SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP
Form 6-K
May 16, 2016

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 May, 2016

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- lookin statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting judgment of SMIC's senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause SMIC's actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others, risks associated with cyclicality and market conditions in the semiconductor industry, intense competition, timely wafer acceptance by SMIC's customers, bad debt risk, timely introduction of new technologies, SMIC's ability to ramp new products into volume, supply and demand for semiconductor foundry services, industry overcapacity, shortages in equipment, components and raw materials, availability of manufacturing capacity and financial stability in end markets.

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

SMIC 2015 Annual Report 1

ADDITIONAL INFORMATION

References in this annual report to:

- "2016 AGM" are to the Company's annual general meeting scheduled to be held on or around June 24, 2016;
- "Board" are to the board of Directors;
- "China" or the "PRC" are to the People's Republic of China, excluding for the purpose of this annual report, Hong Kong, Macau and Taiwan;
- "Company" or "SMIC" are to Semiconductor Manufacturing International Corporation;
- "Director(s)" are to the director(s) of the Company;
- "EUR" are to Euros;
- "Group" are to the Company and its subsidiaries;
- "HK$" are to Hong Kong dollars;
- "Hong Kong Stock Exchange Listing Rules" are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;
- "IFRS" are to International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "JPY" are to Japanese Yen;
- "NYSE" or "New York Stock Exchange" are to the New York Stock Exchange, Inc.;
- "Ordinary Share(s)" are to the ordinary share(s) of US$0.0004 each in the share capital of the Company;

- “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, 45 nanometer and 28 nanometer include the stated resolution of the process technology, as well as intermediate resolutions down to but not including the next key process technology node of finer resolution. For example, when we state “0.25 micron process technology,” that also includes 0.22 micron, 0.21 micron, 0.20 micron and 0.19 micron technologies and “0.18 micron process technology” also includes 0.17 micron and 0.16 micron technologies. The financial information presented in this annual report has been prepared in accordance with IFRS.

CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation
Chinese name (for identification purposes only)	
Registered office	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong	Suite 3003 30th Floor 9 Queen's Road Central Hong Kong
Website address	http://www.smics.com
Company Secretary	Gareth Kung
Authorized representatives	Zhou Zixue Gareth Kung
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 2015 annual results	March 30, 2016
2016 Annual General Meeting	June 24, 2016
Book closure period for 2016 Annual General Meeting	June 22, 2016 to June 24, 2016, both days inclusive
Financial year end	December 31

FINANCIAL HIGHLIGHTS

Total Revenue

Revenue (US$ million)

LETTER TO SHAREHOLDERS

Dear Shareholders,

We are pleased to announce that SMIC recorded historical highs in all key profitability indices including gross profit margin, operating profit and net profit for 2015. Notwithstanding the uncertainty in the industry and a slowdown of demand growth in the smartphone market last year, we achieved great results including profit growth for four consecutive quarters and an overall utilization rate of over 100% for three consecutive quarters. It is expected that revenues for the first quarter of this year will also continue to grow. In 2015, we recorded a historical high in annual revenues of US$2.24 billion, representing an increase of 13.5% YOY, and continued to achieve full year profitability. Net profit attributable to owners of the Company exceeded US$250 million, an increase of 65.7% YOY. As of the end of the fourth quarter of last year, we achieved our fifteenth consecutive profitable quarter. We recorded an annual gross profit margin of 30.5% and an EBITDA margin around 35%. As of the end of last year, our total debt to total equity ratio was 33.8% and our net debt to total equity ratio was 3.0%. The Company has maintained a healthy capital structure. SMIC has secured investment grade credit ratings from both Standard & Poor’s and Moody’s and an AAA rating, the highest credit rating in China, from CCX, reflecting the Company’s strong business fundamentals for the past two years and the increasing support and recognition from domestic and international credit rating agencies and investors. Looking forward, sustainable profitability continues to be our primary objective.

In 2015, contrary to the industry trend, SMIC’s substantial growth reflected the success of our positioning in China and the successful execution of our differentiation strategy to diversify products and customers. In 2015, revenues from PRC-based customers achieved an annual growth of over 25%. Annual revenues from our Eurasia region also recorded a growth of over 50%. Last year, revenues from 0.11μm to 0.35μm technology increased by 4.7% YOY, of which the annual growth rate for sensor-related technology was over 30%. With the launch of new technology and the expansion of capacity, it is expected that our differentiated processes will generate increasing revenues. In addition, customers’ orders for advanced node processes have been robust. The capacity utilization in our 12-inch fab recovered rapidly. Despite the inventory correction in the industry, we maintained significant growth in our revenues from 40/45nm process last year, recording 63% year-on-year growth. We commenced mass production of our 28nm process and began to generate revenues during the third quarter of last year. During the second half of last year, our 8-inch fab in Shenzhen and our new 12-inch fab in Beijing commenced production and have installed 13,000 and 6,000 wafers per month capacity, respectively. In order to capture the market opportunities and strengthen our competitive edge in differentiated technology, we plan to continue to expand the capacity of these two fabs in order to meet the growing customer demand this year.

Last year, we incorporated SMIC Holdings Corporation (“SMIC Holdings”), which will assume the role of regional headquarters, overseeing management functions in the China region. SMIC Holdings was established as part of SMIC’s integrated strategy to lay the foundation for its long term development. SMIC Holdings will use the regional headquarters to improve the sharing of company resources and workflow, which will enhance efficiency in the company’s decision making, increase management capabilities, and reduce operational costs.

In November last year, we donated a total of RMB300,000 to the Tianjin Charity Association for setting up the Rehabilitation Fund for Firemen, which will provide rehabilitation services to the firemen injured in the explosion in Tianjin on 12 August. This is the first fund that SMIC has set up for special rescue service personnel. We hope to make a contribution to the rehabilitation of those injured firemen through this fund; as SMIC has an 8-inch fab in Tianjin, this is in line with SMIC's unwavering objectives of corporate social responsibility to "care for people, care for the environment, and care for society".

LETTER TO SHAREHOLDERS

We are pleased to welcome Mr. Lu Jun to join the Board as Non-executive Director. We believe that his extensive experience in the investment industry and deep understanding of industry policies will make contributions to the long-term development of the Company.

2015 was an incredibly successful year, thanks to our comprehensive preparations made in the prior years by improving our technology and relationships with customers. As we have reached full utilizations and our 28nm technology has entered into mass production, we will increase capital investment in 2016 to address the capacity constraints and expand our market share. With the availability of new additional capacity, we target to achieve above-industry-average revenue growth in 2016. We shall continue to benefit from opportunities brought by the China market, mobile products, smart consumer products, and internet of things ("IoT"). We are committed to diligently and carefully execute our business plan for the best interests of our shareholders. We would like to again express our sincere gratitude to all of our shareholders, customers, suppliers, and employees for their continued care and support of SMIC's development.

Zhou Zixue	**TY Chiu**
Chairman of the Board and Executive Director	*Chief Executive Officer and Executive Director*

Shanghai, China

March 30, 2016

BUSINESS REVIEW

In 2015, the Group continued to execute its long-term strategy with sustained profitability. The Group continued to advance its technology capabilities on leading edge and value-added differentiated processes. The Group's technology portfolio and proximity to the China market, coupled with the management team's global experience in operations, technology development and customer service, has positioned the Group well for long term growth. In addition, 2015 was a milestone year for SMIC in many aspects. Among other things, the Group generated record revenue at US$2.24 billion, the highest in the Company's 15 years history, partnered with leading industry players on 14nm FinFET process technology development, achieved significant business engagements on 28nm technology with leading mobile baseband and digital consumer IC design companies, and expanded its 300mm fab operation in Beijing and 200mm fab operation in Shenzhen, China. We believe the Group was the first pure-play foundry in China to enter into mass production with 28nm wafer process technology for mobile computing applications, the first pure-play foundry worldwide to offer 55nm embedded Flash ("eFlash") wafer solutions for SIM Card applications, and the first pure-play foundry worldwide to offer 38nm NAND Flash memory wafer process technology. The Group also continued to drive its value-added wafer manufacturing process technologies for specialty applications, such as Power Management IC, CMOS Image Sensors ("CIS"), eEEPROM, eFlash, embedded Microprocessor ("MCU"), Ultra- low-power Technologies ("ULP"), radio frequencies IC ("RF") and wireless connectivity, Touch Controller IC ("TCIC"), fingerprint sensors and MEMS sensors. These applications are the essential building blocks for both mobile computing market and the growing Internet-of-Things ("IoT") market in the near future. The Group is well positioned in China to serve both domestic and worldwide customers.

Financial Overview

Despite a challenging environment in 2015, the Group's sales totaled US$2,236.4 million, compared to US$1,970.0 million in 2014. The Group recorded a profit of US$222.3 million in 2015, compared to US$126.3 million in 2014. During the year, we generated US$669.2 million in cash from operating activities, compared to US$608.1 million in 2014. Capital expenditures in 2015 totaled US$1,572.7 million, compared to US$1,014.4 million in 2014. Looking ahead, our objective is to achieve sustained profitability over the long term. To achieve these goals, we will continue to focus on precision execution, efficiency improvement, customer service excellence while fostering innovation.

Customers and Markets

The Group continues to serve a broad global customer base comprised of leading IDMs, fabless semiconductor companies and system companies. Geographically, customers from the United States of America contributed 34.7% of the overall revenue in 2015, compared to 43.4% in 2014. Leveraging on the Group's strategic position in China, our China revenue contributed 47.7% of the overall revenue in 2015, compared to 43.3% in 2014. In particular, 54.8% of the Group's advanced nodes (90nm and below) wafer revenue in 2015 was contributed by customers in China. Eurasia contributed 17.6% of the overall revenue in 2015, compared to 13.3% in 2014.

In terms of applications, revenue contribution from communication applications increased from 43.2% in 2014 to 51.5% in 2015. Consumer applications contributed 36.1% to the Group's overall revenue in 2015 as compared to 46.0% in 2014. The Group has minimal exposure to the relatively weak PC market.

In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below increased from 39.2% of total revenue in 2014 to 44.4% of total revenue in 2015 and, in particular, the revenue contribution percentage from 40/45nm technology increased from 11.1% in 2014 to 15.8% in 2015. In addition, the Group's latest 28nm technology started to contribute revenue in 2015.

BUSINESS REVIEW

The Group is well positioned geographically with its continuous business growth in China. According to IHS iSuppli, China continues to be the number one region of the world in terms of semiconductor IC consumption, mainly due to its high volume electronics manufacturing and mass consumer market. In 2015, China consumed US$147 billion of semiconductors from international and China domestic suppliers. This represented 42% of the semiconductor worldwide total market. In addition, we believe the IC design market in China is growing rapidly. Local Analyst, ICwise, estimated that the China's IC design market reached US$13.9 billion in 2015, a 10% year to year increase from 2014 and is projected to experience a compounded annual growth rate of 20.4% over the next 5 years, which will bring the worth of the China IC design market to US$35.3 billion by 2020.

Notably, our business objective in China is not just revenue growth, but also growth in the number of new designs using advanced technology, in particular on 55/65nm, 40/45nm and 28nm process technologies. The Group has, in each of its geographical regions, customers utilizing its most advanced nodes of technology. We believe 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, the Group plans to continue to deepen its collaboration with Chinese customers while broadening relationships with its 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, through 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 enables us to seize China market opportunities, but also gives global customers a foothold in that fast-growing market. Third, with long-term 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 building value in the long-term for the benefit of our employees and shareholders.

Research and Development

In 2015, the research and development (R&D) expenses were US$237.2 million, which is equivalent to 10.6% of our sales.

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

In the area of non-volatile memory (NVM) technologies, we believe that SMIC was the world’s first pure foundry to produce 55nm eflash and we successfully ramped products which were adopted by domestic and overseas telecom carriers. A number of new technologies also entered production in 2015 including Back-Side Illumination CMOS image sensor (BSI-CIS) products with scaled pixel size (1.4µm and 1.1µm), CMOS integrated MEMS devices and TSV- based wafer level packaging technologies. SMIC also launched 95nm ultra-low power SPOCULL (SMIC Poly Contact Ultra Low Leakage) technology, which can pack 2 times the logic density and three times the SRAM density compared to the 0.13µm node, and which can be used for various applications including RF, power management, and internet-of-things (IoT).

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

Outlook for 2016

Looking forward, we are full of anticipation in regards to the upcoming business opportunities. With the growing demand from our customers and our investment in R&D accelerating, we estimate 2016 sales revenue will exceed global foundry industry average growth. Our capacity target by 2016 year-end is to install 341,000 8-inch equivalent wafers per month capacity, an increase of 20% compared to 2015 year-end. Shanghai 12- inch fab capacity is targeted to expand to 20,000 12-inch wafers per month compared to 14,000 wafers per month at the end of 2015; in addition, the majority owned Beijing 12-inch joint venture fab capacity is targeted to expand to 15,000 12-inch wafers per month capacity, from 6,000 as of 2015 year-end; Shenzhen 8-inch fab capacity is targeted to reach 30,000 8-inch wafers per month from 13,000 wafers per month as of 2015 year-end. We believe 28nm is a long-lived node and is strategic for the long-term growth and development of SMIC. Our 28nm and 40nm flexible capacity allows us to best utilize our capacity according to our customers' needs. With the opportunities presented to us being in China, we strive to capture the attractive prospects with profitability as our underlying objective. In order to capture the many opportunities at hand, SMIC plans to grow through both organic and inorganic means.

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, 2012, 2013, 2014 and 2015 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, 2012, 2013, 2014 and 2015 have been prepared in accordance with IFRS.

	Year Ended 12/31/15	Year Ended 12/31/14	Year Ended 12/31/13	Year Ended 12/31/12	Year Ended 12/31/11
	(in US$ thousands, except for earnings (loss) per share)				
Continuing operations					
Revenue	2,236,415	1,969,966	2,068,964	1,701,598	1,319,466
Cost of sales	(1,553,795)	(1,486,514)	(1,630,528)	(1,352,835)	(1,217,525)
Gross profit	682,620	483,452	438,436	348,763	101,941
Research and development expenses, net	(237,157)	(189,733)	(145,314)	(193,569)	(191,473)
Sales and marketing expenses	(41,876)	(38,252)	(35,738)	(31,485)	(32,559)
General and administration expenses	(213,177)	(139,428)	(138,167)	(107,313)	(57,435)
Other operating income (expense), net	31,594	14,206	67,870	19,117	(11,190)
Profit (loss) from operations	222,004	130,245	187,087	35,513	(190,716)
Interest income	5,199	14,230	5,888	5,390	4,724
Finance costs	(12,218)	(20,715)	(34,392)	(39,460)	(21,903)
Foreign exchange gains or losses	(26,349)	(5,993)	13,726	3,895	17,589
Other gains or losses, net	55,611	18,210	4,010	6,398	6,709
Share of (loss) profit of investment using equity method	(13,383)	2,073	2,278	1,703	4,479
Profit (loss) before tax	230,864	138,050	178,597	13,439	(179,118)
Income tax (expense) benefit	(8,541)	(11,789)	(4,130)	9,102	(82,503)
Profit (loss) for the year from continuing operations	222,323	126,261	174,467	22,541	(261,621)
Discontinued operations					
Profit for the year from discontinued operations	—	—	—	—	14,741
Profit (loss) for the year	222,323	126,261	174,467	22,541	(246,880)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss					
	(8,185)	(324)	731	70	4,938

Exchange differences on translating foreign operations					
Change in value of available-for-sale financial assets	452	—	—	—	—
Others	130	—	—	—	—
Total comprehensive income (loss) for the year	214,720	125,937	175,198	22,611	(241,942)

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION

	Year Ended 12/31/15	Year Ended 12/31/14	Year Ended 12/31/13	Year Ended 12/31/12	Year Ended 12/31/11
	(in US$ thousands, except for earnings (loss) per share)				
Profit (loss) for the year attributable to:					
Owners of the Company	253,411	152,969	173,177	22,771	(246,817)
Non-controlling interest	(31,088)	(26,708)	1,290	(230)	(63)
	222,323	126,261	174,467	22,541	(246,880)
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	245,803	152,645	173,908	22,841	(241,879)
Non-controlling interest	(31,083)	(26,708)	1,290	(230)	(63)
	214,720	125,937	175,198	22,611	(241,942)
Earnings (loss) per share					
From continuing and discontinued operations					
Basic	$0.01	$0.00	$0.01	$0.00	$(0.01)
Diluted	$0.01	$0.00	$0.01	$0.00	$(0.01)
From continuing operations					
Basic	$0.01	$0.00	$0.01	$0.00	$(0.01)
Diluted	$0.01	$0.00	$0.01	$0.00	$(0.01)

	As of December 31,				
	2015	2014	2013	2012	2011
	(in US$ thousands)				
Statements of Financial Position Data:					
Property, plant and equipment	3,903,818	2,995,086	2,528,834	2,385,435	2,516,578
Land use right	91,030	135,331	136,725	73,962	77,231
Total non-current assets	4,525,297	3,471,120	2,960,151	2,803,173	2,866,416
Inventories	387,326	316,041	286,251	295,728	207,308
Prepayment and Prepaid operating expenses	40,184	40,628	43,945	46,986	52,805
Trade and other receivables	499,846	456,388	379,361	328,211	200,905
Other financial assets	282,880	644,071	240,311	18,730	1,973
Restricted cash	302,416	238,051	147,625	217,603	136,907
Cash and cash equivalent	1,005,201	603,036	462,483	358,490	261,615
Assets classified as held-for-sale	72,197	44	3,265	4,239	—
Total current assets	2,590,050	2,298,259	1,563,241	1,269,987	861,513
Total assets	7,115,347	5,769,379	4,523,392	4,073,160	3,727,929
Total non-current liabilities	1,157,901	1,311,416	991,673	688,622	230,607
Total current liabilities	1,767,191	1,150,241	938,537	1,108,086	1,251,324
Total liabilities	2,925,092	2,461,657	1,930,210	1,796,708	1,481,931

Non-controlling interest	460,399	359,307	109,410	952	1,182
Total equity	4,190,255	3,307,722	2,593,182	2,276,452	2,245,998

	For the year ended December 31,				
	2015	2014	2013	2012	2011
	(in US$ thousands except percentages and operating data)				
Cash Flow Data:					
Profit (loss) for the year	222,323	126,261	174,467	22,541	(246,880)
Non-cash adjustment to reconcile profit (loss) to net operating cash flow:					
Depreciation and amortization	523,549	549,468	546,910	566,899	551,857
Net cash from operating activities	669,197	608,102	738,016	435,166	379,368
Payments for property, plant and equipment	(1,230,812)	(653,134)	(650,160)	(400,291)	(931,574)
Net cash used in investing activities	(789,556)	(1,144,123)	(807,467)	(522,277)	(903,641)
Net cash from financing activities	537,078	676,683	173,458	184,101	268,855
Net increase (decrease) in cash and bank balances	416,719	140,662	104,007	96,990	(255,418)
Other Financial Data:					
Gross margin	30.5%	24.5%	21.2%	20.5%	7.7%
Net margin	9.9%	6.4%	8.4%	1.3%	–18.7%
Operating Data:					
Wafers shipped (in units):					
Total[1]	3,015,966	2,559,245	2,574,119	2,217,287	1,703,615

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATION

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

Revenue

Revenue increased by 13.5% from US$1,970.0 million for 2014 to US$2,236.4 million for 2015, primarily due to an increase in wafer shipments in 2015 including a significant increase in China sales. For 2015, the overall wafer shipments were 3,015,966 units of 8-inch equivalent wafers, up 17.8% year-over-year.

The average selling price[1] of the wafers the Group shipped decreased from US$770 per wafer in 2014 to US$742 in 2015. The percentage of wafer revenues from advanced 40/45nm technologies increased from 11.1% in 2014 to 15.8% in 2015 and the Group entered into mass production of the advanced 28nm technologies in the second half of 2015.

Cost of sales and gross profit

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

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

Profit for the year from operations

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

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

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

Sales and marketing expenses increased by 9.5% from US$38.3 million for the year ended December 31, 2014 to US$41.9 million for the year ended December 31, 2015.

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

As a result, the Group’s profit from operations increased to US$222.0 million for the year ended December 31, 2015 from US$130.2 million for the year ended December 31, 2014.

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

Profit for the Year

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

Funding Sources for Material Capital Expenditure in the Coming Year

The Group's planned 2016 capital expenditures for foundry operations are approximately US$2.1 billion, which are mainly for 1) the expansion of capacity in 12-inch fab in Semiconductor Manufacturing North China (Beijing) Corporation, a majority-owned subsidiary of the Company ("SMNC"), 8-inch fab in Semiconductor Manufacturing International (Shenzhen) Corporation ("SMIC Shenzhen"), 12-inch fab in Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai") and a new 12-inch majority-owned joint venture with bumping services in SJ Semiconductor (Jiangyin) Corporation ("SJ Jiangyin"), 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology, and 3) research and development equipment, mask shops and intellectual property acquisition.

The Group's planned 2016 capital expenditures for non-foundry operations are approximately US$60 million, mainly for the construction of living quarters.

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

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

Bad Debt Provision

The Group determines its bad debt provision based on the Group's historical experience and the relative aging of receivables as well as individual assessment of certain debtors. A fixed percentage 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. The Group's bad debt provision excludes receivables from a limited number of customers due to their high creditworthiness. 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 Group's recognized bad debt provision in 2014 and 2015 amounted to US$1.6 million and US$0.5 million, respectively. The Group 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, 2015, of the Group's future cash payment obligations under the Group's existing contractual arrangements on a consolidated basis:

Contractual obligations	Payments due by period Total	Less than 1 year	1-2 years	2-5 years	Over 5 years
	(consolidated, in US$ thousands)				
Short-term borrowings	62,872	62,872	—	—	—
Long-term loans	466,232	50,196	15,830	172,916	227,290
Convertible bonds(1)	392,632	392,632	—	—	—
Bonds payable	493,207	—	—	493,207	—
Purchase obligations(2)	1,340,941	1,340,941	—	—	—
Total contractual obligations	2,755,884	1,846,641	15,830	666,123	227,290

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

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

As of December 31, 2015, the Group's outstanding long-term loans primarily consisted of US$63.6 million in secured bank loans and US$402.6 million in unsecured bank loans, which are repayable in installments starting in June 2016, with the last payment due in December 2030.

2013 USD Loan (SMIC Shanghai)

In August 2013, Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS") entered into a loan facility in the aggregate principal amount of US$470 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS' 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS' 12-inch fab. As of December 31, 2015 SMIS had drawn down US$260 million and repaid US$249.2 million on this loan facility. The outstanding balance of US$10.8 million is repayable from February 2018 to August 2018. The interest rate on this loan facility ranged from 4.33% to 4.89% in 2015. SMIS was in compliance with the related financial covenants as of December 31, 2015.

2015 USD Loan (SMIC Shanghai)

In April 2015, SMIS entered into a loan facility in the aggregate principal amount of US$66.1 million with US Export-Import Bank. This five-year bank facility was used to finance the planned expansion for SMIS' 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS' 12-inch fab. As of December 31, 2015, SMIS had drawn down US$66.1 million and repaid US$13.2 million on this loan facility. The outstanding balance of US$52.9 million is repayable from June 2016 to December 2019. The interest rate on this loan facility ranged from 1.21% to 1.75% in 2015. SMIS was in compliance with the related financial covenants as of December 31, 2015.

2015 RMB Loan I (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB1,000 million with China Development Bank, which is guaranteed by SMIC. This fifteen-year bank facility was used for new SMIS' 12-inch fab. As of December 31, 2015, SMIS had drawn down RMB1,000 million (approximately US$154.1 million) on this loan facility. The outstanding balance is repayable from November 2021 to November 2030. The interest rate on this loan facility was 1.20% in 2015.

2015 RMB Loan II (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS' 12-inch fab. As of December 31, 2015, SMIS had drawn down RMB475 million (approximately US$73.2 million) on this loan facility. The outstanding balance is repayable from December 2018 to December 2025. The interest rate on this loan facility was 1.20% in 2015.

2015 EXIM RMB Loan (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB480 million with The Export-Import Bank of China, which is unsecured. This three-year bank facility was used for working capital purposes. As of December 31, 2015, SMIS had drawn down RMB480 million (approximately US$74.0 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on

this loan facility was 2.65% in 2015.

2014 EXIM RMB Loan (SMIC Beijing)

In December 2014, Semiconductor Manufacturing International (Beijing) Corporation ("SMIB") entered into a RMB Loan, a two-year working capital loan facility in the principal amount of RMB240 million with The Export-Import Bank of China, which is unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2015, SMIB had drawn down RMB240 million (approximately US$37.0 million) on this loan facility. The principal amount is repayable in December 2016. The interest rate on this loan facility ranged from 3.65% to 3.90% in 2015.

2015 CDB RMB Loan (SMIC Beijing)

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

2015 RMB Entrust Loan (SJ Jiangyin)

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

2015 CDB USD Loan (SJ Jiangyin)

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

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

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

Capitalized Interest

Interest, after netting off government funding received, incurred on borrowed funds used to construct plant and equipment during the active construction period is capitalized. The interest capitalized is determined by applying the borrowing interest rate to the average amount of accumulated capital expenditures for the assets under construction during the period. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful life of the assets. Capitalized interests of US$30.3 million and US$13.7 million in 2015 and 2014, respectively, have been added to the cost of the underlying assets during the year and are amortized over the respective useful life of the assets. In 2015 and 2014, the Group recorded amortization expenses relating to the capitalized interest of US$15.5 million and US$12.5 million, respectively.

Commitments

As of December 31, 2015, the Group had commitments of US$165.3 million for facilities construction obligations in connection with the Group's Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities.

As of December 31, 2015, the Group had commitments of US$1,146.3 million to purchase machinery and equipment for its Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs.

As of December 31, 2015 the Group had commitments of US$29.4 million to purchase intellectual property.

Debt to Equity Ratio

As of December 31, 2015, the Group's net debt to equity ratio was approximately 3.0%. Please refer to Note 39 to our financial statements for calculation.

Foreign Exchange Rate Fluctuation Risk

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

To minimize these risks, the Group 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

In December 2015, the Company entered into a long-term loan facility agreement in the aggregate principal amount of RMB480 million. The Company was primarily exposed to changes in the exchange rate for the RMB.

To minimize the currency risk, the Company entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the whole part of this RMB 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.

Outstanding Foreign Exchange Contracts

As of December 31, 2015, the Group had outstanding foreign currency forward exchange contract with notional amounts of US$42.9 million, which will mature in 2016. As of December 31, 2015, the fair value of foreign currency forward exchange contracts was approximately US$0.2 million, which was recorded in other financial assets.

As of December 31, 2014 and 2013, the Group had no outstanding foreign currency forward exchange contracts.

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

	As of December 31, 2015 (in US$ thousands)		As of December 31, 2014 (in US$ thousands)		As of December 31, 2013 (in US$ thousands)	
	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value
Forward Foreign Exchange Agreement (Receive Eur/Pay US$)						
Contract Amount	42,872	172	—	—	—	—
Total Contract Amount	42,872	172	—	—	—	—

Outstanding Cross Currency Swap Contracts

As of December 31, 2015, the Company had outstanding cross currency swap contracts with notional amounts of US$74.0 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of December 31, 2015, the fair value of cross currency swap contracts was approximately US$(1.5) million and was recorded in other financial liabilities. The cross currency swap contracts will mature in 2018.

As of December 31, 2014 and 2013, the Group had no outstanding cross currency swap contracts.

	As of December 31, 2015 (in US$ thousands)		As of December 31, 2014 (in US$ thousands)		As of December 31, 2013 (in US$ thousands)	
	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value
Cross Currency Swap Contracts (Receive RMB/Pay US$)						
Contract Amount	73,966	(1,459)	—	—	—	—
Total Contract Amount	73,966	(1,459)	—	—	—	—

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Interest Rate Risk

The Group's exposure to interest rate risks relates primarily to the Group's long-term loans, which the Group generally assumes to fund capital expenditures and working capital requirements. The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for the Group's debt obligations outstanding as of December 31, 2015. The Group's long-term loans are all subject to variable interest rates. The interest rates on the Group's U.S. dollar-denominated loans are linked to the LIBOR. As a result, the interest rates on the Group's loans are subject to fluctuations in the underlying interest rates to which they are linked.

	As of December 31,				
	2016	2017	2018	2019	2020 and thereafter
			(Forecast)		
	(in US$ thousands, except percentages)				
US$ denominated					
Average balance	910,807	561,418	465,203	444,044	2,455
Average interest rate	2.78 %	2.40 %	2.37 %	2.33 %	5.22 %
RMB denominated					
Average balance	381,640	345,630	340,924	261,762	123,970
Average interest rate	1.66 %	1.46 %	1.45 %	1.13 %	1.19 %
Weighted average forward interest rate	2.45 %	2.04 %	1.98 %	1.89 %	1.27 %

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

The composition of the Board during the year ended December 31, 2015 and up to the date of this report is set forth as follows:

Name of Director	**Age**	**Position**
Zhou Zixue	59	Chairman, Executive Director
Tzu-Yin Chiu	59	Chief Executive Officer, Executive Director
Gao Yonggang	51	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director
Chen Shanzhi	47	Non-executive Director
Zhou Jie	48	Non-executive Director
Ren Kai	43	Non-executive Director
Lu Jun	47	Non-executive Director
William Tudor Brown	57	Independent Non-executive Director
Sean Maloney	59	Independent Non-executive Director
Lip-Bu Tan	56	Independent Non-executive Director
Carmen I-Hua Chang	68	Independent Non-executive Director
Li Yonghua	41	Alternate Director of Chen Shanzhi
Resigned		
Zhang Wenyi	69	Chairman, Executive Director
Frank Meng	55	Independent Non-executive Director

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	59	Chief Executive Officer and Executive Director
Yonggang Gao	51	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director
Haijun Zhao	52	Chief Operating Officer and Executive Vice President
Jyishyang Liu	63	Executive Vice President, Engineering & Services
Li Zhi	52	Executive Vice President, Legal/Human Resources/Public Affairs/General Administration

Mike Rekuc	67	Executive Vice President, Worldwide Sales & Marketing
Gareth Kung	51	Executive Vice President, Investment and Strategic Business Development and Finance, and Company Secretary

DIRECTORS AND SENIOR MANAGEMENT

Brief Biographical Details

Board of Directors

Zhou Zixue

Chairman of the Board, Executive Director

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

Tzu-Yin Chiu

Chief Executive Officer & Executive Director

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

Subsequently, Dr. Chiu became Senior Vice President of Shanghai Operations for Semiconductor Manufacturing International Corporation (SMIC). He then served as Senior Vice President and Chief Operating Officer of Hua Hong International Management and President of Hua Hong Semiconductor International in Shanghai, China. He was then appointed President and COO of Silterra Malaysia, before joining Hua Hong NEC as President and CEO in February 2009. Dr. Chiu also served as the Vice President and Chief Operating Officer of Shanghai Huali Microelectronics Corporation from 2010 to 2011. From 2005 to 2009, he was an Independent Director of Actions Semiconductor Co., Ltd. Dr. Chiu returned to SMIC in August 2011 as CEO and Executive Director. He is also Vice Council Chairman of China Semiconductor Industry Association (CSIA), a board member of Global Semiconductor Alliance (GSA), the chairman of the board of directors of each of Semiconductor Manufacturing North China (Beijing) Corporation, Brite Semiconductor Corporation, SilTech Semiconductor (Shanghai) Corporation Limited, Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International (Shenzhen) Corporation, Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International (Tianjin) Corporation and SMIC Semiconductor Advanced Technology Research (Shanghai) Corporation. Dr. Chiu is also the director of SJ Semiconductor (Jiangyin) Corporation and Toppan SMIC Electronics (Shanghai) Co., Ltd.

Dr. Chiu earned his bachelor's degree in electrical and systems engineering at Rensselaer Polytechnic Institute in New York, and his doctorate in electrical engineering and computer science at the University of California, Berkeley. He has also earned an executive MBA degree from Columbia University in New York. Dr. Chiu was honored as the 2014 Distinguished Alumni Award by the Department of EECS at the University of California, Berkeley on February 13, 2014. Dr. Chiu received the Outstanding EHS Achievement Award from SEMI on March 18, 2014. Dr. Chiu holds 67 semiconductor technology patents with 33 additional patents application still pending. He is a senior member of the IEEE and has published over 30 technical articles.

Gao Yonggang

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

Dr. Gao Yonggang, a non-executive Director since 2009, has been appointed as Executive Vice President, Strategic Planning of the Company and has been re-designated as an executive Director since June 17, 2013. He has been appointed as the Chief Financial Officer of the Company since February 17, 2014. Dr. Gao is a director of six subsidiaries of the Company, namely Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International (Beijing) Corporation, Semiconductor Manufacturing International (Tianjin) Corporation, Semiconductor Manufacturing North China (Beijing) Corporation, Semiconductor Manufacturing International (Shenzhen) Corporation and SMIC Holdings Corporation. He is also chairman of the board of China Fortune-Tech Capital Co., Ltd, the Company's joint venture with independent third parties. Dr. Gao has more than 30 years of experience in the area of financial management and has worked as Chief Financial Officer or person in charge of finance in various industries, including commercial, industrial, and municipal utilities, and in various types of organizations, including state-owned enterprises, private companies, joint ventures, and government agencies. Dr. Gao was the Chief Financial Officer of the China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group), the chairman of Datang Capital (Beijing) Co., Ltd. and Datang Telecom Group Finance Co., Ltd., and an executive director of Datang Hi-Tech Venture Capital Investment Co., Ltd. He was also a director and the Senior Vice President of Datang Telecom Technology & Industry Holdings Co., Ltd.. Dr. Gao is a standing committee member of Accounting Society of China, standing director of Enterprise Financial Management Association of China, independent director of GRINM Semiconductor Materials Co.,Ltd. Dr. Gao graduated from Nankai University with a Ph.D. in management. He has conducted studies in the field of financial investment, and has been involved in a number of key research projects and publications in this area. Dr. Gao is also a Fellow of the Institute of Chartered Accountants in Australia. Founding Member, director of The Hong Kong Independent Non-Executive Director Association.

Chen Shanzhi

Non-Executive Director

Dr. Chen Shanzhi has been a non-executive Director since 2009. Dr. Chen is currently the SVP and CIO of the China Academy of Telecommunications Technology (Datang Telecom Technology & Industry Group). He is also the SVP of Datang Telecom Technology & Industry Holdings Co., Ltd., where he is responsible for strategy development, technology and standards development, corporate IT, strategic alliances and cooperation, investment budget management, and external Industrial Investment. Dr. Chen received his bachelor's degree from Xidian University, his master's degree from the China Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications, and his Ph.D. from Beijing University of Posts and Telecommunications. Dr. Chen has 20 years of experience in the field of information and communication technology, during which he has been involved in research and development, technology and strategy management. Dr. Chen has made important contributions to the industrialization of TD-SCDMA 3G and the development of TD-LTE-Advanced 4G international standards.

DIRECTORS AND SENIOR MANAGEMENT

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

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

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

Zhou Jie

Non-Executive Director

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

Ren Kai

Non-Executive Director

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

Lu Jun

Non-Executive Director

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

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

Lip-Bu Tan

Independent Non-Executive Director

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

Sean Maloney

Independent Non-Executive Director

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

DIRECTORS AND SENIOR MANAGEMENT

William Tudor Brown

Independent Non-Executive Director

Mr. William Tudor Brown has been a Director since 2013. He is a Chartered Engineer, a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He holds a MA (Cantab) Degree in Electrical Sciences from Cambridge University. Mr. Brown was one of the founders of ARM Holdings plc, a British multinational semiconductor and software design company listed on London Stock Exchange and NASDAQ. In ARM Holdings plc, he served as President during the period from July 2008 to May 2012. His previous roles include Engineering Director and Chief Technology Officer, EVP Global Development and Chief Operating Officer. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. Before joining ARM Holdings plc, Mr. Brown was Principal Engineer at Acorn Computers and worked exclusively on the ARM R&D programme since 1984. Mr. Brown served as a director at ARM Holdings plc from October 2001 to May 2012. He was also a director of ARM Ltd. From May 2005 to February 2013, he was a director of ANT Software PLC (a company listed on AIM of London Stock Exchange). Mr. Brown served on the UK Government Asia Task Force until May 2012. He sat on the advisory board of Annapurna Labs until the sale of the company in 2015. Currently Mr. Brown is an independent non-executive director and a member of the Compensation Committee and chair of the Nominations and Governance committee of Tessera Technologies, Inc. (a company listed on NASDAQ), an independent non-executive director and a member of each of the Audit Committee and the Compensation Committee of Lenovo Group Limited (a company listed on Main Board of The Stock Exchange of Hong Kong Limited) and an independent non-executive director of P2i Limited, a world leader in liquid repellent nano-coating technology.

Carmen I-Hua Chang

Independent Non-Executive Director

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

Li Yonghua

Alternate Director to Dr. Chen Shanzhi

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

Senior Management

Dr. Tzu-Yin Chiu

Biographical details are set out on page 29 of this annual report.

Dr. Yonggang Gao

Biographical details are set out on page 30 of this annual report.

Dr. Haijun Zhao joined SMIC in 2010, and was named Vice President of North Operations in September 2011. In June 2012 he was promoted to Senior Vice President, and on April 25, 2013, he took on the role as Executive Vice President, Chief Operating Officer. He has 26 years of experience in semiconductor operations and technology development, most recently as a vice president of technology development, product engineering and Greater China business at ProMOS Technologies in Taiwan. He also previously held management positions at TECH Semiconductor Singapore. Dr. Zhao received his B.S. and Ph.D. from Tsinghua University, and his MBA from the University of Chicago. He holds two US semiconductor technology patents, with two pending, and has nine published technical papers.

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

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

DIRECTORS AND SENIOR MANAGEMENT

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

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

Company Secretary

Mr. Gareth Kung

Biographical details are set out above.

REPORT OF THE DIRECTORS

Business Review

Despite a challenging environment in 2015, the Group's sales totalled US$2,236.4 million, compared to US$1,970.0 million in 2014. The Group recorded a profit of US$222.3 million in 2015, compared to US$126.3 million in 2014. During 2015, the Group also expanded its operations in Beijing and Shenzhen, China, as well as entered into key business partnerships and engagements. Internal controls and other risk management measures are in place to mitigate the principal risks which the Group faces in its financial condition and operations, including but not limited to the followings:

1. Cyclicality of the semiconductor manufacturing industry;
2. Inability to secure of our key materials or equipments in a timely manner;
3. Inability to raise sufficient funding in light of the capital intensiveness of the semiconductor manufacturing industry;
4. Inability to keep up with technology migration, and
5. Difficulty of attraction and retention of technical and managerial talents.

The Group continues to serve a broad global customer base comprised of leading IDMs, fabless semiconductor companies and system companies. Looking ahead, our long-term goal is to achieve sustained profitability through optimal efficiency and utilization of existing assets, harnessing of our strong market position in China and investing further in advanced technology and capacity. For further details, please see pages 13 to 15 of the Annual Report.

We are committed to protecting the environment and have in place various environmental protection, safety and health ("ESH") policies, as well as international standards certifications. We have complied with all relevant laws and regulations, such as the European Union's Restriction of Hazardous Substances (RoHS) Directive. For further details, please see pages 99 to 101 of the Annual Report.

Board of Directors

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

REPORT OF THE DIRECTORS

The composition of the Board during the year ended December 31, 2015 and up to the date of this report is set forth as follows:

Name of Director	Age	Position	Class	Appointment Commencement Date
Zhou Zixue	59	Chairman, Executive Director	I	2015/3/6
Tzu-Yin Chiu	59	Chief Executive Officer, Executive Director	I	2011/8/5
Gao Yonggang	51	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director	I	2009/6/23
William Tudor Brown	57	Independent Non-executive Director	I	2013/8/8
Chen Shanzhi	47	Non-executive Director	II	2009/6/23
Lip-Bu Tan	56	Independent Non-executive Director	II	2001/11/3
Carmen I-Hua Chang	68	Independent Non-executive Director	II	2014/9/1
Lu Jun	47	Non-executive Director	II	2016/2/18
Sean Maloney	59	Independent Non-executive Director	III	2013/6/15
Zhou Jie	48	Non-executive Director	III	2009/1/23
Ren Kai	43	Non-executive Director	III	2015/8/11
Li Yonghua	41	Alternate Director of Chen Shanzhi	—	2013/10/22
Resigned				
Zhang Wenyi	69	Chairman, Executive Director	I	2011/6/30 Resigned on March 6, 2015
Frank Meng	55	Independent Non-executive Director	II	2011/8/23 Resigned on June 26, 2015

Subsidiaries

As of December 31, 2015, the Company’s subsidiaries are as follows:

1.
SMIC Holdings Corporation*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: N/A

Registered capital: US$50,000,000

Equity holder: the Company (100%)

2. ( )
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%)

3. ( )
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%)

4. ( )
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%)

* For identification purposes only

REPORT OF THE DIRECTORS

5. ( )
Semiconductor Manufacturing North China (Beijing) Corp

Principal place of operation: Beijing, PRC

Place of incorporation: Beijing, PRC

Legal entity: Majority-owned subsidiary

Total investment: US$3,590,000,000

Registered capital: US$1,200,000,000

Equity holder: the Company (13.75% directly and 41.25% indirectly through Semiconductor

Manufacturing International (Beijing) Corporation))

6.
SMIC Japan Corporation*

Principal country of operation: Japan

Place of incorporation: Japan

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

Equity holder: the Company (100%)

7. SMIC, Americas
Principal country of operation: U.S.A.

Place of incorporation: California, U.S.A

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

Equity holder: the Company (100%)

8. Better Way Enterprises Limited
Principal country of operation: Samoa

Place of incorporation: Samoa

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

Issued share capital: US$1.00

Equity holder: the Company (100%)

9. SMIC Europe S.R.L.
Principal place of operation: Agrate Brianza (Monza and Brianza), Italy

Place of incorporation: Agrate Brianza (Monza and Brianza), Italy

Registered capital: Euros 100,000

Equity holder: the Company (100%)

10. Semiconductor Manufacturing International (Solar Cell) Corporation
Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

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

Equity holder: the Company (100%)

*For identification purposes only

11. 技( )
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$26,000,000

Registered capital: US$10,400,000

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

12. 貿易( )
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%)

13. 開發管理(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%)

14. Magnificent Tower Limited
Principal country of operation: British Virgin Islands

Place of incorporation: British Virgin Islands

Authorized capital: US$50,000

Issued share capital: US$1.00

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

15. SMIC Shanghai (Cayman) Corporation
Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

*For identification purposes only

REPORT OF THE DIRECTORS

16. SMIC Beijing (Cayman) Corporation
Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

17. SMIC Tianjin (Cayman) Corporation
Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

18. SMIC Shanghai (HK) Company Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1.00

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

19. SMIC Beijing (HK) Company Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1.00

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

20. SMIC Tianjin (HK) Company Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1.00

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

21. SMIC Solar Cell (HK) Company Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1.00

Equity holder: the Company (100%, indirectly through Semiconductor Manufacturing International

(Solar Cell) Corporation)

22. Semiconductor Manufacturing International (BVI) Corporation
Principal country of operation: British Virgin Islands

Place of incorporation: British Virgin Islands

Authorized capital: US$10.00

Issued share capital: US$10.00

Equity holder: the Company (100%)

23. Admiral Investment Holdings Limited
Principal country of operation: British Virgin Islands

Place of incorporation: British Virgin Islands

Authorized capital: US$10.00

Issued share capital: US$10.00

Equity holder: the Company (100%)

24. SMIC Shenzhen (Cayman) Corporation
Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$50,000

Issued share capital: US$0.0004

Equity holder: the Company (100%)

25. 新技術研發( )

SMIC Advanced Technology Research & Development (Shanghai) Corporation*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Majority-owned subsidiary

Total investment: US$297,000,000

Registered capital: US$99,000,000

Equity holder: the Company (89.697%)

26. SMIC Shenzhen (HK) Company Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1.00

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

27. SilTech Semiconductor Corporation
Principal country of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$10,000

Issued share capital: US$10,000

Equity holder: the Company (100%)

28. SilTech Semiconductor (Hong Kong) Corporation Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1,000

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

*For identification purposes only

REPORT OF THE DIRECTORS

29. (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)

30. 半導體( )
SilTech Semiconductor (Shanghai) Corporation Limited*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Wholly foreign-owned enterprise

Total investment: US$35,000,000

Registered capital: US$12,000,000

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

Corporation Limited)

31. 晶圓 權投資( )
China IC Capital Co., Ltd*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: One-person Company with Limited Liability (wholly owned by a foreign invested company)

Registered capital: RMB500,000,000

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

32. 合 投資管理合夥企業(合夥) Shanghai Hexin Investment Management Limited Partnership*

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Majority-owned subsidiary

Registered capital: RMB50,000,000

Equity holder: the Company (99% indirectly through China IC Capital Co., Ltd)

33. 榮 投資管理合夥企業(合夥) Shanghai Rongxin Investment Management Limited Partnership

Principal place of operation: Shanghai, PRC

Place of incorporation: Shanghai, PRC

Legal entity: Majority-owned subsidiary

Registered capital: RMB50,000,000

Equity holder: the Company (99% indirectly through China IC Capital Co., Ltd)

*For identification purposes only

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34. SJ Semiconductor Corporation
Principal place of operation: Cayman Islands

Place of incorporation: Cayman Islands

Authorized capital: US$15,000

Issued share capital: US$3,334.71[#]

Equity holder: the Company (55.277%)

35. SJ Semiconductor (HK) Limited
Principal place of operation: Hong Kong

Place of incorporation: Hong Kong

Issued share capital: HK$1,000

Equity holder: the Company (55.277% indirectly through SJ Semiconductor Corporation)

36. 長 半導體(江陰)
SJ Semiconductor (Jiangyin) Corporation*

Principal place of operation: Jiangyin City, Jiangsu Province, PRC

Place of incorporation: Jiangyin City, Jiangsu Province, PRC

Legal entity: Majority-owned subsidiary

Total investment: US$1,144,000,000

Registered capital: US$399,500,000

Equity holder: the Company (55.277% indirectly through SJ Semiconductor (HK) Limited)

*For identification purposes only
#Included ordinary shares and preferred shares

REPORT OF THE DIRECTORS

Share Capital

During the year ended December 31, 2015, the Company issued 126,900,443 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”), 75,546,693 Ordinary Shares to certain of the eligible participants pursuant to the Company’s amended and restated 2004 Equity Incentive Plan (“2004 Equity Incentive Plan”). During the year, there were 2,407,402 and 27,429,599 Ordinary Shares issued as a result of the exercise of equity awards granted pursuant to the Company’s 2014 stock option plan (the “2014 Stock Option Plan”) and the Company’s 2014 equity incentive plan (the “2014 Equity Incentive Plan”) which have replaced the 2004 Stock Option Plan and the 2004 Equity Incentive Plan, respectively, upon their termination.

Outstanding Share Capital as at December 31, 2015:	Number of **Share** Outstanding
Ordinary Shares	42,073,748,961

Under the terms of the 2014 Equity Incentive Plan, the Compensation Committee may grant restricted share units (“RSU(s)”) to eligible participants. Each RSU represents the right to receive one Ordinary Share. RSUs 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 RSUs and subject to the terms of the Insider Trading Policy and the payment by the participants of applicable taxes, the Company will issue the relevant participants the number of Ordinary Shares underlying the awards of RSU. For the year ended December 31, 2015, the Compensation Committee of the Company granted a total of 146,852,985 RSUs.

As at December 31, 2015, a total of 304,512,677 RSUs granted pursuant to the terms of the 2004 Equity Incentive Plan and the 2014 Equity Incentive Plan, whether or not such RSUs were vested, remained outstanding. The vesting schedule of these outstanding Restricted Share Units is set forth below:

Vesting Dates	No. of Restricted Share Units Outstanding
2015	
1-Mar	127,345
17-Jun	600,364
5-Nov	561,114
2016	
1-Mar	91,345,911
6-Mar	2,701,246
15-Apr	80,000
1-May	13,230,000
4-May	80,000
1-Jun	100,000
15-Jun	130,000
17-Jun	600,364
7-Jul	100,000
9-Jul	625,000
8-Oct	100,000
5-Nov	561,114
2017	
1-Mar	91,345,903
6-Mar	2,701,246
15-Apr	80,000
4-May	80,000
1-Jun	100,000
15-Jun	130,000
17-Jun	600,364
7-Jul	100,000
8-Oct	100,000
5-Nov	561,114
2018	
1-Mar	58,229,735
6-Mar	2,701,246
15-Apr	80,000
4-May	80,000
1-Jun	100,000
15-Jun	130,000
7-Jul	100,000
8-Oct	100,000
5-Nov	561,114
2019	
1-Mar	32,398,250

6-Mar	2,701,247
15-Apr	80,000
4-May	80,000
1-Jun	100,000
15-Jun	130,000
7-Jul	100,000
8-Oct	100,000
Total	304,512,677

REPORT OF THE DIRECTORS

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 Ordinary Shares during the year ended December 31, 2015.

Public Float

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

Dividends and Dividend Policy

As of December 31, 2015, the Company's accumulated deficit decreased to US$1,287.5 million from US$1,540.9 million as of December 31, 2014. The Company has not declared or paid any cash dividends on the Ordinary Shares. We intend to retain any earnings for use in the Company's business and do not currently intend to pay cash dividends on the Ordinary Shares. Dividends, if any, on the outstanding Ordinary Shares will be declared by and subject to the discretion of the Board and must be approved by the shareholders at the annual general meeting of the Company. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

- the Company's results of operations and cash flow;
- the Company's future prospects;
- the Company's capital requirements and surplus;
- the Company's financial condition;

- general business conditions;
- contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company; and
- other factors deemed relevant by the Board.

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

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

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

Directors' Interests in Contracts of Significance

Save for those disclosed in the section headed "Connected Transactions", there were no contracts of significance during the year ended December 31, 2015 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 2015, the Company's largest and five largest raw materials suppliers, as a group, accounted for approximately 10.4% and 39.0%, respectively, of the Company's overall raw materials purchases. To the best of the Company's knowledge, none of the Directors or the shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Company's five largest 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 2015, the Company's largest and five largest customers, as a group, accounted for approximately 16.4% and 52.8%, respectively, of the Company's total overall sales. Mr. Lip-Bu Tan, an independent non-executive Director of the Company, holds through his trust an equity interest of less than 1% in two of the Company's five largest customers in 2015 and is also a director of the general partner of a shareholder of one of the remaining three of the Company's five largest customers. Save as disclosed above and to the best of the Company's knowledge, none of the other Directors or shareholders (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) or their respective associates had interests in any of the Company's five largest customers.

Pre-emptive Rights

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

REPORT OF THE DIRECTORS

Director’s Interests in Securities of the Company

As of December 31, 2015, 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	Other	Aggregate Interest	Percentage of Aggregate Interests to Total Issued Share Capital (Note 1)	
Executive Director								
Zhou Zixue	Long Position	Beneficial Owner	—	25,211,633 (Note 2)	10,804,985 (Note 3)	36,016,618	0.086	%
Tzu-Yin Chiu	Long Position	Beneficial Owner	40,860,038	86,987,535 (Note 4)	— (Note 5)	127,847,573	0.304	%
Gao Yonggang	Long Position	Beneficial Owner	—	19,640,054 (Note 6)	2,310,472 (Note 7)	21,950,526	0.052	%
Non-executive Director								
Chen Shanzhi	Long Position	Beneficial Owner	—	3,145,319 (Note 8)	—	3,145,319	0.007	%
Zhou Jie	—	—	—	—	—	—	—	
Ren Kai	Long Position	Beneficial Owner	—	5,705,608 (Note 9)	—	5,705,608	0.014	%
Independent Non-executive Director								
	Long Position	Beneficial	—	4,492,297	—	4,492,297	0.011	%

William Tudor Brown								
		Owner		(Note 10)				
Sean Maloney	Long Position	Beneficial	—	4,490,377	—	4,490,377	0.011	%
		Owner		(Note 11)				
Lip-Bu Tan	Long Position	Beneficial	—	4,634,877	—	4,634,877	0.011	%
		Owner		(Note 12)				
Carmen I-Hua Chang	Long Position	Beneficial	—	4,887,303	—	4,887,303	0.012	%
		Owner		(Note 13)				
Alternate Director								
Li Yonghua	—	—	—	—	—	—	—	

Notes:

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

(2) On May 20, 2015, Dr. Zhou was granted options to purchase 25,211,633 Ordinary Shares at a price of HK$0.830 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options has been exercised.

(3) On May 20, 2015, Dr. Zhou was granted an award of 10,804,985 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of March 6, 2015, shall fully vest on March 6, 2019. As of December 31, 2015, none of Dr. Zhou's RSUs has been vested.

(4) On September 8, 2011, Dr. Chiu was granted options to purchase 86,987,535 Ordinary Shares at a price of HK$0.455 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

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

(6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 3,145,319 Ordinary Shares at a price of HK$0.64 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 13,608,249 Ordinary Shares at a price of HK$0.624 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 2,886,486 Ordinary Shares at a price of HK$0.64 per Ordinary Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

(7) On November 17, 2014, Dr. Gao was granted an award of 2,910,836 Restricted Share Units (each representing the right to receive one Ordinary Share) pursuant to the 2014 Equity Incentive Plan, consisting of (a) 2,401,456 Restricted Share Units, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017, and (b) 509,380 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and

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

(8) On May 24, 2010, Dr. Chen was granted options to purchase 3,145,319 Ordinary Shares at a price of HK$0.64 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

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

(10) On September 6, 2013, Mr. Brown was granted options to purchase 4,492,297 Ordinary Shares at a price of HK$0.562 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of his service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

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

REPORT OF THE DIRECTORS

(12) These options comprise (a) options granted to Mr. Tan on September 29, 2006 to purchase 500,000 Ordinary Shares at a price per share of US$0.132 pursuant to the 2004 Stock Option Plan which fully vested on May 30, 2008 and will expire on the earlier of September 28, 2016 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on February 17, 2009 to purchase 1,000,000 Ordinary Shares at a price of HK$0.27 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 16, 2019 or 120 days after termination of Mr. Tan' service as a Director to the Board, and (c) options granted to Mr. Tan on February 23, 2010 to purchase 3,134,877 Ordinary Shares at a price of HK$0.77 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of Mr. Tan's service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

(13) On November 17, 2014, Ms. Chang was granted options to purchase 4,887,303 Ordinary Shares at a price of HK$0.85 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of November 16, 2024 or 120 days after termination of her service as a Director to the Board. As of December 31, 2015, none of these options were exercised.

Director's Service Contracts

No Director proposed for re-election at the 2016 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.

Substantial Shareholders

Set out below are the names of the parties (not being a Director or chief executive of the Company) which were interested in 5% or more of the nominal value of the share capital of the Company and the respective numbers of Ordinary Shares in which they were interested as at December 31, 2015 as recorded in the register kept by the Company under section 336 of the SFO.

	Percentage of Ordinary	Percentage of Total

Name of Shareholder	Long/Short Position	Number of Ordinary Shares Held	Shares Held to Total Issued Share Capital of the Company (Note 1)	Derivatives	Total Interest	Interests to Total Issued Share Capital of the Company (Note 1)
Datang Telecom Technology & Industry Holdings Co., Ltd.	Long Position	7,699,961,231 (Note 2)	18.30 %	—	7,699,961,231	18.30 %
China Integrated Circuit Industry Investment Fund Co., Ltd.	Long Position	7,400,000,000 (Note 3)	17.59 %	—	7,400,000,000	17.59 %

Notes:

(1) Based on 42,073,748,961 Ordinary Shares issued and outstanding as at December 31, 2015.

(2) All such Ordinary Shares are held by Datang Holdings (Hongkong) Investment Company Limited which is a wholly-owned subsidiary of Datang Telecom Technology & Industry Holdings Co., Ltd.

(3) All such Ordinary Shares are held by Xinxin (Hongkong) Capital Co., Ltd, a wholly-owned subsidiary of China Integrated Circuit Industry Investment Fund Co., Ltd.

Emoluments to the Directors

Details regarding the emoluments to each of the Directors in 2015, 2014 and 2013 are set out in Note 12 to the consolidated financial statements.

During the year ended December 31, 2015, the Board granted 10,804,985 Restricted Share Units to Directors as compensation for their service on the Board.

Emoluments to the Senior Management

The emoluments of senior management personnel for the year ended December 31, 2015, 2014 and 2013 are as follows:

	year ended 12/31/15 USD'000	year ended 12/31/14 USD'000	year ended 12/31/13 USD'000
Short-term benefits	3,641	3,658	3,667
Share-based payments	1,399	2,070	2,526
	5,040	5,728	6,193

The number of senior management whose remuneration fell within the following bands for the year ended December 31, 2015, 2014 and 2013 are as follows:

	Number of individuals		
	2015	2014	2013
HK$1,500,001 (US$193,545) to HK$2,500,000 (US$322,575)	—	—	2
HK$2,500,001 (US$322,576) to HK$3,000,000 (US$387,090)	—	1	—
HK$3,500,001 (US$451,605) to HK$4,000,000 (US$516,119)	2	—	—
HK$4,000,001 (US$516,120) to HK$4,500,000 (US$580,635)	3	1	2
HK$4,500,001 (US$580,635) to HK$5,000,000 (US$645,150)	1	1	1
HK$5,000,001 (US$645,151) to HK$5,500,000 (US$709,665)	—	3	2
HK$5,500,001 (US$709,666) to HK$6,000,000 (US$774,180)	1	1	1

HK$8,000,001 (US$1,032,240) to HK$8,500,000 (US$1,096,755)	1	—	—
HK$10,000,001 (US$1,290,300) to HK$11,000,000 (US$1,419,330)	—	1	—
HK$14,000,001 (US$1,806,420) to HK$14,500,000 (US$1,870,935)	—	—	1
	8	8	9

REPORT OF THE DIRECTORS

Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2015, included Zhou Zixue, Chairman and Executive Director of the Company, Tzu-Yin Chiu, Chief Executive Officer and Executive Director of the Company and Zhang Wenyi, who has resigned as chairman of the board and an executive director of the Company.

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2014, included Zhang Wenyi, Chairman and Executive Director of the Company, Tzu-Yin Chiu, Chief Executive Officer and Executive Director of the Company and Gao Yonggang, Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director of the Company.

The five individuals whose emoluments were the highest in the Group for the year ended December 31, 2013, included Zhang Wenyi, Chairman and Executive Director of the Company and Tzu-Yin Chiu, Chief Executive Officer and Executive Director of the Company.

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

Remuneration Policy

The Group’s employees are compensated by cash and a variety of additional incentives. As a supplement to their salaries, the Group’s employees have the opportunity to earn performance bonus based on the Group’s profitability, business achievement, and individual performance. Additional benefits include participation in the Group’s global equity incentive compensation program, paid leave, social welfare benefits for qualified employees, a global medical insurance plan for 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) and Restricted Share Units. The compensation committee of the Company (the “Compensation Committee”) proposes, and the Board, other than interested Directors, approves, for the Directors, a remuneration package, which is comparable with the compensation received by directors in other similarly situated publicly-traded companies.

The Group’s local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. We are required to make contributions to the state-managed retirement plan at a main rate equal to 20.0% to 21.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly basic salary of current employees. Employees are required to make contributions at a rate equal to 8% of their monthly basic salary. The Group’s contribution to such pension plan is approximately US$34.8 million, US$28.5 million, US$27 million, and US$22 million for the years ended December 31, 2015, 2014, 2013, and 2012, respectively. The retirement benefits apply to expatriate employees according to the requirements of local government.

Auditors

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

Connected Transactions

Connected Transactions

1. Datang Pre-emptive Share Purchase Agreement and Country Hill Pre-emptive Share Purchase Agreement

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

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

The execution of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement, the issue of the Datang Pre-emptive Shares to Datang and the issue of the Country Hill Pre-emptive Shares to Country Hill were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on August 11, 2015 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules. The completion of the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares took place on October 9, 2015 and September 25, 2015 respectively.

Other than Dr. Gao Yonggang (“Dr. Gao”), an executive Director, and Dr. Chen Shanzhi (“Dr. Chen”), a non-executive Director, both of whom were nominated as Directors by Datang, none of the Directors has a material interest in the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement or the transactions contemplated thereunder.

2. Formation of Joint Venture, Sino IC Leasing Co., Ltd., with China IC Fund

On August 27, 2015, the Company entered into a joint venture agreement with China Integrated Circuit Industry Investment Fund Co., Ltd. ("China IC Fund"), a substantial shareholder of the Company, and its sole manager, Sino IC Capital Co., Ltd., and seven other independent third parties to establish a joint venture company, Sino IC Leasing Co., Ltd. ("Sina IC Leasing"), in accordance with PRC laws and regulations. China IC Fund holds approximately 11.18% equity interest in the Company on the date of transaction through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited.

The registered capital of Sino IC Leasing is RMB5.68 billion. The capital commitment of China IC Fund and the Company in Sino IC Leasing is RMB2.00 billion and RMB0.60 billion, representing 35.21% and 10.56% interest, respectively.

REPORT OF THE DIRECTORS

The business scope of Sino IC Leasing includes financial leasing, leasing of equipments, purchase of leased properties in the PRC or overseas, maintaining and processing of the residual value of the leased properties, consulting and guarantee services in relation to leasing and related business factoring services. The term of its operation is 30 years from the date of the establishment the company.

Mr. Ren Kai, a non-executive director, is deemed to have a material interest in the joint venture agreement as he holds the position of Vice President in Sino IC Capital Co., Ltd.. Mr. Ren Kai has abstained from voting on the relevant board resolution in respect of the joint venture agreement.

3. Issue of Series B Preference Shares by SJ Semiconductor Corporation

On December 8, 2015, a share purchase agreement was entered into by:

- SJ Cayman Corporation ("SJ Cayman") and its wholly-owned subsidiaries, SJ Semiconductor (HK) Limited and SJ Semiconductor (Jiangyin) Corporation; and

- the Company, Xun Xin (Shanghai) Investment Co., Ltd. ("Xun Xin") and Qualcomm Global Trading Pte. Ltd (Qualcomm). (each an "Investor" and together as the "Investors"),

pursuant to which SJ Cayman agreed to issue and the Investors agreed to subscribe for 466,666,664 Series B Preference Shares for an aggregate cash consideration of US$280,000,000 at a cash purchase price of US$0.60 per share. The transaction helps to expand SJ Semiconductor (Jiangyin) Corporation's production capacity and accelerate the construction progress.

Xun Xin is a wholly-owned subsidiary of China IC Fund, which holds approximately 11.17% equity interest on the date of transaction in the Company through its other wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited ("Xinxin"). Xun Xin is an associate of Xinxin and thus a connected person of the Company under the Hong Kong Listing Rules.

The Company, Xun Xin and Qualcomm each contributes US$160,000,000, US$100,000,000 and US$20,000,000 for their respective subscription of 266,666,666, 166,666,666 and 33,333,332 Series B Preference Shares, representing respectively 56.06%, 29.41% and 5.88% of the total issued share capital of SJ Cayman. Each Series B Preference Share may be converted at the option of the holder, at any time after the date of issuance thereof, into such number of fully paid SJ Cayman Ordinary Share(s) determined by dividing the original issue price of US$0.60 per share by the then effective conversion price. The initial conversion price will be equal to the original issue price, resulting in an initial conversion ratio of 1:1, that is, one Series B Preference Share is convertible into one SJ Cayman Ordinary Share.

Mr Ren Kai, a non-executive Director, is deemed to have a material interest in the share purchase agreement as he holds the position of Vice President in China IC Fund's sole manager Sino IC Capital Company Limited and the position of legal representative in Xun Xin. However, Mr Ren Kai did not participate in the voting on the relevant board resolutions in respect of the share purchase agreement and the transaction contemplated thereunder.

Non-exempt Continuing Connected Transactions

1. Framework Agreement with Datang — 2014 to 2015

On February 18, 2014, the Company entered into a framework agreement (the "Framework Agreement") with Datang Telecom Technology & Industry Holding Co., Ltd. (Datang Holdings), a substantial shareholder of the Company, pursuant to which the Group and Datang Holdings (including its associates) would engage in business collaboration including but not limited to foundry service. The term of the Framework Agreement was two years commencing from February 18, 2014. The pricing for the transactions contemplated under the Framework Agreement was determined by reference to reasonable market price available from or to independent third parties in the ordinary and usual course of business based on normal commercial terms and on an arm's length negotiation, or the price based on the actual production cost incurred plus a reasonable profit margin with reference to the general range of profit margins in the industry, and will be determined on terms not less favorable than those sold by independent third parties to the Company or its subsidiaries or sold by the Company or its subsidiaries to independent third parties (if any).

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

- US$60 million for the year ended December 31, 2014; and
- US$75 million for the year ending December 31, 2015.

In arriving at the expected caps, the Company considered the potential level of transactions the Group may potentially provide in light of current market conditions of the semiconductor industry and the technological capability of the Group, having regard to the historical transaction volume of Datang Holdings and its associates with the Group and the historical revenues generated by the Group from the transactions under the framework agreement dated 14 December 2011 entered into between the Company and Datang Holdings, which were US$4.8 million, US$9.7 million and US$16.7 million for each of the three years ended 31 December 2013.

The aggregate revenues generated by the Group from the transactions entered into pursuant to the Framework Agreement were US$14.5 million and US$22.6 million for the year ended December 31, 2014 and 2015 respectively.

Other than Dr. Gao and Dr. Chen, both of whom were nominated as Directors by Datang Holdings, none of the Directors has a material interest in the Framework Agreement or the transactions contemplated thereunder.

Pursuant to Rule 14A.55 of the Hong Kong Stock Exchange Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement that took place between Datang Holdings (or any of its associates) and the Company (or any of its subsidiaries) for the year ended December 31, 2015 had been entered into:

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

(2) on normal commercial terms or better; and

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

REPORT OF THE DIRECTORS

Pursuant to Rule 14A.56 of the Hong Kong Stock Exchange 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 an unqualified letter containing findings and conclusions in respect of the aforesaid continuing connected transactions.

Framework Agreement with Datang — 2016 to 2018

On December 28, 2015, the Company entered into a new framework agreement (the "Renewed Framework Agreement") with Datang Holdings, pursuant to which the Group and Datang Holdings (including its associates) would engage in business collaboration including but not limited to foundry service. The term of the Renewed Framework Agreement is three years commencing from January 1, 2016. The pricing for the transactions contemplated under the Renewed Framework Agreement is determined based on the same as the Framework Agreement.

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

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

2. Financial Services Agreement with Datang Finance

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

Each of Datang Finance and Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang Holdings") is a wholly-owned subsidiary of China Academy of Telecommunications Technology and Datang Holdings in turn wholly owns Datang Holdings (Hongkong) Investment Company Limited ("Datang Hongkong"), a substantial shareholder of the Company holding approximately 18.30% of the total issued share capital of the Company as at the date of this report. Datang Finance is a fellow subsidiary of Datang Holdings and an associate of Datang Hongkong, and thus a connected person of the Company under Chapter 14A of the Listing Rules.

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

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

1. Deposit services

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

2. Loan services

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

3. Foreign exchange services

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

4. Other financial services

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

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

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

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

Other than Dr. Gao and Dr. Chen, both of whom are nominated as Directors by Datang Hongkong and its associates, none of the Directors has a material interest in the Financial Services Agreement or the transactions contemplated thereunder.

Pursuant to Rule 14A.55 of the Hong Kong Stock Exchange Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Financial Services Agreement that took place between Datang Finance and the Group during the period ended December 31, 2015 had been entered into:

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

(2) on normal commercial terms or better; and

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

REPORT OF THE DIRECTORS

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

Related Party Transactions

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

Employees

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

	As of December 31,			
Function	Y2012	Y2013	Y2014	Y2015
Managers	922	951	930	962
Professionals[(1)]	4,164	4,440	4,988	6,112
Technicians	4,650	4,751	5,116	6,170
Clerical staff	238	304	351	229
Total[l(2)]	9,974	10,446	11,385	13,473

Notes:

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

(2) Includes 3, 3, 14 and 13 temporary and part-time employees in 2012, 2013, 2014 and 2015 respectively.

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

	As of December 31,			
Function	Y2012	Y2013	Y2014	Y2015
Shanghai	6,037	6,626	6,896	7,533
Beijing	2,491	2,272	2,518	3,242
Tianjin	1,354	1,454	1,511	1,630
Chengdu	11	11	10	10
Shenzhen	23	43	405	843
Wuhan	17	—	—	—
Jiangyin	—	—	—	174
United States	18	20	25	20
Europe	8	6	6	7
Japan	—	1	2	2
Taiwan Office	11	10	9	9
Hong Kong	4	3	3	3
Total(2)	9,974	10,446	11,385	13,473

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

As of December 31, 2015, 2,229 and 201 of the Group's employees held master's degrees and doctorate degrees, respectively. As of the same date, 4,047 of the Group's employees possessed a bachelor's degree.

The Group's Employees received an average of 28 hours of internal and external training per person in 2015.

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

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

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

Equity-linked agreements

The Company currently has four convertible bonds in issue, namely:

an issue of US$200 million zero coupon convertible bonds due 2018;

~~an~~ issue of US$86.8 million zero coupon convertible bonds due 2018;

~~an~~ issue of US95 million zero coupon convertible bonds due 2018;

~~an~~ issue of US$22.2 million zero coupon convertible bonds due 2018.

In addition, the Company has also made various share-based payments during the year ended December 31, 2015, such as pursuant to the Subsidiary Plan.

For further details regarding the convertible bonds of the Company and its share-based payments, please see note 32 and note 38 to the consolidated financial statements on pages 170 to 175 and 178 to 182 of the Annual Report.

Co-Investment in Relation to Proposed Acquisition of STATS ChipPAC

On December 22, 2014, (i) SilTech Shanghai, an indirectly wholly-owned subsidiary of the Company; (ii) Jiangsu Changjiang Electronics Technology Co., Ltd. ("JCET"); and (iii) China Integrated Circuit Industry Investment Fund Co., Ltd., ("China IC Fund") entered into a co-investment agreement to form an investment consortium in connection with the proposed acquisition of STATS ChipPAC Ltd. ("STATS ChipPAC"), a leading provider of advanced semiconductor packaging and test services in the world and a company incorporated in the Republic of Singapore, shares of which are listed on the Singapore Exchange Securities Trading Limited.

REPORT OF THE DIRECTORS

On June 18, 2015, according to the co-investment agreement, the Group invested US$102 million as a capital contribution for 19.6% equity interest in Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke"), a company incorporated in Jiangsu province, China. The transaction was recorded as an investment in associate of the Group.

On June 26, 2015, JCET-SC (Singapore) Pte. Ltd. ("JCET-SC"), a company incorporated in the Republic of Singapore, the subsidiary of Changjiang Xinke, announced a voluntary conditional cash offer (the "Offer") for all the shares in STATS ChipPAC at SGD0.46577 per share. On August 5, JCET-SC's financial advisers announced, for and on behalf of JCET-SC, that all conditions to the Offer had been fulfilled and the Offer had become and was declared unconditional in all respects. The unconditional acceptance announcement offer was closed on August 27, 2015 and the acquisition was finished soon afterwards.

Furthermore, JCET granted the Company an option to sell the shares of Changjiang Xinke to JCET at an exercise price equivalent to the Company's initial investment plus an annual return rate at any time after Stats ChipPAC was acquired.

Joint Venture Agreement in Relation to SMIC Advanced Technology Research & Development (Shanghai) Corporation

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

Issue of Equity Securities under General Mandate

Issue of 4,700,000,000 New Ordinary Shares

On February 12, 2015, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with the China Integrated Circuit Industry Investment Fund Co., Ltd., a company established under the laws of the PRC (the "China IC Fund") whereby (i) the Company has conditionally agreed to allot and issue to the China IC Fund, and the China IC Fund has conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 new Ordinary Shares of par value of US$0.0004 each (the "New Share(s)") at the subscription price of HK$0.6593 per New Share (the "Subscription Price"). The aggregate nominal value of the New Shares was US$1,880,000. The Subscription Price represented a discount of approximately 7.14% to the closing price of HK$0.710 per Ordinary Share as quoted on The Stock Exchange of Hong Kong Limited ("SEHK") on February 12, 2015, being the last full trading day immediately before the execution of the Share Purchase Agreement.

On June 8, 2015, the New Shares, representing approximately 11.54% of the issued share capital of the Company as enlarged by the issue of the New Shares, were issued to Xinxin (Hongkong) Capital Co. Ltd. (a wholly-owned subsidiary of the China IC Fund), Limited pursuant to the general mandate granted to the Directors by the shareholders at the annual general meeting of the Company held on June 27, 2014 and ranked pari passu in all respect with the existing Ordinary Shares in issue. The net proceeds were approximately US$399.5 million and were used for capital expenditure, debt repayment and general corporate purposes.

The Company considered that the China IC Fund would bring strategic value to the Company and the funds raised in this transaction would improve the working capital position of the Group and enhance its overall liquidity; the transaction therefore would enhance shareholders' value and is in the interests of the Company and its shareholders as a whole.

Stock Incentive Schemes

2004 Stock Incentive Plans

2004 Stock Option Plan

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

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

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

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

The Company’s 2004 Stock Option Plan is administered by the Company’s compensation committee or by the Board acting in place of the Company’s compensation committee. The compensation committee has the authority to construe and interpret the Company’s 2004 Stock Option Plan, grant stock options and make all other determinations necessary or advisable for the administration of the plan.

The Company’s 2004 Stock Option Plan provides for the grant of options to the Company’s employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2004 Stock Option Plan) for the benefit of those individuals eligible to participate in the 2004 Stock Option Plan; provided that, ISOs may be granted only to the Company’s employees. The total number of Ordinary Shares underlying stock granted pursuant to the 2004 Stock Option Plan or any of The Company’s other stock option plans to, and the total number of Ordinary Shares that may be purchased under one or more purchase rights granted under the Company’s 2004 Employee Stock Purchase Plan or any of the Company’s other employee stock purchase plans by, a participant (including both exercised and outstanding stock options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1% in the case of an “independent non-executive Director” (as that term is used in the Hong Kong Stock Exchange Listing Rules) of the then issued and outstanding Ordinary Shares subject to such changes from time to time to applicable Hong Kong Stock Exchange Listing Rules.

REPORT OF THE DIRECTORS

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

In general, options granted under the 2004 Stock Option Plan vest over a four-year period. Options may vest based on time or achievement of performance conditions. The Company's compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable with any Ordinary Shares or American depositary shares issued on exercise being subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of options granted under the Company's 2004 Stock Option Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by the compensation committee of the Company. Unless otherwise permitted by the Company's compensation committee, stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's family members or to a trust or partnership established for the benefit of such family members. Options granted under the Company's 2004 Stock Option Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the Company's compensation committee. Options granted under the Company's 2004 Stock Option Plan generally may be exercised for a period of ninety days after the termination of the optionee's service to us, except that Director options may be exercised for a period of one hundred and twenty days after the termination of the non-employee Director's service to us. Options whether or not vested generally terminate immediately upon termination of employment for cause.

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

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

- shorten the period during which the stock options are exercisable;
- accelerate the vesting of the stock options or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of stock options by a successor corporation;

- adjust stock options or their replacements so that such stock options are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction;

- cancel the stock option prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the stock option.

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

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

Amended and Restated 2004 Equity Incentive Plan

The Company’s shareholders adopted an Amended and Restated 2004 Equity Incentive Plan that became effective on June 3, 2010. The aggregate number of the Ordinary Shares that may be issued pursuant to the Amended and Restated 2004 Equity Incentive Plan may not exceed 1,015,931,725 Ordinary Shares. Awards issued under the Amended and Restated 2004 Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Ordinary Shares available under the Amended and Restated 2004 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares shall again be available for grant and issuance under the Company’s Amended and Restated 2004 Equity Incentive Plan:

- Ordinary Shares or American depositary shares tendered or withheld from issuance to settle an award;

- Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award; and

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

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

The Company's Amended and Restated 2004 Equity Incentive Plan is administered by the Company's compensation committee or by the Board acting in place of the Company's compensation committee. The compensation committee of the Company has the authority to construe and interpret the Company's Amended and Restated 2004 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

REPORT OF THE DIRECTORS

The Company's Amended and Restated 2004 Equity Incentive Plan provides for the grant of awards to the Company's employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the Amended and Restated 2004 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the Amended and Restated 2004 Equity Incentive Plan.

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

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

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

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

Awards granted under the Company's Amended and Restated 2004 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the Company's compensation committee.

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

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

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

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

2014 Stock Incentive Plans

2014 Stock Option Plan

The Company adopted a 2014 Stock Option Plan that became effective on November 15, 2013 when the 2014 Stock Option Plan was registered with the PRC State Administration of Foreign Exchange. The number of Ordinary Shares that may be issued pursuant to the 2014 Stock Option Plan and the 2014 Employee Stock Purchase Plan (if adopted) shall not, in the aggregate, exceed 3,207,377,124 Ordinary Shares. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding stock option granted under this 2014 Stock Option Plan or any of the Company's other stock option plans or any outstanding purchase right granted under the 2014 Employee Stock Purchase Plan (if adopted) or any other of the Company's employee stock purchase plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Listing Rules. Stock options issued under the 2014 Stock Option Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Ordinary Shares available under the 2014 Stock

Option Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, Ordinary Shares or American depositary shares subject to stock options under the 2014 Stock Option Plan will again be available for grant and issuance under the 2014 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depositary shares being issued.

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

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

REPORT OF THE DIRECTORS

The 2014 Stock Option Plan is administered by the Company's compensation committee or by the Board acting in place of the Company's compensation committee. The compensation committee will have the authority to construe and interpret the 2014 Stock Option Plan, grant stock options and make all other determinations necessary or advisable for the administration of the plan.

The 2014 Stock Option Plan provides for the grant of options to the Company's employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2014 Stock Option Plan) for the benefit of those individuals eligible to participate in the 2014 Stock Option Plan; provided, that, ISOs may be granted only to the Company's employees. The total number of Ordinary Shares underlying stock granted pursuant to the 2014 Stock Option Plan or any of the Company's other stock option plans to, and the total number of Ordinary Shares that may be purchased under one or more purchase rights granted under the 2014 Employee Stock Purchase Plan or any of the Company's other employee stock purchase plans by, a participant (including both exercised and outstanding stock options) in any twelve-month period may not exceed at any time one percent (1%) (or 0.1% in the case of an "independent non-executive Director" (as that term is used in the Hong Kong Stock Exchange Listing Rules) of the then issued and outstanding Ordinary Shares subject to such changes from time to time to applicable Hong Kong Stock Exchange Listing Rules.

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

In general, options will vest over a four-year period. Options may vest based on time or achievement of performance conditions. The Company's compensation committee may provide for options to be exercised only as they vest or to be immediately exercisable with any Ordinary Shares or American depositary shares issued on exercise being subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of options granted under the 2014 Stock Option Plan is ten years, subject to changes under the Hong Kong Stock Exchange Listing Rules, as determined by the compensation committee. Unless otherwise permitted by the Company's compensation committee, stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's guardian or legal representative. Options granted under the 2014 Stock Option Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the Company's compensation committee. Options granted under the 2014 Stock Option Plan generally may be exercised for a period of ninety days after the termination of the optionee's service to the Company, except that Director options may be exercised for a period of one hundred and twenty days after the termination of the non-employee Director's service to the Company. Options generally terminate immediately upon termination of employment for cause.

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

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

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

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

The 2014 Stock Option Plan will terminate ten years from the date of registration of the Plan with the PRC State Administration of Foreign Exchange, unless it is terminated earlier by the Board. The Board may amend or terminate the 2014 Stock Option Plan at any time. If the Board amends the 2014 Stock Option Plan, it does not need to ask for shareholders approval of the amendment unless required by applicable law.

2014 Employee Stock Purchase Plan

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

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

REPORT OF THE DIRECTORS

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

New participants are required to enroll in a timely manner as specified by the Company's compensation committee. Once an employee is enrolled, participation is automatic in subsequent offering periods. The length of each offering period shall be no shorter than six months and no longer than twenty-seven months. The Company's compensation committee determines the starting and ending dates of each offering period. An employee's participation automatically ends upon termination of employment for any reason.

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

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

We have never granted any purchase right under the 2014 Employee Stock Purchase Plan so far.

2014 Equity Incentive Plan

The Company adopted a 2014 Equity Incentive Plan that became effective on November 15, 2013 when the 2014 Equity Incentive Plan was registered with the PRC State Administration of Foreign Exchange. The aggregate number of the Ordinary Shares that may be issued pursuant to the 2014 Equity Incentive Plan may not exceed 801,844,281 Ordinary Shares. Awards issued under the 2014 Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Ordinary Shares available under the 2014 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares will again be available for grant and issuance under the 2014 Equity Incentive Plan:

- Ordinary Shares or American depositary shares subject to stock appreciation rights granted under the 2014 Equity Incentive Plan that cease to be subject to the stock appreciation right for any reason other than exercise of the stock appreciation right;

- Ordinary Shares or American depositary shares subject to awards granted under the Company's 2014 Equity Incentive Plan that are subsequently forfeited at the original issue price; including without limitation Ordinary Shares or American depositary shares withheld from issuance to settle an award and Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award; and

- Ordinary Shares or American depositary shares subject to awards granted under the 2014 Equity Incentive Plan that otherwise terminate or lapse without Ordinary Shares or American depositary shares being issued.

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

The 2014 Equity Incentive Plan is administered by the Company's compensation committee or by the Board acting in place of the Company's compensation committee. The compensation committee of the Company will have the authority to construe and interpret the 2014 Equity Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

The 2014 Equity Incentive Plan provides for the grant of awards to the Company's employees, officers or other service providers located in China, the United States or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2014 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the 2014 Equity Incentive Plan.

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

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

REPORT OF THE DIRECTORS

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

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

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

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

- shorten the period during which the awards may be settled;
- accelerate the vesting of the award or waive, in whole or in part, any performance conditions to such vesting;
- arrange for the assumption or replacement of an award by a successor corporation;

- adjust awards or their replacements so that such awards are in respect of the shares of stock, securities or other property (including cash) as may be issuable or payable as a result of such transaction; or

- cancel the award prior to the transaction in exchange for a cash payment, which may be reduced by the exercise price payable in connection with the award.

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

The Board may amend or terminate the 2014 Equity Incentive Plan at any time. If the Board amends the 2014 Equity Incentive Plan, it does not need to ask for the Company's shareholders' approval of the amendment unless required by applicable law.

Standard Form of Share Option Plan for Subsidiaries

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

(a) Purpose of the Subsidiary Plan

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

(b) Who may join

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

(c) Stock Options

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

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

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

REPORT OF THE DIRECTORS

(d) Administration of the Subsidiary Plan

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

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

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

(e) Exercise Price

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

(i) in the case of an Incentive Stock Option:

(1) granted to a Ten Percent Holder, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and

(2)

granted to any other Subsidiary Participant, the exercise price shall be no less than 100% of the Fair Market Value per Subsidiary Share on the date of grant; and

(ii) in the case of any Subsidiary Stock Option:

(1) granted to a Ten Percent Holder who is a resident of the State of California, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and

(2) granted to any other Subsidiary Participant who is a resident of the State of California, the exercise price shall be no less than 85% of the Fair Market Value per Subsidiary Share on the date of grant.

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

Fair Market Value shall be determined as follows:

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

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

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

(f) Limit of the Subsidiary Plan

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

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

(g) Individual Limit

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

(h) Exercise of Option

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

REPORT OF THE DIRECTORS

(i) Director Options

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

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

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

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

(j) Termination or Lapse of Option

A Subsidiary Stock Option shall terminate or lapse automatically upon:

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

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

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

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

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

(k) Rights are Personal to Subsidiary Participant

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

(l) Termination of Employment or Service

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

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

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

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

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

(m) Change in Control of the Subsidiary

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

REPORT OF THE DIRECTORS

(o) Period of the Subsidiary Plan

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

(p) Amendments and Termination

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

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

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

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

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

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(q) Voting and Dividend Rights

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

(r) Cancellation of Subsidiary Stock Options

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

(s) Ranking of Subsidiary Shares

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

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

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

REPORT OF THE DIRECTORS

Outstanding Share Options

Details of the movements in the Company’s share options during the year ended December 31, 2015 are as follows:

2004 Stock Option Plan

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options Granted	Exercise Price Per Share (USD)	**Options Outstanding as of 12/31/14**	Additional Options Granted During Period	Options Lapsed During Period	Options Lapsed Due to Repurchase of Ordinary Shares During Period*	Options Exercised During Period
Employees	05/11/2005	5/11/2005–5/10/2015	94,581,300	$0.20	22,004,216	—	22,004,216	—	—
Employees	08/11/2005	8/11/2005–8/10/2015	32,279,500	$0.22	5,214,500	—	5,214,500	—	—
Employees	11/11/2005	11/11/2005–11/10/2015	149,642,000	$0.15	18,090,000	—	18,090,000	—	—
Employees	02/20/2006	2/20/2006–2/19/2016	62,756,470	$0.15	16,717,078	—	586,432	—	—
Employees	05/12/2006	5/12/2006–5/11/2016	22,216,090	$0.15	1,683,000	—	118,000	—	—
Employees	09/29/2006	9/29/2006–9/28/2016	40,394,000	$0.13	10,352,000	—	316,000	—	—
Lip-Bu Tan	09/29/2006	9/29/2006–9/28/2016	500,000	$0.13	500,000	—	—	—	—
Others	11/10/2006	11/10/2006–11/09/2016	2,450,000	$0.13	150,000	—	—	—	—
Employees	11/10/2006	11/10/2006–11/09/2016	33,271,000	$0.11	6,343,000	—	210,000	—	48,000
Employees	05/16/2007	5/16/2007–5/15/2017	122,828,000	$0.15	34,694,000	—	3,217,000	—	—
Others	05/16/2007	5/16/2007–5/15/2017	5,421,000	$0.15	300,000	—	—	—	—
Employees	12/28/2007	12/28/2007–12/27/2017	89,839,000	$0.10	17,554,800	—	2,350,000	—	3,462,800
Employees	02/12/2008	2/12/2008–2/11/2018	126,941,000	$0.08	26,324,300	—	532,000	—	4,426,500
Others	02/12/2008	2/12/2008–2/11/2018	600,000	$0.08	300,000	—	—	—	—
Employees	11/18/2008	11/18/2008–11/17/2018	117,224,090	$0.02	14,323,830	—	136,000	—	2,099,000
Employees	02/17/2009	2/17/2009–2/16/2019	131,943,000	$0.03	21,727,000	—	350,000	—	4,696,000

Lip-Bu Tan	02/17/2009	2/17/2009–2/16/2019	1,000,000	$0.03	1,000,000	——	——
Others	02/17/2009	2/17/2009–2/16/2019	400,000	$0.03	50,000	——	——
Employees	05/11/2009	5/11/2009–5/10/2019	24,102,002	$0.04	3,559,000	——	—597,000
Lip Bu Tan	02/23/2010	2/23/2010–2/22/2020	3,134,877	$0.10	3,134,877	——	——
Employees	02/23/2010	2/23/2010–2/22/2020	337,089,466	$0.10	130,730,587	—2,584,684	—14,787,277
Yonggang Gao	05/24/2010	5/24/2010–5/23/2020	3,145,319	$0.08	3,145,319	——	——
Shanzhi Chen	05/24/2010	5/24/2010–5/23/2020	3,145,319	$0.08	3,145,319	——	——
Employees	05/24/2010	5/24/2010–5/23/2020	18,251,614	$0.08	1,770,000	——	—40,000
Employees	09/08/2010	9/8/2010–9/7/2020	46,217,577	$0.07	8,409,359	—66,000	—1,149,000
Employees	11/12/2010	11/12/2010–11/11/2020	39,724,569	$0.08	18,289,176	—68,500	—1,762,500
Employees	05/31/2011	5/31/2011–5/30/2021	148,313,801	$0.08	81,207,419	—516,236	—16,592,794
Wen Yi Zhang	09/08/2011	9/8/2011–9/7/2021	21,746,883	$0.06	21,746,883	——	—15,000,000
Tzu Yin Chiu	09/08/2011	9/8/2011–9/7/2021	86,987,535	$0.06	86,987,535	——	——
Employees	09/08/2011	9/8/2011–9/7/2021	42,809,083	$0.06	16,189,063	—337,748	—5,616,087
Frank Meng	11/17/2011	11/17/2011–11/16/2021	4,471,244	$0.05	4,471,244	—1,117,811	—3,353,433
Employees	11/17/2011	11/17/2011–11/16/2021	16,143,147	$0.05	9,414,126	—644,294	—3,530,813
Employees	05/22/2012	5/22/2012–5/21/2022	252,572,706	$0.04	162,488,180	—2,219,756	—27,251,939
Senior Management	05/22/2012	5/22/2012–5/21/2022	5,480,000	$0.04	5,480,000	—216,667	—433,333
Employees	09/12/2012	9/12/2012–9/11/2022	12,071,250	$0.04	5,875,533	—459,792	—1,650,874
Senior Management	09/12/2012	9/12/2012–9/11/2022	3,500,000	$0.04	3,500,000	——	——
Employees	11/15/2012	11/15/2012–11/14/2022	18,461,000	$0.05	10,879,752	—1,819,042	—2,278,666
Employees	05/07/2013	5/7/2013–5/6/2023	24,367,201	$0.08	17,717,662	—890,221	—1,415,591
Employees	06/11/2013	6/11/2013–6/10/2023	102,810,000	$0.08	90,491,040	—5,922,180	—8,964,623
Senior Management	06/11/2013	6/11/2013–6/10/2023	74,755,756	$0.08	74,755,756	—2,549,587	—5,011,069
Yonggang Gao	06/17/2013	6/17/2013–6/16/2023	13,608,249	$0.08	13,608,249	——	——
Sean Maloney	06/17/2013	6/17/2013–6/16/2023	4,490,377	$0.08	4,490,377	——	——
William Tudor Brown	09/06/2013	9/6/2013–9/5/2023	4,492,297	$0.07	4,492,297	——	——
Employees	09/06/2013	9/6/2013–9/5/2023	22,179,070	$0.07	13,511,558	—405,125	—1,665,270
Employees	11/04/2013	11/4/2013–11/3/2023	19,500,000	$0.07	16,210,416	—2,332,584	—1,067,874
					1,013,028,451	—75,274,375	—126,900,443

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

2004 Equity Incentive Plan

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	**RSUs Outstanding as of 12/31/14**	Additional RSUs Granted During Period	RSUs Lapsed During Period	**RSUs Lapsed Due to Repurchase of Ordinary Shares During Period***	**RSUs Exercised During Period**	RSU Dur
Employees	02/23/2010	2/23/2010–2/22/2020	139,933,819	$0.00	161,828	—	—	—	161,828	—
Employees	05/31/2011	5/31/2011–5/30/2021	21,212,530	$0.00	3,430,545	—	—	—	3,430,545	—
Wen Yi Zhang	09/08/2011	9/8/2011–9/7/2021	9,320,093	$0.00	4,320,093	—	—	—	4,320,093	—
Tzu Yin Chiu	09/08/2011	9/8/2011–9/7/2021	37,280,372	$0.00	18,640,186	—	—	—	18,640,186	—
Employees	05/22/2012	5/22/2012–5/21/2022	60,750,000	$0.00	26,445,000	—	652,500	—	12,967,500	—
Senior Management	05/22/2012	5/22/2012–5/21/2022	1,920,000	$0.00	960,000	—	75,000	—	480,000	—
Senior Management	09/12/2012	9/12/2012–9/11/2022	2,500,000	$0.00	1,250,000	—	—	—	625,000	—
Employees	06/11/2013	6/11/2013–6/10/2023	133,510,000	$0.00	92,392,500	—	3,432,500	—	30,465,000	—
Senior Management	06/11/2013	6/11/2013–6/10/2023	17,826,161	$0.00	13,369,623	—	1,175,728	—	4,456,541	—
					160,969,775	—	5,335,728	—	75,546,693	—

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

2014 Stock Option Plan

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of Options	Exercise Price	**Options Outstanding**	Additional Options	Options Lapsed	Op Lap	Opt Exe

			Granted	Per Share (USD)	**as of 12/31/14**	Granted During Period	During Period	Du to Repurc of Ordina Shares During Period	Dur Peri
Yonggang Gao	06/12/2014	6/12/2014–6/11/2024	2,886,486	$0.08	2,886,486	—	—	—	—
Employees	06/12/2014	6/12/2014–6/11/2024	26,584,250	$0.08	25,129,917	—	2,042,708	—	1,7
Carmen I-Hua Chang	11/17/2014	11/17/2014–11/16/2024	4,887,303	$0.11	4,887,303	—	—	—	—
Senior Management	11/17/2014	11/17/2014–11/16/2024	11,758,249	$0.11	11,758,249	—	—	—	—
Employees	11/17/2014	11/17/2014–11/16/2024	107,881,763	$0.11	105,936,863	—	9,971,820	—	52
Employees	02/24/2015	2/24/2015–2/23/2025	12,293,017	$0.09	—	12,293,017	—	—	16
Employees	05/20/2015	5/20/2015–5/19/2025	12,235,000	$0.11	—	12,235,000	640,000	—	—
Zi Xue Zhou	05/20/2015	5/20/2015–5/19/2025	25,211,633	$0.11	—	25,211,633	—	—	—
Employees	09/11/2015	9/11/2015–9/10/2025	1,120,000	$0.09	—	1,120,000	—	—	—
Kai Ren	09/11/2015	9/11/2015–9/10/2025	5,705,608	$0.09	—	5,705,608	—	—	—
					150,598,818	56,565,258	12,654,528	—	2,4

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

REPORT OF THE DIRECTORS

2014 Equity Incentive Plan

Name/Eligible Employees	Date Granted	Period during which Rights Exercisable	No. of RSUs Granted	Exercise Price Per Share (USD)	**RSUs Outstanding as of 12/31/14**	**Additional RSUs Granted During Period**	RSUs Lapsed During Period
Yonggang Gao	11/17/2014	11/17/2014–11/16/2024	2,910,836	$0.00	2,910,836	—	—
Senior Management	11/17/2014	11/17/2014–11/16/2024	2,476,456	$0.00	2,476,456	—	—
Employees	11/17/2014	11/17/2014–11/16/2024	109,339,600	$0.00	107,700,600	—	3,990,955
Employees	05/20/2015	5/20/2015–5/19/2025	134,008,000	$0.00	—	134,008,000	4,095,000
Zi Xue Zhou	05/20/2015	5/20/2015–5/19/2025	10,804,985	$0.00	—	10,804,985	—
Employees	09/11/2015	9/11/2015–9/10/2025	1,640,000	$0.00	—	1,640,000	—
Employees	11/23/2015	11/23/2015–11/22/2025	400,000	$0.00	—	400,000	—
					113,087,892	146,852,985	8,085,955

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

Share Option Plan for Subsidiaries

Date Granted	**Options of the**	**No of Options**	Exercise Price per Share	**Options of the**	**Options of the Subsidiary**	**Options of the**

	Subsidiary Outstanding as of 12/31/14	of the Subsidiary Granted		Subsidiary Exercised During Period	Lapsed	Subsidiary Outstanding as of 12/31/15
			(USD)			
1/4/2015	—	4,560,000	0.05	137,500	592,500	3,830,000
5/4/2015	—	1,380,000	0.06	—	50,000	1,330,000
9/15/2015	—	2,390,000	0.08	—	550,000	1,840,000
Total	—	8,330,000		137,500	1,192,500	7,000,000

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

CORPORATE GOVERNANCE REPORT

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

Corporate Governance Practices

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

During the year ended December 31, 2015, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.6.7 of the CG Code requires that independent non-executive directors and other non- executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Sean Maloney, an independent non-executive Director, was not able to attend the AGM held on June 26, 2015 due to his overseas engagements during the meeting time. Mr. Tudor Brown, an independent non-executive Director, was not able to attend the extraordinary general meeting of the Company held on August 11, 2015 due to his other engagements during the meeting time.

Save as the aforesaid and in the opinion of the Directors, the Company had complied with all Code Provisions set out in the CG Code during the year ended December 31, 2015.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted an Insider Trading Compliance Program (the “Insider Trading Policy”) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the “Model Code”). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the year ended December 31, 2015. The senior management of the Company as well as all officers, Directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

The Board

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

CORPORATE GOVERNANCE REPORT

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

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

Name of Director	**Category of Director**	**Class of Director**	**Year of Re-election**
Zhou Zixue	Chairman, Executive Director	Class I	2017
Tzu-Yin Chiu	Chief Executive Officer, Executive Director	Class I	2017
Gao Yonggang	Chief Financial Officer & Executive Director	Class I	2017
William Tudor Brown	Independent Non-executive Director	Class I	2017
Chen Shanzhi (Alternative Director: Li Yonghua)	Non-executive Director	Class II	2018
Lip-Bu Tan	Independent Non-executive Director	Class II	2018
Carmen I-Hua Chang	Independent Non-executive Director	Class II	2018
Lu Jun*	Non-executive Director	Class II	2016
Zhou Jie	Non-executive Director	Class III	2016
Sean Maloney	Independent Non-executive Director	Class III	2016
Ren Kai	Non-executive Director	Class III	2016

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

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

During the year ended December 31, 2015, the roles of the Chairman and the Chief Executive Officer are segregated and such roles are exercised by Dr. Zhou Zixue as the Chairman and Dr. Tzu-Yin Chiu as the Chief Executive Officer, respectively.

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

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

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

During the year ended December 31, 2015, the Board held a total of six (6) meetings. The attendance record is set out below:

	Attendance	Note
Executive Director		
Zhang Wenyi (Chairman) (Resigned, effective from March 6, 2015)	2/2	1
Zhou Zixue (Chairman)	4/4	2
Tzu-Yin Chiu	6/6	—
Gao Yonggang	6/6	—
Non-executive Director		
Chen Shanzhi	6/6	—
Zhou Jie	6/6	—
Ren Kai	1/2	3
Independent Non-executive Director		
William Tudor Brown	6/6	4
Sean Maloney	4/6	5
Frank Meng (Resigned, effective from June 26, 2015)	3/3	6
Lip-Bu Tan	6/6	—
Carmen I-Hua Chang	6/6	—

Notes

(1) During the year ended December 31, 2015, there were two Board meetings held before the cessation of Mr. Zhang Wenyi as an Executive Director and Chairman of the Board on March 6, 2015.

CORPORATE GOVERNANCE REPORT

(2) During the year ended December 31, 2015, there were four Board meetings held after the appointment of Dr. Zhou as an Executive Director and Chairman of the Board on March 6, 2015.

(3) During the year ended December 31, 2015, there were two Board meetings held after the appointment of Mr. Ren as a Non- executive Director on August 11, 2015.

(4) Two of these six meetings were attended by proxy.

(5) Three of these four meetings were attended by proxy.

(6) During the year ended December 31, 2015, there were three Board meetings held before the cessation of Mr. Frank Meng as an Independent Non-executive Director of the Board on June 26, 2015.

Directors’ Training and Professional Development

All Directors should keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company. The Company is responsible for arranging and funding suitable training for its Directors. Each new Director is provided with training with respect to such Director’s responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company’s corporate governance policies and practices. From time to time, the Company updates the Directors on the latest changes and development of the Hong Kong Stock Exchange Listing Rules, the corporate governance practices and other law and regulations applicable to the Company, organizes in-house seminars on the latest development of regulatory requirements related to director’s duties and responsibilities, and arranges fab visit to provide directors a better understanding of the operation and latest technology and products developments of the Group.

During the year, all Directors have participated in continuous professional development. According to the records provided by the Directors, a summary of training they received for the year ended December 31, 2015 is as follows:

	Attending briefing sessions and/or seminars
Executive Director	
Zhou Zixue	√

Tzu-Yin Chiu	√
Gao Yonggang	√
Non-executive Director	
Chen Shanzhi	√
Zhou Jie	√
Ren Kai	√
Independent Non-executive Director	
William Tudor Brown	√
Sean Maloney	√
Lip-BuTan	√
Carmen I-Hua Chang	√
Alternate Director	
Li Yonghua	√

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Board Diversity Policy

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

Procedure regarding the Appointment of Directors

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

Board Committees

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

CORPORATE GOVERNANCE REPORT

Compensation Committee

As of December 31, 2015, the members of the Company's Compensation Committee ("Compensation Committee") were Mr. Lip-Bu Tan (Chairman of Compensation Committee), Mr. Sean Maloney and Mr. Zhou Jie. None of these members has been an executive officer or employee of the Company or any of its subsidiaries.

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

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

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

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

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

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

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

- the remuneration policy for employees for the year 2015;
- the profit-sharing and bonus policies and basis of calculation;
- the long term compensation strategy, including the granting of stock options and Restricted Share Units pursuant to the terms of the Option Plans;
- the attrition rate;
- the proposed compensation packages of Dr. Zhou Zixue, a newly-appointed executive Director and Chairman of the Board, and Mr. Ren Kai, a newly-appointed non-executive Director during the year;
- the competiveness of compensation packages of all non-executive Directors.

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

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

During the year ended December 31, 2015, the Compensation Committee held a total of five (5) meetings. Details of Directors' attendance at the Compensation Committee meetings are set forth below:

Compensation Committee	Attendance	Note
Independent Non-executive Director		
Lip-Bu Tan (Chairman)	5/5	—
Sean Maloney	3/5	1
Non-executive Director		
Zhou Jie	5/5	—

Notes:

(1) Two of these five meetings were attended by proxy.

Nomination Committee

As of December 31, 2015, the members of the Company's Nomination Committee ("Nomination Committee") were Dr. Zhou Zixue (Chairman of Nomination Committee), Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang.

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

The Nomination Committee meets at least once a year and on such other occasions as may be required to discuss and vote upon significant issues relating to Board composition. The Company Secretary assists the chairman of the Nomination Committee in preparing the agenda for meetings and assists the Committee in complying with the relevant rules and regulations. The relevant papers for the Nomination Committee meetings were dispatched to Committee members in accordance with the CG Code. Members of the Nomination Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Nomination Committee meeting, minutes are circulated to the Nomination Committee members for their comment and review prior to their approval of the minutes at the following or a subsequent Committee meeting. During the year ended December 31, 2015, the Nomination Committee:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- make recommendations to the Board on succession planning for Chairman, independent non-executive director;
- evaluated the independence of the independent non-executive director; and
- reviewed the re-election of Directors.

During the year ended December 31, 2015, the Nomination Committee held two (2) meetings. Details of Directors' attendance at the Nomination Committee meetings are set forth below:

Nomination Committee	Attendance	Note
Executive Director		
Zhang Wenyi (Chairman, resigned effective from March 6, 2015)	1/1	1
Zhou Zixue (Chairman, appointed effective from March 6, 2015)	1/1	2
Independent Non-executive Director		
Lip-Bu Tan	2/2	—
Carmen I-Hua Chang (Appointed effective from August 7, 2015)	1/1	3

Notes:

(1)

During the year ended December 31, 2015, there was one Nomination Committee meeting held before the cessation of Mr. Zhang Wenyi as the Chairman and a member of the Nomination Committee on March 6, 2015.

(2) During the year ended December 31, 2015, there was one Nomination Committee meeting held after the appointment of Dr. Zhou Zixue as the Chairman and a member of the Nomination Committee on March 6, 2015.

(3) During the year ended December 31, 2015, there was one Nomination Committee meeting held after the appointment of Ms. Carmen I-Hua Chang as a member of the Nomination Committee on August 7, 2015.

Audit Committee

As of December 31, 2015, the members of the Company's Audit Committee ("Audit Committee") were Mr. Lip-Bu Tan (Chairman of Audit Committee), Mr. Zhou Jie and Mr. William Tudor Brown. None of these members has been an executive officer or employee of the Company or any of its subsidiaries. In addition to acting as the Chairman of the Company's Audit Committee. Mr. Tan currently also serves on the audit committee of another publicly traded company. In general and in accordance with Section 303A.07(a) of the Listed Company Manual of the New York Stock Exchange, the Board considered and determined that such simultaneous service would not impair the ability of Mr. Tan to effectively serve on the Company's Audit Committee.

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

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;
- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;
- pre-approving all non-audit services to be provided by the Company's independent auditor;
- approving the remuneration and terms of engagement of the Company's independent auditor;
- reviewing reports from the Company's independent auditor regarding the independent auditor's internal quality-control procedures; and any material issues raised in the most recent internal or peer review of such procedures, or in any inquiry, review or investigation by governmental, professional or other regulatory authority, respecting independent audits conducted by the independent auditor, and any steps taken to deal with these issues; and (to assess the independent auditor's independence) all relationships between the Company and the independent auditor;
- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor for senior positions regardless of whether that person was a member of the Company's audit team;
- reviewing the Company's annual, interim and quarterly financial statements, earnings releases, critical accounting policies and practices used to prepare financial statements, alternative treatments of financial information, the effectiveness of the Company's disclosure controls and procedures and important trends and developments in financial reporting practices and requirements;
- reviewing the scope, planning and staffing of internal audits, the organization, responsibilities, plans, results, budget and staffing of the Company's Internal Audit Department (as defined and discussed below), the quality, adequacy and effectiveness of the Company's internal controls (including financial, operational and compliance controls) and any significant deficiencies or material weaknesses in the design or operation of internal controls;
- considering the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- reviewing the Company's risk assessment and management policies;

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

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

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

CORPORATE GOVERNANCE REPORT

During the year ended December 31, 2015, the Audit Committee reviewed:

- the Company’s budget for 2015;
- the financial reports for the year ended and as of December 31, 2014 and the six months ended and as of June 30, 2015;
- the quarterly financial statements, earnings releases and any updates thereto;
- the report and management letter submitted by the Company’s outside auditors summarizing the findings of and recommendations from their audit of the Company’s financial reports;
- the findings and recommendations of the Company’s outside auditors regarding the Company’s compliance with the requirements of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”);
- the effectiveness of the Company’s internal control structure in operations, financial reporting integrity and compliance with applicable laws and regulations;
- the findings of the Company’s compliance office, which ensures compliance with the CG Code and Insider Trading Policy;
- the reports of the Company’s ethics hotline;
- the report on share price performance and shareholders composition;
- the audit fees for the Company’s independent auditors;
- the Company’s independent auditors’ engagement letters; and
- the information security and customer data protection measures implemented by the Company.

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

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

During the year ended December 31, 2015, the Audit Committee held a total of four (4) meetings. Details of individual members' attendance at the Audit Committee meetings are set forth below:

Audit Committee	Attendance	Note
Independent Non-executive Director		
Lip-Bu Tan (Chairman)	4/4	—
Frank Meng (Resigned, effective from June 26, 2015)	2/2	1
William Tudor Brown (Appointed effective from August 7, 2015)	2/2	2
Non-executive Director		
Zhou Jie	4/4	—

Notes:

(1) During the year ended December 31, 2015, there were two Audit Committee meetings held before the cessation of Mr. Frank Meng as a member of the Audit Committee on June 26, 2015.

(2) During the year ended December 31, 2015, there were two Audit Committee meetings held after the appointment of Mr. Tudor Brown as a member of the Audit Committee on August 7, 2015.

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

Corporate Governance Functions

Pursuant to the Board Delegation Policy of the Company which came into effect on September 22, 2005 after approval by the Board and was subsequently updated by the Board on July 28, 2009, September 23, 2011 and March 23, 2012, respectively, the Board (or any of its committees) is responsible for performing the following corporate governance duties:

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

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

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

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

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

During the year ended December 31, 2015, the aforesaid corporate governance functions had been carried out by the Board pursuant to the Board Delegation Policy.

CORPORATE GOVERNANCE REPORT

Auditors' Remuneration

The following table sets forth the aggregate audit fees, Sarbanes-Oxley compliance testing fee, audit-related fees, tax fees and all other fees we paid or incurred for audit services, audit-related services, tax services and other services rendered by our principal accountants during the fiscal year ended December 31, 2015.

	2015 US$'000
Audit Fees	1,322
Audit-Related Fees	—
Tax Fees	65
All Other Fees	—
Total	1,387

Internal Controls

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

The Board, through the Audit Committee which receives reports on at least a quarterly basis from the Company's Internal Audit Department, is responsible to ensure that the Company maintains sound and effective internal controls. The Company's system of internal control is designed to ensure the achievement of business objectives in operations, financial reporting integrity and compliance with applicable laws and regulations. The system of internal control is designed to manage, rather than completely eliminate, risks impacting the Company's ability to achieve its business objectives. Accordingly, the system can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or loss.

With the assistance of the Company's management team, the Board identifies, evaluates, and manages the significant risks faced by the Company. The Company implements the Board's policies and procedures to mitigate such risks by (i) identifying and assessing the risks the Company faces and (ii) designing, operating and monitoring a system of internal controls to mitigate and control such risks. The Company has established an Internal Audit Department and the Risk Management Committee and other policies and procedures, for such purposes.

The Board, through the Audit Committee, has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries and believes that the system of internal controls in place at December 31, 2015 and at the date of this annual report, was effective. The effectiveness of internal control over financial reporting as of December 31, 2015 has been audited by the independent accounting firm as stated in its report.

Internal Audit Department

Internal Audit Department works with and supports the Company's management team and the Audit Committee to evaluate and contribute to the improvement of risk management, control, and governance systems. On an annual basis, the risk-based audit plan is approved by the Audit Committee. Audit results are reported to the Chairman of the Board, the Chief Executive Officer and the Audit Committee every quarter and throughout the year.

Based on this annual audit plan, the Internal Audit Department audits the practices, procedures, expenditure and internal controls of the various departments in the Company. The scope of the audit includes:

- reviewing management's control to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Company is in compliance;
- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;
- appraising the economy and efficiency with which resources are employed;
- identifying significant risks, including fraud risks, to the ability of the Company to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and
- evaluating the effectiveness of controls supporting the operations of the Company and providing recommendations as to how those controls could be improved.

In addition, the Internal Audit Department audits areas of concern identified by senior management or conducts reviews and investigations on an ad hoc basis. In conducting these audits, the Internal Audit Department has free and full access to all necessary functions, records, properties and personnel.

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

The Internal Audit Department has direct access to the Board through the chairman of the Audit Committee. The Internal Audit Department may upon request meet privately with the Audit Committee without the presence of members of the Company's management or the independent accounting firm.

Company Secretary

Mr. Gareth Kung was appointed as the Company Secretary of the Company on August 23, 2012. The biographical details of Mr. Kung are set out on page 34 of this annual report.

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

CORPORATE GOVERNANCE REPORT

Pursuant to Rule 3.29 of the Hong Kong Stock Exchange Listing Rules, Mr. Kung had taken no less than 15 hours of relevant professional training for the year ended December 31, 2015.

Shareholder Rights

The Company's shareholders may put forth proposals at an annual general meeting of the Company's shareholders by written notice of those proposals being submitted by shareholders, addressed to the Company Secretary at the principal executive offices of the Company. In order for a shareholder to put a proposal before the Company's shareholders, such shareholder must (a) be a member of record on both the date of giving of the notice by such shareholder and the record date for the determination of members entitled to vote at such meeting and (b) comply with the notice requirements, in each case, as specified in the Articles of Association. The notice requirements include requirements regarding the timing of delivery of the notice as well as the contents of such notice. The detailed procedures for the notice requirements vary depending on whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to a nomination for election of a Director. The procedures for shareholders to propose a person for election as a Director is available on the Company's website. The procedures for shareholders to put forward proposals at an annual general meeting are also available upon request from the Company Secretary at the Company's Hong Kong office as stated below:

Semiconductor Manufacturing International Corporation

Suite 3003, 30th Floor, 9 Queen's Road Central

Hong Kong

Enquiries may be submitted to the Board by contacting either the Company Secretary at the above address, or directly by questions at an annual general meeting or an extraordinary general meeting. Questions on the procedures for putting forward proposals at an annual general meeting may also be raised to the Company Secretary by the same means.

According to Article 61 of the Company's Articles of Association, only the Board or the Chairman of the Board may, whenever they or he think fit to proceed, convene a general meeting of the Company. The ability of shareholders to call any general meeting of the Company is specifically denied.

Shareholder Communications

The Company and the Board recognizes the importance of maintaining open and frequent communications with its shareholders. At the annual general meeting of the Company, which was held on June 26, 2015 at the Company's headquarters in Shanghai, China ("2015 AGM"), Directors, members of the management team, as well as the Company's outside auditors, were present to answer questions from the shareholders. The 2016 AGM circular will be distributed to all shareholders within the prescribed time period required by the Hong Kong Stock Exchange Listing Rules. The circular and the accompanying materials set forth information relevant to the proposed resolutions. Separate resolutions are proposed at these annual general meetings on each substantially separate issue, including the re-election of individual Directors. The chairman of the meeting reveals how many proxies for and against have been filed in respect to each resolution. The poll results will be published in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.

During the 2015 AGM, the Company's shareholders:

- received and considered the audited consolidated financial statements and the reports of the Directors and Auditors of the Company for the year ended December 31, 2014;
- re-elected Dr. Chen Shanzhi, Mr. Lipbu Tan and Ms Carmen I-Hua Chang as Class II Directors to hold office until 2018 AGM, re-elected Dr. Zhou Zixue as Class I Director to hold office until 2017 AGM and authorized the Board to fix their remuneration;
- appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the auditors of the Company for Hong Kong financial reporting and U.S. financial reporting purposes, respectively and authorized the Audit Committee of the Board to fix their remuneration;
- approved the general mandate to the Board to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding 20% of the issued share capital of the Company as at the date of 2015 AGM;
- approved the general mandate to the Board to repurchase shares of the Company, not exceeding 10% of the issued share capital of the Company as at the date of 2015 AGM; and
- authorized the Board to exercise the powers to allot, issue, grant, distribute and otherwise deal with the additional authorized but unissued shares repurchased by the Company.

During the year ended December 31, 2015, two (2) general meetings of the Company were held on June 26, 2015 and August 11, 2015. The details of attendance of each Director are as follows:

	Attendance	Note
Executive Director		
Zhou Zixue (Chairman)	2/2	—
Tzu-Yin Chiu	2/2	—
Gao Yonggang	2/2	—
Non-executive Director		
Chen Shanzhi	2/2	—
Zhou Jie	2/2	—
Ren Kai	0/0	1
Independent Non-executive Director		
William Tudor Brown	1/2	—
Sean Maloney	1/2	—

Frank Meng (Resigned, effective from June 26, 2015)	1/2	2
Lip-Bu Tan	2/2	—
Carmen I-Hua Chang	2/2	—

Notes:

(1) During the year ended December 31, 2015, there was no general meeting held after the appointment of Mr. Ren Kai as Non- executive Director on August 11, 2015.

(2) During the year ended December 31, 2015, there was one general meeting held before the cessation of Mr. Frank Meng as an Independent Non-executive Director on June 26, 2015.

CORPORATE GOVERNANCE REPORT

A key element of effective communication with shareholders and investors is the timely dissemination of information relating to the Company. In addition to announcing annual and interim reports, the Company announces its quarterly financial results approximately one month after the end of each quarter. In connection with such announcements, the Company holds conference calls which are open and available to the Company's shareholders. During these conference calls, the Chief Executive Officer and senior management report about the latest developments in the Company and answer questions from participants. The members of the Company's Investor Relations Department and senior members of the Company's management also hold regular meetings with equity research analysts and other institutional shareholders and investors.

A table setting forth information regarding the beneficial owners as of December 31, 2015 of the Ordinary Shares, who is known by the Company to beneficially own 5% or more of the Company's outstanding shares, is contained on page 51.

The market capitalization of the Company as of December 31, 2015 was approximately HK$33,238,261,679 (issued share capital of 42,073,748,961 Ordinary Shares at the closing market price of HK$0.79 per Ordinary Share). The public float as of such date was approximately 64.01%.

The 2016 AGM is scheduled to be held at the Company's headquarters at 18 Zhangjiang Road, PuDong New Area, Shanghai 201203, China on or around June 24, 2016. All shareholders of the Company are invited to attend.

Code of Business Conduct and Ethics

The Board has adopted a code of business conduct and ethics (the "Code of Conduct") which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues including among others, fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the Company's Compliance Office, which will subsequently report such violation to the Audit Committee.

US Corporate Governance Practices

Companies listed on the New York Stock Exchange must comply with certain corporate governance standards under Section 303A of the New York Stock Exchange Listed Company Manual. Because the Company's American Depositary Shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange, the Company is also subject to certain U.S. corporate governance requirements, including many of the provisions of the Sarbanes-Oxley Act of 2002. However, because the Company is a "foreign private issuer", many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to the Company. The Company is permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of certain of the corporate governance standards contained in the NYSE Standards.

Set forth below is a brief summary of the significant differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers:

The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not subject to this requirement, and we have not established a nominating/corporate governance committee. Instead, our Board has established a nomination committee to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually, make recommendations on any proposed changes to the Board to complement our corporate strategy, identify individuals suitably qualified to become Board members consistent with criteria approved by the Board, assess the independence of independent non-executive Directors, make recommendations to the Board on the selection of individuals nominated for directorships, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the Chief Executive Officer. However, such nomination committee is not responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company and overseeing the evaluation of the Board and management.

The NYSE Standards provide detailed tests that U.S. domestic issuers must use for determining independence of directors. While we may not specifically apply the NYSE tests, our Board assesses independence in accordance with Hong Kong Stock Exchange Listing Rules, and in the case of audit committee members in accordance with Rule 10A-3 under the Exchange Act, and considers whether there are any relationships or circumstances which are likely to affect such director's independence from management.

We believe that the composition of our Board and its committees and their respective duties and responsibilities are otherwise generally responsive to the relevant NYSE Standards applicable to U.S. domestic issuers. However, the charters for our audit and compensation committees may not address all aspects of the NYSE Standards. For example, NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our compensation committee charter. We disclose the amounts of compensation of our directors on a named basis, remuneration payable to members of the senior management by band, and the five highest individuals on an aggregate basis in our annual report in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.

The NYSE Standards require that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We comply with the requirements of Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in determining whether shareholder approval is required, and we do not take into consideration the NYSE's detailed definition of what are considered "material revisions".

SOCIAL RESPONSIBILITY

At SMIC, we truly live our corporate social responsibility (CSR). Near our production sites, we maintain residential campuses with comfortable housing for our employees and their families, first-rate schools for their children, and many convenient amenities. By living near our production sites and company schools, we all have powerful incentives to meet the highest standards for health, safety, environmental protection, business conduct, and regulatory compliance. See our latest CSR Report at www.smics.com/eng/about/csr.php.

Our CSR practices comply with all the laws where we operate and align with the leading international standards for our industry. These practices help us to reduce costs and risks, increase efficiency and integration, and improve employee morale and retention, all while benefiting our local communities and contributing to a cleaner and greener electronics industry supply chain. Visit our CSR Web page at www.smics.com/eng/ about/csr.php. To help us preserve and develop our socially responsible culture, key managers serve on our CSR Committee to oversee our CSR program and reporting.

Our CSR practices have led to our ongoing inclusion in the Hang Seng Corporate Sustainability Index Series for maintaining a "high standard of performance in environmental, social, and corporate governance" areas. See www.hsi.com.hk. In 2015, we received the "Outstanding Corporate Social Responsibility Award" in the 4th Corporate Social Responsibility Award hosted by Mirror Post for its excellence in corporate social responsibility. The selection process involved a number of strict criteria in "shareholder commitment, employee care, environmental protection, customer commitment, community ties and leadership skills" for the companies selected.

SMIC IN THE COMMUNITY

As the Group grows and prospers, so do the communities where we operate. We also serve them as neighbors through the scores of programs and activities held on our own campuses, and through charitable outreach to the larger community. For example, in 2014, the Company together with its employees donated an additional RMB2 million to our "SMIC Liver Transplant Program for Children" to fund liver transplants for impoverished children. To date, the Company together with its employees donated a grand total of RMB6 million towards the program. We also encourage individual efforts by our employees, who support local charities and churches, lecture at local universities, finance rural schools, provide disaster relief, and volunteer for projects throughout the region, focusing on community development and environmental preservation.

Support for Education

Our award-winning company schools provide a highly-affordable education for SMIC and non-SMIC children who live in the communities where we operate. Together with our employees, we also support education in many other ways. For example, we have helped to finance dozens of schools in rural China and contributed accommodations, classrooms, volunteer teachers and staff, and other facilities to empower rural educators with modern teaching skills, methodologies, and know-how. On a continuous basis, we also provide school supplies to children of rural and migrant workers, and volunteer in a number of education programs throughout China.

Support for the Environment

SMIC is a conscientious steward of natural resources. This commitment to the environment is reflected in our environmental protection, safety, and health (“ESH”) policies and international standards certifications. See our ESH Web page at www.smics.com/eng/about/esh.php.

SMIC first earned ISO 14001 certification in 2002. To retain this certification, we must maintain a world-class environmental management system that abides by a rigorous set of international standards. This management system helps us ensure responsible use of energy and materials through recycling, waste reduction, and pollution prevention.

For many years, SMIC has held QC 080000 certification, demonstrating our products and processes are free of environmentally hazardous substances, fulfilling customer requirements, the European Union's Restriction of Hazardous Substances (RoHS) Directive and regulation concerning the Registration, Evaluation,Authorization and Restriction of Chemicals (REACH).

SMIC also established ISO 14064 carbon verification certification at all sites in 2010. We maintain systems to reduce our carbon footprint, including greenhouse gas emissions, and are prepared for increasingly stringent carbon emission controls and regulations.

We achieve environmental protection largely through:

- Expanding environmental protection projects, such as energy saving, and waste reduction;
- Promoting green products and supply chains while sorting and recycling waste products;
- Managing the transfer and safe handling of hazardous waste by qualified vendors;
- Controlling hazardous substances in our products and processes; and
- Monitoring environmental impact, including carbon verification, and publicizing the results.

Our ISO and other international standards certificates are available on our Web pages for ESH (link above) and for Quality and Reliability (www.smics.com/eng/about/quality_reliability.php).

EMPLOYEE WELL-BEING

At SMIC, we focus on quality control and product innovation while also preventing environmental pollution, conserving energy and natural resources, protecting our human resources, and preventing property loss. We strive to improve employee well-being, protect the environment, and raise ESH standards for our employees and our surrounding communities. Through continuous improvement, we aim to strengthen our environmental responsibility and operational risk management.

To achieve these goals, SMIC is committed to:

- Following ESH laws and international standards while fulfilling customer requirements;
- Making ESH goals a primary responsibility for every SMIC manager;
- Implementing site ESH management through employee ownership and teamwork;
- Pursuing a green supply chain and greener manufacturing processes; and
- Strengthening accident prevention as well as emergency response and recovery capabilities.

For more information, see our latest CSR report at the link above.

Employee Health & Safety

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

SOCIAL RESPONSIBILITY

- Mandatory, recurrent safety training for employees and vendors;
- Equipment and facilities compliance with domestic and international safety standards, such as those of Semiconductor Equipment and Materials International (SEMI), the National Fire Protection Association (NFPA), and Factory Mutual Research Corporation (FMRC);
- Maintenance of process standards;
- An Emergency Response Center to centralize response at each site, staffed 24 hours a day;
- Continuous monitoring of work area conditions via gas monitoring system and closed-circuit TV;
- Constant monitoring of airborne chemicals, air quality, radiation, noise, and drinking water;
- Regular occupational hazards examination by third-party professionals;
- Regular occupational health examinations;
- Regular emergency drills and routine emergency training and drills;
- Training in ergonomics; and
- An ESH rewards and discipline committee to reward or discipline employees and their managers for major ESH achievements or violations.

SMIC provides occupational health and hygiene management for the welfare of employees. In addition, SMIC provides on-site health monitoring and primary care services such as:

- A 24-hour, professionally staffed health clinic at each manufacturing site;

- Medical emergency response and disaster planning;
- Occupational physical examinations and record keeping;
- General physical examinations and record keeping; and
- Injury and illness case management.

For more information, visit our ESH Web page and our latest CSR report at the links above.

Employee Care

At SMIC, we enable better living and continuous self-improvement for our employees. In addition to the housing and schooling described above, our employees and their families enjoy good health insurance as well as access to the professionally staffed health clinics located at our manufacturing sites, residential campuses, and schools. We also care for our employees through on-the-job training, subsidized university education, counseling services, social clubs and activities, and athletic and recreational facilities.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

Semiconductor Manufacturing International Corporation

(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Semiconductor Manufacturing International Corporation (the "Company") and its subsidiaries set out on pages 103 to 196, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at December 31, 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 30, 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2015

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

	Notes	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000	Year ended 12/31/13 USD'000
Revenue	5	2,236,415	1,969,966	2,068,964
Cost of sales		(1,553,795)	(1,486,514)	(1,630,528)
Gross profit		682,620	483,452	438,436
Research and development expenses, net		(237,157)	(189,733)	(145,314)
Sales and marketing expenses		(41,876)	(38,252)	(35,738)
General and administration expenses		(213,177)	(139,428)	(138,167)
Other operating income (expense), net	7	31,594	14,206	67,870
Profit from operations		222,004	130,245	187,087
Interest income		5,199	14,230	5,888
Finance costs	8			