

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 20-F

April 25, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

**..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
^x1934**

For the fiscal year ended December 31, 2015

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)

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(Address of principal executive offices)

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(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\$0.0004	The Stock Exchange of Hong Kong Limited*
American Depositary Shares	The New York Stock Exchange, Inc.

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

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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.

As of December 31, 2015, there were 42,073,748,961 ordinary shares, par value US\$0.0004 per share, outstanding, of which 980,747,650 ordinary shares were held in the form of 19,614,953 American Depositary Shares ("ADSs"). Each ADS represents 50 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of

1934 (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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
by the International Accounting Standards Board Other
x

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.

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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;

“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, a 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;

“Rmb,” “rmb” or “RMB” refers to Renminbi, the legal currency of China;

“NYSE” or “New York Stock Exchange” are to the New York Stock Exchange, Inc.;

“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;

“U.S. GAAP” refers to generally accepted accounting principles in the United States; and

“US\$” or “USD” refers to U.S. dollars.

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.

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We prepare our consolidated financial statements in accordance with IFRS. Our consolidated financial statements presented in our annual reports for the years ended prior to December 31, 2011 were prepared in accordance with U.S. GAAP.

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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 cyclicity 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.

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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, 2011, 2012, 2013, 2014 and 2015 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,				
	2011 ¹	2012	2013	2014	2015
	(in US\$ thousands, except for earnings per share)				
Revenue	1,319,466	1,701,598	2,068,964	1,969,966	2,236,415
Cost of sales	(1,217,525)	(1,352,835)	(1,630,528)	(1,486,514)	(1,553,795)
Gross profit	101,941	348,763	438,436	483,452	682,620
Research and development expenses, net	(191,473)	(193,569)	(145,314)	(189,733)	(237,157)
Sales and marketing expenses	(32,559)	(31,485)	(35,738)	(38,252)	(41,876)
General and administration expenses	(57,435)	(107,313)	(138,167)	(139,428)	(213,177)
Other operating income (expense), net	(11,190)	19,117	67,870	14,206	31,594
(Loss) profit from operations	(190,716)	35,513	187,087	130,245	222,004
Interest income	4,724	5,390	5,888	14,230	5,199
Finance costs	(21,903)	(39,460)	(34,392)	(20,715)	(12,218)
Foreign exchange gains or losses	17,589	3,895	13,726	(5,993)	(26,349)
Other gains or losses, net	6,709	6,398	4,010	18,210	55,611
Share of profit (loss) of investment using equity method	4,479	1,703	2,278	2,073	(13,383)
(Loss) profit before tax	(179,118)	13,439	178,597	138,050	230,864
Income tax (expense) benefit	(82,503)	9,102	(4,130)	(11,789)	(8,541)
(Loss) profit for the year from continuing operations	(261,621)	22,541	174,467	126,261	222,323
Discontinued operations					
Profit for the year from discontinued operations	14,741	-	-	-	-
(Loss) profit for the year	(246,880)	22,541	174,467	126,261	222,323
Other comprehensive income (loss)					
Exchange differences on translating foreign operations	4,938	70	731	(324)	(8,185)
Change in value of available-for-sale financial assets	-	-	-	-	452
Others	-	-	-	-	130
Total comprehensive (loss) income for the year	(241,942)	22,611	175,198	125,937	214,720
(Loss) profit for the year attributable to:					
Owners of the Company	(246,817)	22,771	173,177	152,969	253,411
Non-controlling interests	(63)	(230)	1,290	(26,708)	(31,088)
	(246,880)	22,541	174,467	126,261	222,323
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	(241,879)	22,841	173,908	152,645	245,803
Non-controlling interests	(63)	(230)	1,290	(26,708)	(31,083)
	(241,942)	22,611	175,198	125,937	214,720
Earnings (loss) per share					
From continuing and discontinued operations					
Basic	\$(0.01)	\$0.00	\$0.01	\$0.00	\$0.01

Diluted	\$ (0.01	) \$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
From continuing operations					
Basic	\$ (0.01	) \$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01
Diluted	\$ (0.01	) \$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01

¹ In connection with our transition to IFRS for the year ended December 31, 2012, we adjusted our consolidated financial statements as of and for the year ended December 31, 2011 in accordance with IFRS and therefore, financial information set forth in this annual report as of and for the year ended December 31, 2011 may differ from information published in our annual report for the year ended December 31, 2011.

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	As of December 31,				
	2011	2012	2013	2014	2015
	(in US\$ thousands)				
Statements of Financial Position Data:					
Property, plant and equipment	2,516,578	2,385,435	2,528,834	2,995,086	3,903,818
Land use right	77,231	73,962	136,725	135,331	91,030
Total non-current assets	2,866,416	2,803,173	2,960,151	3,471,120	4,525,297
Inventories	207,308	295,728	286,251	316,041	387,326
Prepayment and prepaid operating expense	52,805	46,986	43,945	40,628	40,184
Trade and other receivables	200,905	328,211	379,361	456,388	499,846
Other financial assets	1,973	18,730	240,311	644,071	282,880
Restricted cash	136,907	217,603	147,625	238,051	302,416
Cash and cash equivalents	261,615	358,490	462,483	603,036	1,005,201
Assets classified as held-for-sale	-	4,239	3,265	44	72,197
Total current assets	861,513	1,269,987	1,563,241	2,298,259	2,590,050
Total assets	3,727,929	4,073,160	4,523,392	5,769,379	7,115,347
Total non-current liabilities	230,607	688,622	991,673	1,311,416	1,157,901
Total current liabilities	1,251,324	1,108,086	938,537	1,150,241	1,767,191
Total liabilities	1,481,931	1,796,708	1,930,210	2,461,657	2,925,092
Ordinary shares \$0.0004 par value	10,995	12,800	12,845	14,342	16,830
Non-controlling interest	1,182	952	109,410	359,307	460,399
Total equity	2,245,998	2,276,452	2,593,182	3,307,722	4,190,255
Shares issued and outstanding	27,487,676,065	32,000,139,623	32,112,307,101	35,856,096,167	42,073,748,961

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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\$222.3 million in 2015 and US\$126.3 million in 2014. However, with the offsetting impact of such profits, we still have net accumulated losses of US\$1,287.5 million as of the end of 2015. 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 erosion of the average selling price of our product portfolio, which adversely affects our ability to maintain or increase profitability.

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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.

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

· pay dividends;

· repay outstanding shareholder loans and provide loans to subsidiaries; and

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

In addition, certain loan agreements of the Group contain, and any future loan agreements may contain, cross-default clauses whereby a default under one of the loan agreements may constitute an event of default under the other loan agreements. We may also be required to satisfy and maintain specified financial ratios and other financial covenants (see “Item 5. Operating and Financial Review and Prospects — B. 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 IDMs, 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.

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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.

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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, 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. This 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. If we are unable to execute, manage or integrate our acquisitions and investments effectively, our growth, operating results and financial condition may be materially and adversely affected.

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

Our success depends on the continued service of our key management team members, and in particular, Mr. Zhou Zixue, Chairman of our Board and Executive Director as well as Dr. Tzu-Yin Chiu, 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. 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. Also, 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 or at all. As a result, it may be difficult to plan our capacity, which requires significant lead time to ramp-up and cannot be altered easily. If our capacity does not match our customer demand, we will either be burdened with expensive and unutilized overcapacity or unable to support our customers' requirements, both of which could have an adverse effect on our business and results of operations.

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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 take relatively longer since they usually require our engineers to become familiar with the customer's proprietary technology before production can commence. In addition, even after we make the initial product shipments, it may take the customer several more months to reach full production of that product using our foundry services. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses in advance of the receipt of any product order and related revenue. Orders ultimately received may not be in accordance with our expectations and cause our long-term income stream to be unpredictable.

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

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

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

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, 2014 and 2015, our five largest customers accounted for 51.1% and 52.8% 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.

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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 2015, our capital expenditures totaled approximately US\$1.6 billion and we currently expect our capital expenditures for foundry operations in 2016 to total approximately US\$2.1 billion, subject to adjustment based on market conditions. The planned 2016 capital expenditures for foundry operations are mainly for 1) the expansion of capacity in 12-inch fab in Semiconductor Manufacturing North China (Beijing) Corporation, a majority-owned subsidiary of the Company (“SMNC”), 8-inch fab in Semiconductor Manufacturing International (Shenzhen) Corporation (“SMIC Shenzhen”), 12-inch fab in Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”) and a new majority-owned 12-inch joint venture fab with bumping services in SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”), 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology, and 3) research and development equipment, mask shops and intellectual property acquisition. We also have budgeted approximately US\$60 million as the 2016 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 we did in 2015 with our ordinary shares issuances. 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.

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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 plan to increase our production capacity through expansion of existing production sites, such as SMIC Shanghai and SMIC Shenzhen, both our wholly-owned subsidiaries, SMNC, our majority-owned subsidiary in Beijing and SJ Jiangyin, our majority-owned subsidiary with bumping services 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.

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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., or TSMC, United Microelectronics Corporation, or 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 recently entered into an investment agreement with the Government of Nanjing for an investment project to build a wholly-owned 12-inch wafer manufacturing facility and a design service center in Nanjing. UMC has its majority-owned fab in Suzhou and has a 12-inch joint venture fab in Xiamen currently under construction. In these cases, we understand that the ability of these fabs to manufacture wafers using certain more advanced technologies is subject to restrictions by the respective home jurisdiction of TSMC and UMC; however, such restrictions could be reduced or lifted at any time, which may lead to increased competition in China with such competitors and adversely affect our business and operating results.

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

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

The semiconductor industry is capital-intensive and requires investment in advanced equipment that is available from a limited number of manufacturers. The market for equipment used in semiconductor foundries is characterized, from time to time, by significant demand, limited supply and long delivery cycles. Our business plan depends upon our ability to obtain our required equipment in a timely manner and at acceptable prices. Therefore, we invest in advanced

equipment based on advance forecasts of demand. During times of significant demand for the types of equipment we use, lead times for delivery can be as long as one year. Shortages of equipment could result in an increase in equipment prices and longer delivery times. If we are unable to obtain equipment in a timely manner and at a reasonable cost, we may be unable to achieve our expansion plans or meet our customers' orders, which could negatively impact our competitiveness, financial condition, and results of operations.

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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, 2015, we had been granted 5,669 patents worldwide, of which, 60 were in Taiwan, 611 were in the U.S., 4,975 were in China and 23 were in other jurisdictions. In comparison, we believe our competitors and other industry participants have been issued numerous more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors.

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

There is frequent intellectual property litigation in our industry, involving patents, copyrights, trade secrets, mask works and other intellectual property subject matters. In some cases, a company attempts to avoid or settle litigation on favorable terms if it possesses patents that can be asserted against the plaintiff. The limited size of our current patent portfolio is unlikely to place us in such a favorable bargaining position. Moreover, some of our technology license agreements with our major technology partners do not provide for us to be indemnified in the event that the processes we license pursuant to such agreements infringe third party intellectual property rights. We could be sued for infringing one or more patents as to which we will be unable to obtain a license and unable to design around. As a result, we would be prohibited from manufacturing or selling the products which are dependent upon such technology, which could have a material adverse effect on our business. We may litigate the issues of whether these patents are valid or infringed, but in the event of a loss we could 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 19 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 we are using to enhance our process technologies is forming technology alliances with other companies and leveraging our appropriate technology partners to advance our portfolio of process technologies to lower development risk and 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 - 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\$7.7500 to HK\$7.7653 per US\$1.00 for 2015 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.

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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.

Security breaches 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 effect on 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, 2015, the carrying amount of property, plant and equipment was US\$3,903.8 million and the carrying amount of intangible assets was US\$224.3 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. Operating and Financial Review and Prospects — Critical Accounting Policies” for a discussion of how we assess if an impairment charge is required and, if so, how the amount is determined.

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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 approximately 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 that 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 of 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.

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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, or 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, the Big Four China-based accounting firms each 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, or 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.

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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.

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 Company 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 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. On June 18, 2015, according to the co-investment agreement, we invested US\$102 million as a capital contribution for 19.6% equity 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. The acquisition was completed in the second half of 2015.

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.

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

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices and in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers, almost all of which are sourced from outside China. We currently purchase approximately 70.8% of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced from outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or disrupted; if there are significant increases in their prices; or if the lead times for the supply of raw materials and necessary spare parts are extended, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.

We outsource certain wafer manufacturing, assembly and testing services to third parties. Any delay or interruption in the provision of supplies and/or services could result in our inability to meet customer 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 we don't believe it had any 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.

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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 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 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.

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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, or the Fund. The Fund has an initial capital of RMB500 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, and established by SMIC Shanghai and an independent third party on February 27, 2014.

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 and provincial and local governments have provided, and continue 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.

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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 CIT on indirect transfer of the equity interest in a China Tax Resident Enterprise, or China 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 equity 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 equity 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 equity interests 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.

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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, or 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 6.4936 on December 31, 2015 compared with 6.1190 on December 31, 2014 by the PBOC. The cumulative depreciation of the Renminbi against the U.S. dollar in 2015 was approximately 6.12%. 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 the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile and 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, 2015, approximately 28.4% 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 sales 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.

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

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

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

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

We are a Cayman Islands holding company and substantially all of our operations are conducted through our Chinese operating subsidiaries, Semiconductor Manufacturing International (Shanghai) Corporation, or SMIC Shanghai, Semiconductor Manufacturing International (Beijing) Corporation, or SMIC Beijing, Semiconductor Manufacturing International (Tianjin) Corporation, or SMIC Tianjin, Semiconductor Manufacturing International (Shenzhen) Corporation, or SMIC Shenzhen, SMIC Advanced Technology Development & Research (Shanghai) Corporation, Semiconductor Manufacturing North China (Beijing) Corporation, or SMNC, and SJ Semiconductor (Jiangyin) Corporation, or SJ Jiangyin. The ability of these 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.

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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.

Holders 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.

Holders 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 depositary 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 would 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.

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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. 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.

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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 818, West 7th street, 2nd Floor, Los Angeles, CA 90017, U.S.A.

We are now the largest and most advanced semiconductor foundry in mainland China. We operate wafer fabrication facilities in China, including facilities at Beijing, Shanghai, Tianjin and Shenzhen, with an aggregate capacity of up to 284,250 8-inch wafer equivalents per month.

Since the third quarter of 2015, SMIC Shenzhen, which is principally engaged in, among others, the testing, development, design, manufacturing, packaging and sale of integrated circuits and is expected to establish and build up significant manufacturing capacity, had entered into mass production and had reached an installed capacity of 13,000 8-inch wafers per month at the end of 2015.

Since the fourth quarter of 2015, SMNC, our majority-owned subsidiary in Beijing, is principally engaged in, among others, the testing, development, design, manufacturing, packaging and sale of integrated circuits and is expected to establish and build up significant manufacturing capacity with a focus on 45-nanometer and finer technologies, had entered into mass production and had reached an installed capacity of 6,000 12-inch wafers per month at the end of 2015.

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. On June 18, 2015, according to the co-investment agreement, we invested US\$102 million as a capital contribution for 19.6% equity interest in Changjiang Xinke, a company incorporated in Jiangsu province, China, which is accounted as an associate of the Group. The acquisition was completed in the second half of 2015.

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. The joint venture company will focus on R&D towards next generation CMOS logic technology and is designed to build China’s most advanced integrated circuit (IC) development R&D platform. SMIC Advanced Technology R&D (Shanghai) Corporation is majority owned by SMIC, while Huawei, IMEC, and Qualcomm are minority shareholders. The current focus of the joint venture company is on developing 14nm logic technology.

We spent approximately US\$770 million, US\$1,014 million and US\$1,573 million to construct, equip and ramp up our fabs in 2013, 2014 and 2015, respectively. Currently, the planned capital expenditures in 2016 for foundry operations are approximately US\$2.1 billion, which are mainly for 1) the expansion of capacity in 12-inch fab in SMNC, 8-inch fab in SMIC Shenzhen, 12-inch fab in SMIC Shanghai and a new majority-owned 12-inch joint venture fab with bumping services in SJ Jiangyin, 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology and 3) research and development equipment, mask shops and intellectual property acquisition. In addition, we have budgeted approximately US\$60 million as the 2016 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. The primary sources of capital resources and liquidity include funds generated from a combination of cash from operations, bank borrowings and debt or equity issuances and other forms of financing.

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B.

Business Overview

We provide integrated circuit (IC) foundry and technology services at 0.35-micron to 28-nanometer. Headquartered in Shanghai, China, we position ourselves as the most advanced and diversified foundry in mainland China to address the mainland China semiconductor needs. Currently, we have a 300mm wafer fabrication facility (fab) and a 200mm mega-fab in Shanghai, a 300mm mega-fab and a second majority-owned 300mm fab for advance nodes in Beijing, a 200mm fab in Tianjin, and a 200mm fab in Shenzhen.

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		SMIC	SMIC	SMIC	SMNC
Number and Type of fab	Shanghai mega-fab	12-inch fab	Beijing mega-fab	Tianjin 8-inch fab	Shenzhen 8-inch fab	12-inch fab
Wafer size	200mm	300mm	300mm	200mm	200mm	300mm
Current most advanced technology for volume production	0.11 micron	0.028 micron	0.055 micron	0.15 micron	0.11 micron	0.028 micron
Production, supporting, testing and maskshop clean room size	35,070m ²	15,611m ²	26,276m ²	9,740m ²	19,735m ²	28,124m ²

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 factory for 300mm wafer bumping and testing services in Jiangyin. 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	2013	2014	2015
Wafer fabrication capacity as of year-end(1)			
Shanghai mega-fab	90,000	96,000	100,000
Shanghai 12-inch fab	27,000	31,500	31,500
Beijing mega-fab	81,000	81,000	83,250
Tianjin fab	36,000	39,000	43,000
Shenzhen fab	-	-	13,000
Beijing Majority-Owned Fab	-	-	13,500
Total monthly wafer fabrication capacity as of year-end	234,000 ⁽²⁾	247,500 ⁽²⁾	284,250 ⁽²⁾
Wafer Fabrication capacity utilization	90.7 %	91.0 %	100.7 %

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

(2) Mega fab structure includes copper interconnects in the total monthly capacity.

Our factories manufacture the following types of semiconductors:

Logic (including Baseband, Application Processor, SoC, MCU, Display Driver IC, ASIC/ASSP, Flash Controller, Interface Controller and Timing Controller);

Mixed-Signal and RF (including RF Combo, Wi-Fi, Bluetooth, RFID, GPS, RF PA, RF-FEM, RF Tx/Rx, Fingerprint Sensor, Demodulator and Tuner IC);

Power IC (including Power Management, LED Driver and High Voltage IC);

Micro Processor (including MCU-64/32/16/8-bits, Touch Controller IC, DSP and MPU);

Memory related (including SRAM, EEPROM, NAND Flash, NOR Flash, eEEPROM and eFlash);

Optoelectronics (including FSI and BSI CIS - CMOS Image Sensor);

- Other Sensors (including MEMS Microphone, Accelerometer, Gyroscope, Smart Sensors, IMU, etc.);

- Others (including TSV, IPD, 3DIC and Bumping).

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The following table sets forth a percentage breakdown of wafer sales by process technology for the years ended December 31, 2013, 2014 and 2015 and each of the quarters in the year ended December 31, 2015:

Process Technologies	For the three months ended								For the year ended					
	For the year ended December 31,		March 31,	June 30,	September 30,	December 31,	December 31,		December 31,					
	2013	2014	2015	2015	2015	2015	2015	2015	2015	2015				
	(based on sales in US\$)													
0.028 micron	-	-	-	-	0.12	%	0.34	%	0.13	%				
0.045 micron	12.06	%	11.12	%	15.99	%	15.28	%	15.48	%	16.57	%	15.84	%
0.065 micron	27.91	%	24.23	%	26.04	%	25.18	%	22.21	%	24.02	%	24.31	%
0.09 micron	4.90	%	3.85	%	4.64	%	4.84	%	4.36	%	2.85	%	4.13	%
0.13 micron	10.83	%	11.56	%	10.18	%	10.92	%	11.11	%	9.85	%	10.51	%
0.15 micron	0.57	%	0.51	%	0.65	%	0.66	%	0.58	%	0.55	%	0.61	%
0.18 micron	39.38	%	43.96	%	39.08	%	39.19	%	42.56	%	43.13	%	41.09	%
0.25 micron	0.33	%	0.28	%	0.20	%	0.30	%	0.23	%	0.21	%	0.23	%
0.35 micron	4.02	%	4.49	%	3.22	%	3.63	%	3.35	%	2.48	%	3.15	%
Total	100.00%	100.00%	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.

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

- (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 28 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 InnoPower.

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 both five-inch by five-inch, six-inch by six-inch and seven-inch circular reticles. Our facility is capable of producing binary masks, optical proximity correction masks and phase shift masks. Our mask facility also offers mask repair services.

Table of Contents***Wafer Probing, Bumping, Assembly and Testing Services***

We have our own probing facility in Shanghai that provides test program development, probe card fabrication, wafer probing, failure analysis, and failure testing. We also outsource these services to our partners.

Our probing facility in Shanghai occupies a clean room space of 3,300 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. In addition, we have a majority-owned factory for 300mm wafer bumping and testing services in Jiangyin, which have not entered into mass production as of 2015 year-end.

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 our customers.

Customers and Markets

We categorize our sales geographically based on the headquarters of customer operations and not related to shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for 2013, 2014 and 2015:

Region	For the year ended December 31,		2014		2015			
	2013		Sales	Percentage	Sales	Percentage	Sales	Percentage
	(in US\$ thousands, except percentages)							
United States	1,002,699	48.47	% 855,792	43.44	% 776,223	34.71	%	
Mainland China and Hong Kong	836,771	40.44	% 852,204	43.26	% 1,066,558	47.69	%	
Eurasia*	229,494	11.09	% 261,970	13.30	% 393,634	17.60	%	
Total	2,068,964	100.00	% 1,969,966	100.00	% 2,236,415	100.00	%	

* Excluding Mainland China and Hong Kong

The following table sets forth the breakdown of our operating revenue by product and service type for 2013, 2014 and 2015:

Product and Service Type	For the year ended December 31,					
	2013		2014		2015	
	Sales	Percentage	Sales	Percentage	Sales	Percentage
	(in US\$ thousands, except percentages)					
Sales of wafers	1,952,774	94.38 %	1,864,524	94.65 %	2,134,943	95.46 %
Mask making, testing and others	116,190	5.62 %	105,442	5.35 %	101,472	4.54 %
Total	2,068,964	100.00 %	1,969,966	100.00 %	2,236,415	100.00 %

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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, 2015, our five largest customers accounted for 52.8% of our total sales.

The following table sets forth a breakdown of our sales by application type for 2013, 2014 and 2015:

Application Type	For the year ended December 31,		2014		2015	
	2013 Sales	Percentage	Sales	Percentage	Sales	Percentage
	(in US\$ thousands, except percentages)					
Computing⁽¹⁾	33,709	1.63	% 51,645	2.62	% 100,958	4.52
Communication⁽²⁾	916,999	44.32	% 851,508	43.23	% 1,152,509	51.53
Consumer⁽³⁾	930,234	44.96	% 905,609	45.97	% 806,862	36.08
Other	188,022	9.09	% 161,204	8.18	% 176,086	7.87
Total	2,068,964	100.00	% 1,969,966	100.00	% 2,236,415	100.00

(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.

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 “Research and Development, Patents and Licenses, etc.” on page 68.

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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 recently entered into an investment agreement with the Government of Nanjing for an investment project to build a wholly-owned 12-inch wafer manufacturing facility and a design service center in Nanjing. UMC has its majority-owned fab in Suzhou and has a 12-inch joint venture fab in Xiamen currently under construction. 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 24%, 24% and 28% of our manufacturing costs in 2013, 2014 and 2015, respectively.

The three largest components of raw material costs - raw wafers, chemicals and gases - accounted for approximately 36%, 26%, and 10%, respectively, of our raw material costs in 2013, approximately 36%, 27% and 9%, respectively, of our raw material costs in 2014, and approximately 34%, 27% and 9%, respectively, of our raw material costs in 2015. 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 2015, we purchased approximately 70.8% 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 2014, our largest and five largest raw materials suppliers accounted for approximately 11.4% and 42.0%, respectively, of our overall raw materials purchases. For 2013, our largest and five largest raw materials suppliers accounted for approximately 12.2% and 40.7%, respectively, of our overall raw materials purchases. Our largest two raw materials supplier 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.

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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 to power life safety and critical equipment and systems for emergencies.

The semiconductor manufacturing process also uses extensive amounts of fresh water. We source our fresh water for our Shanghai mega-fab and 12-inch fab from Pudong Veolia Water Corporation Limited, for our Beijing mega-fab from Beijing Waterworks Group Co. Ltd., for our Tianjin fab from the Tianjin Municipal Water Department, for our majority-owned Beijing fab from Beijing Yixing High Quality Regeneration Water Co. Ltd., for our Shenzhen fab from Grand Industrial Zone Water Company of Shenzhen and for our majority-owned Jiangyin fab with bumping services from Jiangsu Jiangnan Water Co. Ltd. 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 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 and Tianjin 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 Integrated Circuit Policies, accreditation of ICPEs is determined by the competent examination and approval authorities responsible for integrated circuit projects after consultation with relevant taxation authorities. Under the Accreditation Measures, an integrated circuit enterprise refers to an independent legal entity duly established in the PRC (except for Hong Kong, Macao, and Taiwan) engaging in the fabrication, package, or testing of integrated circuit chips and the production of mono-crystalline silicon of six inches or above, excluding the integrated circuit design enterprise. The accreditation of ICPEs is included in the accreditation of the integrated

circuit enterprises. Such accreditation is determined by the competent authorities consisting of the National Development and Reform Commission, the Ministry of Information Industry (now Ministry of Industry and Information Technology), the State Administration of Taxation and the General Administration of Customs, which jointly designate the China Semiconductor Industrial Association as the accreditation institution. Any enterprise qualified under the requirements set forth in the Accreditation Measures is entitled to apply to the China Semiconductor Association for the Accreditation of the ICPEs. The accreditation of ICPEs is annually reviewed. If the enterprise fails to apply for the annual review in time, it shall be deemed as giving up such accreditation and if the enterprise fails in the annual review, the accreditation will also be canceled.

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

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Encouragement of Domestic Investment in ICPEs

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013 and March 10, 2015, the Chinese government encourages (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, 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 March 10, 2015, 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.

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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 circular 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.

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 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;

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.

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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.

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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.

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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, 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. Within one month after receiving approval of the environmental impact assessment report, a semiconductor manufacturer is required to apply to and register with the competent environmental authority 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.

From time to time during the operation of our Chinese subsidiaries, 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, 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.

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Conyers Dill & Pearman (Cayman) Limited, our counsel as to Cayman Islands law, Slaughter and May, our counsel as to Hong Kong law, and Shanghai BaoHua & Shanghai JunHeHeng, 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 and SJ Jiangyin in China. 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, 2015:

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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 (formerly SMIC Consulting Corporation) *#	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
		100	% Investment holding

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SMIC Tianjin (Cayman) Corporation	Cayman Islands November 8, 2007		
SilTech Semiconductor Corporation	Cayman Islands February 13, 2008	100	% Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands January 21, 2008	100	% Investment holding
SMIC Advanced Technology Research & Development (Shanghai) Corporation	PRC October 28, 2014	89.697	% Manufacturing and trading of semiconductor products
SMIC Holdings Corporation#	PRC August 26, 2015	100	% Investment holding
SJ Semiconductor Corporation	Cayman Islands August 19, 2014	55.277	% 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 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	55	% 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
Shanghai Rongxin Investment Management Limited Partnership	PRC July 31, 2014	99	% Investment holding
SJ Semiconductor (HK) Limited	Hong Kong September 2, 2014	55.277	% Investment holding
SJ Semiconductor (Jiangyin) Corp.	PRC November 25, 2014	55.277	% Bumping and circuit probe testing 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.

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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 from outside of China may be subject to restrictions. See “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.

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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⁾	240,140/339,340	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/na	Wafer fabrication	owned/na
Jiangyin National High-Tech Industrial Development Zone, Jiangsu Province	na/18,591	Bumping and circuit probe testing	na/leased
Japan	na/35	Marketing activities	na/leased
USA	na/2,092	Marketing activities	na/leased
Italy	na/280	Marketing activities	na/leased
Taiwan	na/500	Marketing activities	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.

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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 — Operating and Financial Review and Prospects — Liquidity and Capital Resources.”

For further discussion concerning our capacity, capacity utilization rate and capacity expansion plans, please see “Item 5 — Operating and Financial Review and Prospects — 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 are subject to regulation and periodic monitoring by the PRC’s State Environmental Protection Bureau, as well as local environmental protection authorities, including those under the Shanghai Pudong Municipal Government, the Beijing Municipal Government, the Tianjin Municipal Government, the Shenzhen Municipal Government and the Jiangyin Municipal Government, which may in some cases, establish stricter standards than those imposed by the State Environmental Protection Bureau. The Chinese 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 national and local governments to suspend any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. No such penalties have been imposed on us or any of our subsidiaries for violations of environmental pollution.

We believe our pollution control measures are effective and comply with the requirements applicable to the semiconductor industry in China 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 currently in operation have been QC 080000 certified to be compliant 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 ISO14001 and QC080000 certification in the future.

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, all SMIC sites obtained ISO 14064 certification since 2010. ISO 14064 is an international standard against which greenhouse gas (GHG) emissions reports are voluntarily verified. SMIC Shenzhen and SMNC entered into mass production in 2015 and they plan to apply for the ISO14064 certification by 2017. Once the Jiangyin site is in mass production, it will also apply for the ISO14064 certification.

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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, 2013, 2014 and 2015. 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.

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A. Operating Results

Overview

Our operations are primarily based in China. We continued to achieve profitability on a full-year basis in 2015. In 2015 we achieved total sales of US\$2,236.4 million, compared to US\$1,970.0 million in 2014. We recorded annual profit of US\$222.3 million and generated US\$669.2 million in cash from operating activities in 2015, compared to annual profit of US\$126.3 million and US\$608.1 million in cash from operating activities in 2014.

Our China revenue contributed 47.7% of the overall revenue in 2015, compared to 43.3% in 2014. In particular, 54.8% of our advanced nodes (90nm and below) wafer revenue in 2015 was contributed by customers in China. In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below increased from 39.2% in 2014 to 44.4% in 2015 and the revenue contribution percentage from 40/45nm technology increased from 11.1% in 2014 to 15.8% in 2015. In addition, our latest 28nm technology started to contribute revenue in 2015.

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 - 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\$770 million, US\$1,014 million, and US\$1,573 million, in 2013, 2014 and 2015, 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\$501.9 million, US\$506.4 million, and US\$473.0 million in 2013, 2014 and 2015, 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\$145.3 million in 2013, US\$189.7 million in 2014 and US\$237.2 million in 2015 on research and development expenses, which represented 7.0%, 9.6% and 10.6%, respectively, of our sales for 2013, 2014 and 2015. 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 2016 for foundry operations will be approximately US\$2.1 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in 12-inch fab in SMNC, 8-inch fab in SMIC Shenzhen, 12-inch fab in SMIC Shanghai and a new majority-owned 12-inch joint venture fab with bumping services in SJ Jiangyin, 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology and 3) research and development equipment, mask shops and intellectual property acquisition. In addition, we have budgeted approximately US\$60 million as the 2016 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.

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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 2016, most of our expansion will be on our Shanghai site, Shenzhen site and on our majority-owned fab in Beijing. Our target, subject to market conditions, is to reach 20,000 12-inch wafers per month installed capacity in our Shanghai fab, 30,000 8-inch wafers per month installed capacity in our Shenzhen fab, and 15,000 12-inch wafers per month installed capacity in our majority-owned Beijing fab by 2016 year-end.

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\$770 per wafer in 2014 to US\$742 per wafer in 2015.

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 90.7% in 2013, 91.0% in 2014 and 100.7% in 2015. 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.

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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.

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 an expense (income) during the year in respect of inventory provision (reversal) was US\$(13.3) million (2014: US\$29.6 million and 2013: US\$(0.1) million). The reversal of inventory provision in 2015 was due to the fact that net realizable value for the inventories previously written down has increased because of changed economic circumstances.

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. An 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.

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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.

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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.

A deferred tax asset of US\$0.5 million and US\$0.4 million has been recognized in our consolidated statement of financial position as of December 31, 2014 and 2015, respectively, in relation to unused tax losses. 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.

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".

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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 July 1, 2018
IFRS 15 — Revenue from contracts with customers	On or after January 1, 2017
IFRS 16 — Leases	On or after January 1, 2019
Amendments to IFRS 11 — Accounting for acquisitions of interests in joint operations	On or after January 1, 2016
Amendments to IFRS 10, 12 and IAS 28 — Investment entities: applying the consolidation exception	On or after January 1, 2016
Amendments to IAS 1 — Disclosure initiative	On or after January 1, 2016
Amendments to IAS 16 and IAS 38 — Clarification of acceptable methods of depreciation and amortization	On or after January 1, 2016
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its associate or joint venture	On or after January 1, 2016
Amendments to IAS 27 — Equity method in separate financial statements	On or after January 1, 2016
Amendments to IFRSs — Annual Improvements to IFRSs 2012–2014 Cycle	On or after January 1, 2016

We are in the process of evaluating these impact of the new standards or amendments on our consolidated financial statements.

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 and SMNC
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 (SJ Jiangyin will apply for the preferential customs duties and import-related VAT policies in the future; SMIC Shenzhen is located in Shenzhen Export Processing Zone).

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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,		
	2013	2014	2015
	(in US\$ thousands, except for earnings per share)		
Revenue	2,068,964	1,969,966	2,236,415
Cost of sales	(1,630,528)	(1,486,514)	(1,553,795)
Gross profit	438,436	483,452	682,620
Research and development expenses, net	(145,314)	(189,733)	(237,157)
Sales and marketing expenses	(35,738)	(38,252)	(41,876)
General and administration expenses	(138,167)	(139,428)	(213,177)
Other operating income (expense), net	67,870	14,206	31,594
Profit from operations	187,087	130,245	222,004
Interest income	5,888	14,230	5,199
Finance costs	(34,392)	(20,715)	(12,218)
Foreign exchange gains or losses	13,726	(5,993)	(26,349)
Other gains or losses, net	4,010	18,210	55,611
Fair value change	-	-	-
Share of profit (loss) of investment using equity method	2,278	2,073	(13,383)
Profit before tax	178,597	138,050	230,864
Income tax expense	(4,130)	(11,789)	(8,541)
Profit for the year	174,467	126,261	222,323
Other comprehensive income			
Exchange differences on translating foreign operations	731	(324)	(8,185)
Change in value of available-for-sale financial assets	-	-	452
Others	-	-	130
Total comprehensive income for the year	175,198	125,937	214,720
Profit (loss) for the year attributable to:			
Owners of the Company	173,177	152,969	253,411
Non-controlling interests	1,290	(26,708)	(31,088)
	174,467	126,261	222,323
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company	173,908	152,645	245,803
Non-controlling interests	1,290	(26,708)	(31,083)
	175,198	125,937	214,720
Earnings per share			

Basic	\$ 0.01	\$ 0.00	\$ 0.01
Diluted	\$ 0.01	\$ 0.00	\$ 0.01

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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 2013, 2014, and 2015 our five largest customers accounted for approximately 52.3%, 51.1% and 52.8%, 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 and impairment loss of long-lived assets.

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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 and the imputed interest rate on an 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; and
- the changes of fair value of derivative financial instrument.

Comparison of the Years Ended December 31, 2013, 2014 and 2015

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenue

Revenue increased by 13.5% from US\$1,970.0 million for 2014 to US\$2,236.4 million for 2015, primarily due to an increase in wafer shipments in 2015 particularly in China. For the full year of 2015, the overall wafer shipments were 3,015,966 units of 8-inch equivalent wafers, up 17.8% year-on-year. The increased shipments were driven by launch of new technologies and the combination of expansion of capacity in 2015 in order to meet the growing customer demand and utilization in excess of 100% during 2015.

The per wafer average selling price of the wafers we shipped decreased from US\$770 in 2014 to US\$742 in 2015. The percentage of wafer revenues from advanced 40/45nm technologies increased from 11.1% in 2014 to 15.8% in 2015. Additionally, the advanced 28nm technologies reached mass production in the second half of 2015 contributing to our revenue.

Cost of sales and gross profit

Cost of sales increased by 4.5% from US\$1,486.5 million for 2014 to US\$1,553.8 million for 2015, primarily due to an increase in wafer shipments but partially offset by an improved fab efficiency and cost saving. Out of the total cost of sales, US\$436.1 million and US\$424.9 million were attributable to depreciation and amortization for the year ended December 31, 2014 and 2015, respectively.

Our gross profit was US\$682.6 million for 2015 compared to US\$483.5 million for 2014, representing an increase of 41.2%. Gross margin was 30.5% in 2015 compared to 24.5% in 2014. The increase in gross profit and margin was primarily a higher utilization rate in 2015.

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Profit for the year from operations

Profit from operations increased from US\$130.2 million for the year ended December 31, 2014 to US\$222.0 million for the year ended December 31, 2015 primarily due to the combined effect of 1) an increase of wafer shipments in 2015 and 2) higher utilization in 2015.

Research and development expenses increased by 25.0% from US\$189.7 million for the year ended December 31, 2014 to US\$237.2 million for the year ended December 31, 2015. The increase was mainly due to higher number of R&D activities related to advance node processes.

General and administrative expenses increased by 52.9% from US\$139.4 million for the year ended December 31, 2014 to US\$213.2 million for the year ended December 31, 2015. The increase was primarily due to 1) the start-up expenses relating to the two new fab projects — the 12-inch fab in Beijing and the 8-inch fab in Shenzhen and 2) an increase in accrued employee bonus in 2015.

Sales and marketing expenses increased by 9.5% from US\$38.3 million for the year ended December 31, 2014 to US\$41.9 million for the year ended December 31, 2015. The increase of sales and marketing expenses was primarily due to an increase of payroll and bonus expenses related to the Sales Department.

Other operating income, net increased by 122.4% from US\$14.2 million for the year ended December 31, 2014 to US\$31.6 million for the year ended December 31, 2015. The increase was due to the higher gain realized from the partial disposal of our living quarters in 2015. Gain from the living quarter sales increased by US\$13.2 million from US\$14.5 million for the year ended December 31, 2014 to US\$27.7 million for the year ended December 31, 2015.

As a result of the foregoing changes, our profit from operations increased to US\$222.0 million for the year ended December 31, 2015 from US\$130.2 million for the year ended December 31, 2014.

Profit for the Year

Finance cost decreased by 41% from US\$20.7 million for the year ended December 31, 2014 to US\$12.2 million for the year ended December 31, 2015. The decrease was mainly due to increased capitalized interest in 2015.

Other gains and losses, net increased by 205.5% from US\$18.2 million for the year ended December 31, 2014 to US\$55.6 million for the year ended December 31, 2015. The increase was primarily due to US\$30.2 million gain on put option fair value change related to our investment in Changjiang Xinke.

Due to the factors described above, we recorded a profit of US\$222.3 million in 2015 compared to US\$126.3 million in 2014.

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue

Revenue decreased by 4.8% from US\$2,069.0 million for 2013 to US\$1,970.0 million for 2014, primarily because there had been no wafer shipments from Wuhan Xinxin Semiconductor Manufacturing Corporation (“Wuhan Xinxin”) since the first quarter of 2014. Revenue excluding wafer shipments from Wuhan Xinxin was US\$1,970.0 million in 2014, compared to US\$1,961.6 million in 2013. For the full year of 2014, the overall wafer shipments were 2,559,245 units of 8-inch equivalent wafers, down 0.6% year-on-year.

The average selling price of the wafers we shipped decreased from US\$804 per wafer in 2013 to US\$770 in 2014. The percentage of wafer revenues from advanced 40/45nm technologies slightly decreased from 12.1% in 2013 to 11.1% in 2014.

Cost of sales and gross profit

Cost of sales decreased by 8.8% from US\$1,630.5 million for 2013 to US\$1,486.5 million for 2014, primarily due to

1) no wafer shipments from Wuhan Xinxin and 2) an increase of fab efficiency and cost saving. Out of the total cost of sales, US\$474.8 million and US\$436.1 million were attributable to depreciation and amortization for the year ended December 31, 2013 and 2014, respectively.

Our gross profit was US\$483.5 million for 2014 compared to US\$438.4 million for 2013, representing an increase of 10.3%. Gross margin was 24.5% in 2014 compared to 21.2% in 2013. The increase in gross margin was primarily because 1) there were no wafer shipments from Wuhan Xinxin which had lower gross margin since the first quarter of 2014 and 2) of improved fab efficiency in 2014.

Profit for the year from operations

Profit from operations decreased from US\$187.1 million for the year ended December 31, 2013 to US\$130.2 million for the year ended December 31, 2014 primarily due to the combined effect of 1) an increase of gross profit in 2014,

2) an increase in R&D activities in 2014, 3) higher gain realized from the partial disposal of the living quarters in Shanghai in 2013 and 4) the gain arising from the disposal of our total ownership interest in SMIC (Wuhan) Development Corporation (“WHDM”) which was mainly engaged in the construction, operation and management of our living quarters and schools in Wuhan in 2013.

Research and development expenses increased by 30.6% from US\$145.3 million for the year ended December 31, 2013 to US\$189.7 million for the year ended December 31, 2014. The increase was mainly due to the increase in R&D activities.

General and administrative expenses increased by 0.9% from US\$138.2 million for the year ended December 31, 2013 to US\$139.4 million for the year ended December 31, 2014.

Sales and marketing expenses increased by 7.0% from US\$35.7 million for the year ended December 31, 2013 to US\$38.3 million for the year ended December 31, 2014.

Other operating income decreased by 79.1% from US\$67.9 million for the year ended December 31, 2013 to US\$14.2 million for the year ended December 31, 2014. The decrease was due to 1) the gains of US\$34.0 million realized from the partial disposal of our living quarters in 2013 higher than US\$14.6 million in 2014 and 2) the gain of US\$28.3 million arising from the disposal of our total ownership interest in WHDM in 2013.

As a result, our profit from operations decreased to US\$130.2 million for the year ended December 31, 2014 from US\$187.1 million for the year ended December 31, 2013.

Profit for the Year

Due to the factors described above, we recorded a profit of US\$126.3 million in 2014 compared to US\$174.5 million in 2013.

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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 2015, SMIC Shanghai entered into four new long term loans, which included a five-year loan facility in the aggregate principal amount of US\$66.1 million with US Export-Import Bank, a fifteen-year loan facility in the aggregate principal amount of RMB1,000 million with China Development Bank, a ten-year loan facility in the aggregate principal amount of RMB475 million with China Development Bank and a three-year loan facility in the aggregate principal amount of RMB480 million with The Export-Import Bank of China. SMIC Beijing entered into a new fifteen-year loan facility in the aggregate principal amount of RMB195 million with China Development Bank.

On February 12, 2015, we entered into a share purchase agreement with China IC Fund. Pursuant to the share purchase agreement, we proposed to issue 4,700,000,000 new ordinary shares (the “Placing of New Shares”) to the China IC Fund for a consideration of approximately HK\$3,098.71 million. On June 8, 2015, the Placing of New Shares was completed and we issued 4,700,000,000 new ordinary shares to Xinxin (Hongkong) Capital co., Ltd., a wholly-owned subsidiary of the China IC Fund, at the issue price of HK\$0.6593 per ordinary share.

On November 6, 2008 and April 18, 2011, respectively, we entered into share purchase agreements with Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Holdings”) and Country Hill Limited (“Country Hill”) which granted each of Datang Holdings (Hongkong) Investment Company Limited (“Datang”) and Country Hill a pre-emptive right to subscribe for additional shares if we issue new shares to other investors. On March 2, 2015, we received irrevocable notices from both Datang and Country Hill about exercising their pre-emptive right as a result of the Placing of New Shares. On June 11, 2015, Datang and Country Hill entered into agreements with us (“2015 Datang Pre-emptive Share Purchase Agreement” and “2015 Country Hill Pre-emptive Share Purchase Agreement”, respectively) to subscribe for 961,849,809 ordinary shares and 323,518,848 ordinary shares, respectively, at a price of HK\$0.6593 per share. On September 25, 2015, Country Hill subscribed 323,518,848 ordinary shares of the Company. On October 9, 2015, Datang subscribed 961,849,809 ordinary shares of the Company.

We plan to fund our capital expenditure through the cash on hands, cash flows from operations in 2016, the proceeds from the above new loans and new ordinary shares issued as well as other external financing. See “Item 3.D-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.”

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

	For the Years Ended December 31,		
	2013	2014	2015
	(in US\$ thousands)		
Cash Flow Data:			
Profit for the year	174,467	126,261	222,323
Non-cash adjustment to reconcile profit to net operating cash flow:			
Depreciation and amortization	546,910	549,468	523,549
Net cash from operating activities	738,016	608,102	669,197
Payments for property, plant and equipment	(650,160)	(653,134)	(1,230,812)
Net cash used in investing activities	(807,467)	(1,144,123)	(789,556)
Net cash from financing activities	173,458	676,683	537,078
Net increase in cash and cash equivalents	104,007	140,662	416,719

Operating Activities

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.

As of December 31, 2014, we had US\$603.0 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 2014 was US\$608.1 million, which was primarily due to the net profit of US\$126.3 million and the add-back of US\$549.5 million in depreciation and amortization, partially offset by an increase of US\$89.2 million in trade and other receivables.

As of December 31, 2013, we had US\$462.5 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 2013 was US\$738.0 million, which was primarily due to the net profit of US\$174.5 million and the add-back of US\$546.9 million in depreciation and amortization, partially offset by an increase of US\$33.4 million in trade and other receivables.

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\$789.6 million and US\$1,144.1 million in 2015 and 2014, respectively. These amounts were primarily attributable to purchases of plant and equipment for our fabs in Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin.

Our net cash used in investing activities was US\$807.5 million in 2013 primarily attributable to purchases of plant and equipment for our fabs in Shanghai, Beijing, Tianjin and Shenzhen.

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Financing Activities

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, which was partially offset by US\$453.7 million in the repayment of borrowings.

Our net cash from financing activities in 2014 was US\$676.7 million. This was primarily derived from US\$376.6 million in the proceeds from borrowings, US\$203.8 million in the proceeds from issuance of convertible bonds, US\$492.3 million in the proceeds from issuance of corporate bonds, US\$270.2 million in the proceeds from issuance of ordinary shares and US\$276.8 million in the capital contribution from non-controlling interest, which was partially offset by US\$952.4 million in the repayment of borrowings.

Our net cash from financing activities in 2013 was US\$173.5 million. This was primarily derived from US\$905.1 million in the proceeds from borrowings, US\$195.8 million in the proceeds from issuance of convertible bonds and US\$108.0 million in the capital contribution from non-controlling interest, which was partially offset by US\$ 1,008.7 million in the repayment of borrowings and US\$ 30 million in the repayment of promissory notes.

Capital Expenditures

We incurred capital expenditures of US\$770 million, US\$1,014 million and US\$1,573 million in 2013, 2014 and 2015, respectively. We currently expect our capital expenditures in 2016 for foundry operations to be approximately US\$2.1 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in 12-inch fab in SMNC, 8-inch fab in SMIC Shenzhen, 12-inch fab in SMIC Shanghai and a new majority-owned 12-inch joint venture fab with bumping services in SJ Jiangyin, 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology and 3) research and development equipment, mask shops and intellectual property acquisition. We plan to finance our substantial capital expenditure requirements through funds generated from a combination of cash on hand, cash from operations, bank borrowing, and debt or equity issuances.

The construction in progress balance of approximately US\$1,180 million as of December 31, 2015, primarily consisted of the followings: US\$274 million and US\$392 million of the manufacturing equipment acquired to further expand the production capacity at our two 12-inch fabs in Beijing and one 12-inch fab in Shanghai, respectively, US\$136 million of the manufacturing equipment acquired to further expand the production capacity at the 8-inch fab in Shenzhen, US\$59 million of the manufacturing equipment in relation to bumping services in Jiangyin, US\$77

million relating to the headquarter building in Shanghai and other US\$242 million was in relating to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the second half of 2016.

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, 2015, we had commitments of US\$165.3 million for facilities construction obligations in connection with our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities. We had commitments of US\$1,146.3 million to purchase machinery and equipment for our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs. In addition, we had US\$29.4 million to purchase intellectual property. We anticipate that the cash on hands, cash flows from operations in 2016, the proceeds from new loans and new ordinary shares issued 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, 2015, our outstanding long-term loans primarily consisted of US\$63.6 million in secured bank loans and US\$402.6 million in unsecured bank loans, which are repayable in installments starting in June 2016, 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 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’ 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS’ 12-inch fab. As of December 31, 2015 SMIS had drawn down US\$260 million and repaid US\$249.2 million on this loan facility. The outstanding balance of US\$10.8 million is repayable from February 2018 to August 2018. The interest rate on this loan facility ranged from 4.33% to 4.89% in 2015. SMIS was in compliance with the related financial covenants as of December 31, 2015.

2015 USD Loan (SMIC Shanghai)

In April 2015, SMIS entered into a loan facility in the aggregate principal amount of US\$66.1 million with US Export-Import Bank. This five-year bank facility was used to finance the planned expansion for SMIS’ 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS’ 12-inch fab. As of December 31, 2015, SMIS had drawn down US\$66.1 million and repaid US\$13.2 million on this loan facility. The outstanding balance of US\$52.9 million is repayable from June 2016 to December 2019. The interest rate on this loan facility ranged from

1.21% to 1.75% in 2015. SMIS was in compliance with the related financial covenants as of December 31, 2015.

2015 RMB Loan I (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS' 12-inch fab. As of December 31, 2015, SMIS had drawn down RMB1,000 million (approximately US\$154.1 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 2015.

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' 12-inch fab. As of December 31, 2015, SMIS had drawn down RMB475 million (approximately US\$73.2 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 2015.

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2015 EXIM RMB Loan (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB480 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, 2015, SMIS had drawn down RMB480 million (approximately US\$74.0 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2015.

2014 EXIM RMB Loan (SMIC Beijing)

In December 2014, SMIB entered into a RMB Loan, a two-year working capital loan facility in the principal amount of RMB240 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, 2015, SMIB had drawn down RMB240 million (approximately US\$37.0 million) on this loan facility. The principal amount is repayable in December 2016. The interest rate on this loan facility ranged from 3.65% to 3.90% in 2015.

2015 CDB RMB Loan (SMIC Beijing)

In December 2015, SMIB entered into the new RMB Loan, a fifteen-year working capital loan facility in the principal amount of RMB195 million with China Development Bank, which is unsecured. As of December 31, 2015, SMIB had drawn down RMB195 million (approximately US\$30.0 million) on this loan facility. The principal amount is repayable from December 2017 to December 2030. The interest rate on this loan facility was 1.20% in 2015.

2015 RMB Entrust Loan (SJ Jiangyin)

In July 2015, SJ Jiangyin entered into the new RMB Loan of zero-interest rate, a five-year working capital loan facility in the principal amount of RMB93 million with Jiangyin Science and Technology New City Investment Management Company Ltd, which is unsecured. As of December 31, 2015, SJ Jiangyin had drawn down RMB93 million (approximately US\$14.3 million) on this loan facility. The principal amount is repayable in July 2020.

2015 CDB USD Loan (SJ Jiangyin)

In September 2015, SJ Jiangyin entered into the new USD Loan, a seven-year working capital loan facility in the principal amount of US\$44.5 million with China Development Bank. This bank facility was used to expand the capacity of SJ Jiangyin' 12-inch bumping fab. The facility is guaranteed by SMIB. As of December 31, 2015, SJ Jiangyin had drawn down US\$20 million on this loan facility. The principal amount is repayable from September 2017 to September 2022. The interest rate on this loan facility ranged from 4.20% to 4.23% in 2015.

Short-term Credit Agreements

As of December 31, 2015, the Group had 29 short-term credit agreements that provided total credit facilities of up to US\$1,414.6 million on a revolving basis. As of December 31, 2015, the Group had drawn down US\$62.9 million under these credit agreements and US\$1,351.7 million was available for future trading and borrowings. The outstanding borrowings under the credit agreements are unsecured. The interest rate ranged from 0.98% to 4.20% in 2015.

In May 2012, SMIS entered into a four-year strategic framework credit facility in the aggregate amount of RMB5 billion with China Development Bank. The 2013 USD Loan (SMIC Shanghai) constituted part of this strategic framework credit facility.

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.

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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\$145.3 million, US\$189.7 million and US\$237.2 million, respectively in 2013, 2014 and 2015 on research and development expenses, which represented 7.0%, 9.6% and 10.6% respectively, of our sales in those respective years. Our research and development costs were partially offset by related government fundings of US\$26.9 million, US\$37.4 million and US\$34.3 million in 2013, 2014 and 2015, 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 2016.

The R&D efforts were focused primarily on advanced logic and value-added specialty technologies. We achieved many significant milestones in 2015. In the area of advanced logic technologies, the PolySiON R&D programs on the 28nm successfully entered into mass production in the second half of 2015. On our 14nm technology development, the basic CMOS process-flow was set up; subsequently, the full process characterization and SRAM yield learning vehicle was taped out at the end of 2015.

In the area of non-volatile memory (NVM) technologies, we believe that SMIC was the world's first pure foundry to produce 55nm eflash and we successfully ramped products which were adopted by domestic and overseas telecom carriers. A number of new technologies also entered production in 2015 including Back-Side Illumination CMOS image sensor (BSI-CIS) products with scaled pixel size (1.4 μ m and 1.1 μ m), CMOS integrated MEMS devices and TSV- based wafer level packaging technologies. SMIC also launched 95nm ultra-low power SPOCULL (SMIC Poly Contact Ultra Low Leakage) technology, which can pack two times the logic density and three times the SRAM density compared to the 0.13 μ m node, and which can be used for various applications including RF, power management, and internet-of-things (IoT).

The building and strengthening of our technology R&D organization continued in 2015 by further optimizing our organization structure and resource distribution to improve operational efficiency and to address the growing demands on advanced technologies as well as specialty technology enhancements. During 2015, we completed over 1,200 patent filings as a result of its technology R&D activities.

As of December 31, 2015, we had been granted 5,669 patents worldwide, of which, 60 were in Taiwan, 611 were in the U.S., 4,975 were in China, and 23 were in other jurisdictions.

D. Trend Information

See “Item 5 — Operating and Financial Review and Prospects-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, 2015, of our future cash payment obligations (excluding estimated interest payment obligations) under our existing contractual arrangements on a consolidated basis:

Contractual obligations(4)	Payments due by period (consolidated, in US\$ thousands)				
	Total	Less than 1 year	1 – 2 years	2 – 5 years	After 5 years
Short-Term Borrowings ⁽¹⁾	62,872	62,872	—	—	—
Long-Term Loans ⁽¹⁾	466,232	50,196	15,830	172,916	227,290
Convertible bonds ⁽²⁾	392,632	392,632	—	—	—
Bonds payable	493,207	—	—	493,207	—
Purchase Obligations ⁽³⁾	1,340,941	1,340,941	—	—	—
Total Contractual Obligations	2,755,884	1,846,641	15,830	666,123	227,290

(1) These amounts represent outstanding borrowings. Refer to F-68, “Borrowings” for a description of the short-term and long-term borrowings.

(2) The holders of each convertible bond will have the right to require the Company to redeem all or some only of the convertible bonds at their principal amount on November 7, 2016.

(3) Represents commitments for construction or purchase of semiconductor equipment, and other property or services.

(4) Please refer to F-83, “Financial instruments” for our non-derivative financial liabilities with both estimated interest and principal.

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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, 2016, our Board consists of eleven directors, and one alternate director.

Our executive officers are appointed by, and serve at the discretion of, our Board. The following table sets forth the names, ages and positions of our directors and executive officers as of March 31, 2016.

Name	Age	Position
Directors		
Zhou Zixue	59	Chairman and Executive Director
Tzu-Yin Chiu	59	Chief Executive Officer and Executive Director
Gao Yonggang	51	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director
Chen Shanzhi	47	Non-Executive Director
Zhou Jie	48	Non-Executive Director
Ren Kai	43	Non-Executive Director
Lu Jun	47	Non-Executive Director
Lip-BuTan	56	Independent Non-Executive Director
William Tudor Brown	57	Independent Non-Executive Director
Sean Maloney	59	Independent Non-Executive Director
Carmen I-Hua Chang	68	Independent Non-Executive Director
Li Yonghua	41	Alternate Director to Chen Shanzhi
Senior Management		
Tzu-Yin Chiu	59	Chief Executive Officer and Executive Director
Gao Yonggang	51	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director
Haijun Zhao	52	Chief Operating Officer and Executive Vice President
Jyishyang Liu	63	Executive Vice President, Engineering & Services
Li Zhi	52	Executive Vice President, Legal/Human Resources/Public Affairs/General Administration
Mike Rekuc	67	Executive Vice President, Worldwide Sales & Marketing
Gareth Kung	51	Executive Vice President, Investment and Strategic Business Development and Finance, and Company Secretary

Datang Telecom Technology & Industry Holdings Co., Ltd., or 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, and Xinxin (Hongkong) Capital Co., Ltd., a wholly-owned subsidiary of China Integrated Circuit Industry Investment Fund Co., Ltd. (“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.

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Board of Directors

Zhou Zixue

Chairman of the Board, Executive Director

Dr. Zhou Zixue joined SMIC in 2015 and is currently the Chairman of the Board. Dr. Zhou received a master degree in management engineering from The University of Electronic Science and Technology of China and a Ph.D in Economic History from Central China Normal University. Prior to joining the Company, Dr. Zhou had served as Chief Economist in the Ministry of Industry and Information Technology of China (“MIIT”) since April 2009. He was the Director-General in the Department of Finance of MIIT from 2008 to 2009. Dr. Zhou had worked as Director-General and Deputy Director-General in the Ministry of Information Industry of China and Deputy Director-General of the Ministry of Electronics Industry (“MEI”) and had served in other different divisions of the MEI and the Ministry of Machinery and Electronics Industry. Dr. Zhou had previously worked in Beijing State-Owned Dongguangdian Factory, one of the then largest semiconductor enterprises in China, responsible for accounting and marketing. Dr. Zhou is also the secretary general of the China Information Technology Industry Federation, chairman of the board of directors of the China Semiconductor Industry Association, the executive deputy director of the Standing Committee of Electronic Science and Technology Commission of China, a member of the National Informatization Expert Advisory Committee, a director of Chinese Accounting Association, the executive director and vice chairman of the board of directors of the China Institute of Electronics, the vice president of China Electronic Chamber of Commerce, the executive director of China Association of Chief Financial Officers and the president of its electronic branch and an Adjunct Professor of each of Beihang University, Beijing Institute of Technology, Renmin University of China, Nanjing University of Science and Technology, Zhejiang University, University of Electronic Science and Technology. Dr Zhou is also the director of Hisense Electric Company Limited listed on the Shanghai Stock Exchange, the chairman of the board of directors of SMIC Holdings Corporation and SJ Semiconductor (Jiangyin) Corporation.

Tzu-Yin Chiu

Chief Executive Officer & Executive Director

Dr. Tzu-Yin Chiu has over 30 years’ experience in the semiconductor industry and a track record of managing successful semiconductor manufacturing companies at the executive level. Dr. Chiu’s expertise spans technology research, business development, operations and corporate management. He began his career in the United States as a research scientist at AT&T Bell Laboratories in Murray Hill, New Jersey, rising to become the department head of its High Speed Electronics Research Department and Silicon Research Operations Department. He then joined Taiwan Semiconductor Manufacturing Corporation (TSMC), where he served as Senior Director of Fab Operations. Subsequently, Dr. Chiu became Senior Vice President of Shanghai Operations for Semiconductor Manufacturing International Corporation (SMIC). He then served as Senior Vice President and Chief Operating Officer of Hua Hong

International Management and President of Hua Hong Semiconductor International in Shanghai, China. He was then appointed President and COO of Silterra Malaysia, before joining Hua Hong NEC as President and CEO in February 2009. Dr. Chiu also served as the Vice President and Chief Operating Officer of Shanghai Huali Microelectronics Corporation from 2010 to 2011. From 2005 to 2009, he was an Independent Director of Actions Semiconductor Co., Ltd. Dr. Chiu returned to SMIC in August 2011 as CEO and Executive Director. He is also Vice Council Chairman of China Semiconductor Industry Association (CSIA), a board member of Global Semiconductor Alliance (GSA), the chairman of the board of directors of each of Semiconductor Manufacturing North China (Beijing) Corporation, Brite Semiconductor Corporation, SilTech Semiconductor (Shanghai) Corporation Limited, Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International (Shenzhen) Corporation, Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International (Tianjin) Corporation and SMIC Semiconductor Advanced Technology Research (Shanghai) Corporation. Dr. Chiu is also the director of SJ Semiconductor (Jiangyin) Corporation and Toppan SMIC Electronics (Shanghai) Co., Ltd. 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 was honored as the 2014 Distinguished Alumni Award by the Department of EECS at the University of California, Berkeley on February 13, 2014. Dr. Chiu received the Outstanding EHS Achievement Award from SEMI on March 18, 2014. Dr. Chiu holds 67 semiconductor technology patents with 33 additional patents application still pending. He is a senior member of the IEEE and has published over 30 technical articles.

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Gao Yonggang

Chief Financial Officer, Executive Vice President, Strategic Planning & Executive Director

Dr. Gao Yonggang, a non-executive Director since 2009, has been appointed as Executive Vice President, Strategic Planning of the Company and has been re-designated as an executive Director since June 17, 2013. He has been appointed as the Chief Financial Officer of the Company since February 17, 2014. Dr. Gao is a director of six subsidiaries of the Company, namely Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International (Tianjin) Corporation, Semiconductor Manufacturing North China (Beijing) Corporation, Semiconductor Manufacturing International (Shenzhen) Corporation and SMIC Holdings Corporation. He is also chairman of the board of China Fortune-Tech Capital Co., Ltd, the Company's joint venture with independent third parties. 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, independent director of GRINM Semiconductor Materials Co.,Ltd. Dr. Gao graduated from Nankai University with a Ph.D. in management. He has conducted studies in the field of financial investment, and has been involved in a number of key research projects and publications in this area. Dr. Gao is also a Fellow of the Institute of Chartered Accountants in Australia. Founding Member, director of The Hong Kong Independent Non-Executive Director Association.

Chen Shanzhi

Non-executive Director

Dr. Chen Shanzhi has been a non-executive Director since 2009. Dr. Chen is currently the SVP and CIO of the China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group). He is also the SVP of Datang Telecom Technology & Industry Holdings Co., Ltd., 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 important contributions to the industrialization of TD-SCDMA 3G and the development of TD-LTE-Advanced 4G international standards.

Dr. Chen is currently an 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 published 3 monographs and more than 150 papers in domestic and foreign academic conferences and publications, of which more than 70 were published by SCI and EI. Many of his papers have received awards. At present, he has applied for more than 10 national invention patents.

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

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Zhou Jie

Non-Executive Director

Mr. Zhou Jie has been a Director since 2009. Mr. Zhou is an executive director and the president of Shanghai Industrial Investment (Holdings) Company Limited (“SIIC”) and an executive director, the vice chairman and chief executive officer of Shanghai Industrial Holdings Limited (“SIHL”). He is a non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd.. He is also a director of certain subsidiaries of SIIC and SIHL. Mr. Zhou graduated from Shanghai Jiaotong University with a master’s degree in management science and engineering. He was the deputy general manager of the investment banking head office of Shanghai Wanguo Holdings Ltd. (now Shenyin&Wanguo Securities Co., Ltd.) and held the positions of the chairman and general manager of Shanghai S.I. Capital Co., Ltd. He has over 20 years’ experience in corporate management, investment banking and capital markets operation.

Ren Kai

Non-Executive Director

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

Lu Jun

Non-Executive Director

Mr. Lu has been a director since 2016. Since August 2014, in addition to serve as President of Sino IC-Capital Co., Ltd, he is also the Chairman of Sino IC-Leasing Co., Ltd. And since May 2010, Mr. Lu has been serving as Executive Vice President of China Development Bank Capital Co., Ltd (China Development Bank Capital Co., Ltd, a wholly-owned subsidiary of China Development Bank Co., Ltd, has been so far the only large-scale agency in China's banking industry for RMB equity investment, and has formed an integrated platform for strategic investments domestically and internationally). Previously, Mr. Lu has been worked for China Development Bank for more than 20 years and accumulated wealth of experience in credit, industry investment and fund investment. As Mr. Lu has been engaged in loan review programs and investment operations in the fields of equipment and electronics, he is familiar with industrial policies and has in-depth understanding in integrated circuit and related industries.

From July 2007 to May 2010, Mr. Lu had served as the Deputy Director of China Development Bank Shanghai Branch. From April 2006 to July 2007, Mr. Lu served as the Director of industrial integration innovation of Investment business bureau of China Development Bank. From April 2003 to April 2006, Mr. Lu served as the Director of each of the Review Board of China Development Bank Jiangsu Branch and Nanjing Branch. From September 2002 to April 2003, Mr. Lu served as the Director of the Review Board of China Development Bank Nanjing Branch. From March 1994 to September 2002, Mr. Lu had worked in Traffic credit bureau, East China credit bureau, finance department of Nanjing Branch, and the Review Bureau 2 of Nanjing Branch of China Development Bank.

Mr. Lu Jun received the Master of Business Administration from Nanjing University and holding a bachelor degree in Shipping and Marine engineering from Hohai University.

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Lip-Bu Tan

Independent Non-Executive Director

Mr. Lip-Bu Tan has been a Director since 2001 and is also a director of a subsidiary of the Company. 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 Ambarella Corp., Hewlett Packard Enterprise, 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.

Sean Maloney

Independent Non-Executive Director

Mr. Sean Maloney has been a Director since 2013. Mr. Maloney spent over 30 years at Intel Corporation. He is known within the high tech industry as a visionary whose hard work and strategic planning contributed to the unprecedented global growth of the company. From August 2011 to January 2013, Mr. Maloney served as Chairman of Intel China where he was responsible for overseeing and developing the company's strategy. Prior to this appointment, Mr. Maloney was an Executive Vice President at Intel and Co-General Manager of the corporation's Intel Architecture Group (IAG). He was responsible for architecting, developing, and marketing Intel's platform solutions for all computing segments including: data centers, desktops, laptops, netbooks/net-tops, handhelds, embedded devices, and consumer electronics. In this capacity, Mr. Maloney focused on business and operations with over one half of the company reporting to him. He also previously ran the company's Communications Group. Over the years, Mr. Maloney has been recognized for his keen understanding and abilities globally in sales and marketing as well as strategic planning. He served as the Chief of Sales and Marketing Worldwide for the company. Mr. Maloney is currently on the board of directors of Netronome, Acumulus9 and the American Heart Association, and advises Cephasonics and Silk Road Medical.

William Tudor Brown

Independent Non-Executive Director

Mr. William Tudor Brown has been a Director since 2013. He is a Chartered Engineer, a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He holds a MA (Cantab) Degree in Electrical Sciences from Cambridge University. Mr. Brown was one of the founders of ARM Holdings plc, a British

multinational semiconductor 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 programme 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 an independent non-executive director and a member of the the Compensation Committee and chair of the Nominations and Governance committee of Tessera Technologies, Inc. (a company listed on NASDAQ), 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 of P2i Limited, a world leader in liquid repellent nano-coating technology.

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Carmen I-Hua Chang

Independent Non-Executive Director

Ms. Carmen I-Hua Chang has been an independent non-executive Director 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 SiliconValley 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.

Li Yonghua

Alternate Director to Dr. Chen Shanzhi

Mr. Li Yonghua has been an alternate Director to Dr. Chen Shanzhi, a non-executive Director of the Company, since October 2013. Mr. Li is currently General Legal Consultant of the China Academy of Telecommunications Technology. Since August 2010 till now, Mr. Li has been a director of Datang Telecom Technology Co., Ltd. (a company listed on Shanghai Stock Exchange). Respectively from June 2011 and December 2011 till now, Mr. Li is also General Legal Consultant and Vice President and General Manager of Operation Management of Datang Telecom Technology & Industry Holdings Co., Ltd.. Mr. Li has been the chairman of the board of directors of Datang Mobile Communications Equipment Co., Ltd. and an executive director of DatangLiancheng Information System Technology Co., Ltd. since September 2014. Mr. Li served in Dongming County People’s Procuratorate of Shandong Province as a civil servant from 1996 to 2005. He was Chief Law Officer of Hanwang Technology Co., Ltd. He was also Vice Legal General Manager, General Manager and Supervisor of Datang Telecom Technology & Industry Holdings Co., Ltd. from 2008 to 2010. Mr. Li holds a Bachelor of Law degree from Shandong Normal University and a Master of Law degree from Peking University.

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Mr. Frank Meng retired as an independent non-executive Director on June 26, 2015 due to his acceptance of appointment as the chairman of Qualcomm China by Qualcomm Incorporated, one of the Company's major customers. Mr. Ren Kai was nominated by the China Integrated Circuit Industry Investment Fund ("China IC Fund") as a non-executive Director on August 11, 2015. Mr. Lu Jun has been appointed by the Board of Directors as a non-executive director with effect from February 18, 2016.

Senior Management

Tzu-Yin Chiu

Chief Executive Officer and Executive Director

Biographical details are set out in the above Board of Directors section.

Gao Yonggang

Chief Financial Officer, Executive Vice President, Strategic planning & Executive Director

Biographical details are set out in the above Board of Directors section.

Haijun Zhao

Chief Operating Officer and Executive Vice President

Dr. Haijun Zhao joined SMIC in 2010, and was named Vice President of North Operations in 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, Chief Operating Officer. He has 26 years of experience in semiconductor operations and technology development, most recently as a vice president of technology development, product engineering and Greater China business at ProMOS Technologies in Taiwan. He also previously held management positions at TECH Semiconductor Singapore. Dr. Zhao received his B.S. and Ph.D. from Tsinghua University, and his MBA from the University of Chicago. He holds two US semiconductor technology patents, with two pending, and has nine published technical papers.

Jyishyang Liu

Executive Vice President, Engineering & Services

Dr. Jyishyang Liu joined SMIC in 2001. He became Vice President of Central Engineering & Services in 2010, and has 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 over 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.

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Mr. Li Zhi

Executive Vice President, Legal/Human Resources/Public Affairs/General Administration

Mr. Li Zhi joined SMIC in March 2013 as Vice President and was promoted to Executive Vice President in November 2014. He is currently responsible for overseeing legal, human resources, 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.

Mike Rekuc

Executive Vice President, Worldwide Sales and Marketing

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 a distinguished 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, he was Senior Vice President of Sales and Marketing and President of the Americas Region for Singapore-based Chartered Semiconductor (now part of GlobalFoundries) from 1999 to 2010. 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.

Gareth Kung

Executive Vice President, Investment and Strategic Business Development and Finance, Company Secretary

Mr. Gareth Kung joined SMIC in July 2012. He works 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 and from July 2012 to February 2014 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 fellow member of the Association of Chartered Certified Accountants. In addition, he is a Chartered Financial Analyst.

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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, Tzu-Yin Chiu, our chief executive officer and executive director and Gao Yonggang, our chief financial officer and executive director, in 2015 are set out as below:

	Employee settled		
	Salaried and wages (in US\$ thousands)	share-base payment	Total remuneration
Executive Directors:			
Zhou Zixue	225	873	1,098
Zhang Wenyi*	578	32	610
Tzu-Yin Chiu	918	130	1,048
Gao Yonggang	376	201	577
Non-executive directors:			
Chen Shanzhi	50	—	50
Zhou Jie	—	—	—
Li Yonghua (Alternate to Chen Shanzhi)	—	—	—
Ren Kai	—	66	66
Independent non-executive directors:			
William Tudor Brown	47	47	94
Sean Maloney	50	46	96
Lip-Bu Tan	70	—	70
Frank Meng**	28	6	34
Carmen I-Hua Chang	42	149	191
Total remuneration	2,384	1,550	3,934

* Zhang Wenyi resigned as chairman of the Board and an executive director with effect from March 6, 2015.

** Frank Meng resigned as an independent non-executive director with effect from June 26, 2015.

The remuneration paid or payable by us to our senior management personnel, including Tzu-Yin Chiu and Gao Yonggang during the year are as follows:

	Year ended 12/31/15 USD'000
Short-term benefits	3,641
Share-based payments	1,399

Total	5,040
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We do not provide pension, retirement or similar benefits to our executive officers and directors except statutorily required benefits.

In 2015, we did not grant any options to purchase ordinary shares of the Company under our 2014 Stock Option Plan nor did we award any restricted share units under our 2014 Equity Incentive Plan to certain of our executive officers.

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C. Board Practices

Board of Directors

Our board of directors consists of eleven Directors and one alternate Director. Directors may be elected to hold office until the expiration of their respective terms upon a resolution passed at a duly convened shareholders' meeting by holders of a majority of our issued shares being entitled to vote in person or by proxy at such meeting. The Board is divided into three classes with one class of Directors eligible for re-election at each annual general meeting of shareholders, or AGM. Each class of Director (including all non-executive Directors) will serve a term of three years.

The following table sets forth the names, classes and appointment commencement dates of our current Directors:

Name of Director	Position	Class	Appointment	Year of Re-election
			Commencement Date	
Zhou Zixue	Chairman and Executive Director	I	2015/3/6	2017
Tzu-Yin Chiu	Chief Executive Officer and Executive Director	I	2011/8/5	2017
Gao Yonggang	Chief Financial Officer, Executive Vice President, Strategic Planning, Executive Director	I	2009/6/23	2017
William Tudor Brown	Independent Non-executive Director	I	2013/8/8	2017
Chen Shanzhi	Non-executive Director	II	2009/6/23	2018
Li Yonghua	Alternate Director to Chen Shanzhi	—	2013/10/22	
Lip-Bu Tan	Independent Non-executive Director	II	2001/11/3	2018
Carmen I-Hua Chang	Independent Non-executive Director	II	2014/9/1	2018
Lu Jun*	Non-executive Director	II	2016/2/18	2018
Zhou Jie	Non-executive Director	III	2009/1/23	2016
Sean Maloney	Independent Non-executive Director	III	2013/6/15	2016
Ren Kai	Non-executive Director	III	2015/8/11	2016

* Mr. Lu Jun, whose initial appointment as Director took effect as of February 18, 2016, shall retire from office at the 2016 AGM pursuant to Article 126 of the Company's Articles of Association. Mr. Lu Jun will, being eligible, offer himself for re-election as a Class II Director at the 2016 AGM to hold office until the 2018 AGM.

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Please see “Item 7.B—Related Party Transactions — Director Service Contracts” for a description of the service contracts we have entered into with our directors. Except for the indemnification provisions, the Service Contracts (as defined under Item 7) do not provide for benefits upon termination of service or employment.

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. In addition to acting as the Chairman of the Company’s Audit Committee, Mr. Tan currently also serves on the audit committee of another publicly traded company. In general and in accordance with Section 303A.07(a) of the Listed Company Manual of the New York Stock Exchange, the Board considered and determined that such simultaneous service would not impair the ability of Mr. Tan to effectively serve on the Company’s Audit Committee.

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

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company’s independent auditor;
- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;
- pre-approving all non-audit services to be provided by the Company’s independent auditor;
- approving the remuneration and terms of engagement of the Company’s independent auditor;

reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between the Company and the independent auditor;

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

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

reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (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 programmes and budget of the Company's accounting and financial reporting function;

reviewing the Company's risk assessment and management policies;

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

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

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

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During the year ended December 31, 2015, the audit committee reviewed:

the Company's budget for 2015;

the financial reports for the year ended and as of December 31, 2014 and the six months ended and as of June 30, 2015;

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 from 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 "Sarbanes-Oxley Act");

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

the findings of the Company's compliance office, which ensures compliance with the CG Code and Insider Trading Policy;

the reports of the Company's ethics hotline;

the report on share price performance and shareholders composition;

the audit fees for the Company's independent auditors;

the Company's independent auditors' engagement letters; and

the information security and customer data protection measures implemented by the Company.

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 reviews with the Chief Financial Officer and the Company's independent auditors 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.

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Compensation Committee

Currently, the members of the Company's Compensation Committee ("Compensation Committee") are Mr. Lip-Bu Tan (Chairman of Compensation Committee), Mr. Sean Maloney and Mr. Zhou Jie. 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 executive compensation philosophy, strategy and principles and reviewing new and existing employment, consulting, retirement and severance agreements proposed for the Company's executive officers; and

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

The Compensation Committee shall have the delegated authority to determine the remuneration packages of individual executive Directors and the Company's executive officers/senior management, and make recommendations to the Board on the remuneration of non-executive Directors. During the year ended December 31, 2015, 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 2015;

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 attrition rate;

the proposed compensation packages of Dr. Zhou Zixue, a newly-appointed executive Director and Chairman of the Board, and Mr. Ren Kai, a newly-appointed non-executive Director during the year;

the competitiveness of compensation packages of all non-executive Directors.

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

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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. Lip-Bu Tan, Ms. Carmen I-Hua Chang, Mr. William Tudor Brown and Mr. Lu Jun.

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

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

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

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

assessing the independence of 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, 2015, the Nomination Committee:

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

- make recommendations to the Board on succession planning for Chairman, independent non-executive director;

- evaluated the independence of the independent non-executive director; and

- reviewed the re-election of Directors.

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D. Employees

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

Function	As of December 31,			
	2012	2013	2014	2015
Managers	922	951	930	962
Professionals ⁽¹⁾	4,164	4,440	4,988	6,112
Technicians	4,650	4,751	5,116	6,170
Clerical staff	238	304	351	229
Total ⁽²⁾	9,974	10,446	11,385	13,473

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

(2) Includes 3, 3, 14 and 13 temporary and part-time employees in 2012, 2013, 2014, and 2015 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,			
	2012	2013	2014	2015
Shanghai	6,037	6,626	6,896	7,533
Beijing	2,491	2,272	2,518	3,242
Tianjin	1,354	1,454	1,511	1,630
Chengdu	11	11	10	10
Shenzhen	23	43	405	843
Wuhan	17	—	—	—
Jiangyin	—	—	—	174
United States	18	20	25	20
Europe	8	6	6	7
Japan	—	1	2	2
Taiwan Office	11	10	9	9
Hong Kong	4	3	3	3
Total	9,974	10,446	11,385	13,473

Our employees are not covered by any collective bargaining agreements.

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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, 2015:

Board Member	Derivatives				Aggregate Interest	Percentage of Aggregate Interests to Total Issued Share	Capital of the Company ⁽¹⁾
	Number of Ordinary Shares Held	Share Options	Other				
Executive Director							
Zhou Zixue	-	25,211,633	(2)	10,804,985 ⁽³⁾	36,016,618	0.086	%
Tzu-Yin Chiu	40,860,038	86,987,535	(4)	-	127,847,573 ⁽⁵⁾	0.304	%
Gao Yonggang	-	19,640,054	(6)	2,310,472 ⁽⁷⁾	21,950,526	0.052	%
Non-executive Director							
Chen Shanzhi	-	3,145,319	(8)	-	3,145,319	0.007	%
Zhou Jie	-	-	-	-	-	-	
Ren Kai	-	5,705,608	(9)	-	5,705,608	0.014	%
Independent Non-executive Director							
William Tudor Brown	-	4,492,297	(10)	-	4,492,297	0.011	%
Sean Maloney	-	4,490,377	(11)	-	4,490,377	0.011	%
Lip-Bu Tan	-	4,634,877	(12)	-	4,634,877	0.011	%
Carmen I-Hua Chang	-	4,887,303	(13)	-	4,887,303	0.012	%
Alternate Director							
Li Yonghua	-	-	-	-	-	-	

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Notes:

- (1) Based on 42,073,748,961 Ordinary Shares in issue as at December 31, 2015.

(2) On May 20, 2015, Dr. Zhou was granted options to purchase 25,211,633 Ordinary Shares at a price of HK\$0.830 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, 2015, none of these options has been exercised.

(3) On May 20, 2015, Dr. Zhou was granted an award of 10,804,985 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, 2015, none of Dr. Zhou's RSUs has been vested.

(4) On September 8, 2011, Dr. Chiu was granted options to purchase 86,987,535 Ordinary Shares at a price of HK\$0.455 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. As of December 31, 2015, none of these options were exercised.

(5) On September 8, 2011, Dr. Chiu was granted an award of 37,280,372 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2004 Equity Incentive Plan. These Restricted Share Units, 25% of which vest on each anniversary of August 5, 2011, were fully vested on August 5, 2015. As of December 31, 2015, 100% of Dr. Chiu's Restricted Share Units were vested and thus 37,280,372 Ordinary Shares were issued to Dr. Chiu.

(6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 3,145,319 Ordinary Shares at a price of HK\$0.64 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 13,608,249 Ordinary Shares at a price of HK\$0.624 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 2,886,486 Ordinary Shares at a price of HK\$0.64 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, 2015, none of these options were exercised.

(7) On November 17, 2014, Dr. Gao was granted an award of 2,910,836 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2014 Equity Incentive Plan, consisting of (a) 2,401,456 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) 509,380 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and

which shall fully vest on March 1, 2018. As of December 31, 2015, 1,328,073 Restricted Shares Units were vested, among which 600,364 were settled in cash.

(8) On May 24, 2010, Dr. Chen was granted options to purchase 3,145,319 Ordinary Shares at a price of HK\$0.64 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. As of December 31, 2015, none of these options were exercised.

(9) On September 11, 2015, Mr. Ren was granted options to purchase 5,705,608 Ordinary Shares at a price of HK\$0.694 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the 10 September 2025 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options were accepted and exercised by Mr. Ren. On February 18, 2016, the Board approved the cancellation of all options previously granted to Mr. Ren at the request of Mr. Ren.

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(10) On September 6, 2013, Mr. Brown was granted options to purchase 4,492,297 Ordinary Shares at a price of HK\$0.562 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, 2015, none of these options were exercised.

(11) On June 17, 2013, Mr. Maloney was granted options to purchase 4,490,377 Ordinary Shares at a price of HK\$0.624 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

(12) These options comprise (a) options granted to Mr. Tan on September 29, 2006 to purchase 500,000 Ordinary Shares at a price per share of US\$0.132 pursuant to the 2004 Stock Option Plan which fully vested on May 30, 2008 and will expire on the earlier of September 28, 2016 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on February 17, 2009 to purchase 1,000,000 Ordinary Shares at a price of HK\$0.27 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, and (c) options granted to Mr. Tan on February 23, 2010 to purchase 3,134,877 Ordinary Shares at a price of HK\$0.77 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. As of December 31, 2015, none of these options were exercised.

(13) On November 17, 2014, Ms. Chang was granted options to purchase 4,887,303 Ordinary Shares at a price of HK\$0.85 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, 2015, none of these options were exercised.

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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 for our options is denominated in Hong Kong dollars. This annual report translates the Hong Kong dollar exercise prices for our options into U.S. dollars based on exchange rates that were in effect as of the applicable option grants dates.

The compensation committee has issued 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\$0.03 to US\$0.15. The options expire between May 15, 2017 and November 16, 2024. 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.

Stock Incentive Schemes

2004 Stock Incentive Plans

2004 Stock Option Plan

Our shareholders adopted on February 16, 2004 a 2004 Stock Option Plan which then became effective on March 18, 2004 and further amended it on June 23, 2009. The number of the Ordinary Shares that may be issued pursuant to our 2004 Stock Option Plan and our 2004 Employee Stock Purchase Plan shall not, in the aggregate, exceed 2,434,668,733 Ordinary Shares.

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 or any of our other stock option plans or any outstanding purchase right granted under our 2004 Employee Stock Purchase Plan 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. Stock options issued under the 2004 Stock Option 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 2004 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 our 2004 Stock Option Plan are again available for grant and issuance under our 2004 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depositary 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.

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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 or any of the Company's other stock option plans to, and the total number of Ordinary Shares that may be purchased under one or more purchase rights granted under our 2004 Employee Stock Purchase Plan or any of the Company's 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 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.

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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.

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Amended and Restated 2004 Equity Incentive Plan

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. 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.

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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. 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.

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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. 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.

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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.

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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. 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 depositary 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 depositary 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 depositary 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 depositary 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 depositary 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 is automatic in subsequent offering periods. The length of each offering period shall be no shorter than six months and no longer than twenty-seven months. The Company's compensation committee determines the starting and ending dates of each offering period. An employee's participation automatically ends upon termination of employment for any reason.

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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 subject on the first business day of the applicable offering period 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 2004 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 never 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. 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 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.

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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. 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.

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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.

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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.

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(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, 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.

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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:

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 (i) 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;

If the Subsidiary Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, its (ii) 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.

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(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).

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(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.

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(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

for the purposes of clarification, improvement or facilitation of the interpretation, and/or application of the terms of (ii) 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.

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(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 will be administered by the relevant Subsidiary Committees and no other trustee is expected to be appointed in respect of any Subsidiary Plan.

As of December 31, 2015, SJ Semiconductor Corporation, which is a majority-owned subsidiary of the Company, has adopted the Subsidiary Plan.

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Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders**Ordinary Shares**

The following table sets forth information regarding the beneficial ownership as of December 31, 2014 of our ordinary shares, 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	Number of Ordinary Shares Held	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company ⁽¹⁾	Derivative	Total Interest	Percentage of Total Interests to Total Issued Share Capital of the Company ⁽¹⁾
Datang Telecom Technology & Industry Holdings Co., Ltd.	7,699,961,231 ⁽²⁾	18.30 %	-	7,699,961,231	18.30 %
China Integrated Circuit Industry Investment Fund Co., Ltd	7,400,000,000 ⁽³⁾	17.59 %	-	7,400,000,000	17.59 %

Notes:

(1) Based on 42,073,748,961 Ordinary Shares in issue as at December 31, 2015.

(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 China IC Fund.

As of March 31, 2016, 979,759,350 ordinary shares (including 19,595,187 ADSs representing 979,759,350 ordinary shares) of our company were outstanding. J.P. Morgan Chase Bank, the depository under the deposit agreement, has advised us that, as of March 31, 2016, these 19,595,187 ADSs, representing 979,759,350 ordinary shares, were held of record by thirteen US registered shareholders. We have no further information as to shares held or beneficially owned by U.S. persons. Each ADS represents 50 ordinary shares.

We do not believe that we are directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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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.

Datang Pre-emptive Share Purchase Agreement and Country Hill Pre-emptive Share Purchase Agreement (2015)

On June 11, 2015, the Company entered into a share purchase agreement (“Datang Pre-emptive Share Purchase Agreement”) with Datang Holdings (Hongkong) Investment Company Limited (“Datang”), a substantial shareholder of the Company, pursuant to which the Company conditionally agreed to issue, and Datang conditionally agreed to subscribe for, 961,849,809 Ordinary Shares (“Datang Pre-emptive Shares”) for a total cash consideration of HK\$634,147,579.07 at the price of HK\$0.6593 per Ordinary Share.

On June 11, 2015, the Company entered into a share purchase agreement (“Country Hill Pre-emptive Share Purchase Agreement”) with Country Hill Limited (“Country Hill”), a substantial shareholder of the Company, pursuant to which the Company conditionally agreed to issue, and Country Hill conditionally agreed to subscribe for, 323,518,848 Ordinary Shares (“Country Hill Pre-emptive Shares”) for a total cash consideration of HK\$213,295,976.49 at the price of HK\$0.6593 per Ordinary Share.

The execution of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase