU agreement, we deliver to the holder of the restricted share unit the Ordinary Shares (which may be subject to additional restrictions) or American depositary shares, cash or a combination of the Ordinary Shares and cash or our American depositary shares and cash.

The number and kind of the Ordinary Shares or American depositary shares under the various limits set forth in the Amended and Restated 2004 Equity Incentive Plan, the number of outstanding awards and the number and kind of shares subject to any outstanding award and the purchase price per share, if any, under any outstanding award shall be equitably adjusted (including by payment of cash to a participant) by the compensation committee in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the Amended and Restated 2004 Equity Incentive Plan.



Awards granted under our Amended and Restated 2004 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 Company's compensation committee.

Our Amended and Restated 2004 Equity Incentive Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of our then-outstanding shares entitled to vote in the election of the Board, the complete dissolution of the Company, consolidation, merger, or similar transaction involving the Company, the sale of all or substantially all of the assets of the Company or the consolidated assets of us and our subsidiaries, a substantial change in the composition of the Board or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee of the Company determines how to treat each outstanding award. The compensation committee may.

- shorten the period during which the awards may be settled;
- accelerate the vesting of the award or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of an award by a successor corporation;
- adjust awards or their replacements so that such awards are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction; or
- cancel the award prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the award.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding awards immediately terminate.

Our Amended and Restated 2004 Equity Incentive Plan was terminated on November 15, 2013. The awards granted before such termination remain outstanding and continue to vest in accordance with, and subject to, the terms of the Amended and Restated 2004 Equity Incentive Plan.

The Share Consolidation will cause adjustments to the par value of Ordinary Shares to be received by the relevant grantee on the date of vesting of the relevant award of RSUs and the number of Ordinary Shares to be issued pursuant to the terms and conditions of the awards of unvested RSUs and under the terms and conditions of the Company's Amended and Restated 2004 Equity Incentive Plan.

## 2014 Stock Incentive Plans

### 2014 Stock Option Plan

We 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. The number of Ordinary Shares that may be issued pursuant to the 2014 Stock Option Plan and the 2014 Employee Stock Purchase Plan (if adopted) shall not, in the aggregate, exceed 3,207,377,124 Ordinary Shares prior to the Share Consolidation, representing 6.52% of the issued Ordinary Shares as at December 31, 2017. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding stock option granted under this 2014 Stock Option Plan or any of our other stock option plans or any outstanding purchase right granted under the 2014 Employee Stock Purchase Plan (if adopted) or any other of our employee stock purchase plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Hong Kong Stock Exchange Listing Rules. Stock options issued under the 2014 Stock Option Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of our Ordinary Shares available under the 2014 Stock Option Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, Ordinary Shares or American depositary shares subject to stock options under the 2014 Stock Option Plan will again be available for grant and issuance under the 2014 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depositary shares being issued.

The 2014 Stock Option Plan authorizes the award of incentive stock options (ISOs) within the meaning of Section 422 of the Code, non-qualified stock options and Director options.

Director options are non-qualified options granted to non-employee members of the Board, or non-employee Directors. The terms of director options may vary among non-employee Directors and the 2014 Stock Option Plan does not impose any requirement to grant director options subject to uniform terms.

Our 2014 Stock Option Plan will be administered by our compensation committee or by our board of directors acting in place of the compensation committee. The compensation committee will have the authority to construe and interpret the 2014 Stock Option Plan, grant stock options and make all other determinations necessary or advisable for the administration of the plan.

Our 2014 Stock Option Plan will provide for the grant of options to our 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 (including the 2014 Stock Option Plan) for the benefit of those individuals eligible to participate in the 2014 Stock Option Plan; provided, that, ISOs may be granted only to our employees. The total number of Ordinary Shares underlying stock granted pursuant to the 2014 Stock Option Plan or any of our other stock option plans to, and the total number of Ordinary Shares that may be purchased under one or more purchase rights granted under the 2014 Employee Stock Purchase Plan (if adopted) or any of our other employee stock purchase plans by, a participant (including both exercised and outstanding stock options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1% in the case of an “independent non-executive Director” (as that term is used in the Hong Kong Stock Exchange Listing Rules) of the then issued and outstanding Ordinary Shares subject to such changes from time to time to applicable Hong Kong Stock Exchange Listing Rules.

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





In general, options will vest over a four-year period. Options may vest based on time or achievement of performance conditions. Our 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 our 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. Unless otherwise permitted by our compensation committee, stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's guardian or legal representative. 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 our compensation committee. Options granted under the 2014 Stock Option Plan generally may be exercised for a period of ninety days after the termination of the optionee's service to us, except that director options may be exercised for a period of one hundred and twenty days after the termination of the non-employee Director's service to us. Options generally terminate immediately upon termination of employment for cause.

The number and kind of our Ordinary Shares or American depositary shares authorized for issuance under the various limits set forth in the 2014 Stock Option Plan, the number of outstanding stock options and the number and kind of shares subject to any outstanding stock options and the exercise price per share, if any, under any outstanding stock option will be equitably adjusted (including by payment of cash to a participant) by the compensation committee in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the 2014 Stock Option Plan.

Our 2014 Stock Option Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of the Company's then-outstanding shares entitled to vote in the election of the Board, the complete dissolution of the Company, consolidation, merger, or similar transaction involving the Company, the sale of all or substantially all of the assets of the Company or the consolidated assets of the Company and its subsidiaries, a substantial change in the composition of the Board or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee of the Company will determine how to treat each outstanding stock award. The compensation committee of the Company may:

- shorten the period during which the stock options are exercisable;
- accelerate the vesting of the stock options or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of stock options by a successor corporation;
- adjust stock options or their replacements so that such stock options are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction;
- cancel the stock option prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the stock option.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding stock options will immediately terminate.

Our 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. If the Board amends the 2014 Stock Option Plan, it does not need to ask for shareholders approval of the amendment unless required by applicable law.



The Share Consolidation will cause adjustments to the exercise price of such stock options and the number of Ordinary Shares to be issued under the outstanding stock options, pursuant to the terms and conditions of such options and under terms and conditions of the Company's 2014 Stock Option Plan.

#### 2014 Employee Stock Purchase Plan

Our shareholders adopted a 2014 Employee Stock Purchase Plan on June 13, 2013. Purchases are accomplished through participation in discrete offering periods. Our 2014 Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. The number of our Ordinary Shares that may be issued pursuant to the 2014 Employee Stock Purchase Plan and our 2014 Stock Option Plan shall not, in the aggregate, exceed 3,207,377,124 Ordinary Shares prior to the Share Consolidation, representing 6.52% of the issued Ordinary Shares as at December 31, 2017. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding purchase right granted under this 2014 Employee Stock Purchase Plan or any of our other employee stock purchase plans or any outstanding stock option granted under our 2014 Stock Option Plan or any of our other stock option plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Hong Kong Stock Exchange Listing Rules. All shares purchased under the 2014 Employee Stock Purchase Plan shall be issued in the form of American depository shares. For purposes of determining the number of the Company's Ordinary Shares available under the 2014 Employee Stock Purchase Plan, the issuance of an American depository share is deemed to equal fifty underlying Ordinary Shares.

The Company's compensation committee administers our 2014 Employee Stock Purchase Plan. Our employees generally are eligible to participate in our 2014 Employee Stock Purchase Plan; our compensation committee may impose additional eligibility conditions upon the employees of one of the Company's subsidiaries or exclude employees of a subsidiary from participation. Employees who are 5% stockholders, or would become 5% stockholders as a result of their participation in the Company's 2014 Employee Stock Purchase Plan, are ineligible to participate in the Company's 2014 Employee Stock Purchase Plan. In addition, to comply with the Hong Kong Stock Exchange Listing Rules, unless otherwise allowed under such rules, no employee can be granted a right to purchase American depository shares, or a purchase right under the 2014 Employee Stock Purchase Plan if such purchase right would permit the employee to purchase Ordinary Shares or American depository shares under all employee stock purchase plans or other option plans of the Company granted to the employee in any twelve-month period to exceed one percent (1%) of the then issued and outstanding Ordinary Shares.

Under our 2014 Employee Stock Purchase Plan, eligible employees are able to acquire our American depository shares by accumulating funds through payroll deductions. Our compensation committee determines the maximum amount that any employee may contribute to his or her account under the 2014 Employee Stock Purchase Plan during any calendar year. We also have the right to amend or terminate our 2014 Employee Stock Purchase Plan at any time.

New participants are required to enroll in a timely manner as specified by the Company's compensation committee. Once an employee is enrolled, participation in subsequent offering periods is automatic. The length of each offering period shall be neither shorter than six months nor longer than twenty-seven months. The Company's compensation committee determines the starting and ending date of each offering period. An employee's participation automatically ends upon termination of employment for any reason.



No participant has the right to purchase our American depositary shares in an amount, when aggregated with purchase rights under all our employee stock purchase plans that are also in effect in the same calendar year(s), that has a fair market value of more than \$25,000, determined as of the first day of the applicable purchase period, for each calendar year in which that right is outstanding. On the first business day of each offering period, a participant shall be granted a purchase right, determined by: (i) dividing (A) the product of \$25,000 and the number of calendar years during all or part of which the purchase right shall be outstanding by (B) the fair market value of the American depositary shares on the first business day of the offering period, and (ii) subtracting from the quotient (A) the number of American depositary shares the participant purchased during the calendar year in which the first business day of the applicable offering period occurs under the 2014 Employee Stock Purchase Plan or under any of our other employee stock purchase plans which is intended to qualify under Section 423 of the Code, plus (B) the number of American depositary shares on the first business day of the applicable offering period subject to any outstanding purchase rights granted to the participant under any of our other employee stock purchase plans which is intended to qualify under Section 423 of the Code. If application of this formula would result in the grant of purchase rights covering, in the aggregate, more than the number of American depositary shares that the compensation committee has made available for the relevant offering period, then the compensation committee shall adjust the number of American depositary shares subject to the purchase right in order that, following such adjustment, the aggregate number of American depositary shares subject to the purchase right shall remain within the applicable limit.

The purchase price for shares of our American depositary shares purchased under our 2014 Employee Stock Purchase Plan shall be 85% of the lesser of the fair market value of our American depositary shares on (i) the first business day of the applicable offering period and (ii) the last day of the applicable offering period.

We have not granted any purchase right under our 2014 Employee Stock Purchase Plan so far.

#### 2014 Equity Incentive Plan

We 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. The aggregate number of the Ordinary Shares that may be issued pursuant to the 2014 Equity Incentive Plan may not exceed 801,844,281 Ordinary Shares prior to the Share Consolidation, representing 1.63% of the issued Ordinary Shares as at December 31, 2017. Awards issued under the 2014 Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Company's Ordinary Shares available under the 2014 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares will again be available again for grant and issuance under the 2014 Equity Incentive Plan:

- Ordinary Shares or American depositary shares subject to stock appreciation rights granted under the 2014 Equity Incentive Plan that cease to be subject to the stock appreciation right for any reason other than exercise of the stock appreciation right;
- Ordinary Shares or American depositary shares subject to awards granted under the Company's 2014 Equity Incentive Plan that are subsequently forfeited at the original issue price; including without limitation Ordinary Shares or American depositary shares withheld from issuance to settle an award and Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award; and
- Ordinary Shares or American depositary shares subject to awards granted under the 2014 Equity Incentive Plan that otherwise terminate or lapse without Ordinary Shares or American depositary shares being issued.



Our 2014 Equity Incentive Plan authorizes the award of restricted share awards (RSAs), stock appreciation rights (SARs), restricted share units (RSUs) and other equity-based or equity-related awards based on the value of our Ordinary Shares. Cash payments based on criteria determined by the compensation committee may also be awarded under the 2014 Equity Incentive Plan.

Our 2014 Equity Incentive Plan will be administered by our compensation committee or by our board of directors acting in place of our compensation committee. The compensation committee will have the authority to construe and interpret the 2014 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

Our 2014 Equity Incentive Plan will provide for the grant of awards to our 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 (including the 2014 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the 2014 Equity Incentive Plan.

An RSA is an award of our Ordinary Shares or American depositary shares that are granted for no consideration other than the provision of services (or such minimum payment as may be required under applicable law). The price (if any) of an RSA will be determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting will cease on the date the participant no longer provides services to us and unvested shares will be forfeited to or repurchased by us. Performance-based RSAs that vest based on the attainment of one or more performance goals over a period of time that the compensation committee determines may also be awarded under the 2014 Equity Incentive Plan.

Stock appreciation rights provide for a payment, or payments, in cash, Ordinary Shares or American depositary shares, to the holder based upon the difference between the fair market value of our Ordinary Shares or American depositary shares on the date of exercise and the stated exercise price up to a maximum amount of cash or number of Ordinary Shares or American depositary shares. SARs may vest based on time or achievement of performance conditions. The compensation committee may determine whether SARs may be granted alone or in tandem with a stock option granted under the 2014 Stock Option Plan or another award.

Restricted share units represent the right to receive our Ordinary Shares or American depositary shares at a specified date in the future, subject to forfeiture of that right because of termination of employment or failure to achieve certain performance conditions. The price HKD0.031 of an RSA will be determined by the compensation committee. If an RSU has not been forfeited, then on the date specified in the RSU agreement, we will deliver to the holder of the restricted share unit the Ordinary Shares (which may be subject to additional restrictions) or American depositary shares, cash or a combination of the Ordinary Shares and cash or the American depositary shares and cash.

The number and kind of our Ordinary Shares or American depositary shares under the various limits set forth in the 2014 Equity Incentive Plan, the number of outstanding awards and the number and kind of shares subject to any outstanding award and the purchase price per share, if any, under any outstanding award will be equitably adjusted (including by payment of cash to a participant) by the compensation committee of our company in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the 2014 Equity Incentive Plan.

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.





Our 2014 Equity Incentive Plan provides that in the event of a change in control, including without limitation a person or entity acquiring beneficial ownership of 35% of our then-outstanding shares entitled to vote in the election of our board of directors, the complete dissolution of the company, consolidation, merger, or similar transaction involving our company, the sale of all or substantially all of the assets of our company or the consolidated assets of our company and our subsidiaries, a substantial change in the composition of our board of directors or any change in control as defined in the Hong Kong Code on Takeovers and Mergers, the compensation committee will determine how to treat each outstanding award. The compensation committee may:

- shorten the period during which the awards may be settled;
- accelerate the vesting of the award or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of an award by a successor corporation;
- adjust awards or their replacements so that such awards are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction; or
- cancel the award prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the award.

In the event of a change in control that results in a complete liquidation or dissolution of the Company, all outstanding awards will immediately terminate.

Our board of directors may amend or terminate our 2014 Equity Incentive Plan at any time. If our board of directors amends our 2014 Equity Incentive Plan, it does not need to ask for stockholder approval of the amendment unless required by applicable law.

The Share Consolidation will cause adjustments to the par value of Ordinary Shares to be received by the relevant grantee on the date of vesting of the relevant award of RSUs and the number of Ordinary Shares to be issued pursuant to the terms and conditions of the awards of unvested RSUs and under the terms and conditions of the Company's Amended and Restated 2014 Equity Incentive Plan.

#### Standard Form of Share Option Plan for Subsidiaries

The following is a summary of the principal terms of a standard form of share option plan involving the grant of options over shares in subsidiaries of the Company which adopt such plan to eligible participants such as employees, directors and service providers of the Group (the "Subsidiary Plan") that was approved by the shareholders at the annual general meeting of the Company held on May 30, 2006.

##### (a) Purpose of the Subsidiary Plan

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.

(b) Who may join

The compensation committee of the board of directors of the relevant subsidiary (the “Subsidiary Committee”) may, at its discretion, invite any employee, officer or other service provider of (including, but not limited to, any professional or other adviser of, or consultant or contractor to) the Group whether located in China, the United States or elsewhere to take up options to subscribe for shares (“Subsidiary Shares”) in the relevant subsidiary(ies) which has or have adopted the Subsidiary Plan at a price calculated in accordance with sub-paragraph (e) below. The Subsidiary Committee may also grant stock options to a director who is not an employee of the Company or the relevant subsidiary (“Non-Employee Subsidiary Director”).

(c) Stock Options

Stock options granted under the Subsidiary Plan (“Subsidiary Stock Options”) shall entitle a participant (“Subsidiary Participant”) of the Subsidiary Plan to purchase a specified number of Subsidiary Shares during a specified period at a price calculated in accordance with sub-paragraph (e) below. Three types of Subsidiary Stock Options may be granted under a Subsidiary Plan, an Incentive Stock Option, a Non- Qualified Stock Option or a Subsidiary Director Option. An Incentive Stock Option is a stock option that falls within the meaning of Section 422 of the Code and may only be granted to employees of the Company and its subsidiaries from time to time. A Non- Qualified Stock Option is a stock option that is not an Incentive Stock Option. A Subsidiary Director Option is a Non-Qualified Stock Option granted to a Non-Employee Subsidiary Director.

The relevant subsidiary shall issue an award document to each Subsidiary Participant of the Subsidiary Plan who is granted a Subsidiary Stock Option. The award document shall set out the terms and provisions of the grant of a Subsidiary Stock Option to a Participant including applicable vesting dates or the attainment of specified performance goals (as determined by the Subsidiary Committee or the Subsidiary Administrator (as defined below), as the case may be) by the Subsidiary Participant. The relevant subsidiary may allow a Subsidiary Participant to exercise his or her Subsidiary Stock Options prior to vesting, provided the Subsidiary Participant agrees to enter into a repurchase agreement in respect of the Subsidiary Stock Option with the relevant subsidiary. The Subsidiary Committee may also (i) accelerate the vesting of a Subsidiary Stock Option, (ii) set the date on which any Subsidiary Stock Option may first become exercisable, or (iii) extend the period during which a Subsidiary Stock Option remains exercisable, except that no Subsidiary Stock Options may be exercised after the tenth anniversary of the date of grant.

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

(d) Administration of the Subsidiary Plan

The Subsidiary Committee shall be responsible for the administration of the Subsidiary Plan. Its responsibilities include granting Subsidiary Stock Options to eligible individuals, determining the number of Subsidiary Shares subject to each Subsidiary Stock Option, and determining the terms and conditions of each Subsidiary Stock Option. The Subsidiary Committee is not obliged to grant Subsidiary Stock Options to Subsidiary Participants in uniform terms.

Accordingly, the terms and conditions which may be imposed may vary between Subsidiary Participants. Any determination by the Subsidiary Committee in relation to the carrying out and administering of the Subsidiary Plan in accordance with its terms shall be final and binding. No member of the Subsidiary Committee shall be liable for any action or determination made in good faith, and the members of the Subsidiary Committee shall be entitled to indemnification and reimbursement in the manner provided in the articles of association, by-laws or other equivalent constitutional document of the relevant subsidiary.



The Subsidiary Committee may delegate some or all of its authority under the Subsidiary Plan to an individual or individuals (each a "Subsidiary Administrator") who may either be one or more of the members of the Subsidiary Committee or one or more of the officers of the Company or relevant subsidiaries. An individual's status as a Subsidiary Administrator shall not affect his or her eligibility to participate in the Subsidiary Plan. The Subsidiary Committee shall not delegate its authority to grant Subsidiary Stock Options to executive officers of the Company or its subsidiaries.

(e) Exercise Price

The exercise price per Subsidiary Share purchasable under a Subsidiary Stock Option shall be fixed by the Subsidiary Committee at the time of grant or by a method specified by the Subsidiary Committee at the time of grant, but, subject always to and in accordance with applicable requirements of the Hong Kong Stock Exchange Listing Rules or permission of the Hong Kong Stock Exchange:

- (i) in the case of an Incentive Stock Option:
  - (1) granted to a Ten Percent Holder (as defined below), the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and
  - (2) granted to any other Subsidiary Participant, the exercise price shall be no less than 100% of the Fair Market Value per Subsidiary Share on the date of grant; and.
- (ii) in the case of any Subsidiary Stock Option:
  - (1) granted to a Ten Percent Holder who is a resident of the State of California, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and
  - (2) granted to any other Subsidiary Participant who is a resident of the State of California, the exercise price shall be no less than 85% of the Fair Market Value per Subsidiary Share on the date of grant.

A Ten Percent Holder is any Participant who owns more than 10% of the total combined voting power of all classes of outstanding securities of the relevant subsidiary or any parent or subsidiary (as such terms are defined in and determined in accordance with the Code) of the relevant subsidiary.

Fair Market Value shall be determined as follows:

- (i) If the Subsidiary Shares are listed on any established stock exchange or a national market system, including without limitation the NYSE, The Nasdaq Global Market or The Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such Subsidiary Shares (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;
- (ii) If the Subsidiary Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Subsidiary Shares on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or
- (iii) 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.

(f) Limit of the Subsidiary Plan

The number of Subsidiary Shares that may be issued under the Subsidiary Plan and all other schemes of the relevant subsidiary involving the grant by such subsidiary of options over or other similar rights to acquire new shares or other new securities of such subsidiary (“Other Schemes”) shall not exceed ten percent of the issued and outstanding Subsidiary Shares of such subsidiary on the date of approval of the Subsidiary Plan by the board of directors of the relevant subsidiary (the “Subsidiary Board”).

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 and all Other Schemes of the relevant subsidiary must not exceed in aggregate 30 percent of the issued and outstanding Subsidiary Shares of the relevant subsidiary in issuance from time to time.

(g) Individual Limit

The total number of Subsidiary Shares underlying Subsidiary Stock Options or other options granted by the relevant subsidiary to a Subsidiary Participant (including both exercised and outstanding Subsidiary Stock Options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1 percent in the case of an independent non-executive Director of the Company) of the then issued and outstanding Subsidiary Shares unless otherwise allowed under the Hong Kong Stock Exchange Listing Rules.

(h) Exercise of Option

A Subsidiary Stock Option shall vest, and be exercised, in accordance with the terms of the Subsidiary Plan, the relevant award document and any rules and procedures established by the Subsidiary Committee for this purpose. However, the term of each Subsidiary Stock Option shall not exceed ten years from the date of grant, provided that any Incentive Stock Option granted to a Ten Percent Holder shall not by its terms be exercisable after the expiration of five(5) years from the date of grant.

(i) Director Options

Each Non-Employee Subsidiary Director may be granted Subsidiary Stock Options to purchase Subsidiary Shares on the terms set out in the relevant award document.

The directors shall exercise all authority and responsibility with respect to Subsidiary Stock Options granted to directors subject to the requirements of the Hong Kong Stock Exchange Listing Rules.

All Non-Employee Subsidiary Directors’ Subsidiary Stock Options shall only vest provided that the director has remained in service as a director through such vesting date. The unvested portion of a Subsidiary Stock Option granted to a director shall be forfeited in full if the director’s service with the Company or the relevant subsidiary ends for any reason prior to the applicable vesting date.

Following termination of a Non-Employee Subsidiary Director’s service on the Subsidiary Board, such Non-Employee Subsidiary Director (or his or her estate, personal representative or beneficiary, as the case may be) shall be entitled to exercise those of his or her Subsidiary Stock Options which have vested as of the date of such termination within 120 days following such termination.

(j) Termination or Lapse of Option

A Subsidiary Stock Option shall terminate or lapse automatically upon:

- (i) the expiry of ten years from the date of grant;



- (ii) the termination of a Subsidiary Participant's employment or service with the relevant subsidiary for a reason set out in sub-paragraph (l) below;
  - (iii) the liquidation or dissolution of the relevant subsidiary, in which case all Subsidiary Stock Options outstanding at the time of the liquidation or dissolution shall terminate without further action by any person save as to any contrary directions of the Subsidiary Committee with the prior approval of the Board of Directors of the Company;
  - (iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Subsidiary Participant is employed by such subsidiary, division or operating unit); and
  - (v) termination of the service relationship with a service provider (where the Subsidiary Participant is a service provider of the relevant subsidiary).
- (k) Rights are Personal to Subsidiary Participant

A Subsidiary Stock Option is personal to the Subsidiary Participant and shall be exercisable by such Subsidiary Participant or his Permitted Transferee (as defined below) 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. The Subsidiary Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Subsidiary Stock Option for no consideration to a Subsidiary Participant's family members or to a trust or partnership established for the benefit of such family members (collectively "Permitted Transferees"). Any Subsidiary Stock Option transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Subsidiary Participant.

(l) Termination of Employment or Service

If a Subsidiary Participant's employment or service with the relevant member(s) of the Group is terminated for the following reasons:

- (i) the failure or refusal of the Subsidiary Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the relevant member(s) of the Group;
- (ii) any material violation by the Subsidiary Participant of any law or regulation applicable to any business of any relevant member(s) of the Group, or the Subsidiary Participant's conviction of, or a plea of nolo contendere to, a felony, or any perpetration by the Subsidiary Participant of a common law fraud against any relevant member(s) of the Group; or
- (iii) any other misconduct by the Subsidiary Participant that is materially injurious to the financial condition, business or reputation of the Group, then all Subsidiary Stock Options granted to the Subsidiary Participant, whether or not then vested, shall immediately lapse.

The Subsidiary Committee may permit any Incentive Stock Option to convert into a Non-Qualified Stock Option as of a Subsidiary Participant's termination of employment for purposes of providing such Subsidiary Participant with the benefit of any extended exercise period applicable to Non-Qualified Stock Options when the contract of employment of the holder of Incentive Stock Option terminates.

(m) Change in Control of the Subsidiary

The Subsidiary Committee must seek the prior approval of the Board of Directors of the Company and may, subject to such prior approval by the Board of Directors of the Company, specify at or after the date of grant of a Subsidiary Stock Option the effect that a Change in Control (as defined in the Subsidiary Plan) will have on such Subsidiary Stock Option. The Subsidiary Committee may also, subject to such prior approval by the Board of Directors of the Company, in contemplation of a Change in Control, accelerate the vesting, exercisability or payment of Subsidiary Stock Options to a date prior to the Change in Control, if the Subsidiary Committee determines that such action is necessary or advisable to allow the participants to realize fully the value of their share options in connection with such Change in Control.

(n) Change in the Capital Structure of the Subsidiary

In the event of an alteration in the capital structure of the relevant subsidiary (which includes a capitalization issue, reduction of capital, consolidation, sub-division of Subsidiary Shares, or rights issue to purchase Subsidiary Shares at a price substantially below market value), the Subsidiary Committee may equitably adjust the number and kind of Subsidiary Shares authorized for issuance in order to preserve, the benefits or potential benefits intended to be made available under the Subsidiary Plan. In addition, upon the occurrence of any of the foregoing events, the number of outstanding Subsidiary Stock Options and the number and kind of shares subject to any outstanding Subsidiary Stock Option and the purchase price per share under any outstanding Subsidiary Stock Option shall be equitably adjusted so as to preserve the benefits or potential benefits intended to be made available to Subsidiary Participants.

(o) Period of the Subsidiary Plan

The form of the Subsidiary Plan shall be approved by the shareholders of the Company and of the relevant subsidiary respectively, and shall become effective upon its approval by the Subsidiary Board in accordance with the terms thereof. Each Subsidiary Plan shall remain in force for a period of ten years commencing on the date of Subsidiary Board approval of the relevant Subsidiary Plan.

(p) Amendments and Termination

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, at any time provided alterations or amendments of a material nature or any change to the terms of the Subsidiary Stock Options granted, or any change to the authority of the Subsidiary Board or the Subsidiary Committee in relation to any alteration to the terms of the Subsidiary Plan, must be approved by the shareholders of the Company, unless such change, alteration or amendment takes effect automatically under the terms of the Subsidiary Plan. For the avoidance of doubt, any change, alteration or amendment pursuant to the exercise of any authority granted under a Subsidiary Plan shall be deemed to take effect automatically under the terms of the relevant Subsidiary Plan. Any change, alteration or amendment must be in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules or permitted by the Hong Kong Stock Exchange.

The Subsidiary Board may, subject to prior approval by the Board of Directors of the Company, at any time and from time to time make such changes, alterations or amendments to the Subsidiary Plan as may be necessary or desirable, including (without limitation) changes, alterations or amendments:

- (i) relating to local legal, regulatory and/or taxation requirements and/or implications applicable to the relevant subsidiary and/or Eligible Participants; and/or





(ii) for the purposes of clarification, improvement or facilitation of the interpretation, and/or application of the terms of the Subsidiary Plan and/or for the purposes of improving or facilitating the administration of the Subsidiary Plan, and other changes, alterations or amendments of a similar nature.

If the Subsidiary Plan is terminated early by the Subsidiary Board, subject to prior approval by the Board of Directors of the Company, no further Subsidiary Stock Options may be offered but unless otherwise stated in the Subsidiary Plan. Subsidiary Stock Options granted before such termination shall continue to be valid and exercisable in accordance with the Subsidiary Plan.

(q) Voting and Dividend Rights

No voting rights shall be exercisable and no dividends shall be payable in relation to Subsidiary Stock Options that have not been exercised.

(r) Cancellation of Subsidiary Stock Options

If the relevant subsidiary is or becomes a public company (within the meaning of the Hong Kong Code on Takeovers and Mergers), then in the case of a Change in Control of the relevant subsidiary, Subsidiary Stock Options granted but not exercised may not be cancelled unless an offer or proposal in respect of the Subsidiary Stock Options has, where applicable, been made pursuant to Rule 13 of The Hong Kong Code on Takeovers and Mergers and the Hong Kong Securities and Futures Commission has consented to such cancellation.

(s) Ranking of Subsidiary Shares

The Subsidiary Shares to be allotted upon the exercise of a Subsidiary Stock Option will be subject to the then effective articles of association (or equivalent constitutional document) of the relevant subsidiary and will rank pari passu with the Subsidiary Shares in issue on the date of such allotment.

The Subsidiary Plans, under which no more than 56,666,666 Subsidiaries Shares can be issued, representing 10.00% of outstanding Subsidiaries Shares as at December 31, 2017, will be administered by the relevant Subsidiary Committees and no other trustee is expected to be appointed in respect of any Subsidiary Plan.

SJ Semiconductor Corporation, which is a majority-owned subsidiary of the Company, has adopted the Subsidiary Plan.

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders

#### Ordinary Shares

The following table sets forth information regarding the beneficial ownership of our Ordinary Shares as of December 31, 2017, by each shareholder who is known by us to beneficially own 5% or more of our outstanding ordinary shares as of such date.

Name of Shareholder	Nature of Interest	Long/Short Position	Number of Ordinary Shares Held	Percentage of Issued Share Capital of the Company(1)	Derivative Financial Interests(5)	Percentage of Total Interests to Total Issued Share Capital of the Company(1)
Datang Telecom Technology & Industry Holdings Co., Ltd.	Interest of corporation controlled	long position	797,996,122	16.23 %	—	16.23 %
China IC Fund	Interest of corporation controlled	long position	740,000,000	15.05 %	—	15.05 %
Tsinghua University	Interest of corporation controlled	long position	363,345,100	7.39 %	—	7.39 %
Zhao Weiguo	Interest of corporation controlled	long position	363,345,100	7.39 %	—	7.39 %

## Notes:

- (1) Based on 4,916,106,889 Ordinary Shares in issue as at December 31, 2017.
- (2) All such Ordinary Shares are held by Datang Holdings (Hongkong) Investment Company Limited which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd.
- (3) All such Ordinary Shares are held by Xinxin (Hongkong) Capital Co., Ltd, a wholly-owned subsidiary of Xinxin (Shanghai) Investment Co., Ltd., which in turn is wholly-owned by China IC Fund.
- (4) Tsinghua University holds 363,345,100 Ordinary 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.
- (5) 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.

## B. Related Party Transactions

The following disclosure is for the purpose of fulfilling disclosure requirements pursuant to the rules and regulations promulgated pursuant to the Exchange Act only, and may contain disclosure of related party transactions not required to be disclosed in our financial statements under IFRS.

Director Service Contracts

We have entered into service contracts with indemnification provisions with each of our current directors. Except for the indemnification provisions, the service contracts as stated in the preceding sentence do not provide for benefits upon termination of service or employment.

Grant of Restricted Share Units to Dr. Chiu, Dr. Chiang, Dr. Chen, Dr. Tan, Dr. Tong and Dr. Cong

At meetings of the Board held on December 20, 2016 and February 14, 2017 respectively, the Board resolved to grant 2,796,818 RSUs (the "Proposed RSU Grants") under the 2014 Equity Incentive Plan, approved by the independent shareholders at the annual general meeting.

Among the 2,796,818 RSUs, 2,109,318 RSUs were granted to Dr. Tzu-Yin Chiu (the then Chief Executive Officer of the Company and an Executive Director), 62,500 RSUs were granted to Dr. Chen Shanzhi (a non-Executive Director), 62,500 RSUs were granted to Mr. Lip-Bu Tan (an Independent Non- Executive Director), 187,500 RSUs were granted to Dr. Shang-yi Chiang (an Independent Non-Executive Director), 187,500 RSUs were granted to Dr. Tong Guohua (a non-Executive Director) and 187,500 RSUs were granted to Dr. Jason Jingsheng Cong (an Independent Non-Executive Director). Each of the RSUs granted to Dr. Chiu, Dr. Chen, and Mr. Tan represents the right to receive an ordinary share on the date it vests, and it is intended that such RSUs would vest immediately upon their grant. Each of the RSUs to be granted to Dr. Chiang, Dr. Tong and Dr. Cong represents the right to receive an ordinary share on the date it vests, and it is intended that such RSUs would 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 director. In accordance with the terms of the 2014 Equity Incentive Plan, the Proposed 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 2,796,818 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. In accordance with the Hong Kong Listing Rules, an Independent Board Committee was established to advise and provide recommendation to the independent shareholders in respect of the Proposed RSU Grants and any transactions contemplated thereunder and to advise the independent shareholders on how to vote. The proposed RSU Grants and the transactions were approved by the independent shareholders at the annual general meeting of the Company held on June 23, 2017.

#### Grant of RSUs to Dr. Tzu-yin Chiu

At a meeting of the Board held on May 10, 2017, the Board resolved to grant to Dr. Tzu-yin Chiu (the then Chief Executive Officer of the Company and an Executive Director) 1,054,659 RSUs (the "Proposed Grant") under the 2014 Equity Incentive Plan. Each of the RSUs to be granted to Dr. Chiu represents the right to receive an ordinary share on the date it vests, and it is intended that such RSUs would vest on June 30, 2017, being the date on which Dr. Chiu would complete his term as an advisor to the Company during the transitional period of the change in Chief Executive Officer following his stepping down as Chief Executive Officer of the Company on May 10, 2017. In accordance with the terms of the 2014 Equity Incentive Plan, the Proposed Grant is 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 1,054,659 RSUs and any transactions contemplated thereunder constitutes non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. The proposed Grant and the transactions were approved by the independent shareholders at the extraordinary general meeting of the Company held on September 29, 2017.

#### Capital Contribution to a Joint Venture Company — Sino IC Leasing Co., Ltd.

The Company entered into a joint venture agreement on October 15, 2015 with China Integrated Circuit Industry Investment Fund Co., Ltd. ("China IC Fund") and its sole manager, Sino IC Capital Co., Ltd. ("Sino IC Capital"), as well as seven other independent third parties to establish a joint venture company, Sino IC Leasing Co., Ltd. (the "Joint Venture Company"/"Sino IC Leasing") in the PRC.



On July 20, 2017, the Company, China IC Fund, Sino IC Capital, and thirteen other independent third parties agreed to amend the previous joint venture agreement through the Amendment JV Agreement, pursuant to which: (i) the Company has agreed to increase its capital contribution obligation towards the Joint Venture Company from RMB0.60 billion to RMB0.80 billion (of which RMB792,075,000 should be paid into its registered capital and RMB7,925,000 should be paid into its capital reserves) while its shareholding in the Joint Venture Company will decrease from approximately 10.56% to approximately 7.44%; and (ii) China IC Fund has agreed to increase its capital contribution obligation towards the Joint Venture Company from RMB2.00 billion to RMB3.50 billion (of which RMB3,440,562,000 should be paid into its registered capital and RMB59,438,000 should be paid into its capital reserves) while its shareholding in the Joint Venture Company will decrease from approximately 35.21% to approximately 32.31%.

The above parties' performance of their capital contribution obligations would lead to an increase in the registered capital of the Joint Venture Company from RMB5.68 billion to approximately RMB10.65 billion and an increase in the capital reserves of the Joint Venture Company from 0 to RMB205.06 million .

Taking into account of the development needs of the industry and the Joint Venture Company's need to increase its asset scale and industry influence, the Company considers that increasing its capital commitment to the Joint Venture Company is beneficial to the Company to create a favourable financial environment to expand its financing channels and enhance its financial returns. The Directors (including the independent non-executive Directors) believe that the terms of the Amendment JV Agreement are fair and reasonable, and the entering into of the Amendment JV Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

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

As China IC Fund holds approximately 15.91% 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. The Amendment JV Agreement constitutes a connected transaction of the Company .

#### Provisions of Guarantees

On December 21, 2016, SMIC Beijing, a wholly-owned subsidiary of the Company, entered into the two guarantee agreements with Sino IC Leasing Tianjin Co., Ltd. ("Sino IC Leasing (Tianjin)") to provide guarantees of an aggregate amount of approximately US\$59,583,000 in favour of Sino IC Leasing (Tianjin) in respect of the payment obligations of SMNC under certain lease agreements.

On March 16, 2017, SMIC Beijing entered into these guarantee agreements (the "March Guarantee Agreements") with Sino IC Leasing (Tianjin) to provide guarantees of an aggregate amount of approximately \$65,882,000 in favour of Sino IC Leasing (Tianjin) in respect of the payment obligations of SMNC under certain lease agreements.

On July 31, 2017, the Company entered into these guarantee agreements (the "July Guarantee Agreements") with Xincheng Leasing (Tianjin) Co., Ltd. ("Xin Cheng Leasing") or Xindian Leasing (Tianjin) Co., Ltd. ("Xin Dian Leasing") (as the case may be) to provide guarantees of an aggregate amount of approximately US\$125,492,000 in favour of Xin Cheng Leasing or Xin Dian Leasing (as the case may be) in respect of the payment obligations of SMNC under certain lease agreements.





The Company believes that the entering into of the March and July Guarantee Agreements will lower the funding cost of SMNC and enable SMNC to lease the relevant machinery to support its normal operations and production. The Directors (including the independent non-executive Directors) are of the view that the terms of the March and July Guarantee Agreements are fair and reasonable, that the entering into of the March and July Guarantee Agreements is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

As China IC Fund holds approximately 15.91% 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 Fund also holds approximately 35.21% equity interest in 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. Sino IC Leasing (Tianjin) is a wholly-owned subsidiary of Sino IC Leasing and also a connected person of the Company. Each of Xin Cheng Leasing and Xin Dian Leasing is a wholly-owned subsidiary of Sino IC Leasing (Tianjin) and also a connected person of the Company.

In addition, as China IC Fund holds approximately 26.50% equity interest in SMNC, SMNC is a connected subsidiary of the Company as defined under Rule 14A.17 of the Listing Rules as well as a commonly held entity as defined under Rule 14A.27 of the Listing Rules. Accordingly, the March and July Guarantee Agreements constitute the connected transactions of the Company.

#### Proposed Capital Contribution in a Joint Venture in Beijing

On June 3, 2013, the Company entered into a joint venture agreement with SMIC Beijing, Beijing Industrial Development Investment Management Co. Ltd. (“IDIMC”) and ZDG in relation to the establishment of a joint venture company. SMNC principally engages in, among other things, the testing, development, design, manufacturing, packaging and sale of integrated circuits.

On May 10, 2016, the Company, SMIC Beijing, China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Center (“Beijing Semi Fund”), IDIMC and ZDG amended the previous joint venture agreement through the amended and restated joint venture agreement, pursuant to which: (i) the Company and SMIC Beijing’s outstanding aggregate capital contribution obligations as contained in the previous joint venture agreement would decrease from US\$804.38 million to US\$708.38 million as their aggregate shareholding in SMNC would decrease from 55% to 51%; and (ii) China IC Fund would make cash contribution of US\$636 million into the registered capital of SMNC. The above parties’ performance of their capital contribution obligations would lead to an increase in the registered capital of SMNC from US\$1.2 billion to US\$2.4 billion.

On August 10, 2017, the Company, SMIC Beijing, China IC Fund, Beijing Semi Fund, IDIMC, ZDG, SMIC Holdings Corporation (“SMIC Holdings”) and E-Town Capital have agreed to amend the previous joint venture agreement through the amended and restated 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 million into the registered capital of SMNC. Their outstanding aggregate capital contribution obligations as contained in the previous joint venture agreement will increase from nil to US\$1,224 million. Their aggregate shareholding in SMNC will remain at 51%; (ii) China IC Fund has agreed to make further cash contribution of US\$900 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 million into the registered capital of SMNC representing 5.75% of the enlarged registered capital of SMNC. The above parties’ performance of their capital contribution obligations will lead to an increase in the registered capital of SMNC from US\$2.4 billion to US\$4.8 billion. .

On August 10, 2017, the Company, SMIC Beijing, China IC Fund, Beijing Semi Fund, IDIMC, ZDG, SMIC Holdings, E-Town Capital and SMNC also entered into the Capital Increase Agreement to carry out the proposed capital contribution.

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 partnership will capture more business opportunities.

The Directors (excluding 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 Amendment JV Agreement, the Capital Increase Agreement and the transactions contemplated thereunder; the terms of the Amendment JV Agreement and the Capital Increase Agreement are fair and reasonable; and the entering into of the Amendment JV Agreement, the Capital Increase 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.

As China IC Fund holds approximately 15.91% 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 Beijing Semi Fund holds approximately 18% equity interest in SMNC, a subsidiary of the Company, it is a connected person at the subsidiary level of the Company under the Listing Rules. The Company's entering into the Amendment JV Agreement and the Capital Increase Agreement with, amongst others, China IC Fund and Beijing Semi Fund constitutes a connected transaction under Chapter 14A of the Listing Rules. China IC Fund's further cash contribution of US\$900 million into the registered capital of SMNC, a subsidiary of the Company, also constitutes a connected transaction under Chapter 14A of the Listing Rules.

The above transactions were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on September 29, 2017.

#### RSUs Grant to Dr. Zhao and Dr. Chiu

At meetings of the Board held on May 10, 2017 and August 8, 2017 respectively, the Board resolved to grant 1,875,000 RSUs (the "RSU Grants") under the 2014 Equity Incentive Plan. Among the 1,875,000 RSUs, 1,687,500 RSUs were granted to Dr. Haijun Zhao (the then Chief Executive Officer of the Company) and 187,500 RSUs were granted to Dr. Tzu-Yin Chiu (the Vice Chairman of the Company and non-Executive Director). Each of the RSUs granted to Dr. Zhao and Dr. Chiu represents the right to receive an ordinary share on the date it vests. It is intended that the RSUs granted to Dr. Zhao will vest over one year commencing on the date on which Dr. Zhao commenced his term of office as chief executive officer and the RSUs granted to Dr. Chiu 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 Dr. Chiu commenced his term of office as 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 1,875,000 RSUs and any transactions contemplated thereunder constitutes non-exempt connected transaction of the Company under 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 September 29, 2017.

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

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.

As of the date of this report, there is no agreement(s) entered into by the Company with Datang or China IC Fund regarding the above matters.

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#### Assets Transfer Agreement with SJ Semiconductor (Jiangyin) Corporation

On December 29, 2017, SMIC Shanghai and SJ Semiconductor (Jiangyin) Corporation (“SJSemi”) had entered into the asset transfer agreement in relation to the disposal of Valued Assets (defined below) (“Asset Transfer Agreement”). The purpose of the transaction was to transfer the business operation of the Shanghai Testing Centre from SMIC Shanghai to SJSemi and merge the business operation of Shanghai Testing Centre to SJSemi. The consideration for the Disposal shall be US\$20 million.

The Valued Assets comprise of tangible assets and intangible assets of the Shanghai Testing Centre. The tangible assets include the physical assets that SMIC Shanghai owns or use, which primarily include, among others, machineries and equipment, jigs and documents. The intangible assets include the intellectual property, business secret, business related customer purchase order, business information, operational process and the right to use the workplace and other relevant rights owned or used by SMIC Shanghai. The Valued Assets have been valued by third party valuation institution. The Unvalued Assets comprise of certain tangible assets that do not from part of the Disposal.

SMIC Shanghai had entered into the Assets Transfer Agreement in order to integrate the Group’s business and to optimize its resources. Such transaction will also enhance and realize the specialization and scale of development for the testing function in SJSemi, and conform with the business positioning and strategic planning for SJSemi.

As China IC Fund holds approximately 15.06% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited as at the timing of entering this agreement, it is a substantial shareholder (as defined in the Listing Rules) of the Company and thus a connected person of the Company at the issuer level under the Listing Rules. China IC Fund invested and holds approximately 29.39% equity interest in SJSemi; SJSemi 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. Accordingly, the Assets Transfer Agreement and the transactions contemplated thereunder constitute connected transactions of the Company.

#### Disposal Agreement and Subscription Agreement

On April 27, 2016, Siltech Semiconductor (Shanghai) Corporation Limited (“SilTech Shanghai”) (an indirectly wholly-owned subsidiary of the Company) and Jiangsu Changjiang Electronics Technology Co., Ltd. (“JCET”) entered into a disposal agreement (the “Disposal Agreement”), pursuant to which SilTech Shanghai agreed to sell its 19.61% equity interest in Suzhou Changdian Xinke Investment Co., Ltd. (“Holdco A”) (a company incorporated by JCET under PRC laws and owned by JCET, SilTech Shanghai and China IC Fund as to 50.98%, 19.61% and 29.41% respectively at the time of entering into the Disposal Agreement) to JCET in consideration of RMB664 million, to be satisfied by JCET’s issue of 43,229,166 A shares to SilTech Shanghai at RMB15.36 per A share.

On April 27, 2016, SilTech Shanghai and JCET entered into a subscription agreement (the “Subscription Agreement”). Pursuant to the Subscription Agreement, SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 A shares at RMB17.62 per A share in consideration of an aggregate subscription price of RMB2,655 million in cash.

Immediately upon completion of both the Disposal Agreement and the Subscription Agreement, the Company (through SilTech Shanghai) would hold 193,910,210 A shares of JCET in total (subject to any necessary adjustment) representing 14.26% shareholding interest in JCET and 14.26% attributable equity interest in Holdco A assuming that completion of a separate agreement between China IC Fund and JCET involving the disposal of China IC Fund of its

equity interest in certain companies to JCET in consideration of 129,622,395 A shares in JCET has taken place. The Company is expected to become the single largest shareholder of JCET after completion of the Disposal Agreement and the Subscription Agreement.

The Disposal Agreement and the Subscription Agreement constitute a strategic investment which reflects the current industry trend and customers' requests for greater integration between front-end and back-end IC manufacturing.

As JCET holds approximately 14.7% equity interest in SJ Semiconductor Corporation, a subsidiary of the Company, at the time of entering into the Disposal Agreement and the Subscription Agreement, it is a connected person at the subsidiary level of the Company under the Listing Rules. The transactions under the Disposal Agreement and the Subscription Agreement are exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

On December 9, 2016, according to feedback received by JCET from the China Securities Regulatory Commission ("CSRC") in relation to Holdco A's losses in 2016 and its expected loss during the period commencing on January 1, 2017 and ending on the completion date of the transactions under the Disposal Agreement (the "2017 Transitional Period") as well as profit compensation for the coming three years (2017, 2018 and 2019), SilTech Shanghai and JCET entered into a supplemental agreement after negotiation to amend and supplement the Disposal Agreement (the "Supplemental Agreement"). The parties agreed that:

(a) for the period commencing on December 31, 2015 and ending on the completion date of the transactions under the Disposal Agreement, any profit of Holdco A will be enjoyed by JCET, while 19.61% of any loss of Holdco A will be borne by SilTech Shanghai by way of cash compensation to JCET; and

(b) an agreed sum of net profit be set for Holdco A for the years of 2017, 2018 and 2019, and if the aggregate amount of Holdco A's consolidated net profit for each of those years is lower than the agreed sum, SilTech Shanghai will compensate JCET up to a capped limit with a cash amount equivalent to the shortfall of its proportion of shareholding less any compensation SilTech Shanghai has already paid for Holdco A's loss during the 2017 Transitional Period (if any).

On March 1, 2017, the Company was notified by JCET that CSRC had granted conditional approval for the transactions under the Disposal Agreement and the Subscription Agreement (the "Conditional Approval"). Completion of the transactions under the Disposal Agreement and the Subscription Agreement is subject to the satisfaction of conditions in the Conditional Approval, which have been disclosed on the website of the CSRC.

On May 10, 2017, the Company was notified by JCET that CSRC had granted official approval for the transactions under the Disposal Agreement and the Subscription Agreement. The Disposal Agreement and the Subscription Agreement became effective on May 10, 2017 accordingly.

On June 19, 2017, the Company was notified by JCET that further to the full payment of the subscription price for the 150,681,044 A shares to be subscribed by SilTech Shanghai and issued by JCET under the Subscription Agreement (the "Subscription Shares") by SilTech Shanghai, JCET had completed the issue and registration procedures of the Subscription Shares (including the listing on the Shanghai Stock Exchange of the Subscription Shares) for SilTech Shanghai.



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 will 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,		
	2016 US\$ million	2017 US\$ million	2018 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
	5	5	5

Other Financial Services Cap (the maximum annual fee for other financial services)

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

The actual transaction amounts for the range of financial services which Datang Finance has provided to the Company pursuant to the Financial Services Agreement during the year ended December 31, 2017 are set out below.

Transactions	Actual Transaction Amounts for the year ended	
	December 31	
	2017	2016
	US\$ million	US\$ million
Deposit Services	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, 2017.

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. (LDatang Holdings Technology & Industry Holdings Co., Ltd. (LDemy of Telecommunications Technology and Datang Holdings in turn wholly owns Datang Holdings (Hongkong) Investment Company Limited (Datang Hongkong) turn wholly owns Datang Holdings (Hongkong) Investment Company Limited 18.30% of the total issued share capital of the Company as of 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 Agreement and the transactions contemplated by 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.

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, 2017 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.

#### Renewed Framework Agreement with Datang Holdings – 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 2014 Framework Agreement and the Renewed Framework Agreement were US\$22.6 million, US\$17.9 million and US\$20.2 million for the year ended December 31, 2015, 2016 and 2017 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 of the 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 Framework Agreement and the Non-Exempt Continuing Connected Transactions.

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2017.

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, 2017 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.

#### 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 Stock Exchange:

1. Internal Deposit Services

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

2. Collection and Payment Services and Foreign Exchange Services

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

3. Internal Loan Services

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

4. Provision of Letter of Credit Services

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



#### 5. Other Financial Services

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

Annual Caps	For the year ending December 31,		
	2016	2017	2018
	US\$ million	US\$ million	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		