SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
May 03, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April, 2012

Commission File Number: 001-31994

Semiconductor Manufacturing International Corporation

(Translation of registrant s name into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People s Republic of China

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

x Form 20-F o Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

o Yes x No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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

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

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

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ADDITIONAL INFORMATION

References in this annual report to:

- 2013 AGM are to the Company s Annual General Meeting scheduled to be held on or around June 13, 2013;
- Board are to the board of directors of the Company;
- China or the PRC are to the People s Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- Company or SMIC are to Semiconductor Manufacturing International Corporation;
- Director(s) are to the members of the Board;
- EUR are to Euros;
- HK$ are to Hong Kong dollars;
- IFRS are to International Financial Reporting Standards as issued by the International Accounting Standards Board;
- JPY are to Japanese Yen;
- Listing Rules are to the Rules Governing the Listing of Securities on the SEHK, as amended from time to time;

- NYSE or New York Stock Exchange are to the New York Stock Exchange, Inc.;
- RMB are to Renminbi;
- SEC are to the U.S. Securities and Exchange Commission;
- SEHK , HKSE or Hong Kong Stock Exchange are to the Stock Exchange of Hong Kong Limited;
- US$ or USD are to U.S. dollars; and
- U.S. GAAP are to the generally accepted accounting principles in the United States.

All references in this annual report to silicon wafer quantities are to 8-inch wafer equivalents, unless otherwise specified. Conversion of quantities of 12-inch wafers to 8-inch wafer equivalents is achieved by multiplying the number of 12-inch wafers by 2.25. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established by the manufacturers of the equipment used in those facilities. References to key process technology nodes, such as 0.35 micron, 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90 nanometer, 65 nanometer and 45 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. Our financial information presented in this annual report has been prepared in accordance with IFRS. The financial information presented in the annual reports prior to 2012 was prepared in accordance with U.S. GAAP.

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CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name (for identification purposes only)	
Registered office	PO Box 309 Ugland House Grand Cayman KY1-1 104 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong registered under Part XI of the Companies Ordinance	Suite 3003 30th Floor 9 Queen s Road Central Hong Kong
Website address	http://www.smics.com
Company Secretary	Gareth Kung
Authorized representatives	Zhang Wenyi Lawrence Juen-Yee Lau
Places of listing	The Stock Exchange of Hong Kong Limited (HKSE) New York Stock Exchange (NYSE)
Stock code	981 (HKSE) SMI (NYSE)

Financial Calendar

Announcement of 2012 results	March 25, 2013
Book closure period	June 10, 2013 to June 13, 2013, both days inclusive
Annual general meeting	June 13, 2013
Financial year end	December 31

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FINANCIAL HIGHLIGHTS

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LETTER TO SHAREHOLDERS

Dear Shareholders,

2012 was SMIC s tenth year of production. We are pleased to announce that in this fruitful year we delivered full year profitability. In 2012, the Company achieved historic high annual revenue of US$1.7 billion while turning net income positive; we recorded annual net income attributable to SMIC of $22.8 million, a 7-year high. SMIC s revenue grew 29% in 2012 from the prior year, significantly surpassing the 2012 year-over-year growth rate of global semiconductor sales of -2.9% and the pure-play foundry growth rate of 15%, according to iSuppli estimates.

Beginning in the first quarter of 2012, we consistently beat outside expectations and in the second quarter, we recorded positive quarterly net income. Our improved operations, customer service, and quality increased our profitability. Based on these improvements, SMIC gained significant customer confidence, which contributed to higher fab utilization; after the first quarter of 2012, SMIC maintained utilization above 90%. According to the latest survey published by the Ministry of Industry and Information Technology in November 2012, SMIC is the number one preferred foundry among Chinese fabless companies. About 75% of Chinese fabless companies now choose SMIC as their preferred foundry partner, compared to the 59% who chose us in 2011. This also shows customers recognition of our improved operations and service over the last year.

In the fourth quarter of 2012, the Company s 65/55nm revenue contributed one-third of total wafer revenue, compared to one-fifth during the same period in 2011. Also in the fourth quarter of 2012, our 45/40nm process began mass production and contributed 2.6% of wafer sales. Our 28nm development is on schedule and progressing steadily.

In 2012, we increased the Company s operational efficiency, expanded output, and used less capital spending to achieve these goals.

We believe the Company will continue to benefit from rapid growth of the mobile device market, as well as the continued growth of our China customer base. Notably, our China sales grew 34.1% in 2012 from the prior year, while employing our full spectrum of technology from 0.35-micron to 40nm.

In 2012, the Company continued to actively commit to social responsibility, in accord with industry and official calls to invest resources for environmental protection, energy conservation, recycling, and community service.

As the leading and most advanced foundry provider in China, we have upgraded our technology portfolio, services, and quality to help all of our customers participate in this rapidly growing market. We are very pleased with SMIC s achievements in 2012, and determined to build on the momentum.

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Looking ahead, we remain committed to our long-term strategy, anchored in the best interests of our shareholders. We will leverage our strengths and focus on long-term sustainable profitability, continued growth, and value growth for shareholders. We will strive to implement our business plan and objectives with diligence and precision.

We express our sincere gratitude to our shareholders, customers, vendors, and employees for their ongoing commitment and support.

Zhang Wenyi
Chairman of the Board and Executive Director

TY Chiu
Chief Executive Officer and Executive Director

Shanghai, China
March 25, 2013

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BUSINESS REVIEW

In 2012, the Company continued to solidify its long-term strategy and vision. The Company experienced profitable revenue growth while advancing its technology on the leading edge and developing value added differentiated legacy processes. The Company s portfolio, coupled with the global experience of the new management team in Operations, Technology Development, Customer Service and our China market share, positions the Company for continued growth. In addition, 2012 was a milestone year for SMIC s advanced 65nm technology. The revenue contribution from 65nm technology more than doubled, representing 32.0% of total wafer revenue in 2012 compared to 18.5% in 2011. The Company has also started volume shipment for 40nm and 45nm in the fourth quarter of 2012.

Our Improved quality of service contributed to overall utilization of 88.3% in 2012 versus 68.9% in 2011. This led to compounded growth for each quarter throughout 2012.

Financial Overview

Despite a challenging environment in 2012, the Company s sales totaled US$1,701.6 million, compared to US$1,319.5 million in 2011. During the year, we generated US$435.2 million in cash from operating activities. Capital expenditures in 2012 totaled $499.3 million. Looking ahead, our objective is to achieve sustained profitability over the long term. To achieve this, we will continue to focus on precision execution, efficiency improvement, customer service excellence and fostering innovation.

Customers and Markets

SMIC continues to serve a broad global customer base comprised of leading IDMs, fabless semiconductor companies and system companies.

Geographically, customers from United States of America contributed 55.3% of the overall revenue in 2012, compared to 55.0% in 2011, and remained the largest revenue base for SMIC in 2012, contributing a 67.1% to our advanced nodes wafer revenue. Leveraging on our strategic position in China, our China revenue has grown 34.1% year-on-year in 2012, contributed 33.9% of the overall revenue in 2012 as compared to 32.7% in 2011.

In terms of applications, revenue contribution from communications applications increased, from 41.9% in 2011 to 45.8% in 2012. This is a result of our continued product focus in the mobile space. Consumer applications contributed 43.6% to our overall revenue in 2012, mainly attributable to the strength of digital televisions (DTV), set-top boxes (STB) and gaming consoles. SMIC has minimal exposure to the relatively weak PC market.

Reviewing the revenue by technology: wafer revenue attributable to advanced technology at 90nm and below has grown from 28.4% in 2011 to 41.7% in 2012. In 2012, advanced 45nm technology had started volume shipment and contributed 2.6% of the wafer revenue in the fourth quarter of 2012.

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In 2012, we engaged 46 new customers. The majority were Chinese fabless companies, where we recorded sustained revenue growth. According to IHS iSuppli, China s fabless market will experience a compound revenue growth rate of over 15% per year, which will bring the China semiconductor market to US$11.2 billion by 2015. Notably, our objective for business growth in China is not just to grow in revenue, but also to grow the number of new designs using advanced technology. The Company has, in each of our regions, customers utilizing our most advanced nodes of technology. China is rapidly closing the gap with the rest of the world in terms of its innovation and design capabilities. To fully leverage the market growth potential in China, we will continue to deepen our collaboration with Chinese customers while broadening our relationships with our other global customers.

Long-Term Business Model and Strategy for Generating and Preserving Value

SMIC s long-term goal is to focus on generating value for the benefit of all stakeholders. SMIC s strategy to generate sustainable profitability is three-fold. First, we aim for optimal efficiency by fully utilizing existing assets through enhanced customer relationships, quality, and service. Second, taking advantage of our position in China, we plan to differentiate our technology offering by providing customers with added value and innovation that not only allow us to seize China market opportunities, but also give global customers footing in the fast-growing market. Third, with profitability as our priority, we plan to carefully invest capital in advanced technology and capacity to address suitable market growth opportunities into the future. We constantly evaluate the potential value addition of all opportunities in our decision making processes. Our management team is committed to continue to build value in the long-term for the benefit of our employees, administrating governments, customers, and shareholders.

Research and Development

In 2012, the research and development (R&D) expenses of the Technology Research & Development business unit were $193.6 million, which is equivalent to 11.4% of our sales.

The R&D efforts were focused primarily on advanced logic and system-on-chip (SOC) process technologies. SMIC achieved many significant milestones in 2012. In the area of advanced logic process technologies, the 40nm low-leakage (LL) process technology was fully qualified through multiple Multi Project Wafers (MPWs) and New Tape Outs (NTOs) and was released for volume manufacturing at the end of Q3 12. Both the High-K-Metal-Gate (HKMG) and PolySiON R&D programs on the 28nm node have progressed on schedule and are targeted to reach process freeze in Q4 13. Path finding for our 20nm process technology was completed in Q1 12 and the 20nm R&D program was formally established in Q2 12. In the area of memory process technologies, the development of 0.13µm e-EEPROM process technology for bank cards/social security cards or high-end smart cards has been successfully completed. SMIC also developed more advanced front-sideillumination (FSI) technology for supporting 1.75µm pixel image sensor products and successfully demonstrated a back-side-illumination (BSI) technology for 5+megapixel image sensor products. In the area of power management ICs (PMIC), the technology platform migration from 0.18um to 0.13um has been essentially completed to support broadened customer product applications in 2013. During 2012, SMIC achieved over 1,000 patent filings as a result of its technology R&D activities.

The building and strengthening of SMIC s technology R&D organization continued in 2012. The number of research and development engineers increased from approximately 450 at the end of 2011 to more than 600 at the end of 2012. Most members of the technology R&D team have experience in the semiconductor industry and have earned advanced degrees from leading universities in China and around the world (about 60% with an MS degree and about 15% with a PhD degree in engineering or science). To address planned R&D activities in 2013-14, the Technology Research & Development Division carried out further organization building and restructuring in 2012 for improved operational efficiency and plans to increase manpower by an additional 10% in 2013.

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Outlook for 2013

Our overall outlook for 2013 is cautiously optimistic. We have issued guidance estimating a 1% increase to 2% decrease in revenue in the first quarter of 2013 compared to fourth quarter 2012, which is more than 40% year over year growth compared to the first quarter of 2012. We are on track in implementing our new initiatives and strategies within SMIC and are proud to see some positive results, including even closer customer partnerships, and healthy fab utilization rates. We believe our growth driver in 2013 will be the continued ramp up of our 45nm for domestic and international customers.

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

Consolidated Financial Data

The summary consolidated financial data presented below as of and for the years ended December 31, 2011 and 2012 are derived from, and should be read in conjunction with, the audited consolidated financial statements, including the related notes, included elsewhere in this Annual Report. The summary consolidated financial data presented below as of and for the years ended December 31, 2011 and 2012 have been prepared in accordance with IFRS. The summary consolidated financial data presented as of and for the years ended December 31, 2008, 2009 and 2010 have been prepared in accordance with U.S. GAAP.

	Year Ended 31/12/12	Year Ended 31/12/11	Year Ended 31/12/10	Year Ended 31/12/09	Year Ended 31/12/08
		(in US$ thousands, except for earnings per share)			
Continuing operations					
Revenue	**1,701,598**	1,319,466	N/A	N/A	N/A
Cost of sales	**(1,352,835)**	(1,217,525)	N/A	N/A	N/A
Gross profit	**348,763**	101,941	N/A	N/A	N/A
Research and development	**(193,569)**	(191,473)	N/A	N/A	N/A
Sales and marketing expenses	**(31,485)**	(32,559)	N/A	N/A	N/A
General and administration expenses	**(107,313)**	(57,435)	N/A	N/A	N/A
Impairment loss on property, plant and equipment		(17,691)	N/A	N/A	N/A
Finance costs	**(39,460)**	(21,903)	N/A	N/A	N/A
Interest income	**5,390**	4,724	N/A	N/A	N/A
Other income	**6,190**	13,718	N/A	N/A	N/A
Other gains or losses	**23,220**	17,081	N/A	N/A	N/A
Share of profits of associates	**1,703**	4,479	N/A	N/A	N/A
Profit (loss) before tax	**13,439**	(179,118)	N/A	N/A	N/A
Income tax benefit (expense)	**9,102**	(82,503)	N/A	N/A	N/A
Profit (loss) for the year from continuing operations	**22,541**	(261,621)	N/A	N/A	N/A
Discontinued operations					
Profit for the year from discontinued operations		14,741	N/A	N/A	N/A
Profit (loss) for the year	**22,541**	(246,880)	N/A	N/A	N/A
Other comprehensive income					
Exchange differences on translating foreign operations	**70**	4,938	N/A	N/A	N/A
Total comprehensive income (expense) for the year	**22,611**	(241,942)	N/A	N/A	N/A
Profit (loss) for the year attributable to:					
Owners of the Company	**22,771**	(246,817)	N/A	N/A	N/A
Non-controlling interests	**(230)**	(63)	N/A	N/A	N/A
	22,541	(246,880)	N/A	N/A	N/A

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	Year Ended 31/12/12	Year Ended 31/12/11	Year Ended 31/12/10	Year Ended 31/12/09	Year Ended 31/12/08
		(in US$ thousands, except for earnings per share)			
Total comprehensive income for the year attributable to:					
Owners of the Company	**22,841**	(241,879)	N/A	N/A	N/A
Non-controlling interests	**(230)**	(63)	N/A	N/A	N/A
	22,611	(241,942)	N/A	N/A	N/A
Earnings per share					
From continuing and discontinued operations					
Basic	**0.00**	(0.01)	N/A	N/A	N/A
Diluted	**0.00**	(0.01)	N/A	N/A	N/A
From continuing operations					
Basic	**0.00**	(0.01)	N/A	N/A	N/A
Diluted	**0.00**	(0.01)	N/A	N/A	N/A

	For the year ended December 31,				
	2012	2011	2010(1)	2009(1)	2008(1)
		(in US$ thousands, except for per share and per ADS data)			
Sales	**N/A**	N/A	$ 1,532,449	$ 1,037,665	$ 1,322,092
Cost of sales	**N/A**	N/A	1,229,266	1,158,148	1,393,788
Gross profit (loss)	**N/A**	N/A	303,183	(120,483)	(71,696)
Operating expenses (income):					
Research and development	**N/A**	N/A	191,046	176,420	105,577
General and administrative	**N/A**	N/A	41,387	215,845	62,466
Selling and marketing	**N/A**	N/A	29,087	26,209	20,434
Impairment loss of long-lived assets	**N/A**	N/A	5,138	126,635	106,741
Loss (gain) from sale of equipment and other fixed assets	**N/A**	N/A	97	3,891	(2,890)
Litigation settlement	**N/A**	N/A		269,637	
Other operating income	**N/A**	N/A	(16,493)		
Total operating expenses, net	**N/A**	N/A	250,262	818,637	292,328
Income (loss) from operations	**N/A**	N/A	52,921	(939,120)	(364,024)
Other income (expense):					
Interest income	**N/A**	N/A	4,086	2,547	11,289
Interest expense	**N/A**	N/A	(22,563)	(24,587)	(50,733)
Change in the fair value of commitment to issue shares and warrants	**N/A**	N/A	(29,815)	(30,101)	
Foreign currency exchange gain	**N/A**	N/A	5,101	7,291	11,261
Others, net	**N/A**	N/A	6,534	(4,549)	6,371
Total other income (expense), net	**N/A**	N/A	(36,657)	(49,399)	(21,812)

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	For the year ended December 31,				
	2012	**2011**	**2010(1)**	**2009(1)**	**2008(1)**
	(in US$ thousands, except for per share and per ADS data)				
Income (loss) from continuing operations before income tax and equity investment	**N/A**	N/A	16,264	(988,519)	(385,836)
Income tax benefit (expense)	**N/A**	N/A	4,818	46,624	(26,433)
Gain (loss) from equity investment	**N/A**	N/A	285	(1,782)	(444)
Income (loss) from continuing operations	**N/A**	N/A	21,367	(943,677)	(412,713)
Income (loss) from discontinued operations net of tax effect	**N/A**	N/A	(7,356)	(18,800)	(19,667)
Net income (loss)	**N/A**	N/A	14,011	(962,477)	(432,380)
Accretion of interest to noncontrolling interest	**N/A**	N/A	(1,050)	(1,060)	(7,851)
Loss attributable to noncontrolling interest	**N/A**	N/A	140		
Net income (loss) attributable to Semiconductor Manufacturing International Corporation	**N/A**	N/A	13,100	(963,537)	(440,231)
Deemed dividends on convertible preferred shares	**N/A**	N/A			
Net income (loss) attributable to holders of ordinary shares	**N/A**	N/A	13,100	(963,537)	(440,231)
Net income (loss)	**N/A**	N/A	14,011	(962,477)	(432,380)
Other comprehensive income (loss):					
Foreign currency translation adjustment	**N/A**	N/A	(706)	53	(437)
Comprehensive income (loss)	**N/A**	N/A	13,305	(962,424)	(432,817)
Comprehensive income (loss) attributable to noncontrolling interest	**N/A**	N/A	(910)	(1,060)	(7,851)
Comprehensive income (loss) attributable to Semiconductor Manufacturing International Corporation	**N/A**	N/A	12,395	(963,484)	(440,668)
Earnings (loss) per ordinary share, basic	**N/A**	N/A	$ 0.00	$ (0.04)	$ (0.02)
Earnings (loss) per ordinary share, dilute	**N/A**	N/A	$ 0.00	$ (0.04)	$ (0.02)
Weighted average shares used in computing basic earnings (loss) per ordinary share	**N/A**	N/A	24,258,437,559	22,359,237,084	18,682,544,866
Weighted average shares used in computing diluted earnings (loss) per ordinary share	**N/A**	N/A	25,416,597,405	22,359,237,084	18,682,544,866

(1) Prepared under U.S. GAAP.

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	As of December 31,				
	2012	2011	2010	2009	2008
	(in US$ thousands)				
Statements of Financial Position Data:					
Cash and bank balances	**$ 358,490**	$ 261,615	N/A	N/A	N/A
Restricted cash	**217,603**	136,907	N/A	N/A	N/A
Prepaid operating expenses	**46,986**	52,805	N/A	N/A	N/A
Trade and other receivables	**328,211**	200,905	N/A	N/A	N/A
Inventories	**295,728**	207,308	N/A	N/A	N/A
Other financial assets	**18,730**	1,973	N/A	N/A	N/A
Assets classified as held-for-sale	**4,239**		N/A	N/A	N/A
Total current assets	**1,269,987**	861,513	N/A	N/A	N/A
Prepaid land use rights	**73,692**	77,231	N/A	N/A	N/A
Property, plant and equipment	**2,385,435**	2,516,578	N/A	N/A	N/A
Total assets	**4,073,160**	3,727,929	N/A	N/A	N/A
Total current liabilities	**1,108,086**	1,251,324	N/A	N/A	N/A
Total non-current liabilities	**688,622**	230,607	N/A	N/A	N/A
Total liabilities	**1,796,708**	1,481,931	N/A	N/A	N/A
Noncontrolling interest	**952**	1,182	N/A	N/A	N/A
Total equity	**2,276,452**	$ 2,245,998	N/A	N/A	N/A

	As of December 31,				
	2012	2011	2010(1)	2009(1)	2008(1)
	(in US$ thousands)				
Balance Sheet Data:					
Cash and cash equivalents	**N/A**	N/A	$ 515,808	$ 443,463	$ 450,230
Restricted cash	**N/A**	N/A	161,350	20,360	6,255
Accounts receivable, net of allowances	**N/A**	N/A	206,623	204,291	199,372
Inventories	**N/A**	N/A	213,404	193,705	171,637
Total current assets	**N/A**	N/A	1,179,102	907,058	926,858
Prepaid land use rights	**N/A**	N/A	78,798	78,112	74,293
Plant and equipment, net	**N/A**	N/A	2,351,863	2,251,614	2,963,386
Total assets	**N/A**	N/A	3,902,693	3,524,077	4,270,622
Total current liabilities	**N/A**	N/A	1,399,345	1,031,523	899,773
Total long-term liabilities	**N/A**	N/A	294,806	661,472	578,689
Total liabilities	**N/A**	N/A	1,694,152	1,692,995	1,478,462
Noncontrolling interest	**N/A**	N/A	39,004	34,842	42,795
Total equity	**N/A**	N/A	$ 2,169,537	$ 1,796,240	$ 2,749,365

(1) Prepared under U.S. GAAP.

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	For the year ended December 31,				
	2012	2011	2010	2009	2008
	(in US$ thousands, except percentages and operating data)				
Cash Flow Data:					
Profit (loss) for the year	**$ 22,541**	$ (246,880)	N/A	N/A	N/A
Non-cash adjustment to reconcile profit (loss) to net operating cash flow:					
Depreciation and amortization	**566,899**	551,857	N/A	N/A	N/A
Net cash from operating activities	**435,166**	379,368	N/A	N/A	N/A
Payments for property, plant and equipment	**(400,291)**	(931,574)	N/A	N/A	N/A
Net cash used in investing activities	**(522,277)**	(903,641)	N/A	N/A	N/A
Net cash from financing activities	**184,101**	268,855	N/A	N/A	N/A
Net increase (decrease) in cash and cash equivalents	**96,990**	(255,418)	N/A	N/A	N/A
Other Financial Data:					
Gross margin	**20.5%**	7.7%	N/A	N/A	N/A
Net margin	**1.3%**	18.7%	N/A	N/A	N/A
Operating Data:					
Wafers shipped (in units):					
Total(1)	**2,217,287**	1,703,615	N/A	N/A	N/A

(1) Including logic, DRAM, copper interconnects and all other wafers.

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	For the year ended December 31,				
	2012	**2011**	**2010(1)**	**2009(1)**	**2008(1)**
	(in US$ thousands, except percentages and operating data)				
Cash Flow Data:					
Net (loss) Income	**N/A**	N/A	14,011	(962,478)	(432,380)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	**N/A**	N/A	611,410	781,750	794,000
Net cash provided by operating activities	**N/A**	N/A	694,613	283,566	569,782
Purchase of plant and equipment	**N/A**	N/A	(491,539)	(217,269)	(669,055)
Net cash used in investing activities	**N/A**	N/A	(583,713)	(211,498)	(761,713)
Net cash provided (used) by financing activities	**N/A**	N/A	(37,851)	(78,902)	173,314
Net increase (decrease) in cash and cash equivalents	**N/A**	N/A	72,346	(6,767)	(19,054)
Other Financial Data:					
Gross margin	**N/A**	N/A	19.8%	11.6%	5.4%
Operating margin	**N/A**	N/A	3.5%	90.5%	27.5%
Net margin	**N/A**	N/A	0.9%	92.8%	32.7%
Operating Data:					
Wafers shipped (in units):					
Total(2)	**N/A**	N/A	1,979,851	1,334,261	1,590,778

(1) Prepared under U.S. GAAP.

(2) Including logic, DRAM, copper interconnects and all other wafers.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Sales

Sales increased by 29.0% from US$1,319.5 million for 2011 to US$1,701.6 million for 2012, primarily due to an increase in overall wafer shipments. For the full year of 2012, the overall wafer shipments were 2,217,287 units of 8-inch equivalent wafers, up 30.2% year-on-year.

The average selling price1 of the wafers the Company shipped decreased from US$775 per wafer in 2011 to US$767 in 2012. The percentage of wafer revenues from advanced technologies, 90nm and below increased from 28.4% to 41.7% between these two years.

Cost of sales and gross profit (loss)

Cost of sales increased by 11.1% from US$1,217.5 million for 2011 to US$1,352.8 million for 2012, primarily due to an increase in overall water shipments. Out of the total cost of sales US$403.0 million and US$415.6 million was attributable to depreciation and amortization for the year ended December 31, 2012 and 2011, respectively.

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The Company s gross profit was US$348.8 million for 2012 compared to US$101.9 million in 2011. Gross margins were 20.5% in 2012 compared to 7.7% in 2011. The increase in gross margins was primarily due to an increase in the production volume which resulted in higher revenues and utilization improvements.

Profit (loss) for the year from continuing operations

Expenses from continuing operations increased by 19.3% from US$281.1 million for 2011 to US$335.3 million for 2012 primarily due to an increase in general and administration expenses in 2012.

Research and development expenses increased only by 1% from US$191.5 million for 2011 to US$193.6 million for 2012.

General and administrative expenses increased by 86.8% from US$57.4 million for 2011 to US$107.3 million for 2012. The increase is primarily due to an increase in employee bonus, city maintenance and construction tax expenses and extra charges for education in 2012. In addition, in 2011, the Company settled certain disputes with respective third party debtors by entering into contractually binding agreements which legally released the Company from certain obligations totaling $19.0 million. The forgiveness of debt has been recorded as a reduction of general and administrative expense and other income respectively. In addition, the recovery of bad debt expense of $6.4 million and $2.0 million was recorded as a reduction of general and administrative expense for the year ended December 31, 2011 and 2012, respectively.

Sales and marketing expenses decreased by 3.4% from US$32.6 million for 2011 to US$31.5 million for 2012.

Other gains increased by 35.9% from US$17.1 million for 2011 to US$23.2 million for 2012 primarily due to a gain of US$19.4 million arising from the disposal of part of the living quarters in Shanghai and a US$13.7 million decline in foreign exchange gain in 2012.

Other income decreased by 54.7% from US$13.7 million for 2011 to US$6.2 million for 2012 due to the Company settled certain dispute with a third party debtor by entering into contractually binding agreement which legally released the Company from certain obligations in 2011.

As a result, the Company s profit (loss) from continuing operations was US$22.5 million and (US$261.6) million in 2012 and 2011 respectively.

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1 Based on simplified average selling price which is calculated as total revenue divided by total shipments.

Discontinued Operations

On March 1, 2011, the Company sold its majority ownership interest in Semiconductor Manufacturing International (AT) Corporation (AT) and deconsolidated the entity. As a result, all previously issued preferred securities by AT were cancelled. The Company retained a 10% interest in AT and has accounted and will continue to account for such investment under the cost method since March 1, 2011 as the Company no longer has a controlling financial interest nor significant influence over AT. The Company reported the results of AT as a discontinued operation in the condensed consolidated statements of comprehensive income. No cash or other consideration was received by the Company in conjunction with the disposition.

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In 2011, the Company recorded a gain of $17.1 million on the deconsolidation of AT equal to the difference between (i) the sum of (a) the fair value of the retained noncontrolling interest in AT, and (b) the carrying amount of the aforementioned noncontrolling interest in AT, and (ii) the carrying amount of AT s assets and liabilities. Income from discontinued operations of $14.7 million represents both the results of operations of AT for the period from January 1, 2011 to the date it was deconsolidated and the gain on deconsolidation of AT.

Profit (Loss) for the Year

Due to the factors described above, the Company recorded a profit of US$22.5 million in 2012 compared to a loss of US$246.9 million in 2011.

Funding Sources for Material Capital Expenditure in the Coming Year

For 2013, the Company plans to spend about $600 million in capital expenditure for foundry operations. The planned capital expenditure is mainly to ramp-up our 45/40nm and 28/32nm capacity in Shanghai and Beijing to match our customers demand. 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. The 2013 planned capital expenditure figure does not account for additional expenditures that the Company may incur in connection with the establishment of the BJ Joint Venture. As announced in May 2012, the Company is presently negotiating the terms of a joint venture with Beijing municipal government entities to expand our Beijing production site, or the BJ Joint Venture. While there can be no assurance that the Company will enter into the BJ Joint Venture, the Company expects that this project would require us to incur significant capital expenditures during its start-up phase, and from time to time thereafter, and that the Company would need to borrow under our existing credit lines or otherwise obtain additional capital to satisfy our funding obligations under this project.

Bad Debt Provision

The Company determines its bad debt provision based on the Company s historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Company s bad debt provision excludes receivables from a limited number of customers due to their high credit worthiness. The Company provides bad debt provision based on the age category of the remaining receivables. A fixed percentage of the total amount receivable is applied to receivables in each past due age category, ranging from 1% for the shortest past due age category to 100% for the longest past due age category. Any receivables which have been fully provided for and are subsequently deemed non-collectible will be written off against the relevant amount of provision.
The Company s recognized bad debt provision in 2012 and 2011 amounted to US$4.6 million and US$0.6 million, respectively. The Company reviews, analyzes and adjusts bad debt provisions on a monthly basis.

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Debt Arrangements

Set forth in the table below are the aggregate amounts, as of December 31, 2012, of the Company s future cash payment obligations under the Company s existing contractual arrangements on a consolidated basis:

Contractual obligations		Total		Payments due by period Less than 1 year		1-2 years		2-5 years
				(consolidated, in US$ thousands)				
Short-term borrowings	$	383,225	$	383,225	$		$	
Secured long-term loans		713,190		184,578		309,000		219,612
Purchase obligations(1)		507,190		507,190				
Other long-term obligations(2)		29,374		29,374				
Total contractual obligations	$	1,632,979	$	1,104,367	$	309,000	$	219,612

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

(2) Represents the settlement with TSMC for an aggregate of $200 million payable in installments over five years.

As of December 31, 2012, the Company s outstanding long-term liabilities primarily consisted of US$713.2 million in secured bank loans, which are repayable in installments starting in June 2013, with the last payment in March 2016.

2011 EXIM Bank USD Loan (SMIC Shanghai)

In April 2011, Semiconductor Manufacturing International (Shanghai) Corporation (SMIS) entered into the Shanghai EXIM Bank USD loan I, a two-year loan facility in the principal amount of US$69.5 million with The Export-Import Bank of China. This two-year bank facility was used to finance the planned expansion for SMIS s 12-inch fab. As of December 31, 2012, SMIS had drawn down US$69.5 million and repaid US$1 million, on this loan facility. The principal amount of $68.5 million will be repayable in June 2013. The interest rate ranged from 4.40% to 4.79% during 2012. The interest expense incurred in 2012 was US$3.4 million, of which US$1.1 million was capitalized as part of the costs of assets under construction in 2012.

The total outstanding balance of the facilities is secured by certain equipment of SMIS with an original cost of US$99.6 million as of December 31, 2012.

The Shanghai EXIM Bank USD loan I contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2012.

2012 EXIM Bank USD Loan (SMIC Shanghai)

In October 2012, SMIS entered into the Shanghai EXIM Bank USD loan II, a new two-year loan facility in the principal amount of US$70 million with The Export-Import Bank of China, which is secured by certain equipment of SMIS. This two-year bank facility was used to finance the planned expansion for SMIS s 12-inch fab. As of December 31, 2012, SMIS had drawn down US$70 million. The principal amount of $70 million will be repayable in October 2014. The interest rate is 4.55%. The interest expense incurred in 2012 was US$0.4 million, of which US$0.1 million was capitalized as part of the costs of assets under construction in 2012.

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The Shanghai EXIM Bank USD loan II contains covenants to maintain certain minimum coverage ratio. SMIS was in compliance with these covenants as of December 31, 2012.

2012 USD Loan (SMIC Shanghai)

In March 2012, SMIS entered into a loan facility in the aggregate principal amount of US$268 million from a consortium of international and Chinese banks. This three-year bank facility is used to finance the working capital for SMIS s 8-inch fab. The facility is secured by the manufacturing equipment located in the SMIS 8-inch fabs, buildings and land use right of SMIS. As of December 31, 2012, SMIS had drawn down US$245.6 million, on this loan facility. The principal amount is repayable from September 2013 to March 2015. The interest rate on this loan facility ranged from 4.03% to 4.24% in 2012. The interest expense incurred in 2012 was US$7.9 million, of which US$2.4 million was capitalized as part of the costs of assets under construction in 2012.

Any of the following in respect of SMIS would constitute an event of default during the term of the loan agreement:

1. (Short-term Loans + Long-term Debt Current Portion + Long-term Bank Loans)/Total Equity is more than 60%; or
2. (Net profit + Depreciation + Amortization + Income Tax Provision + Financial Expenses)/Financial Expenses is less than 500% before December 31, 2012, and less than 1000% after January 1, 2013; or
3. (Total Equity - Acquired Intangible Assets Net) is less than US$800 million before December 31, 2012, and less than US$1,000 million after January 1, 2013; or
4. Debt Service Coverage Ratio is less than 2.0X during the term of the loan repayment. Debt Service Coverage Ratio means trailing four quarters EBITDA (Net Profit + Depreciation + Amortization + Income Tax Provision + Financial Expenses) divided by scheduled repayment of long term loan and related financial expense for all bank borrowings (including hire purchases, leases and other borrowed monies, but not including medium/short term revolving bank loans) for the same period.

SMIS was in compliance with these covenants as of December 31, 2012.

2005 USD Loan (SMIC Beijing)

In May 2005, Semiconductor Manufacturing International (Beijing) Corporation (SMIB) entered into the Beijing USD syndicate loan, a five-year loan facility in the aggregate principal amount of US$600 million, with a syndicate of financial institutions based in the PRC. The principal amount was repayable starting from December 2007 in six equal semi-annual installments. On June 26, 2009, SMIB amended the syndicated loan agreement to defer the commencement of the three remaining semi-annual payments to December 28, 2011. The amendment includes a provision for mandatory early repayment of a portion of the outstanding balance if SMIB s financial performance exceeds certain pre-determined benchmarks. The amendment was accounted for as a modification as the terms of the amended instrument were not substantially different from the original terms. SMIB made the repayment of remaining outstanding borrowing US$180.1 million in 2012. The interest rate ranged from 2.94% to 2.99%. The interest expense incurred in 2012 was US$4.1million, of which US$1.0 million was capitalized as part of the costs of assets under construction in 2012.

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2011 EXIM USD & RMB Loan (SMIC Beijing)

In September 2011, SMIB entered into the USD & RMB Loan, a two-year working capital loan facility in the principal amount of US$25 million & RMB 150 million (approximately $24 million) with The Export-Import Bank of China. This two-year bank facility was used for working capital purpose. As of December 31, 2012, SMIB had drawn down US$25 million & RMB 150 million on this loan facility. The principal amount is repayable in September 2013. The interest rate on this loan facility ranged from 6.15% to 6.65% in 2012. The interest expense incurred in 2012 was US$3.2 million, of which US$0.7 million was capitalized as part of the costs of assets under construction in 2012.

The total outstanding balance of this USD and RMB Loan is secured by SMIB s plant and equipment with an original cost of US$132.3 million as of December 31, 2012.

2012 EXIM USD Loan (SMIC Beijing)

In March 2012, SMIB entered into the new USD Loan, a two-year working capital loan facility in the principal amount of US$30 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, 2012, SMIB had drawn down US$20 million on this loan facility. The principal amount is repayable in March 2014. The interest rate on this loan facility ranged from 6.46% to 6.54% in 2012. The interest expense incurred in 2012 was US$1 million, of which US$0.2 million was capitalized as part of the costs of assets under construction in 2012.

2012 USD Loan (SMIC Beijing)

In March 2012, SMIB entered into the Beijing USD syndicate loan, a seven-year loan facility in the aggregate principal amount of $600 million, with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to expand the capacity of SMIB s 12 inch fabs. The facility is secured by the manufacturing equipment located in the SMIB and Semiconductor Manufacturing International (Tianjin) Corporation (SMIT) fabs, and 100% equity pledge of SMIB and SMIT. As of December 31, 2012, SMIB had drawn down US$260 million on this loan facility which is repayable from March 2014 to March 2016. The interest rate on this loan facility ranged from 6.16% to 6.24% in 2012. The interest expense incurred in 2012 was US$12.2 million, of which US$2.3 million was capitalized as part of the costs of assets under construction in 2012.

Any of the following in respect of SMIB would constitute an event of default during the term of the loan agreement:

1. Total Liabilities/Total Assets is more than 65% (Total Liabilities exclude Shareholder s loans); or

2.

(Net Profit + Depreciation + Amortization + Interest Expenses + Cash flow from Financing)/(Principal + Interest Expenses) is less than 100%.

SMIB was in compliance with these covenants as of December 31, 2012.

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2005 EUR Loan

On December 15, 2005, the Company entered into a EUR denominated long-term loan facility agreement in the aggregate principal amount of EUR 85 million (equivalent to approximately $105 million) with ABN Amro Bank N.V. Shanghai Branch. The drawdown period of the facility ended on the earlier of (i) thirty six months after the execution of the agreement or (ii) the date on which the loans had been fully drawn down. Each draw down made under the facility was repaid in full by us in ten equal semi-annual installments. In May and June 2012, SMIS repaid the remaining balance of EUR 6.4 million. The interest rate ranged from 2.6% to 4.7% in 2012. The interest expense incurred in 2012 was US$0.23 million of which US$0.09 million was capitalized as part of the costs of assets under construction in 2012.

As of December 31, 2012, the Company had 29 short-term credit agreements that provided total credit facilities of up to $1 billion on a revolving credit basis. As of December 31, 2012, the Company had drawn down $383.2 million under these credit agreements and $629.3 million was available for future trading and borrowing. The outstanding borrowings under the credit agreements are unsecured, except for US$129 million, which is secured by time deposits of US$108.4 million, and an additional balance of US$5.9 million, which is secured by real property with an original cost of US$2.1 million. The interest expense incurred in 2012 was US$22.2 million of which US$8.6 million was capitalized as additions to assets under construction. The interest rate ranged from 1.01% to 7.2% in 2012.

Capitalized Interest

Interest incurred on funds used to construct plant and equipment during the active construction period is capitalized, net of government subsidies received. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interest of US$16.5 million and US$18.2 million in 2012 and 2011, respectively, net of government subsidies, has been added to the cost of the underlying assets during the year and is amortized over the respective useful life of the assets. In 2012 and 2011, the Company recorded amortization expenses relating to the capitalized interest of US$9.9 million and US$7.3 million, respectively.

Commitments

As of December 31, 2012, the Company had commitments of US$25.6 million for facilities construction obligations in connection with the construction of the Company s Beijing, Tianjin and Shanghai facilities. As of December 31, 2012, the Company had commitments of US$481.6 million to purchase machinery and equipment for Beijing, Tianjin, Shanghai and SilTech Semiconductor Shanghai Corporation (SilTech) fabs.

Debt to Equity Ratio

As of December 31, 2012, the Company s net debt to equity ratio was approximately 32.42%. Please refer to Note 35 to our financial statements for calculation.

Foreign Exchange Rate Fluctuation Risk

The Company s revenue, expense, and capital expenditures are primarily transacted in U.S. dollars. The Company also enters into transactions in other currencies. The Company is primarily exposed to changes in exchange rates for the Euro, Japanese Yen, and RMB.

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To minimize these risks, the Company purchases foreign-currency forward exchange contracts with contract terms normally lasting less than twelve months to protect against the adverse effect that exchange rate fluctuations may have on foreign-currency denominated activities. These forward exchange contracts are principally denominated in RMB, Japanese Yen or Euros and do not qualify for hedge accounting in accordance with IFRS.

Cross Currency Swap Fluctuation Risk

On December 15, 2005, the Company entered into a long-term loan facility agreement in the aggregate principal amount of EUR 85 million. The Company was primarily exposed to changes in the exchange rate for the Euro.

To minimize the currency risk, the Company entered into cross currency swap contracts with a contract term fully matching the repayment schedule of part of this Euro long-term loan to protect against the adverse effect of exchange rate fluctuations arising from foreign-currency denominated loans. The cross currency swap contracts did not qualify for hedge accounting in accordance with IFRS.

For the portion of the Euro long-term loan that was not covered by cross currency swap contracts, we had separately entered into foreign exchange forward contracts to minimize the currency risk. These foreign exchange forward contracts did not qualify for hedge accounting in accordance with IFRS.

Outstanding Foreign Exchange Contracts

As of December 31, 2012, the Company had outstanding foreign currency forward exchange contracts with notional amounts of US$82.8 million. As of December 31, 2012, the fair value of foreign currency forward exchange contracts was approximately US$0.05 million, which is recorded in other current assets. The foreign currency exchange contracts will mature during 2013.

The Company had US$165.6 million of foreign currency exchange contracts outstanding as of December 31, 2011, all of which matured in 2012.

The Company had US$92.9 million of foreign currency exchange contracts outstanding as of December 31, 2010, all of which matured in 2011.

The Company does not enter into foreign currency exchange contracts for speculative purposes.

	As of December 31, 2012 (in US$ thousands)		As of December 31, 2011 (in US$ thousands)		As of December 31, 2010 (in US$ thousands)	
	2012	Fair Value	2011	Fair Value	2010	Fair Value
Forward Exchange Agreement						
(Receive Eur/Pay US$) Contract Amount			4,653	(88)	10,175	(90)
(Receive RMB/Pay US$) Contract Amount	**82,810**	**52**	160,993	211	82,685	305
Total Contract Amount	**82,810**	**52**	165,646	123	92,860	215

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Outstanding Cross Currency Swap Contracts

As of December 31, 2012, the Company had no outstanding cross currency swap contracts. Notional amounts of US$3.7 million outstanding as of December 31, 2011 were settled in May 2012. A realized foreign exchange loss of US$0.5 million was recorded for 2012.

Interest Rate Risk

The Company s exposure to interest rate risks relates primarily to the Company s long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the Company s debt obligations outstanding as of December 31, 2012. The Company s long-term debt obligations are all subject to variable interest rates. The interest rates on the Company s U.S. dollar-denominated loans are linked to the LIBOR. The interest rates on the Company s RMB denominated loans are linked to People s Bank of China (PBOC) RMB Interest Rate. As a result, the interest rates on the Company s loans are subject to fluctuations in the underlying interest rates to which they are linked.

	As of December 31	
	2013	2014
	(Forecast) (in US$ thousands, except percentages)	
US$ denominated		
Average balance	618,595	397,976
Average interest rate	5.17%	5.35%
RMB denominated		
Average balance	18,669	
Average interest rate	6.65%	
Weighted average forward interest rate	5.21%	5.35%

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Joint Venture Agreement and JV Memorandum with Hubei Science & Technology Investment Group Co., Ltd.

On May 12, 2011, the Company entered into a joint venture agreement and a memorandum with Hubei Science & Technology Investment Group Co., Ltd., or Hubei Science & Technology, a company incorporated in the PRC and wholly-owned by the Wuhan East Lake Hi-Tech Development Zone Administrative Committee, to invest in and manage Wuhan Xinxin Semiconductor Manufacturing Corporation s (Wuhan Xinxin) 12-inch wafer production line, or the Wuhan JV Agreement.

Pursuant to the Wuhan JV Agreement, the parties shall establish Semiconductor Manufacturing International (Wuhan) Corp., a joint venture company to be established in Wuhan, Hubei Province, the PRC, or the Wuhan JV Company, for the purpose of further developing 12-inch wafer production facilities and implementing advanced technologies for the manufacturing of integrated circuits. Under the Wuhan JV Agreement, the Company and Hubei Science & Technology shall contribute 66.66% and 33.34%, respectively, of the registered capital of the Wuhan JV Company.

In April 2012, the Company had announced that the Company anticipated that the formation of the Wuhan JV Company would be delayed until the first half of 2013. the Company currently expects that the formation of any business collaboration with Hubei Science & Technology will be further delayed due to changing market conditions in China and the current status of the global economy. Both the Company and Hubei Science & Technology require additional time to analyze strategies and collaboration direction, aiming to optimize the potential interests of both parties. Furthermore, after having undergone a transition period in transferring responsibility to Wuhan Xinxin, the Company no longer manages and operates Wuhan Xinxin s 12-inch fab.

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DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Members of the Board are re-elected or elected by the Company s shareholders. As of December 31, 2012, the Board consisted of nine (9) Directors, and one (1) Alternate Director. The Board of the Company for the year 2012 comprises:

Name of Director	Age	Position	Class	Appointment Commencement Date
Zhang Wenyi	66	Chairman and Executive Director	I	2011/6/30
Tzu-Yin Chiu	56	Chief Executive Officer and Executive Director	I	2011/8/5
Chen Shanzhi	44	Non-executive Director	II	2009/6/23
Gao Yonggang	48	Non-executive Director	I	2009/6/23
Lawrence Juen-Yee Lau	68	Non-executive Director	III	2011/6/30
Zhou Jie	45	Non-executive Director	III	2009/1/23
Tsuyoshi Kawanishi	84	Independent Non-executive Director	III	2001/9/25
Frank Meng	52	Independent Non-executive Director	II	2011/8/23
Lip-Bu Tan	53	Independent Non-executive Director	II	2001/11/3
Datong Chen	58	Alternate Director of Lawrence Juen-Yee Lau		2012/5/10

The Class III Directors will retire from office at the 2013 AGM pursuant to Article 90 of the Company s Articles of Association. Each of them will be eligible for re-election for a term of three years to hold office as a Class III Director until the 2016 AGM.

Senior Management

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

Name	Age	Position
Tzu-Yin Chiu	56	Chief Executive Officer and Executive Director
Gareth Kung	48	Chief Financial Officer and Company Secretary
Shiuh-Wuu Lee	65	Senior Vice President, Technology Development
Haijun Zhao	49	Senior Vice President, North Operations
Jyishyang Liu	60	Senior Vice President, Central Engineering & Services, Central Operations (Acting)
Dong Cui	41	Senior Vice President, Investment & Strategic Business Development
Mike Rekuc	64	Senior Vice President, Worldwide Sales & Marketing
John Peng	48	Associate Vice President, General Manager of China BU

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Brief Biographical Details

Board of Directors

Zhang Wenyi

Chairman of the Board, Executive Director

Mr. Zhang Wenyi joined SMIC in 2011 and is currently the Chairman of the Board. He is also a director of several subsidiaries of SMIC. Mr. Zhang is an electronics industry veteran and entrepreneur well known for his achievements in both the semiconductor and CRT industries. Mr. Zhang previously served as the Chairman of the Board of Shanghai Hua Hong (Group) Co., Ltd., China s first 8-inch foundry, and Chairman of the Board of Hua Hong Group s subsidiary Shanghai Hua Hong NEC Electronics Co., Ltd., where he successfully transformed its business model into that of a foundry services company. He was also Chairman of Shanghai Hua Hong International, Inc., where he spearheaded the implementation of international and professional management practices. Mr. Zhang was previously General Manager of Shaanxi IRICO Color Picture Tube Plant and President and Chairman of IRICO Group Corporation. Under his leadership, IRICO stood out among fierce competition as China s most profitable CRT manufacturer. Mr. Zhang has also served as Vice Minister of China s Ministry of Electronics Industry. In this capacity, he oversaw the development of China s electronic devices and components industry and was responsible for managing the Electronics Industrial Fund, which supports emerging technologies and innovation within the industry. Mr. Zhang received his B.S. in electrical engineering from Tsinghua University in Beijing and holds the professional title of senior engineer. He was a member of the 11th National Committee of the Chinese People s Political Consultative Conference.

Tzu-Yin Chiu

Chief Executive Officer & Executive Director

Dr. Tzu-Yin Chiu joined SMIC as CEO and Executive Director in 2011. He is also a director of most of SMIC s subsidiaries. Dr. Chiu is a semiconductor industry veteran with over 30 years of experience spanning technology research, business development, operations and corporate management. Prior to joining SMIC, Dr. Chiu was President and CEO of Hua Hong NEC. He has served in executive positions across the semiconductor industry, including as President and COO of Silterra Malaysia, Senior Vice President and Chief Operating Officer of Hua Hong International Management and President of Hua Hong Semiconductor International, Senior Vice President of Shanghai Operations at SMIC, and Senior Director of Fab Operations at Taiwan Semiconductor Manufacturing Company Limited (TSMC). He began his career in the United States at AT&T Bell Laboratories, rising to become the department head of its High Speed Electronics Research Department and Silicon Research Operations Department. Dr. Chiu holds a bachelor s degree from Rensselaer Polytechnic Institute, a Ph.D. in electrical engineering and computer science from the University of California, Berkeley, and an executive MBA from Columbia University. A senior member of the IEEE, Dr. Chiu holds 40 semiconductor technology patents with 60 additional patents still pending. He has published over thirty technical articles.

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Chen Shanzhi

Non-Executive Director

Dr. Chen Shanzhi has been a Director since 2009. Dr. Chen is currently the SVP, CTO 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. He has published a book and nearly 100 papers in domestic and foreign academic conferences and publications, most of which 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.

Gao Yonggang

Non-Executive Director

Dr. Gao Yonggang has been a Director since 2009, and is also a director of several subsidiaries of the Company. Dr. Gao is currently 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 is also a director and the Senior Vice President of Datang Telecom Technology & Industry Holdings Co., Ltd., a standing committee member of Accounting Society of China. Dr. Gao has more than 20 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 such as commercial, industrial, municipal utilities, and many different types of organizations including state-owned enterprises, private companies, joint ventures, and government agencies. In November 2004, he was appointed as the Chief Financial Officer of the China Academy of Telecommunications Technology by the State-owned Assets Supervision and Administration Commission. Dr. Gao graduated from Nankai University with a Ph.D. in management. He has made in-depth studies in the field of financial investment, and has been involved in a number of key research projects and has many publications in this area. Dr. Gao is a Fellow of the Institute of Chartered Accountants in Australia.

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Lawrence Juen-Yee Lau

Non-Executive Director

Professor Lawrence Juen-Yee Lau has been a Director since 2011. Professor Lau received his B.S. degree (with Great Distinction) in Physics from Stanford University in 1964 and his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969, respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976 and the first Kwoh-Ting Li Professor in Economic Development at Stanford University in 1992. From 1992 to 1996, he served as a Co-Director of the Asia-Pacific Research Center at Stanford University, and from 1997 to 1999 as the Director of the Stanford Institute for Economic Policy Research. He became Kwoh-Ting Li Professor in Economic Development, Emeritus, at Stanford University upon his retirement in 2006. From 2004 to 2010, Professor Lau served as Vice-Chancellor (President) of The Chinese University of Hong Kong. In 2010, he was appointed Chairman of CIC International (Hong Kong) Co., Limited, a subsidiary of China Investment Corporation, and serves concurrently as Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. Professor Lau specializes in economic development, economic growth, and the economies of East Asia, including that of China. He has authored, coauthored, or edited six books and published more than 170 articles and notes in professional journals. Professor Lau serves as a member of the 12th National Committee of the Chinese People s Political Consultative Conference and a Vice-Chairman of its Subcommittee of Population, Resources and Environment, as well as Vice-Chairman of the Advisory Committee of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen. Professor Lau also serves as a member of the Exchange Fund Advisory Committee of the Hong Kong Special Administrative Region and its Currency Board and Governance Sub-Committees, the Greater Pearl River Delta Business Council and as an adviser to the Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council. He was appointed a Justice of the Peace in Hong Kong in July 2007. Professor Lau is also non-executive Vice-Chairman of CITIC Capital Holdings Limited, and an independent non-executive director of CNOOC Limited and Far EasTone Telecommunications Company Limited.

Zhou Jie

Non-Executive Director

Mr. Zhou Jie has been a Director since 2009. Mr. Zhou is the president and an executive director of Shanghai Industrial Investment (Holdings) Co. Ltd. (SIIC), the vice chairman, the chief executive officer as well as an executive director of Shanghai Industrial Holdings Limited (SIHL), and the chairman of Shanghai Pharmaceutical (Group) 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 chairman and general manager of Shanghai S.I. Capital Co., Ltd. He has nearly 20 years experience in investment banking and capital markets operation.

Tsuyoshi Kawanishi

Independent Non-Executive Director

Mr. Tsuyoshi Kawanishi has been a Director since 2001 and is also a director of a subsidiary of the Company. Mr. Kawanishi has more than 50 years of experience in the electronics industry with Toshiba Corporation, where he served as, among other positions, senior executive vice president and senior advisor. Mr. Kawanishi is an advisor to Accenture Ltd. and a number of private companies. Mr. Kawanishi has been proactively leading the semiconductor industry through his strong leadership as an advisor to Semiconductor Equipment and Materials International (SEMI).

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Frank Meng

Independent Non-Executive Director

Mr. Frank Meng has been a Director since 2011. Mr. Meng has been in the telecommunications and semiconductor industries for over 20 years. He received his BS degree in microwave and fiber optics from the Beijing University of Posts and Telecommunications and his MSEE degree from the Polytechnic University of New York. Mr. Meng joined Motorola in April 2010 and is now the Senior Vice President and President of Greater China of Motorola Mobility, a wholly owned subsidiary of Google, where he is responsible for overseeing all aspects of the company s business and sales operations in mainland China, Hong Kong and Taiwan. From September 2002 to April 2010, Mr. Meng served as Senior Vice President and President of Greater China of Qualcomm Inc. Prior to joining Qualcomm, he was the Chief Operating Officer of Tecom Asia Group in Beijing, and he had held various senior posts at Asia.com Inc. and Leyou.com Inc., in Beijing, Infocomm International Corp., in Taipei and Allen Telecom Inc., in Cleveland, Ohio. Mr. Meng is a member of the Expert Committee for Telecommunication Economy (ECTE) of China s Ministry of Industry and Information Technology.

Lip-Bu Tan

Independent Non-Executive Director

Mr. Lip-Bu Tan has been a Director since 2002 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$1.9 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., SINA, United Overseas Bank, 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.

Datong Chen

Alternate Director of Lawrence Juen-Yee Lau

Dr. Datong Chen has been an Alternate Director to Professor Lawrence Juen-Yee Lau, a Non-executive Director of the Company, since 2012. Dr. Chen has more than 20 years of investment and operations experience in the communications technology and semiconductor industries. He is the co-founder and managing director of WestSummit Capital Management Limited. Prior to co-founding WestSummit Capital, Dr. Chen was a venture partner at Northern Light Venture Capital, where he led investments in the semiconductor industry. Dr. Chen was also one of the founders of Spreadtrum Communications, Inc. He has been a director of

Spreadtrum since 2004, and served as Spreadtrum s chief technology officer from 2001 to 2008. Prior to that, he co-founded OmniVision Technologies, Inc. and served as vice president of technology from 1995 to 2000. Dr. Chen holds a bachelor of science degree, master s degree and Ph.D. degree in electrical engineering from Tsinghua University, and served as a post-doctoral researcher at both the University of Illinois and Stanford University. He holds over 34 U.S. and European patents.

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

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

- Mr. Lip-Bu Tan retired from the board of Flextronics International at the company s 2012 annual general meeting, and has resigned from the board of Inphi Corporation effective December 31, 2012.
- Dr. Chen Shanzhi ceased to be a member of the expert group of the information technology of the National High Technology Research and Development Program of China (863 Program) in 2012.

Senior Management

Tzu-Yin Chiu

Biographical details are set out on page 33.

Gareth Kung joined SMIC in July 2012. Prior to joining SMIC as Chief Financial Officer and Company Secretary, Mr. Kung had over twenty-two years of experience working as a chief financial officer of publicly listed companies, private equity investment manager, banker and auditor. From 2003 to 2009, Mr. Kung worked at SMIC as the Group Treasurer and subsequently as the Group Controller. Mr. Kung earned his MBA from The University of Western Ontario and a bachelor s degree in accountancy from National University of Singapore. Mr. Kung is a Certified Public Accountant in Hong Kong, Australia and Singapore as well as a Fellow of the Association of Chartered Certified Accountants. Mr. Kung is also a Chartered Financial Analyst.

Shiuh-Wuu Lee joined SMIC in 2010, and was named Vice President of Technology Development in September 2011. In June 2012 he was promoted to Senior Vice President. Dr. Lee has over 30 years of experience in the semiconductor industry. Prior to arriving at SMIC, he distinguished himself at Intel Corporation and AT&T Bell Laboratories, where he was engaged in logic technology development and developed state-of-the-art tools for microprocessor design. He twice received the Distinguished Technical Achievement award at Bell Labs, served as a technical director at Intel and was elected an Intel Fellow in 2004, the company s highest technical honor. Dr. Lee received his Ph.D. from the University of Michigan. He is actively involved in semiconductor technology conferences, and he has 54 published technical journal and conference papers. He is the holder of three patents.

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. He has 19 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.

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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. He has 28 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.

Dong Cui joined SMIC in September 2011 as Associate Vice President. In June 2012, he was promoted to Senior Vice President, initially overseeing Administration and Public Affairs. As of March 2013, he oversees Investment and Strategic Business Development. Prior to joining SMIC, from 2009 to 2011, Mr. Cui was President of China Electronics Corporation Hua Hong International Inc. and its investment management arm in Silicon Valley, CEC Capital Management LLC (CEC Capital). From 2002 to 2009, he was Vice President of Shanghai Hua Hong International Inc. and its investment management arm, Hua Hong International USA, LLC, which focused on venture capital investment in the semiconductor industry. From 1998 to 2002, Mr. Cui served as the deputy director of the office of the board of Shanghai Hua Hong Group and later as director of its Beijing representative office. From 1996 to 1998, Mr. Cui was the executive secretary of the general office of the Ministry of Electronics Industry. Mr. Cui received a BA in Chinese Language and Literature from Beijing Normal University, an MS in Management Science and Engineering from Tongji University, Shanghai, an MS in Finance from Golden Gate University, and a Certificate of Accounting in Tax from De Anza College. He has a total of 17 years of experience in the semiconductor industry.

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. 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.

John Peng first joined SMIC in 2001 and is currently Associate Vice President and General Manager of the China Business Unit. Prior to joining SMIC, he was Senior Operations Director of Wuxi CSMC-HJ Semiconductor Company Limited, where he was responsible for fab operations and IT, among other responsibilities. He was also a deputy general manager and fab director at Huajing Microelectronics, where he was responsible for China s National Project 908 AT&T (Lucent) technology transfer, and built China s most advanced 6-inch fab in 1996. Mr. Peng received his Bachelor s degree in Physics from Sichuan University, and he received his master s degree in Microelectronics from Xidian University in 1988. He is a Ph.D. candidate in Microelectronics at Southeast University. He has published more than 10 technical articles.

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REPORT OF THE DIRECTORS

Subsidiaries

Except as otherwise listed below, the Company owns 100% of the issued and outstanding share capital of the following subsidiaries. As of December 31, 2012, these subsidiaries are as follows:

1. ( )

Semiconductor Manufacturing International (Shanghai) Corporation*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$5,200,000,000

Registered capital: US$1,740,000,000

Equity holder: the Company (100%)

2. ( )

Semiconductor Manufacturing International (Beijing) Corporation*

Principal place of operation: Beijing, PRC

Place of incorporation: Beijing, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$3,000,000,000

Registered capital: US$1,000,000,000

Equity holder: the Company (100%)

3. ( )

Semiconductor Manufacturing International (Tianjin) Corporation*

Principal place of operation: Tianjin, PRC

Place of incorporation: Tianjin, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$1,100,000,000

Registered capital: US$690,000,000

Equity holder: the Company (100%)

4.

SMIC Japan Corporation*

Principal country of operation: Japan

Place of incorporation: Japan

Authorised capital: JPY10,000,000 divided into 200 shares of a par value of JPY50,000

Equity holder: the Company (100%)

5. SMIC, Americas

Principal country of operation: U.S.A.

Place of incorporation: California, US

Authorised capital: US$500,000 divided into 50,000,000 shares of common stock of a par value of US$0.01

Equity holder: the Company (100%)

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* For identification purposes only

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6. Better Way Enterprises Limited

Principal country of operation: Samoa

Place of incorporation: Samoa

Authorised capital: US$1,000,000 divided into 1,000,000 shares of a par value of US$1.00

Issued share capital: US$1.00

Equity holder: the Company (100%)

7. SMIC Europe S.R.L.

Principal place of operation: Agrate Brianza (Monza and Brianza).

Place of incorporation: Agrate Brianza (Monza and Brianza).

Registered capital: Euros100,000

Equity holder: the Company (100%)

8. Semiconductor Manufacturing International (Solar Cell) Corporation

Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorised capital: US$11,000 divided into 11,000,000 ordinary shares of US$0.001 each

Equity holder: the Company (100%)

9. ( )

SMIC Energy Technology (Shanghai) Corporation*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$28,935,000

Registered capital: US$12,000,000

Equity holder: the Company (100%, indirectly through SMIC Solar Cell (HK) Company Limited)

10. ( )

SMIC Commercial Shanghai Limited Company*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$1,100,000

Registered capital: US$800,000

Equity holder: the Company (100%)

11. 發管理(都)

SMIC Development (Chengdu) Corporation*

Principal place of operation: Chengdu, PRC

Place of incorporation: Chengdu, PRC

Legal entity: Wholly foreign-owned enterprise

Total Investment: US$12,500,000

Registered capital: US$5,000,000

Equity holder: the Company (100%)

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* For identification purposes only

12. Magnificent Tower Limited

Principal country of operation: British Virgin Islands

Place of incorporation: British Virgin Islands

Authorised capital: US$50,000

Issued share capital: US$1.00

Equity holder: the Company (100%, indirectly through Better Way Enterprises Limited)

13. SMIC Shanghai (Cayman) Corporation

Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorised capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

14. SMIC Beijing (Cayman) Corporation

Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorised capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

15. SMIC Tianjin (Cayman) Corporation

Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorised capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

16. SMIC Shanghai (HK) Company Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorised capital: HK$1,000

Issued share capital: HK$1.00

Equity holder: the Company (100%, indirectly through SMIC Shanghai (Cayman) Corporation)

17. SMIC Beijing (HK) Company Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorised capital: HK$1,000

Issued share capital: HK$1.00

Equity holder: the Company (100%, indirectly through SMIC Beijing (Cayman) Corporation

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18. SMIC Tianjin (HK) Company Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorised capital: HK$1,000

Issued share capital: HK$1.00

Equity holder: the Company (100%, indirectly through SMIC Tianjin (Cayman) Corporation)

19. SMIC Solar Cell (HK) Company Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorised capital: HK$10,000

Issued share capital: HK$1.00

Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International (Solar Cell) Corporation)

20. Semiconductor Manufacturing International (BVI) Corporation

Principal country of operation: British Virgin Islands

Place of incorporation: British Virgin Islands

Authorised capital: US$10.00

Issued share capital: US$10.00

Equity holder: the Company (100%)

21. Admiral Investment Holdings Limited

Principal country of operation: British Virgin Islands

Place of incorporation: British Virgin Islands

Authorised capital: US$10.00

Issued share capital: US$10.00

Equity holder: the Company (100%)

22. SMIC Shenzhen (Cayman) Corporation

Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorised capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

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23. (武漢) 發

SMIC (Wuhan) Development Corporation*

Principal place of operation: Wuhan, PRC

Place of incorporation: Wuhan, PRC

Legal entity: Wholly foreign-owned enterprise

Total Investment: RMB20,000,000

Registered capital: RMB20,000,000

Equity holder: the Company (100% indirectly through Semiconductor Manufacturing International (Shanghai) Corporation*)

24. SMIC Shenzhen (HK) Company Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorised capital: HK$1,000

Issued share capital: HK$1.00

Equity holder: the Company (100% indirectly through SMIC Shenzhen (Cayman) Corporation)

25. SilTech Semiconductor Corporation

Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorised capital: US$10,000

Issued share capital: US$10,000

Equity holder: the Company (100%)

26. SilTech Semiconductor (Hong Kong) Corporation Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorised capital: HK$1,000

Issued share capital: HK$1,000

Equity holder: the Company (100% indirectly through SilTech Semiconductor Corporation)

27. (深圳)

Semiconductor Manufacturing International (Shenzhen) Corporation*

Principal place of operation: Shenzhen, PRC

Place of incorporation: Shenzhen, PRC

Legal entity: Wholly foreign-owned enterprise

Total Investment: US$380,000,000

Registered capital: US$127,000,000

Equity holder: the Company (100% indirectly through SMIC Shenzhen (HK) Company Limited)

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* For identification purposes only

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28. 半導體(   )

SilTech Semiconductor Shanghai Corporation*

Principal place of operation: Shanghai, PRC

PRC Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$35,000,000

Registered capital: US$12,000,000

Equity holder: the Company (100% indirectly through SilTech Semiconductor (Hong Kong) Corporation Limited)

29. Brite Semiconductor Corporation

Principal place of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$332,500

Issued share capital: US$0.01

Equity holder: the Company (44.2%)

30. Brite Semiconductor Hong Kong Limited

Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Authorized capital: HK$35,000

Issued share capital: HK$1.00

Equity holder: the Company (44.2%, indirectly through Brite Semiconductor Corporation)

31. 燦 半導體(   )

Brite Semiconductor (Shanghai) Corporation

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Registered capital: US$3,000,000

Equity holder: the Company (44.2%, indirectly through Brite Semiconductor Hong Kong Limited)

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Share Capital

On June 4, 2012, all 360,589,053 convertible preferred shares issued to Country Hill Limited (CHL) and all 84,956,858 convertible preferred shares issued to Datang Holdings (Hongkong) Investment Company Limited (Datang (Hongkong)) were mandatorily converted into ordinary shares of the Company (Ordinary Shares) at the conversion rate of 10 Ordinary Shares per convertible preferred share. As a result of the conversion, the Company issued 3,605,890,530 and 849,568,580 Ordinary Shares to CHL and Datang (Hongkong), respectively, on June 4, 2012.

During the year ended December 31, 2012, the Company issued 16,639,200 Ordinary Shares to certain of the eligible participants including employees, directors, officers, and service providers of the Company (eligible participants) pursuant to the Company s 2004 Stock Option Plan (2004 Stock Option Plan), 28,566,748 Ordinary Shares to certain of the eligible participants pursuant to the Company s amended and restated 2004 Equity Incentive Plan (2004 Equity Incentive Plan), and 11,798,500 Ordinary Shares to certain of the eligible participants pursuant to the Company s 2001 Stock Plan.

During the year ended December 31, 2012, the Company did not repurchase any shares from eligible participants pursuant to the terms of the Company s 2001 Preference Shares Stock Plan and 2001 Regulation S Preference Shares Stock Plan (collectively the 2001 Preference Shares Plan) or the Company s 2001 Stock Plan.

Outstanding Share Capital as at December 31, 2012:	**Number of Shares Outstanding**
Ordinary Shares	32,000,139,623

Under the terms of the 2004 Equity Incentive Plan, the Compensation Committee of the Company may grant restricted share units (Restricted Share Units) to eligible participants. Each Restricted Share Unit represents the right to receive one Ordinary Share. Restricted Share Units granted to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date. Upon vesting of the Restricted Share Units and subject to the terms of the Company s Insider Trading Policy and the payment by the participants of applicable taxes, the Company will issue to the relevant participants the number of Ordinary Shares underlying the awards of Restricted Share Units. For the year ended December 31, 2012, the Compensation Committee granted a total of 65,170,000 Restricted Share Units.

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The remaining vesting dates of the Restricted Share Units granted (after deducting the number of Restricted Share Units granted but cancelled due to the departure of eligible participants prior to vesting) approximately are as follows:

Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2012	
1-Jan	14,320,699
21-Jan	200,000
29-Jan	75,000
1-Feb	483,393
4-Feb	1,679,399
13-Feb	75,000
16-Feb	75,000
23-Feb	8,396,994
12-Mar	125,000
31-Mar	125,000
22-May	8,750
24-May	1,684,992
30-Jun	2,330,023
5-Aug	9,320,093
27-Oct	50,000
2013	
1-Jan	7,556,546
23-Feb	1,679,398
31-Mar	125,000
1-May	14,850,000
24-May	1,684,992
30-Jun	2,330,023
9-Jul	625,000
5-Aug	9,320,093

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Vesting Dates	Approximate no. of Restricted Share Units (the actual number of shares eventually to be issued may change due to departure of eligible participants prior to vesting)
2014	
1-Jan	7,556,583
23-Feb	1,679,399
31-Mar	125,000
1-May	14,850,000
24-May	1,684,993
30-Jun	2,330,023
9-Jul	625,000
5-Aug	9,320,093
2015	
1-Jan	3,893,759
1-May	14,850,000
30-Jun	2,330,024
9-Jul	625,000
5-Aug	9,320,093
2016	
30-Apr	14,850,000
9-Jul	625,000

Repurchase, Sale or Redemption of the Company s Listed Securities

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company s Ordinary Shares during the year ended December 31, 2012.

Public Float

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

Debt To Equity Ratio

As of December 31, 2012, the Company s net debt to equity ratio was approximately 32.42%. Please refer to Note 35 to our financial statements for calculation.

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Dividends and Dividend Policy

At the end of 2012, the Company s accumulated deficit decreased to US$1,867.0 million from an accumulated deficit of US$1,889.8 million at the end of 2011. The Company has not declared or paid any cash dividends on the Ordinary Shares. We intend to retain any earnings for use in the Company s business and do not currently intend to pay cash dividends on the Ordinary Shares. Dividends, if any, on the outstanding shares will be declared by and subject to the discretion of the Board and must be approved at the annual general meeting of shareholders. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

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

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

- recovery of losses, if any;

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

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

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Directors Interests in Contracts of Significance

There were no contracts of significance during the year to which the Company or any of its subsidiaries was a party and in which any of the Directors was materially interested.

Major Suppliers and Customers

In 2012, the Company s largest and five largest raw materials suppliers accounted for approximately 11.87% and 41.30%, respectively, of the Company s overall raw materials purchases. China Investment Corporation, through its controlled subsidiaries, holds less than a 0.3% shareholding interest in one of the Company s five largest suppliers in 2012. To the best of the Company s knowledge, none of the Directors or the other shareholders (which to the knowledge of the Directors own more than 5% of the Company s issued share capital) or their respective associates had interests in any of the Company s five largest suppliers. Almost all of the Company s materials are imported free of value-added tax and import duties due to concessions granted to the semiconductor industry in China.

In 2012, the Company s largest and five largest customers accounted for approximately 22.5% and 56.0%, respectively, of the Company s total overall sales. Mr. Lip-Bu Tan, a Director of the Company, holds through his trust a shareholding interest of less than 1% in two of the Company s five largest customers in 2012. China Investment Corporation, through its controlled subsidiaries, holds less than 0.3% shareholding interest, respectively, in two of the Company s five largest customers in 2012. To the best of the Company s knowledge, none of the other Directors or shareholders (which to the knowledge of the Directors own more than 5% of the Company s issued share capital) or their respective associates had interests in any of the Company s five largest customers.

Pre-emptive Rights

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

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Director s Interests in Securities

As of December 31, 2012, the interests or short positions of the Directors in the Ordinary Shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (SFO)), which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Board member	Long/Short Position	Nature of Interests	Number of Ordinary Shares held	Derivatives Share Options	Derivatives Other	Total Interests	Percentage of aggregate interests to total issued share capital (Note 1)
Executive Director							
Zhang Wenyi	Long Position	Personal		21,746,883 (Note 2)	9,320,093 (Note 3)	31,066,976	0.097%
Tzu-Yin Chiu	Long Position	Personal	13,326,759	86,987,535 (Note 4)	27,960,279 (Note 5)	128,274,573	0.412%
Non-executive Director							
Chen Shanzhi	Long Position	Personal		3,145,319 (Note 6)		3,145,319	0.001%
Gao Yonggang	Long Position	Personal		3,145,319 (Note 6)		3,145,319	0.001%
Lawrence Juen-Yee Lau							
Zhou Jie							
Independent Non-executive Director							
Tsuyoshi Kawanishi	Long Position	Personal		5,634,877 (Note 7)		5,634,877	0.018%
Frank Meng	Long Position	Personal		4,471,244 (Note 8)		4,471,244	0.014%
Lip-Bu Tan	Long Position	Personal		4,634,877 (Note 9)		4,634,877	0.014%
Alternate Director							
Datong Chen							

Notes

(1) Based on 32,000,139,623 Ordinary Shares in issue as at December 31, 2012.

(2) On September 8, 2011, Mr. Zhang was granted options to purchase 21,746,883 Ordinary Shares at a price of HK$0.455 per 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 the Director s service to the Board. As of December 31, 2012, none of these options have been exercised.

(3) On September 8, 2011, Mr. Zhang was granted an award of 9,320,093 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2004 Equity Incentive Plan. 25% of these Restricted Share Units will vest on each anniversary of June 30, 2011 and will be fully vested on June 30, 2015.

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(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 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 the Director s service to the Board. As of December 31, 2012, none of these options have been 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. 25% of these Restricted Share Units will vest on each anniversary of the August 5, 2011, and will be fully vested on August 5, 2015. As of the date of this annual report, 25% of Dr. Chiu s Restricted Share Units was vested and 9,320,093 Ordinary Shares were issued to him.

(6) On May 24, 2010, each of Dr. Chen and Dr. Gao was granted options to purchase 3,145,319 Ordinary Shares at a price per share of HK$0.64. These options will expire on the earlier of May 23, 2020 or 120 days after termination of the Directors service to the Board. As of December 31, 2012, none of these options have been exercised.

(7) This comprises of (a) options granted to Mr. Kawanishi on February 23, 2010 to purchase 3,134,877 Ordinary Shares at a price per share of HK$0.77 pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of the Directors service to the Board, (b) options granted to Mr. Kawanishi on February 17, 2009 to purchase 1,000,000 Ordinary Shares at a price per share of HK$0.27 pursuant to the 2004 Stock Option Plan will expire on the earlier of February 17, 2019 or 120 days after termination of the Directors service to the Board, (c) options granted to Mr. Kawanishi 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 were fully vested on May 30, 2008 and will expire on the earlier of September 29, 2016 or 120 days after termination of the Directors service to the Board, and (d) options to purchase 1,000,000 Ordinary Shares which will expire on January 14, 2014. As of December 31, 2012, none of these options have been exercised.

(8) On November 17, 2011, Mr. Meng was granted options to purchase 4,471,244 Ordinary Shares at a price of HK$0.4 per share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of November 16, 2021 or 120 days after termination of the Director s service to the Board. As of December 31, 2012, none of these options have been exercised.

(9) This comprises of (a) options granted to Mr. Tan on February 23, 2010 to purchase 3,134,877 Ordinary Shares at a price per share of HK$0.77 pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of the Directors service to the Board, (b) options granted to Mr. Tan on February 17, 2009 to purchase 1,000,000 Ordinary Shares at a price per share of HK$0.27 pursuant to the 2004 Stock Option Plan which will expire on the earlier of February 17, 2019 or 120 days after termination of the Directors service to the Board, and (c) 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 were fully vested on May 30, 2008 and will expire on the earlier of September 29, 2016 or 120 days after termination of the Director s service to the Board. As of December 31, 2012, none of these options have been exercised.

Director s Service Contracts

No Director proposed for re-election at the 2013 AGM has or proposes to have a service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

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Substantial Shareholders

Set out below are the names of the parties (not being a Director or chief executive of the Company) which were interested in 5 percent or more of the nominal value of the share capital of the Company and the respective relevant numbers of Ordinary Shares in which they were interested as at December 31, 2012 as recorded in the register kept by the Company under section 336 of the SFO.

Name of Shareholder	Long/Short Position	Number of Ordinary Shares held	Derivatives	Total interests	Percentage of aggregate interests to total issued share capital (Note 1)
Datang Telecom Technology & Industry Holdings Co., Ltd. (Datang)	Long position	6,166,138,341 (Note 2)		6,166,138,341	19.27%
China Investment Corporation	Long Position	3,605,890,530 (Note 3)		3,605,890,530	11.27%
Shanghai Industrial Investment (Holdings) Company Limited (SIIC)	Long Position	1,978,277,340 (Note 4)		1,978,277,340	5.73%
Taiwan Semiconductor Manufacturing Company Limited (TSMC)	Long Position	1,302,210,218 (Note 5)	840,141,387 (Note 6)	2,142,351,605 (Note 7)	6.70%

Notes

(1) Based on 32,000,139,623 Ordinary Shares in issue as at December 31, 2012.

(2) All such 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 shares are held by Country Hill Limited. Country Hill Limited is wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by China Investment Corporation.

(4) This comprises of 145,008,000 held by SIIC Treasury (B.V.I.) Limited which is a wholly-owned subsidiary of SIIC, and 1,833,269,340 held by S.I. Technology Production Holdings Limited (SITPHL) which is an indirect wholly-owned subsidiary of SIIC. SITPHL is a wholly-owned subsidiary of Shanghai Industrial Financial (Holdings) Company Limited (SIFHCL) which in turn is a wholly-owned subsidiary of Shanghai Industrial Financial Holdings Limited (SIFHL). By virtue of the SFO, SIIC and its subsidiaries, SIFHCL and SIFHL are deemed to be interested in the 1,833,269,340 Ordinary Shares held by SITPHL. As at December 31, 2012, the Company s Director, Mr. Zhou Jie, is an executive director and a president of SIIC. He is also an executive director, the vice chairman and the chief executive officer of Shanghai Industrial Holdings Limited. It is the Company s understanding that voting and investment control over the shares beneficially owned by SIIC are maintained by the board of directors of SIIC.

(5) All such shares are held by TSMC.

(6) This represents the warrant held by TSMC to subscribe, in aggregate, up to 840,141,387 Ordinary Shares, subject to adjustment, at an exercise price of HK$1.30 per share, as recorded in the register kept by the Company under section 336 of the SFO. As at the date of this report, no portion of this warrant has been exercised.

(7) According to TSMC s Form 2 (Corporate Substantial Shareholder Notice) dated March 28, 2013, TSMC was interested in 1,265,947,605 Shares (which comprise of 425,806,218 Ordinary Shares and a warrant to subscribe up to 840,141,387 Ordinary Shares).

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Emoluments to the Directors

Details regarding the emoluments to each of our Directors in 2012 and 2011 are set out in Note 13 to the consolidated financial statements.

In 2012, the Board did not grant share options or Restricted Share Units to any Directors as compensation for their service on the Board.

Emoluments to the Senior Management

The remuneration of senior management personnel during the year are as follows:

	year ended 12/31/12 USD 000	year ended 12/31/11 USD 000
Short-term benefits	**2,742**	2,216
Share-based payments	**872**	735
	3,614	2,951

The number of senior management whose remuneration fell within the following bands is as follow:

	Number of individuals	
	2012	2011
HK$1,000,001 ($128,721) to HK$1,500,000 ($193,080)	**2**	1
HK$1,500,001 ($193,081) to HK$2,500,000 ($321,800)	**4**	3
HK$2,500,001 ($321,801) to HK$3,000,000 ($386,160)	**1**	
HK$3,000,001 ($386,161) to HK$3,500,000 ($450,520)	**1**	1
HK$4,000,001 ($514,881) to HK$4,500,000 ($579,240)		1
HK$4,500,001 ($579,241) to HK$5,000,000 ($643,600)		2
HK$12,000,001 ($1,544,641) to HK$12,500,000 ($1,609,000)	**1**	
	9	8

Five Highest Paid Individuals

The emoluments of the five individuals whose emoluments were the highest in the Company for the year ended December 31, 2012 and 2011, including Tzu-Yin Chiu, Chief Executive Officer and Executive Director of the Company, are set out in Note 14 to the consolidated financial statements.

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Remuneration Policy

The Company s employees are compensated by cash and a variety of additional incentives. In addition to a monthly salary, the Company s employees have the opportunity to earn additional merit-based bonuses according to the overall performance of the Company, each individual and his or her department. Additional benefits include participation in the Company s 2004 global equity incentive compensation program, social welfare benefits for qualified employees, a global medical insurance plan for overseas employees and optional housing benefits and educational programs for employees with families.

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

The Company s local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. We are required to make contributions to the state-managed retirement plan at a rate equal to 20.0% to 22.0% of the monthly salary of current employees. Employees are required to make contributions at a rate equal to 6% to 8% of their salary. The Company s contribution to such pension plan is approximately US$22 million, US$16.6 million, and US$12.8 million for the years ended December 31, 2012, 2011, and 2010, respectively. The retirement benefits do not apply to expatriate employees.

Auditors

The current auditors, Deloitte Touche Tohmatsu, have signified their willingness to continue in office. A resolution will be proposed at the 2013 AGM to reappoint them as the auditors of the Company and authorize the audit committee of the Company to fix their remuneration.

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Connected Transactions

Framework Agreement with Datang

On December 14, 2011, the Company entered into a Framework Agreement with Datang Telecom Technology & Industry Holdings Co., Ltd. (Datang), a substantial shareholder of the Company. Pursuant to the agreement, the Company (including its subsidiaries) and Datang (including its associates) will engage in business collaboration including but not limited to foundry service. The effective period of the Framework Agreement is three years. The pricing for the transactions contemplated under the agreement will be determined by reference to reasonable market price.

The expected caps, being the maximum revenue on an aggregated basis expected to be generated by the Company from the transactions contemplated under the Framework Agreement, are

- US$5.2 million for the year ending December 31, 2011,
- US$40 million for the year ending December 31, 2012, and
- US$60 million for the year ending December 31, 2013.

In arriving at the above caps, the Company has considered the potential level of transactions it may potentially engage in in light of current market conditions of the semiconductor industry and the technological capability of the Company, having regard to the historical transaction volume of Datang and its associates with the Company, and the Company s historical revenues.

The aggregate revenues generated by the Company from the transactions entered into pursuant to the Framework Agreement were approximately US$9.7 million for the year ended December 31, 2012, and approximately US$4.6 million for the year ended December 31, 2011.

Pursuant to Rule 14A.38 of the Listing Rules, the Company s external auditor performed certain agreed upon procedures in respect of the continuing connected transactions of the Company under the Framework Agreement and had provided to the Board of Directors an unqualified letter containing findings and conclusions in respect of the continuing connected transactions.

Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-executive Directors have reviewed the auditor s report about the continuing connected transactions with Datang, and confirmed that the transactions under the Framework Agreement that took place between Datang (or any of its associates) and the Company (or any of its subsidiaries) for the year ended December 31, 2012 had been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the Framework Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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Related Party Transactions

In addition to the above, the Company entered into certain transactions with parties regarded as related parties under the applicable accounting standards which are not regarded as connected transactions as defined under the Listing Rules. Details of these related party transactions are disclosed in note 36 to the consolidated financial statements.

Employees

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

	As of December 31,			
Function	**Y2009**	**Y2010**	**Y2011**	**Y2012**
Managers	1,064	917	898	**922**
Professionals(1)	4,510	3,920	4,297	**4,164**
Technicians	4,484	4,970	3,910	**4,650**
Clerical staff	249	269	347	**238**
Total(2)	10,307	10,076	9,452	**9,974**

Notes:

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

(2) Includes 372, 145, 1 and 3 temporary and part-time employees in 2009, 2010, 2011 and 2012 respectively.

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

	As of December 31,			
Location	**Y2009**	**Y2010**	**Y2011**	**Y2012**
Shanghai	6,460	5,395	5,555	**6,037**
Beijing	1,552	2,102	2,253	**2,491**
Tianjin	997	1,439	1,321	**1,354**

Chengdu	1,104	792	12	**11**
Shenzhen	154	142	36	**23**
Wuhan		174	236	**17**
United States	17	15	17	**18**
Europe	9	8	6	**8**
Japan	8	3		
Taiwan Office			11	**11**
Hong Kong	6	6	5	**4**
Total	10,307	10,076	9,452	**9,974**

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

As of December 31, 2012, 1,480 and 128 of the Company s employees held master s degrees and doctorate degrees, respectively. As of the same date, 2,923 of the Company s employees possessed a bachelor s degree.

The Company s Engineers received an average of 18.6 hours of internal and external training per person in 2012.

The Company has also entered into agreements with Shanghai University, Beijing Institute of Petrochemical Technology and Tianjin University to offer a Bachelor s and Master s degree program and Beijing University, Fudan University, Jiaotong University and Tianjin University to offer graduate degree programs for its technicians. These employees can earn these degrees in either microelectronics or solid-state circuitry. In addition, the Company employs many qualified personnel that have relocated back to China after receiving valuable industry experience overseas.

As a supplement to their salaries, the Company s employees have the opportunity to earn performance bonus based on the Company s profitability, business achievements, and individual performance. Additional benefits include participation in the 2004 global equity incentive compensation program, social welfare benefits for qualified employees, paid leave, a global medical insurance plan for overseas employees and optional housing benefits and educational programs for employees with families.

The Company provides occupational health and hygiene management for the welfare of the Company s employees. This includes occupational physical examination, the monitoring of air quality, illumination, radiation, noise and drinking water. The Company s employees are not covered by any collective bargaining agreements.

Share Option Schemes

The Company s shareholders adopted the 2004 Stock Option Plan (the Stock Option Plan), the EIP and the Employee Stock Purchase Plan (the ESPP , together with the Stock Option Plan and the EIP, the Option Plans) to attract and retain its employees.

Stock Option Plan

The following is a summary of the principal terms of the Stock Option Plan conditionally adopted by the Company by way of shareholders resolutions dated February 16, 2004 and Directors resolutions passed on January 16, 2004. Adoption of the Stock Option Plan took effect on March 18, 2004 being the first date of dealings in the ordinary shares.

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Summary of the terms of the Stock Option Plan

(a) Purpose of the Stock Option Plan

The purposes of the Stock Option Plan are to attract, retain and motivate employees and Directors of, and other service providers to the Company, to provide a means of compensating them through the grant of stock options for their contribution to the Company s growth and profits, and to allow such employees, Directors and service providers to participate in such growth and profitability.

(b) Who may join

The Compensation 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 Company whether located in China, the United States or elsewhere to take up options to subscribe for ordinary shares at a price calculated in accordance with sub-paragraph (e) below. The Compensation Committee may also grant stock options to a Director who is not an employee of the Company (Non-Employee Director).

(c) Stock Options

Stock options granted under the Stock Option Plan (Stock Options) shall entitle a participant (Participant) of the Stock Option Plan to purchase a specified number of ordinary shares or ADSs (the Plan Shares) during a specified period at a price calculated in accordance with sub-paragraph (e) below. Three types of Stock Options may be granted under the Plan, an Incentive Stock Option, a Non-Qualified Stock Option or a Director Option. An Incentive Stock Option is a stock option that falls within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 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 Director Option is a Non-Qualified Stock Option granted to a Non-Employee Director.

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

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

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(d) Administration of the Stock Option Plan

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

Accordingly, the terms and conditions which may be imposed may vary between Participants. Any determination by the Compensation Committee in relation to the carrying out and administering of the Stock Option Plan shall be final and binding. No member of the Compensation Committee shall be liable for any action or determination made in good faith, and the members of the Compensation Committee shall be entitled to indemnification and reimbursement in the manner provided in the Company s articles of association.

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

(e) Exercise Price

The exercise price per Plan Share purchasable under a Stock Option shall be fixed by the Committee at the time of grant or by a method specified by the Compensation Committee at the time of grant, but in no event shall be less than the Fair Market Value of a Plan Share on the date such Stock Option is granted.

The Fair Market Value of a Share will be the higher of (i) the closing price of the ordinary shares on the HKSE s daily quotation sheet on the applicable date of grant (which must be a business day), and (ii) the average closing price of the ordinary shares on the HKSE (as stated in the relevant daily quotation sheets of the HKSE) for the five business days immediately preceding the date of grant.

The Fair Market Value of the ADSs shall be the highest of (i) the closing price of the ADSs on the NYSE on the applicable date of grant, and (ii) the average closing price of the ADSs on the NYSE for the five business days immediately preceding the date of grant.

(f) Limit of the Stock Option Plan

At the annual general meeting of the shareholders held on June 23, 2009, the shareholders of the Company approved an increase to the number of ordinary shares reserved for issuance under the Stock Option Plan and the ESPP (the Global Limit) from 1,317,000,000 ordinary shares of the Company to 2,434,668,733 ordinary shares of the Company.

The number of ordinary shares which may be issued pursuant to any outstanding Stock Options granted and yet to be exercised under the Stock Option Plan and all outstanding purchase rights granted under the Employee Stock Purchase Plan or other employee stock purchase plan of the Company must not exceed in aggregate 30 percent of the issued and outstanding ordinary shares in issuance from time to time.

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(g) Individual Limit

The total number of ordinary shares underlying Stock Options or other options granted by the Company to, and the total number of ordinary shares that may be purchased under one or more purchase rights granted under the Employee Stock Purchase Plan or any other employee stock purchase plan granted by the Company by, a Participant (including both exercised and outstanding Stock Options) in any twelvemonth 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 then issued and outstanding ordinary shares unless otherwise allowed under the Listing Rules.

(h) Exercise of Option

A Stock Option shall vest, and be exercised, in accordance with the terms of the Stock Option Plan, the relevant award document and any rules and procedures established by the Compensation Committee for this purpose. However, the term of each Stock Option shall not exceed ten years from the date of grant.

(i) Director Options

Each non-employee Director may be granted Stock Options to purchase ordinary shares (or an equivalent of ADSs) on the terms set out in the relevant award document.

The Directors shall exercise all authority and responsibility with respect to Stock Options granted to Directors subject to the requirements of the Listing Rules.

All non-employee Directors 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 Stock Option granted to a Director shall be forfeited in full if the Director s service with the Board ends for any reason prior to the applicable vesting date.

Following termination of a non-employee Director s service on the Board, such non-employee 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 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 Stock Option shall terminate or lapse automatically upon:

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

(ii) the termination of a Participant s employment or service relationship with the Company for a reason set out in sub-paragraph (l) below;

(iii) a complete liquidation or dissolution of the Company, in which case all 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 Compensation Committee;

(iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Participant is employed by such subsidiary, division or operating unit); and

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(v) termination of the service relationship with a service provider (where the Participant is a service provider of the Company).

(k) Rights are personal to Participant

A Stock Option is personal to the Participant and shall be exercisable by such Participant or his or her Permitted Transferee (as defined below) only. An option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order. The Compensation Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Stock Option for no consideration to a Participant s family members or to a trust or partnership established for the benefit of such family members (collectively Permitted Transferees). Any 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 Participant.

(l) Termination of employment or service

If a Participant s employment or service with the Company is terminated for the following reasons:

(i) the failure or refusal of the Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the Company;

(ii) any material violation by the Participant of any law or regulation applicable to any business of the Company, or the Participant s conviction of, or a plea of nolo contendere to, a felony, or any perpetration by the Participant of a common law fraud against the Company; or

(iii) any other misconduct by the Participant that is materially injurious to the financial condition, business or reputation of the Company,

then all Stock Options granted to the Participant, whether or not then vested, shall immediately lapse. The Compensation Committee may permit any Incentive Stock Option to convert into a Non-Qualified Stock Option as of a Participant s termination of employment for purposes of providing such Participant with the benefit of any extended exercise period applicable to Non-Qualified Stock Options when the contract of employment of such Participant terminates.

(m) Change in control of the Company

The Compensation Committee may specify at or after the date of grant of a Stock Option the effect that a Change in Control (as defined in the Stock Option Plan) will have on such Stock Option. The Compensation Committee may also, in contemplation of a Change in Control, accelerate the vesting, exercisability or payment of Stock Options to a date prior to the Change in Control, if the

Compensation Committee determines that such action is necessary or advisable to allow the participants to realise fully the value of their Stock Options in connection with such Change in Control.

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(n) Change in the capital structure of the Company

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

(o) Period of the Stock Option Plan

The Stock Option Plan shall remain in force for a period of ten years commencing on the date of Shareholders approval of the Stock Option Plan.

(p) Amendments and Termination

The Stock Option Plan may be altered, amended in whole or in part, suspended and terminated by the Board at any time provided alterations or amendments of a material nature or any change to the terms of the Stock Options granted must be approved by the shareholders of the Company, unless such alteration or amendment takes effect automatically under the terms of the Stock Option Plan. For the avoidance of doubt, any alteration or amendment pursuant to the exercise of any authority granted under the Stock Option Plan shall be deemed to take effect automatically under the terms of the Share Option Plan. Any alteration or amendment must be in accordance with the requirements of applicable laws, the Listing Rules and permitted by the HKSE.

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

(q) Voting and dividend rights

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

(r) Cancellation of Stock Options

Stock Options granted but not exercised may not be cancelled unless an offer to cancel share options has 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 Ordinary Shares

The ordinary shares to be allotted upon the exercise of a Stock Option will be subject to the then effective articles of association and will rank pari passu with the Plan Shares in issue on the date of such allotment.

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Employee Stock Purchase Plan

The following is a summary of the principal terms of the ESPP conditionally adopted by the Company by way of shareholders resolutions dated February 16, 2004 and Directors resolutions passed on January 16, 2004.

Summary of the terms of the ESPP

(a) Purposes of the ESPP

The purposes of the ESPP are to attract, retain and motivate employees of the Company, to provide a means of compensating the employees for their contributions to the growth and profitability by permitting such employees to purchase the ADSs of the Company at a discount and receive favourable U.S. income tax treatment on a subsequent qualifying disposition of such ADSs.

(b) Who may join

Subject to any contrary directions given by the Compensation Committee, all full-time and regular part-time employees (the Employees) of the Company as at the first business day (the Offering Date) of a given period specified by the Committee (the Offering Period) shall be eligible to enroll in the ESPP. To be eligible to purchase ADSs, all Employees must maintain his or her employment status, without interruption, with the Company through the last day of the applicable Offering Period (the Purchase Date).

(c) Offering Period

The ESPP shall be implemented by a series of Offering Periods. An eligible Employee of the Company may elect to participate in the ESPP for any Offering Period by completing the requisite documents. The Compensation Committee shall determine the starting and ending dates of each Offering Period but no Offering Period shall be shorter than 6 months or longer than 27 months.

(d) Employees Contributions under the ESPP

All amounts that a Participant contributes (Contributions) shall be credited to his or her account under the ESPP. Participants must elect to have payroll deductions made on each payday during the Offering Period in a dollar amount specified in the documents submitted by him or by her. The Compensation Committee may permit Participants to make supplemental Contributions into his or her account, on such terms and subject to such limitations as the Compensation Committee may decide.

Participants may, on one occasion only during an Offering Period, decrease the rate of his or her Contributions to his or her account for the Offering Period, including a decrease to zero. The Participant may restore his or her Contributions to the original level, prior to the earlier of,

(i) six months after the effective date of any such decrease; and

(ii) the end of the relevant Offering Period.

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(e) Grant of Purchase Right

Each eligible Employee who elects to participate in the ESPP in any given Offering Period shall be granted on the Purchase Date, a right to purchase the Plan Shares (the Purchase Right). The Purchase Right of a Participant shall be calculated in accordance with the following formula:

(i) dividing (A) the product of US$25,000 and the number of calendar years during all or part of which the Purchase Right shall be outstanding by (B) the closing price of the Plan Shares on the applicable exchange on which Plan Shares are trading (the Fair Market Value) on the applicable exchange of the Plan Shares on the Offering Date; and

(ii) subtracting from the quotient thereof (A) the number of Plan Shares that the Employee has purchased during the calendar year in which the Offering Date occurs under the ESPP or under any other employee stock purchase plan of the Company or any subsidiary of the Company which is intended to qualify under Section 423 of the U.S. International Revenue Code of 1986 plus (B) the number of Plan Shares subject on the Offering Date to any outstanding Purchase Rights granted to the Employee under any related Plan.

If application of the above formula would result in the grant of Purchase Rights covering, in the aggregate, more than the number of Plan Shares that the Compensation Committee has made available for the relevant Offering Period, then the Compensation Committee shall adjust the number of Plan Shares subject to the Purchase Right in order that, following such adjustment, the aggregate number of Plan Shares subject to the purchase Right shall remain within the applicable limit.

All Purchase Rights outstanding at the tenth anniversary of the Plan shall remain outstanding through, and may be exercised upon the relevant Purchase Date, but no additional Purchase Right shall be granted under the ESPP.

(f) Exercise of Purchase Right

Unless a Participant withdraws from the ESPP, his or her Purchase Right shall become exercisable automatically, on the Purchase Date of the relevant Offering Period for the number of Plan Shares obtained by dividing the accumulated Contributions credited to the Participant s account as of the Purchase Date by the applicable Purchase Price, being an amount not less than 85 percent of the Fair Market Value of the Plan Shares on the Offering Date or on the Purchase Date, whichever is lower (the Purchase Price).

The Compensation Committee may credit any Contributions that have been credited to a Participant s account under the ESPP with interest. Any interest credited to a Participant s account shall not be used to purchase Plan Shares and shall instead be paid to the Participant at the end of the relevant Offering Period.

If any portion of a Participant s accumulated Contributions is not used to purchase Plan Shares on a given Purchase Date, the remaining amount shall be held in the Participant s account and used for the purchase of Plan Shares under the next Offering Period, unless the Participant withdraws from the next Offering Period.

The exercise of the Purchase Right granted under the ESPP is not subject to any performance target.

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(g) Limit of the ESPP

At the annual general meeting of the shareholders held on June 23, 2009, the shareholders of the Company approved an increase of the number of ordinary shares reserved for issuance under the Stock Option Plan and the ESPP (the Global Limit) from 1,317,000,000 ordinary shares of the Company to 2,434,668,733 ordinary shares of the Company.

The number of ordinary shares that may be issued upon exercise of all outstanding Purchase Rights granted under the ESPP or other employee stock purchase plan of the Company or any outstanding stock options granted under the Stock Option Plan or other stock option plan of the Company must not exceed, in the aggregate, thirty percent of the issued and outstanding ordinary shares from time to time.

No Employee shall be granted a Purchase Right pursuant to the terms of ESPP if:

(i) immediately after the grant, such Employee would own capital stock of the Company and/or hold outstanding Purchase Rights to purchase stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary; or

(ii) such Purchase Right would permit the Employee s rights to purchase ADSs under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate that exceeds $25,000 of the Fair Market Value of such ADSs or such lower amount as the Compensation Committee may determine for each calendar year in which such Purchase Right is outstanding at any time; or

(iii) such Purchase Right would permit the Employee s rights to purchase ADSs under all employee stock purchase plans or option plans of the Company granted to him or her in any twelve-month period to exceed one percent (1%) of the then issued and outstanding Ordinary Shares unless otherwise allowed under the Listing Rules.

(h) Period of the ESPP

The ESPP shall continue for a term of ten years from the date of its approval by the shareholders unless terminated in accordance with sub-paragraph (i).

(i) Amendments and Termination of the ESPP

The Compensation Committee may at any time amend the ESPP in any respect or terminate the ESPP, except that, without the approval of the Company s shareholders at a meeting duly called, no amendment shall be made in relation to:

(i) increasing the number of ADSs reserved for issuance under the ESPP; or

(ii) decreasing the Purchase Price per ADS.

Any alterations or amendments of a material nature or any change to the terms of the Purchase Rights granted must be approved by the shareholders of the Company, unless such alteration or amendment takes effect automatically under the terms of the ESPP. For the avoidance of doubt, any alteration or amendment pursuant to the exercise of any authority granted under the ESPP

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shall be deemed to take effect automatically under the terms of the ESPP. Any amendment made to the ESPP must be in accordance with applicable law, the requirements of the Listing Rules or permitted by the SEHK.

If the ESPP is terminated by the Board prior to the tenth anniversary of the date of Board approval, unless the Compensation Committee has also terminated any Offering Period then in progress, Purchase Rights granted before such termination shall continue to be valid and exercisable in accordance with, and subject to, the terms and conditions of the ESPP.

Rule 17.03(9) of the Listing Rules provide that the exercise price of any share option scheme operated by listed issuers may not be lower than the market price of the ordinary shares. As a result of the capital intensive nature of the Company s business, we have traditionally relied on share options, rather than cash, as an important means of remunerating our employees. This is common in the industry and we wish to continue this practice. Accordingly, we have applied to and obtained from the SEHK a waiver from strict compliance with Rule 17.03(9) of the Listing Rules such that the Company is allowed to continue to grant options over its Plan Shares to its employees under the ESPP at an exercise price which is at a discount (up to 15 percent discount) to the lower of market price at the commencement of the offering period or the market price on the purchase date.

Up and until December 31, 2012, the Company has not granted any purchase right under the ESPP.

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 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).

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(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 U.S. Internal Revenue Code of 1986 (the Code) and may only be granted to employees of the Company and its subsidiaries from time to time. A Non- Qualified Stock Option is a stock option that is not an Incentive Stock Option. A Subsidiary Director Option is a Non-Qualified Stock Option granted to a Non-Employee Subsidiary Director.

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

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

(d) Administration of the Subsidiary Plan

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

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

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

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(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 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.

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

Fair Market Value shall be determined as follows:

(i) If the Subsidiary Shares are listed on any established stock exchange or a national market system, including without limitation the NYSE, The Nasdaq Global Market or The Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such Subsidiary Shares (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Subsidiary Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Subsidiary Shares on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Subsidiary Shares, the Fair Market Value thereof shall be determined in good faith by the Subsidiary Committee in accordance with any applicable law, rule or regulation.

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(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 Listing Rules.

(h) Exercise of Option

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

(i) Director Options

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

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

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(j) Termination or Lapse of Option

A Subsidiary Stock Option shall terminate or lapse automatically upon:

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

(ii) the termination of a Subsidiary Participant s employment or service with the relevant subsidiary for a reason set out in sub-paragraph (l) below;

(iii) the liquidation or dissolution of the relevant subsidiary, in which case all Subsidiary Stock Options outstanding at the time of the liquidation or dissolution shall terminate without further action by any person save as to any contrary directions of the Subsidiary Committee with the prior approval of the Board of Directors of the Company;

(iv) the sale or other divestiture of a subsidiary, division or operating unit of the Company (where the Subsidiary Participant is employed by such subsidiary, division or operating unit); and

(v) termination of the service relationship with a service provider (where the Subsidiary Participant is a service provider of the relevant subsidiary).

(k) Rights are Personal to Subsidiary Participant

A Subsidiary Stock Option is personal to the Subsidiary Participant and shall be exercisable by such Subsidiary Participant or his Permitted Transferee (as defined below) only. A Subsidiary Option shall not be transferred other than by will, by the laws of descent and distribution or pursuant to a domestic relations order. The Subsidiary Committee may also, at its discretion and subject to such terms and conditions as it shall specify, permit the transfer of a Subsidiary Stock Option for no consideration to a Subsidiary Participant s family members or to a trust or partnership established for the benefit of such family members (collectively Permitted Transferees). Any Subsidiary Stock Option transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Subsidiary Participant.

(l) Termination of Employment or Service

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

(i) the failure or refusal of the Subsidiary Participant to substantially perform the duties required of him or her as an employee or officer of, or service provider to, the relevant member(s) of the Group;

(ii) any material violation by the Subsidiary Participant of any law or regulation applicable to any business of any relevant member(s) of the Group, or the Subsidiary Participant s conviction of, or a plea of nolo contendere to, a felony, or any perpetration by the Subsidiary Participant of a common law fraud against any relevant member(s) of the Group; or

(iii) any other misconduct by the Subsidiary Participant that is materially injurious to the financial condition, business or reputation of the Group, then all Subsidiary Stock Options granted to the Subsidiary Participant, whether or not then vested, shall immediately lapse.

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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 realise fully the value of their share options in connection with such Change in Control.

(n) Change in the Capital Structure of the Subsidiary

In the event of an alteration in the capital structure of the relevant subsidiary (which includes a capitalisation 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 authorised 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 Listing Rules or permitted by the Hong Kong Stock Exchange.

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

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

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

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

(q) Voting and Dividend Rights

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

(r) Cancellation of Subsidiary Stock Options

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

(s) Ranking of Subsidiary Shares

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

The Subsidiary Plans 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, 2012, none of the subsidiaries of the Company has adopted the Subsidiary Plan.

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Outstanding Share Options

Details of the Company s stock option plans are as follows:

2001 Stock Option Plan

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable		No. of Options Granted	Exercise Price Per Share (USD)	Options Outstanding at the beginning of 2012	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period	Options Cancelled During Period	Options Outstanding as of 12/31/12	Weig Aver Clos Pric Sha immed befo Dat on w Opti we Exerc (US
Employees	2002/1/24	1/24/2002	1/23/2012	47,653,000	$ 0.01	2,990,000			2,990,000			$ 0.
Employees	2002/1/24	1/24/2002	1/23/2012	7,684,500	$ 0.02	326,900	135,900		191,000			$ 0.
Employees	2002/4/10	4/10/2002	4/09/2012	48,699,000	$ 0.02	4,002,900	549400		3,453,500			$ 0.
Employees	2002/6/28	6/28/2002	6/27/2012	39,740,000	$ 0.02	2,464,000	112,000		2,352,000			$ 0.
Employees	2002/6/28	6/28/2002	6/27/2012	18,944,000	$ 0.05	3,229,000	3,229,000					$
Kawanishi, Tsuyoshi	2002/7/11	7/11/2002	7/10/2012	500,000	$ 0.05	500,000	500,000					$
Employees	2002/7/11	7/11/2002	7/10/2012	2,780,000	$ 0.05	30,000	30,000					$
Service Providers	2002/9/26	9/26/2002	9/25/2012	50,000	$ 0.05	50,000	50,000					$
Employees	2002/9/26	9/26/2005	9/25/2012	5,770,000	$ 0.02	1,205,000			1,205,000			$ 0.
Employees	2002/9/26	9/26/2005	9/25/2012	65,948,300	$ 0.05	8,719,400	8,457,400		262,000			$ 0.
Employees	2003/1/9	1/09/2003	1/08/2013	53,831,000	$ 0.05	3,781,400	924,000		200,000		2,657,400	$ 0.
Employees	2003/4/1	4/01/2003	3/31/2013	18,804,900	$ 0.05	3,087,374	247,664		45,000		2,794,710	$ 0.
Employees	2003/4/24	4/24/2003	4/23/2013	58,488,000	$ 0.05	7,078,000	144,000				6,934,000	$
Employees	2003/7/15	7/15/2003	7/14/2013	59,699,900	$ 0.05	7,455,810	239,200		1,100,000		6,116,610	$ 0.
Employees	2003/10/10	10/10/2003	10/09/2013	49,535,400	$ 0.10	9,962,500	1,108,200				8,854,300	$
Employees	2004/1/5	1/05/2004	1/04/2014	130,901,110	$ 0.10	33,154,717	2,075,074				31,079,643	$
Kawanishi, Tsuyoshi	2004/1/15	1/15/2004	1/14/2014	1,000,000	$ 0.10	1,000,000					1,000,000	$
Service Providers	2004/1/15	1/15/2004	3/01/2005	4,100,000	$ 0.10	100,000					100,000	$
Senior Management	2004/1/15	1/15/2004	1/14/2014	2,700,000								