

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

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

OR

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

Commission file number 1-31994

Semiconductor Manufacturing International Corporation

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Mr. Gao Yonggang, Chief Financial Officer

Telephone: (8621) 3861-0000

Facsimile: (8621) 3895-3568

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

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value US\$0.004 ¹ American Depositary Shares	The Stock Exchange of Hong Kong Limited* The New York Stock Exchange, Inc.

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

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

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

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

As of December 31, 2016, there were 4,252,922,259 ordinary shares, par value US\$0.004 per share, outstanding, of which 19,076,677 ordinary shares were held in the form of 95,383,385 American Depositary Shares ("ADSs"). Each ADS represents 5 ordinary shares.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

U.S. GAAP

International Financial Reporting Standards as
issued
by the International Accounting Standards Board

Other

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

Yes No

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

<u>Part I</u>	4
<u>Item 1. Identity of Directors, Senior Management and Advisors</u>	4
<u>Item 2. Offer Statistics and Expected Timetable</u>	4
<u>Item 3. Key Information</u>	4
<u>Item 4. Information on the Company</u>	32
<u>Item 4A. Unresolved Staff Comments</u>	53
<u>Item 5. Operating and Financial Review and Prospects</u>	53
<u>Item 6. Directors, Senior Management and Employees</u>	74
<u>Item 7. Major Shareholders and Related Party Transactions</u>	109
<u>Item 8. Financial Information</u>	131
<u>Item 9. The Offer and Listing</u>	132
<u>Item 10. Additional Information</u>	134
<u>Item 11. Quantitative and Qualitative Disclosures about Market Risk</u>	145
<u>Item 12. Description of Securities Other Than Equity Securities</u>	147
<u>Part II</u>	150
<u>Item 13. Defaults, Dividend Arrearages, and Delinquencies</u>	150
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	150
<u>Item 15. Controls and Procedures</u>	150
<u>Item 16A. Audit Committee Financial Expert</u>	151
<u>Item 16B. Code of Ethics</u>	151
<u>Item 16C. Principal Accountant Fees and Services</u>	151

<u>Item 16D. Exemptions from the Listing Standards of Audit Committees</u>	151
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	152
<u>Item 16F. Changes in Registrant's Certifying Accountant</u>	152
<u>Item 16G. Corporate Governance</u>	152
<u>Item 16H. Mine Safety Disclosure</u>	153
<u>Part III</u>	154
<u>Item 17. Financial Statements</u>	154
<u>Item 18. Financial Statements</u>	154
<u>Item 19. Exhibits</u>	154

INTRODUCTION

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

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

- “US\$” or “USD” refers to U.S. dollars.
- “U.S. GAAP” refers to generally accepted accounting principles in the United States; and
- The “Glossary of Technical Terms” contained in Annex A of this annual report sets forth the description of certain technical terms and definitions used in this annual report.

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

FORWARD-LOOKING STATEMENTS

This annual report contains, in addition to historical information, “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current assumptions, expectations and projections about future events. We use words like “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the judgment of our senior management and involve significant risks, both known and unknown, uncertainties and other factors that may cause our actual performance, financial condition or results of operations to be materially different from those suggested by the forward-looking statements including, among others:

- risks associated with cyclical and market conditions in the semiconductor industry;
- intense competition;
- timely wafer acceptance by our customers;
- timely introduction of new technologies;
- our ability to ramp new products into volume;
- supply and demand for semiconductor foundry services;
- industry overcapacity;
- shortages in equipment, components and raw materials;
- availability of manufacturing capacity;
- our anticipated capital expenditures;
- our anticipated investments in research and development, anticipated changes to our liability for unrecognized tax benefits; and
- financial stability in end markets.

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

Part I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Consolidated Financial Data

The selected consolidated financial data presented below as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 have been prepared in accordance with IFRS and are derived from, and should be read in conjunction with our audited consolidated financial statements, including the related notes, included elsewhere in this annual report.

For the year ended December 31,

	2012	2013	2014	2015	2016
	(in US\$ thousands, except for earnings per share)				
Revenue	1,701,598	2,068,964	1,969,966	2,236,415	2,914,180
Cost of sales	(1,352,835)	(1,630,528)	(1,486,514)	(1,553,795)	(2,064,499)
Gross profit	348,763	438,436	483,452	682,620	849,681
Research and development expenses, net	(193,569)	(145,314)	(189,733)	(237,157)	(318,247)
Sales and marketing expenses	(31,485)	(35,738)	(38,252)	(41,876)	(35,034)
General and administration expenses	(107,313)	(138,167)	(139,428)	(213,177)	(157,371)
Other operating income, net	19,117	67,870	14,206	31,594	177
Profit from operations	35,513	187,087	130,245	222,004	339,206
Interest income	5,390	5,888	14,230	5,199	11,243
Finance costs	(39,460)	(34,392)	(20,715)	(12,218)	(23,037)
Foreign exchange gains or losses	3,895	13,726	(5,993)	(26,349)	(1,640)
Other gains or losses, net	6,398	4,010	18,210	55,611	(2,113)
Share of profit (loss) of investment using equity method	1,703	2,278	2,073	(13,383)	(13,777)
Profit before tax	13,439	178,597	138,050	230,864	309,882
Income tax benefit (expense)	9,102	(4,130)	(11,789)	(8,541)	6,552
Profit for the year	<u>22,541</u>	<u>174,467</u>	<u>126,261</u>	<u>222,323</u>	<u>316,434</u>
Other comprehensive income (loss)					
<i>Item that may be reclassified subsequently to profit or loss</i>					
Exchange differences on translating foreign operations	70	731	(324)	(8,185)	(19,031)
Change in value of available-for-sale financial assets	-	-	-	452	807
Cash flow hedges	-	-	-	-	(34,627)
Others	-	-	-	130	1
<i>Items that will not be reclassified to profit or loss</i>					
Actuarial gains or losses on defined benefit plans	-	-	-	-	1,520
Total comprehensive income for the year	<u>22,611</u>	<u>175,198</u>	<u>125,937</u>	<u>214,720</u>	<u>265,104</u>
Profit (loss) for the year attributable to:					
Owners of the Company	22,771	173,177	152,969	253,411	376,630
Non-controlling interests	(230)	1,290	(26,708)	(31,088)	(60,196)
	<u>22,541</u>	<u>174,467</u>	<u>126,261</u>	<u>222,323</u>	<u>316,434</u>
Total comprehensive income (loss) for the year attributable to:					
Owners of the Company	22,841	173,908	152,645	245,803	326,191
Non-controlling interests	(230)	1,290	(26,708)	(31,083)	(61,087)
	<u>22,611</u>	<u>175,198</u>	<u>125,937</u>	<u>214,720</u>	<u>265,104</u>

Earnings per share*

Basic	\$	0.01	\$	0.05	\$	0.05	\$	0.07	\$	0.09
Diluted	\$	<u>0.01</u>	\$	<u>0.05</u>	\$	<u>0.04</u>	\$	<u>0.06</u>	\$	<u>0.08</u>

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

	As of December 31,				
	2012	2013	2014	2015	2016
	(in US\$ thousands)				
Statements of Financial Position Data:					
Property, plant and equipment	2,385,435	2,528,834	2,995,086	3,903,818	5,687,357
Land use right	73,962	136,725	135,331	91,030	99,267
Total non-current assets	2,803,173	2,960,151	3,471,120	4,525,297	6,431,525
Inventories	295,728	286,251	316,041	387,326	464,216
Prepayment and prepaid operating expense	46,986	43,945	40,628	40,184	27,649
Trade and other receivables	328,211	379,361	456,388	499,846	645,822
Other financial assets	18,730	240,311	644,071	282,880	31,543
Restricted cash - current	217,603	147,625	238,051	302,416	337,699
Cash and cash equivalents	358,490	462,483	603,036	1,005,201	2,126,011
Assets classified as held-for-sale	4,239	3,265	44	72,197	50,813
Total current assets	1,269,987	1,563,241	2,298,259	2,590,050	3,683,753
Total assets	4,073,160	4,523,392	5,769,379	7,115,347	10,115,278
Total non-current liabilities	688,622	991,673	1,311,416	1,157,901	2,731,151
Total current liabilities	1,108,086	938,537	1,150,241	1,767,191	1,980,900
Total liabilities	1,796,708	1,930,210	2,461,657	2,925,092	4,712,051
Ordinary shares \$0.004 par value	12,800	12,845	14,342	16,830	17,012
Non-controlling interest	952	109,410	359,307	460,399	1,252,553
Total equity	2,276,452	2,593,182	3,307,722	4,190,255	5,403,227
Shares issued and outstanding*	3,200,013,962	3,211,230,710	3,585,609,617	4,207,374,896	4,252,922,259

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

B. Capitalization and Indebtedness

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Risk Factors Related to Our Financial Condition and Business

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

Our profit totaled US\$316.4 million in 2016 and US\$222.3 million in 2015. However, with the offsetting impact of such profits, we still have net accumulated losses of US\$910.8 million as of the end of 2016. We may not be able to maintain or increase profitability on an annual or quarterly basis, primarily because our business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. We will continue to incur capital expenditures and depreciation expenses as we equip and ramp-up additional fabs and expand our capacity at our existing fabs. This may result in an increase of our fixed costs and possibly reduce our chances of maintaining or increasing profitability.

In addition, we are competing in the same technology environment as a number of other foundries and our competitors who operate these foundries often use price as a means of securing business, resulting in erosion of the average selling price of our product portfolio, which adversely affects our ability to maintain or increase profitability.

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

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

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

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

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

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

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

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

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

- pay dividends;
- repay outstanding shareholder loans and provide loans to subsidiaries; and
- consolidate, merge, sell or otherwise dispose of any of our assets under certain conditions.

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

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

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

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

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

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

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

- our customers' sales outlook, purchasing patterns and inventory adjustments based on general economic conditions or other factors;
- the loss of one or more key customers or the significant reduction or postponement of orders from such customers;
- timing of new technology development and the qualification of this technology by our customers;
- timing of our expansion and development of our facilities;
- our ability to obtain equipment and raw materials; and
- our ability to obtain financing in a timely manner.

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

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

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

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

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

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

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

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

From time to time, we seek to acquire or invest in businesses that are complementary to ours. For example, in July 2016, we completed the acquisition of 70% ownership interest of LFoundry S.r.l, an integrated circuit wafer foundry headquartered in Italy, and has formally entered into the global automotive electronics market. However, acquisition or investment in businesses may require a significant commitment of management time, capital investment and other management resources. We cannot assure you that we will be successful in identifying and negotiating acquisitions or investments on terms favorable to us. To integrate acquired businesses, we must implement our technology systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests, and may need to enter new markets, such as the automotive electronics market, in which we have no or limited experience and where competitors in such markets have stronger market positions. Failures or difficulties in integrating the operations of the businesses that we acquire, including their personnel, technology, financial systems, distribution and general business operations and procedures, and supply and other relationships, may affect our ability to increase our revenues and may result in us incurring asset impairment or restructuring charges. Furthermore, acquisitions and investments are often speculative in nature and the actual benefits we derive from them could be lower or take longer to materialize than we expect. If we are unable to execute, manage or integrate our acquisitions and investments effectively, our growth, operating results and financial condition may be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

We have been dependent on a small number of customers for a substantial portion of our business. For the years ended December 31, 2015 and 2016, our five largest customers accounted for 52.8% and 54.6% of our total sales, respectively. We expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our sales. Sales generated from these customers, individually or in the aggregate, may not reach our expectations or historical levels in any future period. Our sales could be significantly reduced if any of these customers cancels or reduces its orders, significantly changes its product delivery schedule, or demands lower prices, which could have an adverse effect on our results of operations.

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

In 2016, our capital expenditures totaled approximately US\$2.7 billion and we currently expect our capital expenditures for foundry operations in 2017 to total approximately US\$2.3 billion, subject to adjustment based on market conditions. We also have budgeted approximately US\$70 million as the 2017 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. In addition, our actual expenditures may exceed our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, customer requirements or interest rates. Future acquisitions, mergers, strategic investments, or other developments also may require additional financing. The amount of capital required to meet our growth and development targets is difficult to predict in the highly cyclical and rapidly changing semiconductor industry.

Our operating cash flows may not be sufficient to meet our capital expenditures requirements. If our operating cash flows are insufficient, we plan to fund the expected shortfall through bank loans. If necessary, we will also explore other forms of external financing, as we did in 2016 with our convertible bond offerings and short-term and medium-term notes issuances. Our ability to obtain external financing is subject to a variety of uncertainties, including:

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

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

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

We spent approximately US\$1,014 million, US\$1,573 million and US\$2,695 million to construct, equip and ramp up our fabs in 2014, 2015 and 2016, respectively. We plan to increase our production capacity through expansion of existing production sites, such as Semiconductor Manufacturing International (Shanghai) Corporation, or SMIC Shanghai, Semiconductor Manufacturing International (Beijing) Corporation, or SMIC Beijing, Semiconductor Manufacturing International (Tianjin) Corporation, or SMIC Tianjing and Tianjin, Semiconductor Manufacturing International (Shenzhen) Corporation, or SMIC Shenzhen, both of which are our wholly-owned subsidiaries, Semiconductor Manufacturing North China (Beijing) Corporation, or SMNC, our majority-owned subsidiary in Beijing, and SJ Semiconductor (Jiangyin) Corporation, or SJ Jiangyin, our majority-owned bumping facility in Jiangyin. There are a number of events that could delay these expansion projects or increase the costs of building and equipping these or future projects in accordance with our plans. Such potential events include, but are not limited to:

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

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

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

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

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

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

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

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

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

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

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements to enable us to manufacture certain advanced wafers. As of December 31, 2016, we had been granted 6,447 patents worldwide, of which, 69 were in Taiwan, 735 were in the U.S., 5,619 were in China and 24 were in other jurisdictions. In comparison, we believe our competitors and other industry participants have been issued many more patents concerning wafer fabrication in multiple jurisdictions. Our limited patent portfolio may in the future adversely affect our ability to obtain licenses to the proprietary technology of others on favorable license terms due to our inability to offer cross-licensing arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. They might also render our services less competitive. If for any reason we are unable to license necessary technology on acceptable terms, it may become necessary for us to develop alternative technology internally, which could be costly and delay the marketing and delivery of key products and therefore have an adverse effect on our business and operating results. In addition, we may be unable to independently develop the technology required by our customers on a timely basis or at all, in which case our customers may purchase wafers from our competitors. We expect there is no group of important patents set to expire between 2017 and 2018.

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

There is frequent intellectual property litigation in our industry, involving patents, copyrights, trade secrets, mask works and other intellectual property subject matters. In some cases, a company attempts to avoid or settle litigation on favorable terms if it possesses patents that can be asserted against the plaintiff. The limited size of our current patent portfolio is unlikely to place us in such a favorable bargaining position. Moreover, some of our technology license agreements with our major technology partners do not provide for us to be indemnified in the event that the processes we license pursuant to such agreements infringe third party intellectual property rights. We could be sued for infringing one or more patents as to which we will be unable to obtain a license and unable to design around. As a result, we would be prohibited from manufacturing or selling the products which are dependent upon such technology, which could have a material adverse effect on our business. We may litigate the issues of whether these patents are valid or infringed, but in the event of a loss we could be required to pay substantial monetary damages and be enjoined from further production or sale of such products. Please refer to our historical litigation with TSMC on page 19 for details.

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

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

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

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

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

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

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

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

Fluctuations in the exchange rate of the Hong Kong dollar against the U.S. dollar will affect the U.S. dollar value of the ADSs, since our ordinary shares are listed and traded on the Hong Kong Stock Exchange and the price of such shares are denominated in Hong Kong dollars. While the Hong Kong government has continued to pursue a pegged exchange rate policy, with the Hong Kong dollar trading in the range of HK\$7.7500 to HK\$7.8182 per US\$1.00 for 2016 we cannot assure you that this policy will be maintained. Exchange rate fluctuations also will affect the amount of U.S. dollars received upon the payment of any cash dividends or other distributions paid in Hong Kong dollars and the Hong Kong dollar proceeds received from any sales of ordinary shares. Therefore, such fluctuations could also adversely affect the value of our ADSs.

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

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

Security breaches and other disruptions could compromise our information and systems, which would cause our business and reputation to suffer.

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

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

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

At the end of each reporting period, we are required to assess whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the impairment loss will be reversed up to the newly estimated recoverable amount, not to exceed the original value recorded. Goodwill impairment will not be reversed. As of December 31, 2016, the carrying amount of property, plant and equipment was US\$5,687.4 million and the carrying amount of intangible assets was US\$248.6 million.

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

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

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

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

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

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

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

Further, the 2009 Settlement Agreement provides that if we materially breach the 2009 Settlement Agreement (or certain related documents) and fail to cure that breach within 30 days after notice from TSMC, we will pay TSMC liquidated damages, in addition to any damages arising from such breach, in the amount of US\$44 million plus a royalty equal to 5% of our gross revenues derived from foundry services with respect to our 90nm and larger manufacturing processes during the period commencing on the date of the breach and ending on the date that is 20 years from the date of the 2009 Settlement Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Manufacturing

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

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

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

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

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

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

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

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

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

On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% ownership interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET’s issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. As of the date of this report, the China Securities Regulatory Commission (“CSRC”) has granted conditional approval for this transaction but the related conditions have not been satisfied.

The results of our joint ventures which we do not have control are reflected in our operating results to the extent of our ownership interest, and gains of the joint ventures could impact our operating results. As integration of assets and operations being contributed by each partner will involve complex activities that must be completed in a short period of time, the joint ventures may face numerous challenges to successful operation, including all operational risks that customarily relate to manufacturing, sales, service, marketing, and corporate functions, which, if unsuccessful, may adversely impact our business and operating result.

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

We depend on suppliers of raw materials, such as silicon wafers, gases and chemicals, and spare equipment parts, in order to maintain our production processes. To maintain operations, we must obtain from our suppliers sufficient quantities of quality raw materials and spare equipment parts at acceptable prices and in a timely manner. The most important raw material used in our production is silicon in the form of raw wafers, almost all of which are sourced from outside China. We currently purchase approximately 73.6% of our overall raw wafer requirements from our top three raw wafer suppliers. In addition, a portion of our gas and chemical requirements currently must be sourced from outside China. We may not be able to obtain adequate supplies of raw materials and spare parts in a timely manner and at a reasonable cost. In addition, from time to time, we may need to reject raw materials and parts that do not meet our specifications, resulting in potential delays or declines in output. If the supply of raw materials and necessary spare parts is substantially reduced or disrupted; if there are significant increases in their prices; or if the lead times for the supply of raw materials and necessary spare parts are extended, we may incur additional costs to acquire sufficient quantities of these parts and materials to maintain our production schedules and commitments to customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks related to Our New Investment Fund

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

On February 27, 2014, our wholly-owned subsidiary, SMIC Shanghai, established a wholly-owned investment fund in Shanghai which is called China IC Capital Co., Ltd, or the Fund. As of December 31, 2016, the Fund has a capital of RMB777 million, all funded by SMIC Shanghai. With an operating period of 15 years from the date of the issuance of its business license, the Fund is operated and managed by an equity investment management company named China Fortune-Tech Capital Co., Ltd (“China Fortune-Tech”), which was established by SMIC Shanghai and an independent third party on February 27, 2014. As of December 31, 2016, we held 30% ownership interest of China Fortune-Tech, which was accounted as investment in associates.

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

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

Risks Related to Conducting Operations in China

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

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

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

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

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

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

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

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

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

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

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

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

The value of the Renminbi is subject to changes in China's governmental policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The Renminbi to U.S. dollar exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation. On July 21, 2005, the PBOC announced an adjustment of the exchange rate of the U.S. dollar to Renminbi from 1:8.27 to 1:8.11 and modified the system by which the exchange rates are determined. The central parity rate of the U.S. Dollar to Renminbi was set at 6.9370 on December 31, 2016 compared with 6.4936 on December 31, 2015 by the PBOC. The cumulative depreciation of the Renminbi against the U.S. dollar in 2016 was approximately 6.83%. There still remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant fluctuation of the Renminbi against the U.S. dollar. As a result, the exchange rate may become volatile and could have an adverse effect on our business and operating results.

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

We receive a portion of our sales in Renminbi, which is currently not a freely convertible currency. For the year ended December 31, 2016, approximately 30.7% of our sales were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we may not be able to meet our foreign currency payment obligations.

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

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

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

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

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

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

Risks Related to Ownership of Our Shares and ADSs

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

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

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

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

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

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

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

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

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

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

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

Item 4. Information on the Company

A. History and Development of the Company

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

We are now the largest and most advanced semiconductor foundry in mainland China. We operate wafer fabrication facilities, including facilities at Beijing, Shanghai, Tianjin and Shenzhen in China and at Avezzano in Italy (we acquired 70% of the ownership interest of LFoundry S.r.l or LFoundry on July 29, 2016), with an aggregate capacity of up to 406,250 8-inch wafer equivalents per month.

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

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

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

On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% ownership interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET’s issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. As of the date of this report, the China Securities Regulatory Commission (“CSRC”) has granted conditional approval for this transaction but the related conditions have not been satisfied.

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

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

On October 14, 2016, Ningbo Semiconductor International Corporation (“NSI”) was jointly established by China IC Capital (the wholly-owned investment fund of SMIC), Ningbo Senson Electronics Technology Co., Ltd, and Beijing Integrated Circuit Design and Testing Fund with a registered capital of RMB355 million, equal to US\$52.8 million. SMIC holds 66.76% of the ownership interest. NSI will develop analog and specialty semiconductor process technology platforms in the areas of high-voltage analog, radio frequency, and optoelectronics. These developments will support customers in IC design and product development for applications in smart home, industrial, and automotive electronics, new generations of radio communications, augmented reality, virtual reality, mixed reality, and other specialty systems.

On December 1, 2016, Semiconductor Manufacturing South China Corporation was established by SMIC Holdings Corporation and SMIC Shanghai.

On December 7, 2016, the Share Consolidation was effective on the basis that every ten issued and unissued ordinary shares and preferred shares of US\$0.0004 each in the existing share capital of the Company are consolidated into one ordinary share and preferred share of US\$0.004 each.

According to the joint venture agreements entered into by the Group and the non-controlling interest shareholders of SMNC, additional capital injection into SMNC was completed in 2014, 2015 and 2016. The additional capital injection from non-controlling interest shareholders amounted to US\$252 million in 2014, US\$61.9 million in 2015 and US\$754.1 million in 2016, respectively.

According to the joint venture agreements entered into by the Company and the non-controlling interest shareholders of SJ Semiconductor Corporation, additional capital injection into SJ Semiconductor Corporation was completed in 2014, 2015 and 2016. The additional capital injection from non-controlling interest shareholders amounted to US\$24.5 million in 2014, US\$60.0 million in 2015 and US\$60.0 million in 2016, respectively.

We spent approximately US\$1,014 million, US\$1,573 million and US\$2,695 million to construct, equip and ramp up our fabs in 2014, 2015 and 2016, respectively. Currently, the planned capital expenditures in 2017 for foundry operations are approximately US\$2.3 billion. See “Item 5. A — Operating and Financial Review and Prospects — Operating Results-Factors that Impact Our Results of Operations — Substantial Capital Expenditures.”

B. Business Overview

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

We also have customer service and marketing offices in the U.S., Europe, Japan, and Taiwan, and a representative office in Hong Kong.

The table below sets forth a summary of our current fabs:

Number and Type of fab	SMIC Shanghai		SMIC Beijing	SMIC Tianjin	SMIC Shenzhen		SMNC	LFoundry
	200mm fab	300mm fab	300mm fab	200mm fab	200mm fab	300mm fab (planned)	300mm fab	200mm fab
Wafer size	200mm	300mm	300mm	200mm	200mm	300mm	300mm	200mm
Current most advanced technology for volume production	0.11 micron	0.028 micron	0.055 micron	0.15 micron	0.11 micron	0.055 micron	0.028 micron	0.09 micron
Production, supporting, testing and maskshop clean room size	35,070m ²	15,611m ²	26,276m ²	9,740m ²	19,760m ²	14,305m ²	28,124m ²	10,270m ²

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

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

Our Products and Services

Manufacturing of Wafers and Our Manufacturing Capacity

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

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

Fab	2014	2015	2016
Wafer fabrication capacity as of year-end ⁽¹⁾			
Shanghai 200mm Fab	96,000	100,000	108,000
Shanghai 300mm Fab	31,500	31,500	45,000
Beijing 300mm Fab	81,000	83,250	96,750
Tianjin 200mm Fab	39,000	43,000	45,000
Shenzhen 200mm Fab	-	13,000	31,000
Majority-Owned Beijing 300mm Fab	-	13,500	40,500
Majority-Owned Avezano 200mm Fab	-	-	40,000
Total monthly wafer fabrication capacity as of year-end	247,500	284,250	406,250
Wafer Fabrication capacity utilization	91.0%	100.7%	97.5%

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

Our factories manufacture the following types of semiconductors:

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

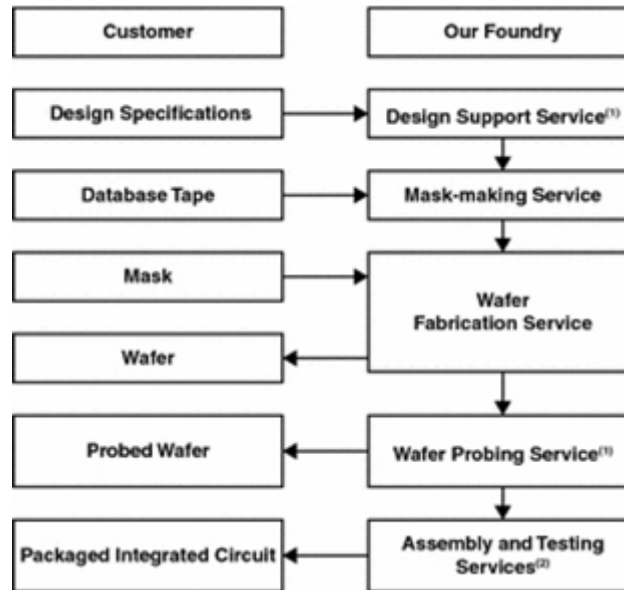
The following table sets forth a percentage breakdown of wafer sales by process technology for the years ended December 31, 2014, 2015 and 2016 and each of the quarters in the year ended December 31, 2016:

Process Technologies	For the year ended December 31,		For the three months ended				For the year ended
	2014	2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	December 31, 2016
	(based on sales in US\$)						
0.028 micron	-	0.13%	0.44%	0.55%	1.42%	3.53%	1.59%
0.045 micron	11.12%	15.84%	19.72%	23.07%	22.64%	23.62%	22.38%
0.065 micron	24.23%	24.31%	21.62%	20.44%	20.77%	19.77%	20.60%
0.09 micron	3.85%	4.13%	3.25%	2.32%	2.17%	1.60%	2.28%
0.13 micron	11.56%	10.51%	10.06%	9.83%	12.72%	14.79%	12.04%
0.15 micron	0.51%	0.61%	0.29%	0.28%	0.28%	0.29%	0.29%
0.18 micron	43.96%	41.09%	41.20%	40.51%	36.85%	33.87%	37.82%
0.25 micron	0.28%	0.23%	0.15%	0.19%	0.25%	0.22%	0.21%
0.35 micron	4.49%	3.15%	3.27%	2.81%	2.85%	2.17%	2.74%
1.5 micron	-	-	-	-	0.01%	-	0.00%
5 micron	-	-	-	-	0.04%	0.14%	0.05%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Our Integrated Solutions

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

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



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

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

Design Support Services

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

Libraries and Intellectual Property

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

Mask-making Services

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

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

Wafer Probing, Bumping, Assembly and Testing Services

We have our own probing facility in Shanghai that provides test program development, probe card fabrication, wafer probing, failure analysis, and failure testing. We also outsource these services to our partners. Our probing facility in Shanghai, China occupies a clean room space of 3,000 square meters, which is rated at Class 1000 cleanliness equipped with advanced testers, probers and laser repair machines. We have experienced engineers to provide test solution development, probe card fabrication, wafer probing, characterization and failure analysis services for most of eMemory, Logics, SoC, Mix-Signal, CIS and MEMS applications.

We also have a probing facility in Avezzano, Italy which occupies a clean room space of about 200 square meters rated at Class 100 cleanliness and equipped with advanced testers and probers to provide test solution development, probe card design, wafer probing, characterization and failure analysis services for most of eMemory, Logics, SoC, Mix-Signal and CIS applications.

In addition, we have a majority-owned 300mm bumping factory in Jiangyin, which entered into mass production of high-end bumping and circuit probing in 2016.

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

Customers and Markets

We categorize our sales geographically based on the headquarters of customer operations and not related to shipment destination. The following table sets forth the geographical distribution of our sales and percentage of sales for 2014, 2015 and 2016:

Region	For the year ended December 31,					
	2014		2015		2016	
	Sales	Percentage	Sales	Percentage	Sales	Percentage
	(in US\$ thousands, except percentages)					
United States	855,792	43.44%	776,223	34.71%	858,858	29.47%
Mainland China and Hong Kong	852,204	43.26%	1,066,558	47.69%	1,447,427	49.67%
Eurasia*	261,970	13.30%	393,634	17.60%	607,895	20.86%
Total	1,969,966	100.00%	2,236,415	100.00%	2,914,180	100.00%

* Excluding Mainland China and Hong Kong

The following table sets forth the breakdown of our operating revenue by product and service type for 2014, 2015 and 2016:

Product and Service Type	For the year ended December 31,					
	2014		2015		2016	
	Sales	Percentage	Sales	Percentage	Sales	Percentage
	(in US\$ thousands, except percentages)					

Sales of wafers	1,864,524	94.65%	2,134,943	95.46%	2,803,819	96.21%
Mask making, testing and others	105,442	5.35%	101,472	4.54%	110,361	3.79%
Total	1,969,966	100.00%	2,236,415	100.00%	2,914,180	100.00%

We have a global and diversified customer base that includes IDMs, fabless semiconductor companies and systems companies. A significant portion of our sales is attributable to a relatively small number of our customers. For the year ended December 31, 2016, our five largest customers accounted for 54.6% of our total sales.

The following table sets forth a breakdown of our sales by application type for 2014, 2015 and 2016:

Application Type	For the year ended December 31,					
	2014		2015		2016	
	Sales	Percentage	Sales	Percentage	Sales	Percentage
	(in US\$ thousands, except percentages)					
Computing⁽¹⁾	51,645	2.62%	100,958	4.52%	122,451	4.20%
Communication⁽²⁾	851,508	43.23%	1,152,509	51.53%	1,390,716	47.72%
Consumer⁽³⁾	905,609	45.97%	806,862	36.08%	1,112,821	38.19%
Other	161,204	8.18%	176,086	7.87%	288,192	9.89%
Total	1,969,966	100.00%	2,236,415	100.00%	2,914,180	100.00%

(1) “Computing” consists of integrated circuits such as hard disk drive controllers, DVD-ROM/CD-ROM driver, graphic processors and other components that are commonly used in desktop and notebook computers and peripherals.

(2) “Communication” consists of integrated circuits used in both wired and wireless data communications and telecommunications applications.

(3) “Consumer” consists of integrated circuits used for stand-alone DVD players, TV, set top box, game consoles, digital cameras, smart cards and toys.

Intellectual Property, Patents

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

Competition and Marketing Channels

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

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

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

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

Business Seasonality

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

Raw Materials

Our fabrication processes uses many raw materials, primarily silicon wafers, chemicals, gases, and various types of precious and other metals. Raw material costs constituted 24%, 28% and 30% of our manufacturing costs in 2014, 2015 and 2016, respectively.

The three largest components of raw material costs - raw wafers, chemicals and gases - accounted for approximately 36%, 27% and 9%, respectively, of our raw material costs in 2014, approximately 34%, 27% and 9%, respectively, of our raw material costs in 2015, and approximately 31%, 30% and 10%, respectively, of our raw material costs in 2016. Most of our raw materials generally are available from several suppliers, but substantially all of our principal materials requirements must currently be sourced from outside China.

The most important raw material used in our production is silicon in the form of raw wafers. In 2016, we purchased approximately 73.6% of our overall raw wafer requirements from our three major raw wafer suppliers. The prices of our principal raw material are not considered to be volatile.

For 2016, our largest and five largest raw materials suppliers accounted for approximately 12.4% and 38.3%, respectively, of our overall raw materials purchases. For 2015, our largest and five largest raw materials suppliers accounted for approximately 10.4% and 39.0%, respectively, of our overall raw materials purchases. For 2014, our largest and five largest raw materials suppliers accounted for approximately 11.4% and 42.0%, respectively, of our overall raw materials purchases. Our largest three raw materials suppliers were the same in last three years. Most of our materials are imported free of value-added tax and import duties due to concessions granted to our industry in China.

Electricity and Water

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

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

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

Regulation

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

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

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

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

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

Encouragement of Domestic Investment in ICPEs

Pursuant to the Interim Provisions on Promoting Industrial Structure Adjustment, or the Interim Provisions, issued by the State Council on December 2, 2005, and the Catalogue for the Guidance of Industrial Structure Adjustment, or the Guidance Catalogue, which is the basis and criteria for implementing the Interim Provisions, issued by the National Development and Reform Commission and all the State Council Institutions on March 27, 2011 and amended on February 16, 2013 and March 10, 2015, the Chinese government encourages (i) the design of integrated circuits, (ii) the fabrication of integrated circuits with a line width of less than 0.11 micron (including 0.11 micron) and (iii) the advanced packaging and testing of BGA, PGA, CSP and MCM. Under the Interim Provisions, imported equipment that is used for a qualifying domestic investment project and that falls within such project's approved total investment amount is exempt from custom duties except for such equipment listed in the Catalogue of Import Commodities for Domestic Investment Projects Not Entitled to Tax Exemptions, as stipulated by the State Council and amended in 2006, 2008 and 2012, as well as in the General Administration of Customs' announcement on the relevant matters arising from the implementation of the Industrial Restructuring Guidance Catalogue (2011) by the customs (Announcement No. 36 [2011] of the General Administration of Customs) and the Notice of the State Council on Adjusting the Taxation Policies for Imported Equipment (Guo Fa [1997] No.37).

Encouragement of Foreign Investment in ICPEs

Pursuant to the Integrated Circuit Policies and the Guideline Catalogue of Foreign Investment Industries promulgated jointly by the State Development and Reform Commission and the Ministry of Commerce on March 10, 2015, the following foreign investment categories are encouraged:

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

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

Preferential Taxation Policies

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

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

Pursuant to Caishui Circular [2008] No. 1 (“Circular No. 1”) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years’ tax losses and 50% reduction of the tax for the following five years. Pursuant to Caishui Circular [2009] No. 69 (“Circular No. 69”), the 50% reduction should be based on the statutory tax rate of 25%.

On January 28, 2011, the State Council of China issued Guofa [2011] No. 4 (“Circular No. 4”), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No. 1 for the software and integrated circular enterprises.

On April 20, 2012, State Tax Bureau issued Cai Shui [2012] No. 27 (“Circular No. 27”), stipulating the income tax policies for the development of integrated circuit industry. Circular No. 1 was partially abolished by Circular No. 27 and the preferential taxation policy in Circular No. 1 was replaced by Circular No. 27.

On July 25, 2013, State Tax Bureau issued [2013] No. 43 (“Circular No.43”), clarifying that the assertion and preferential tax policy of integrated circuit enterprise established before December 31, 2010, is pursuant to Circular No.1.

On May 4, 2016, State Tax Bureau, Ministry of Finance and other joint ministries issued Caishui [2016] No. 49 (“Circular No. 49”), which highlights the implementation of the record-filing system, clarification on certain criteria for tax incentive entitlement and establishment of a post-record filing examination mechanism and enhancement of post-administration.

Preferential Policies Encouraging Research and Development

The EIT Law and the Implementation Regulations of the EIT Law have provided tax incentives in relation to technologies as a means to encourage advancement and adoption of new technologies. The EIT Law provides an additional 50% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new techniques on the basis of the actual deductions when relevant enterprise has no intangible asset to be formed and calculated into the current gains and losses. R&D super deduction is subject to certain application with the in-charge tax bureau with other supporting documents (i.e. specialized R&D audit report, etc.).

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

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

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

Protection of the Layout Design of Integrated Circuits

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

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

Proprietary Rights in Layout Design of Integrated Circuits

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

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

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

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

Registration of a Layout Design

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

Compulsory Licenses for Exploitation of Patents in Respect of Semiconductor Technology

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

PRC Tax for “Resident Enterprises”

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

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

Environmental Regulations

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

A key document that must be submitted for the approval of a project's construction is an environmental impact assessment report that is reviewed by the relevant environmental protection authorities. Upon completion of construction, and prior to commencement of operations, an additional examination and acceptance by the relevant environmental authority of such projects is also required. After receiving approval of the environmental impact assessment report, a semiconductor manufacturer is required to apply to and register with (in Italy, the paperwork needs to be submitted as an environmental permit request also including a declaration to) the competent environmental authority of the types and quantities of liquid, solid and gaseous wastes it plans to discharge, the manner of discharge or disposal, as well as the level of industrial noise and other related factors. If the above wastes and noise are found by the authorities to have been managed within regulatory levels, renewable discharge registrations for the above wastes and noise are then issued for a specified period of time. SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC and SJ Jiangyin have all received approval with respect to their relevant environmental impact assessment reports and discharge registrations. LFoundry has received approval with respect to its discharge registrations and is currently under permit renewal process.

From time to time during the operation of our Chinese subsidiaries and our majority-owned Italian subsidiary, and also prior to renewal of the necessary discharge registrations, the relevant environmental protection authority will monitor and audit the level of environmental protection compliance of these subsidiaries. Discharge of liquid, solid or gaseous waste over permitted levels may result in imposition of fines or penalties, imposition of a time period within which rectification must occur or even suspension of operations.

Enforceability of Civil Liabilities

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

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

However, the Cayman Islands have a less developed body of securities laws as compared to the United States and provide significantly less protection for investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. Substantially all of our assets

are located outside the United States. In addition, most of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of our or such persons' assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon us or such persons or to enforce against them or against us, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

Conyers Dill & Pearman (Cayman) Limited, our counsel as to Cayman Islands law, Slaughter and May, our counsel as to Hong Kong law, and Shanghai LanBai Law Firm, Shanghai All Bright Law Offices, as well as Shanghai Jun&Heng Law Office, our counsels as to Chinese law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands, Hong Kong and China, respectively, would:

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

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

C. Organizational Structure

We operate primarily through SMIC Shanghai, SMIC Beijing, SMIC Tianjin, SMIC Shenzhen, SMNC, SJ Jiangyin in China and LFoundry in Italy. The chart below sets forth also our other significant operating subsidiaries or affiliates, including their jurisdictions of incorporation and principal activities as of December 31, 2016:

Name of company	Place and date of incorporation/establishment	Direct or Indirect equity ownership held	Principal Activity
Better Way Enterprises Limited (“Better Way”)*	Samoa April 5, 2000	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”)*#	People’s Republic of China (the “PRC”) December 21, 2000	100%	Manufacturing and trading of semiconductor products
SMIC, Americas Semiconductor Manufacturing International (Beijing) Corporation (“SMIB” or “SMIC Beijing”)*#	United States of America June 22, 2001	100%	Provision of marketing related activities
SMIC Japan Corporation	PRC July 25, 2002	100%	Manufacturing and trading of semiconductor products
SMIC Europe S.R.L.	Japan October 8, 2002	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Italy July 3, 2003	100%	Provision of marketing related activities
SMIC Commercial Shanghai Limited Company (formerly SMIC Consulting Corporation) *#	Cayman Islands June 30, 2005	100%	Investment holding
Semiconductor Manufacturing International (Tianjin) Corporation (“SMIT” or “SMIC Tianjin”)*#	PRC September 30, 2003	100%	Provision of marketing related activities
SMIC Development (Chengdu) Corporation (“SMICD”)*#	PRC November 3, 2003	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing International (BVI) Corporation (“SMIC (BVI)”)*	PRC December 29, 2005	100%	Construction, operation and management of SMICD’s living quarters, schools and supermarket
Admiral Investment Holdings Limited	British Virgin Islands April 26, 2007	100%	Provision of marketing related activities
SMIC Shanghai (Cayman) Corporation	British Virgin Islands October 10, 2007	100%	Investment holding
SMIC Beijing (Cayman) Corporation	Cayman Islands November 8, 2007	100%	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands November 8, 2007	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands November 8, 2007	100%	Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands February 13, 2008	100%	Investment holding
SMIC Advanced Technology Research & Development (Shanghai) Corporation	Cayman Islands January 21, 2008	100%	Investment holding
SMIC Holdings Corporation#	PRC October 28, 2014	89.697%	Manufacturing and trading of semiconductor products
SJ Semiconductor Corporation	PRC August 26, 2015	100%	Investment holding
SMIC Energy Technology (Shanghai) Corporation (“Energy Science”)*#	Cayman Islands August 19, 2014	56.045%	Investment holding
Magnificent Tower Limited	PRC September 9, 2005	100%	Manufacturing and trading of solar cells related semiconductor products
SMIC Hong Kong International Company Limited (formerly “SMIC Shanghai (HK) Company Limited”)	British Virgin Islands January 5, 2006	100%	Investment holding
SMIC Beijing (HK) Company Limited	Hong Kong December 3, 2007	100%	Investment holding
	Hong Kong December 3, 2007	100%	Investment holding

SMIC Tianjin (HK) Company Limited	Hong Kong December 3, 2007	100%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong December 3, 2007	100%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong January 29, 2008	100%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong March 20, 2008	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen) Corporation #	PRC March 20, 2008	100%	Manufacturing and trading of semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited#	PRC March 3, 2009	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”)*	PRC July 12, 2013	51%	Manufacturing and trading of semiconductor products
China IC Capital Co., Ltd #	PRC January 17, 2014	100%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC August 1, 2014	99%	Investment holding
Shanghai Rongxin Investment Management Limited Partnership	PRC July 31, 2014	99%	Investment holding
SJ Semiconductor (HK) Limited	Hong Kong September 2, 2014	56.045%	Investment holding
SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)*	PRC November 25, 2014	56.045%	Bumping and circuit probe testing activities
LFoundry S.r.l. (“LFoundry”)*	Italy July 24, 1998, acquired by SMIC on July 29, 2016	70%	Manufacturing and trading of semiconductor products
Ningbo Semiconductor International Corporation	PRC October 14, 2016	66.7606%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing South China Corporation#	PRC December 1, 2016	100%	Manufacturing and trading of semiconductor products
SJ Semiconductor USA Co.	United States of America April 6, 2016	56.045%	Provision of marketing related activities

*For identification purposes only.

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

D. Property, plant and equipment

Equipment

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

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

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

Property

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

Location	Size (Land/Building) (in square meters)	Primary Use	Owned ⁽¹⁾ or Leased (Land/Building)
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	45,840/26,870	Headquarter	owned/owned
Zhangjiang High-Tech Park, Pudong New Area, Shanghai	361,805/201,772	Wafer fabrication	owned/owned
Beijing Economic and Technological Development Area ⁽²⁾	240,140/428,958	Wafer fabrication	owned/owned
Xiqing Economic Development Area, Tianjin	215,733/70,578	Wafer fabrication	owned/owned
Shenzhen Export Processing Zone, Shenzhen Pingshan New Area, Guangdong	200,060/na	Wafer fabrication	owned/na
Jiangyin National High-Tech Industrial Development Zone, Jiangsu Province	182,082/18,591	Bumping and circuit probe testing	owned/leased
Japan	na/103	Marketing activities	na/leased
USA	na/2,092	Marketing activities	na/leased
Milan, Italy	na/309	Marketing activities	na/owned
Avezzano (AQ), Italy	240,009/53,583	Wafer fabrication	owned/owned
Taiwan	na/500	Marketing activities	na/leased
Hong Kong ⁽³⁾	na/300	Representative Office	na/owned

(1) With respect to land located in China, “ownership” refers to holding a valid land use rights certificate. All land within municipal zones in China is owned by the Chinese government. Limited liability companies, joint stock companies, foreign-invested enterprises, privately held companies and individual natural persons must pay fees to be granted rights to use land within municipal zones. Legal use of land is evidenced and sanctioned by land use certificates issued by the local municipal administration of land resources. Land use rights granted for industrial purposes are limited to a term of no more than 50 years.

(2) Including SMIC Beijing and SMNC.

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

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

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

Environmental Matters

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

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

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

In addition, all fabs, except for SJ Jiangyin and LFoundry, in operation have been QC 080000 certified to be compliant with the hazardous substances management directives such as RoHS (Restriction of the use of certain Hazardous Substances in electrical and electronic equipment), which bans the use of various chemicals determined to be harmful to humans and the environment. The Jiangyin site plans to apply for ISO 14001 and QC080000 certification in 2017. Our majority-owned subsidiary in Italy, LFoundry, plans to apply for QC080000 certification in 2017.

We are also proactively protecting the environment by implementing energy saving measures to reduce greenhouse gas emissions. In order to calculate our greenhouse gas output and to reach a reduction goal, SMIC Shanghai and SMIC Tianjin obtained ISO 14064 certification since 2010, SMIC Beijing obtained external certification according to Beijing's local regulation on carbon trading by the third party since 2014. ISO 14064 is an international standard against which greenhouse gas (GHG) emissions reports are voluntarily verified. SMIC Shenzhen and SMNC entered into mass production in 2015 and they plan to apply for the ISO 14064 certification in 2017. The Jiangyin site entered into mass production in 2016 and will apply for the ISO 14064 certification in the future.

Item 4A. Unresolved Staff Comments

Not applicable

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes prepared in accordance with IFRS as described in “Notes to Consolidated Financial Statements” as of, and for the years ended, December 31, 2014, 2015 and 2016. This report contains forward-looking statements. See “Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Item 3.D — Key Information — Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

Our operations are primarily based in China. We continued to achieve profitability on a full-year basis in 2016. In 2016 we achieved total sales of US\$2,914.2 million, compared to US\$2,236.4 million in 2015. We recorded annual profit of US\$316.4 million and generated US\$977.2 million in cash from operating activities in 2016, compared to annual profit of US\$222.3 million and US\$669.2 million in cash from operating activities in 2015.

Our China revenue contributed 49.7% of the overall revenue in 2016, compared to 47.7% in 2015. In particular, 63.3% of our advanced nodes (90nm and below) wafer revenue in 2016 was contributed by customers in China. In terms of the revenue by technology, wafer revenue attributable to advanced technology at 90nm and below increased from 44.4% in 2015 to 46.9% in 2016 and the revenue contribution percentage from 45nm and below technology increased from 16.0% in 2015 to 24.0% in 2016.

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

Factors that Impact Our Results of Operations

Cyclicality of the Semiconductor Industry

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

Substantial Capital Expenditures

The semiconductor foundry industry is characterized by substantial capital expenditures. This is particularly true for our company as we have recently constructed and equipped fabs and are continuing to construct and equip new fabs. In connection with the construction and ramp-up of our capacity, we incurred capital expenditures of US\$1,014.4 million, US\$1,572.7 million, and US\$2,694.7 million, in 2014, 2015 and 2016, respectively. We depreciate our manufacturing machinery and equipment on a straight-line basis over an estimated useful life of five to seven years. We recorded depreciation of US\$506.4 million, US\$473.0 million, and US\$673.2 million in 2014, 2015 and 2016, respectively.

The semiconductor industry is also characterized by rapid changes in technology, frequently resulting in obsolescence of process technologies and products. As a result, our research and development efforts are essential to our overall success. We spent approximately US\$189.7 million in 2014, US\$237.2 million in 2015 and US\$318.2 million in 2016 on research and development expenses, which represented 9.6%, 10.6% and 10.9%, respectively, of our sales for 2014, 2015 and 2016. Our research and development costs are partially offset by related government fundings and include the costs associated with the ramp-up of a new wafer facility.

We currently expect that our capital expenditures in 2017 for foundry operations will be approximately US\$2.3 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in our majority-owned Beijing 300mm fab, Beijing 300mm fab and Shenzhen 200mm fab, 2) our new projects in Shanghai and Shenzhen, 3) a majority-owned joint venture company, which we expect will focus on research and development on 14nm FinFET technology, 4) enhancing our portfolio of

comprehensive foundry solutions available to our customers, and 5) research and development equipment, mask shops and intellectual property acquisition. In addition, we have budgeted approximately US\$70 million as the 2017 capital expenditures for non-foundry operations mainly for the construction of living quarters for employees as part of our employee retention program. Our actual expenditures may differ from our planned expenditures for a variety of reasons, including changes in our business plan, our process technology, market conditions, equipment prices, or customer requirements. We will monitor the global economy, the semiconductor industry, the demands of our customers, and our cash flow from operations and will adjust our capital expenditures plans as necessary.

Capacity Expansion

We have expanded our production capacity in the past years, and plan to continue to expand through organic growth, joint ventures and acquisitions. An increase in capacity may have a significant effect on our results of operations, both by allowing us to produce and sell more wafers and achieve higher sales, and as a cost component in the form of acquisition costs and depreciation expenses. In 2017, we expect most of our expansion will be in Beijing 300mm fab and majority-owned Beijing 300mm fab. Our target, subject to market conditions, is to reach 114,000 8-inch wafers per month installed capacity in our Shanghai 200mm fab, 32,000 8-inch wafers per month installed capacity in our Shenzhen 200mm fab, 50,000 12-inch wafers per month installed capacity in our Beijing 300mm fab and 27,500 12-inch wafers per month installed capacity in our majority-owned Beijing 300mm fab by December 31, 2017.

Pricing

We price our foundry services on either a per wafer or a per die basis, taking into account the complexity of the technology, the prevailing market conditions, the order size, the cycle time, the strength and history of our relationship with the customer, and our capacity utilization. Since a majority of our costs and expenses are fixed or semi-fixed, fluctuations in the average selling prices of semiconductor wafers have historically had a substantial impact on our margins. The average selling price of the wafers we shipped decreased from US\$742 per wafer in 2015 to US\$736 per wafer in 2016.

Change in Process Mix and Technology Migration

Because the price of wafers processed with different technologies varies significantly, the mix of wafers that we produce is among the primary factors that affect our sales and profitability. The value of a wafer is determined principally by the complexity of the process technology used to fabricate the wafer. In addition, production of devices with higher levels of functionality and greater system-level integration requires more fabrication steps, and these devices generally sell for higher prices.

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

Capacity Utilization Rates

Operations at or near full capacity utilization have a significant positive effect on our profitability because a substantial percentage of our cost of sales is of a fixed or semi-fixed nature. If we increase our utilization rates, the number of wafers we fabricate will increase, and therefore our average fixed costs per wafer will decrease. Therefore, our capacity utilization rates have a significant effect on our margins. Our capacity utilization rates have varied from period to period mainly due to the mix of wafers produced and fluctuations in customer orders. Our capacity utilization rate was 91.0% in 2014, 100.7% in 2015 and 97.5% in 2016. Factors affecting capacity utilization rates are the overall industry conditions, the level of customer orders, the complexity of the wafers and of the mix of wafers produced, mechanical failures and other operational disruptions such as the expansion of capacity or the relocation of equipment, and our ability to manage the production facilities and product flows efficiently.

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

Yield Rates

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

Critical Accounting Policies

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

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

Inventories

Inventories are stated at the lower of cost (weighted average) or net realizable value (NRV), with NRV being the "estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale." We estimate the recoverability for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions. If the NRV of an inventory item is determined to be below its carrying value, we record a write-down to cost of sales for the difference between the carrying cost and NRV.

The cost of inventories recognized as an expense (income) in respect of inventory provision (reversal) was US\$29.6 million, US\$(13.3) million and US\$3.7 million in 2014, 2015 and 2016, respectively.

Long-lived assets

We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of asset or cash-generating unit ("CGU") may not be recoverable. Factors that we consider in deciding when to perform an impairment review include, but are not limited to significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets.

An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or CGU. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. Currently we are not able to estimate the amount of impairment loss or when a loss may occur for future years. Any potential changes of the business assumptions, such as forecasted sales, selling prices, utilizations, may have a material adverse effect on our net income.

We make subjective judgments in determining the independent cash flows that can be related to a specific CGU based on its asset usage model and manufacturing capabilities. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of CGU to our estimate of the related total future discounted cash flows. If a CGU's carrying value is not recoverable through the related discounted cash flows, the impairment loss is measured by comparing the difference between the CGU's carrying value and its recoverable amount, based on the best information available, including market prices or discounted cash flow analysis. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In order to remain technologically competitive in the semiconductor industry, we have entered into technology transfer and technology license arrangements with third parties in an attempt to advance our process technologies. The payments made for such technology licenses are recorded as an intangible asset or as a deferred cost and amortized on a straight-line basis over the estimated useful life of the asset. We routinely review the remaining estimated useful lives of these intangible assets and deferred costs. We also evaluate these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When the carrying amounts of such assets are determined to exceed their recoverable amounts, we will impair such assets and write down their carrying amounts to recoverable amount in the year when such determination was made.

Share-based Compensation Expense

The fair value of options and shares issued pursuant to our option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. We estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. We use projected volatility rates based upon the Company's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect our calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly.

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

Taxes

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

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

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. We established provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of us.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

As of December 31, 2016, no deferred tax asset, in respect of tax losses of US\$444.0 million for 2016 (US\$577.3 million and US\$532.8 million for 2015 and 2014, respectively), was recognized due to the unpredictability of future profit streams. The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place. For further details on taxes see “Note 10 to Consolidated Financial Statements”.

Fair value measurements and valuation processes

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

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

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

Impairment of trade and other receivable

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

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

Foreign Currency Fluctuations

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

Recent Accounting Pronouncements

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

New or revised IFRSs	Effective date
IFRS 9 — Financial Instruments	On or after January 1, 2018
IFRS 15 — Revenue from contracts with customers	On or after January 1, 2018
IFRS 16 — Leases	On or after January 1, 2019
Amendments to IAS 12 — Income taxes	On or after January 1, 2017
Amendments to IAS 7 — Statement of cash flows	On or after January 1, 2017
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its associate or joint venture	Not yet determined

The new IFRS 15 standard requires revenue to be recognized when the control of promised goods or services are transferred to a customer. The standard permits either a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. We are currently evaluating the method of adoption.

The new standard will be effective for us beginning January 1, 2018. We anticipate this standard may have a material impact on our consolidated financial statements, and continue to make progress in assessing all potential impacts of the standard. We currently believe the most significant impact relates to our accounting for revenue of wafer sales. Specifically, under the new standard, we expect to recognize revenue of wafer sales over time in proportion of wafer-manufacturing rather than at the point in time when the goods are delivered and title has passed.

Except for the preliminary analysis on the impacts of IFRS 15, we are in the process of evaluating these impacts of the new standards or amendments on our consolidated financial statements.

Incentives from the Chinese government

The chart below sets forth a brief summary of the material incentives received by our Chinese subsidiaries as qualified integrated circuit production enterprises (ICPE) from the Chinese government. Our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin subsidiaries are qualified as ICPEs under the Integrated Circuit Policies. Under these policies, ICPEs whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to the benefits listed below. For a more detailed discussion of these incentives, see “Item 4.B — Information on the Company—Business Overview —Regulation.”

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

Operating Results

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

	For the year ended December 31,		
	2014	2015	2016
	(in US\$ thousands, except for earnings per share)		
Revenue	1,969,966	2,236,415	2,914,180
Cost of sales	(1,486,514)	(1,553,795)	(2,064,499)
Gross profit	483,452	682,620	849,681
Research and development expenses, net	(189,733)	(237,157)	(318,247)
Sales and marketing expenses	(38,252)	(41,876)	(35,034)
General and administration expenses	(139,428)	(213,177)	(157,371)
Other operating income (expense), net	14,206	31,594	177
Profit from operations	130,245	222,004	339,206
Interest income	14,230	5,199	11,243
Finance costs	(20,715)	(12,218)	(23,037)
Foreign exchange gains or losses	(5,993)	(26,349)	(1,640)
Other gains or losses, net	18,210	55,611	(2,113)
Share of profit (loss) of investment using equity method	2,073	(13,383)	(13,777)
Profit before tax	138,050	230,864	309,882
Income tax (expense) benefit	(11,789)	(8,541)	6,552
Profit for the year	126,261	222,323	316,434
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations	(324)	(8,185)	(19,031)
Change in value of available-for-sale financial assets	-	452	807
Cash flow hedges	-	-	(34,627)
Others	-	130	1
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gains or losses on defined benefit plans	-	-	1,520
Total comprehensive income for the year	125,937	214,720	265,104
Profit (loss) for the year attributable to:			
Owners of the Company	152,969	253,411	376,630
Non-controlling interests	(26,708)	(31,088)	(60,196)
	126,261	222,323	316,434
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company	152,645	245,803	326,191

Non-controlling interests		(26,708)	(31,083)	(61,087)
		<u>125,937</u>	<u>214,720</u>	<u>265,104</u>
Earnings per share*				
Basic	\$	0.05	\$ 0.07	\$ 0.09
Diluted	\$	<u>0.04</u>	<u>0.06</u>	<u>0.08</u>

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

Revenue

We generate our sales primarily from fabricating semiconductors. We also derive a relatively small portion of our sales from the mask-making, wafer probing, and other services that we perform for third parties separately from our foundry services. A significant portion of our net sales is attributable to a relatively small number of our customers. In 2014, 2015, and 2016 our five largest customers accounted for approximately 51.1%, 52.8% and 54.6%, respectively, of our sales.

Cost of sales

Our cost of sales consists principally of:

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

Income (expenses) and gains (loss) from operations

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

Finance cost

Our finance costs consist of:

- interest expenses, net of government fundings and capitalized portions, which have been primarily attributable to our bank loans, corporate bonds, medium-term and

short-term notes, finance leases and the imputed interest rate on the outstanding interest-free convertible bonds.

Other gains or losses, net

Our other gains or losses mainly consist of:

- gains and losses from our schools, kindergartens and living quarters;
- the changes of fair value and disposal gains or losses of the financial products sold by banks;
- the changes of fair value of the put option related to our investment in Changjiang Xinke; and
- the changes of fair value of the cross currency swap contracts before being designated as hedging instrument of cash flow hedges in 2016.

Comparison of the Years Ended December 31, 2014, 2015 and 2016

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

Revenue

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

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

Cost of sales and gross profit

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

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

Profit for the year from operations

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

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

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

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

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

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

Profit for the Year

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

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

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

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

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

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

Revenue

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

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

Cost of sales and gross profit

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

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

Profit for the year from operations

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

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

General and administrative expenses increased by 52.9% from US\$139.4 million for the year ended December 31, 2014 to US\$213.2 million for the year ended December 31, 2015. The increase was primarily due to 1) the start-up expenses relating to the two new fab projects — the majority-owned 300mm fab in Beijing and the 200mm fab in Shenzhen and 2) an increase in accrued employee bonus in 2015.

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

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

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

Profit for the Year

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

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

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

B. Liquidity and Capital Resources

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

In 2016, SMIC entered into a loan facility in the aggregate principal amount of RMB500 million with The Export-Import Bank of China. SMIC Beijing entered into three new long term loans, which included a fifteen-year working capital loan facility in the principal amount of RMB1,460 million with China Development Bank, a two-year working capital loan facility in the principal amount of RMB240 million with The Export-Import Bank of China and a three-year working capital loan facility in the principal amount of RMB400 million with The Export-Import Bank of China. Additionally, LFoundry entered into a seven-year loan facility from non-controlling interests shareholders in the aggregate principal amount of EUR15.0 million, which was in relation to the construction of the new co-generation.

On June 7, 2016, we entered into a subscription agreement with J.P. Morgan Securities Plc (the "Manager"), pursuant to which the Manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for the zero coupon convertible bonds due to 2022 to be issued by the Company in an aggregate principal amount of US\$450 million.

On June 7 and June 8, 2016, we issued the one-year short-term notes of RMB600 million (approximately US\$90.5 million) and the three-year medium-term notes of RMB1,500 million (approximately US\$226.2 million) through National Association of Financial Market Institutional Investors ("NAFMII").

In 2016, the capital contributions from non-controlling interests shareholders were approximately amounted of US\$754.1 million into the registered capital of SMNC, US\$60 million into the registered capital of SJ Jiangyin and US\$17.2 million into the registered capital of NSI.

We plan to fund our capital expenditure through the cash on hand, cash flows from operations in 2017, borrowings under existing credit facilities, and proceeds from the above described note financings, the capital contribution from non-controlling interest shareholders as well as other external financing. See "Item 3.D — Key information — Risk Factors — Risks Related to Our Financial Condition and Business — Since our operating cash flows may not be sufficient to cover our planned capital expenditures, we will require additional external financing, which may not be available on acceptable terms, or at all. Any failure to raise adequate funds in a timely manner could adversely affect our business and operating results."

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

	For the Years Ended December 31,		
	2014	2015	2016
	(in US\$ thousands)		
Cash Flow Data:			
Profit for the year	126,261	222,323	316,434
Non-cash adjustment to reconcile profit to net operating cash flow:			
Depreciation and amortization	549,468	523,549	729,866
Net cash generated from operating activities	608,102	669,197	977,202
Payments for property, plant and equipment	(653,134)	(1,230,812)	(2,757,202)
Net cash used in investing activities	(1,144,123)	(789,556)	(2,443,333)
Net cash from financing activities	676,683	537,078	2,614,778
Net increase in cash and cash equivalents	140,662	416,719	1,148,647

Operating Activities

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

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

As of December 31, 2014, we had US\$603.0 million in cash and cash equivalents. These cash and cash equivalents were held in the form of United States dollars, Japanese Yen, Euros, and Renminbi. Our net cash generated from operating activities in 2014 was US\$608.1 million, which was primarily due to the net profit of US\$126.3 million and the add-back of US\$549.5 million in depreciation and amortization, partially offset by an increase of US\$89.2 million in trade and other receivables.

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

Investing Activities

Our net cash used in investing activities was US\$2,443.3 million, US\$789.6 million and US\$1,144.1 million in 2016, 2015 and 2014, respectively. These amounts were primarily attributable to purchases of plant and equipment for our fabs in Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin.

Financing Activities

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

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

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

Capital Expenditures

We incurred capital expenditures of US\$1,014.4 million, US\$1,572.7 million and US\$2,694.7 million in 2014, 2015 and 2016, respectively. We currently expect our capital expenditures in 2017 for foundry operations to be approximately US\$2.3 billion, subject to adjustment based on market conditions, which are mainly for 1) the expansion of capacity in our majority-owned Beijing 300mm fab, Beijing 300mm fab and Shenzhen 200mm fab, 2) our new projects in Shanghai and Shenzhen, 3) a majority-owned joint venture company, which we expect will focus on research and development on 14nm FinFET technology, 4) enhancing our portfolio of comprehensive foundry solutions available to our customers, and 5) research and development equipment, mask shops and intellectual property acquisition. We plan to finance our substantial capital expenditure requirements through funds generated from a combination of cash on hand, cash from operations, bank borrowing, and debt or equity issuances.

The construction in progress balance of approximately US\$1,310 million as of December 31, 2016, primarily consisted of US\$810 million of the manufacturing equipment acquired to further expand the production capacity at two 300mm fabs in Beijing, US\$288 million of the manufacturing equipment acquired to further expand the production capacity at one 300mm fab and one 200mm fab in Shanghai, US\$84 million of the manufacturing equipment acquired to further expand the production capacity at the 200mm fab in Shenzhen, US\$13 million of the manufacturing equipment acquired to further expand the production capacity at the majority-owned 300mm bumping facility in Jiangyin, US\$36 million of machinery and equipment acquired to engage in more research and development activities at the subsidiary, SMIC Advanced Technology Research & Development (Shanghai) Corporation in Shanghai. In addition, US\$79 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the end of 2017.

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

Commitments

As of December 31, 2016, we had commitments of US\$239.8 million for facilities construction obligations in connection with our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities. We had commitments of US\$800.6 million to purchase machinery and equipment for our Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs. In addition, we had US\$5.5 million to purchase intellectual property. We anticipate that the cash on hands, cash flows from operations in 2017, the proceeds from new loans, the proceeds from issuance of convertible bonds and short-term and medium-term notes, the capital contribution from non-controlling interest shareholders and other necessary external financing will be sufficient to finance the commitments. For additional information, see “Item 5.A — Operating and Financial Review and Prospects - Operating Results”.

Bank Borrowing

As of December 31, 2016, our outstanding long-term loans primarily consisted of US\$567.5 million in secured bank loans and US\$698.3 million in unsecured bank loans, which are repayable in installments starting in January 2017, with the last payment due in December 2030.

2013 USD Loan (SMIC Shanghai)

In August 2013, Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”) 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’ 300mm fab. The facility is secured by the manufacturing equipment located in the SMIS’ 300mm fab. As of December 31, 2016, 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 5.03% to 5.71% in 2016. SMIS was in compliance with the related financial covenants as of December 31, 2016.

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’ 300mm fab. The facility is secured by the manufacturing equipment located in the SMIS’ 300mm fab. As of December 31, 2016, SMIS had drawn down US\$66.1 million and repaid US\$26.5 million on this loan facility. The outstanding balance of US\$39.6 million is repayable from June 2017 to December 2019. The interest rate on this loan facility ranged from 1.21% to 2.3% in 2016. SMIS was in compliance with the related financial covenants as of December 31, 2016.

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’ 300mm fab. As of December 31, 2016, SMIS had drawn down RMB1,000 million (approximately US\$144.2 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 2016.

2015 RMB Loan II (SMIC Shanghai)

In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS’ 300mm fab. As of December 31, 2016, SMIS had drawn down RMB475 million (approximately US\$68.5 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 2016.

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, 2016, SMIS had drawn down RMB500 million (approximately US\$72.1 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2016.

2015 CDB RMB Loan (SMIC Beijing)

In December 2015, Semiconductor Manufacturing International (Beijing) Corporation (“SMIB” or “SMIC Beijing”) entered into an 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, 2016, SMIB had drawn down RMB195 million (approximately US\$28.1 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 2016.

2016 CDB RMB Loan (SMIC Beijing)

In May 2016, SMIB entered into the new RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460 million with China Development Bank, which is guaranteed by SMIC. As of December 31, 2016, SMIB had drawn down RMB1,460 million (approximately US\$210.5 million) on this loan facility. The principal amount is repayable from May 2018 to May 2031. The interest rate on this loan facility was 1.20% in 2016.

2016 EXIM RMB Loan I (SMIC Beijing)

In December 2016, SMIB entered into the new 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, 2016, SMIB had drawn down RMB240 million (approximately US\$34.6 million) on this loan facility. The principal amount is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2016.

2016 EXIM RMB Loan II (SMIC Beijing)

In January 2016, SMIB entered into the new RMB loan, a three-year working capital loan facility in the principal amount of RMB400 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, 2016, SMIB had drawn down RMB400 million (approximately US\$57.7 million) on this loan facility. The principal amount is repayable in January 2019. The interest rate on this loan facility was 2.65% in 2016.

2016 EXIM RMB Loan (SMIC)

In May 2016, SMIC entered into a loan facility in the aggregate principal amount of RMB500 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, 2016, SMIC had drawn down RMB500 million (approximately US\$72.1 million) on this loan facility. The outstanding balance is repayable in May 2019. The interest rate on this loan facility was 2.75% in 2016.

2015 CDB USD Loan (SJ Jiangyin)

In September 2015, SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”) entered into a 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’s 300mm bumping fab. The facility is unsecured, and

guaranteed by SMIB. As of December 31, 2016, SJ Jiangyin had drawn down US\$20 million and repaid US\$18 million on this loan facility. The outstanding balance of US\$2.0 million is repayable from September 2017 to September 2022. The interest rate on this loan facility ranged from 4.20% to 4.23% in 2016.

2014 Cassa Depositie Prestiti loan (LFoundry)

In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR35.8 million with Cassa Depositie Prestiti. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR16.3 million the MPS bonds of EUR4.0 million and the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2016, LFoundry had drawn down EUR35.8 million and repaid EUR7.9 million on this loan facility. The outstanding balance of EUR28.4 million (its present value is EUR24.7 million, approximately US\$26.0 million) including principal amount of EUR27.9 million and interest cash flow of EUR0.5 million is repayable from June 2017 to December 2023. The interest rate on this loan facility was 0.5% in 2016. LFoundry was in compliance with the related financial covenants as of December 31, 2016.

2014 MPS Capital Service loan (LFoundry)

In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR4.0 million with MPS Capital Service. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR1.8 million, the MPS bonds of EUR0.4 million and the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2016, LFoundry had drawn down EUR4.0 million on this loan facility. The outstanding balance of EUR5.2 million (its present value is EUR4.3 million, approximately US\$4.6 million) including principal amount of EUR4.0 million and interest cash flow of EUR1.2 million is repayable from June 2020 to December 2023. The interest rate on this loan facility was approximately 6% in 2016. LFoundry was in compliance with the related financial covenants as of December 31, 2016.

2014 Citizen Finetech Miyota Loan (LFoundry)

In June 2014, LFoundry entered into a loan facility in the aggregate principal amount of JPY480 million with Citizen Finetech Miyota Co. Ltd. This five-year facility was used to finance the planned expansion of LFoundry's 200mm fab. The facility is secured by the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2016, LFoundry had drawn down JPY480 million on this loan facility. The outstanding balance of JPY499.4 million (approximately US\$3.9 million) including principal amount of JPY480 million and interest cash flow of JPY19.4 million is repayable from June 2017 to December 2019. The interest rate on this loan facility was 4.04% in 2016. LFoundry was in compliance with the related financial covenants as of December 31, 2016.

Finance Lease Payables

In 2016, a leasing contract entered into by the Group with one of its suppliers for the construction and installation of gas generation equipment. This transaction has been accounted for a finance leasing with remaining lease term of 5 year. As of December 31, 2016, the total net future minimum lease payments was US\$7.1 million.

Loans from non-controlling interests shareholders

During 2016, LFoundry entered into a loan facility in the aggregate principal amount of EUR15.0 million from non-controlling interests shareholders of LFoundry. This seven-year facility was in relation to the construction of the new co-generation. LFoundry had drawn down EUR1.5 million on this loan facility. The outstanding balance of EUR1.5 million (approximately US\$1.6 million) is repayable from September 2018 to December 2023. The interest rate on this loan facility was 3.5% in 2016.

Sales and Leaseback Borrowings

During 2016, the three financing arrangements of sales and leaseback borrowings amounted to US\$482.6 million were entered into by the Group with third-party financing companies in the form of a sale and leaseback transaction with a repurchase option. A batch of production equipment of the Group was sold and leased back under the financing

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

Short-term Credit Agreements

As of December 31, 2016, the Group had 34 short-term credit agreements that provided total credit facilities up to US\$2,050.8 million on a revolving credit basis. As of December 31, 2016, the Group had drawn down US\$177.0 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 0.98% to 3.48% in 2016.

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

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

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

Our research and development activities are principally directed toward the development and implementation of new process technology. We spent US\$189.7 million, US\$237.2 million and US\$318.2 million, respectively in 2014, 2015 and 2016 on research and development expenses, which represented 9.6%, 10.6% and 10.9%, respectively, of our sales in those respective years. Our research and development costs were partially offset by related government fundings of US\$37.4 million, US\$34.3 million and US\$52.5 million in 2014, 2015 and 2016, respectively, and included the costs associated with the ramp-up of a new wafer facility. We plan to continue to invest significant amounts in research and development in 2017.

The R&D efforts were primarily on both advanced logic platform and value-added specialty technologies, from 0.35 μ m to 14nm, with many significant results in 2016.

In 2016 our 14nm technology development, process-flow with all intended process features and yield learning vehicles were established with device demonstration close to the given performance targets and SRAM bit cell functionality demonstrated.

We continuously invest in various new specialty technologies with ultra-low power for future areas of Internet of Things (IoT), Cloud Computing, and Smart devices; e.g., 55nm embedded flash memory, back-side illuminated (BSI) CMOS image sensors, 95nm ultra-low power SPOCULL (SMIC-Poly-Contact-Ultra-Low-Leakage) technology, CMOS integrated MEMS devices, and TSV-based wafer level packaging technologies.

We continuously enhance our R&D organization, and in 2016, we improved our organizational structure, capability, efficiency, and resource allocation for achieving faster development on advanced platform technologies as well as new specialty technologies.

As of December 31, 2016, we had been granted 6,447 patents worldwide, of which, 69 were in Taiwan, 735 were in the U.S., 5,619 were in China, and 24 were in other jurisdictions.

D. Trend Information

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

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

Set forth in the table below are the aggregate amounts, as of December 31, 2016, of our future cash payment obligations (excluding estimated interest payment obligations) under our existing contractual arrangements on a consolidated basis:

Contractual obligations ⁽⁴⁾	Payments due by period (consolidated, in US\$ thousands)				
	Total	Less than 1 year	1 – 2 years	2 – 5 years	After 5 years
Short-Term Borrowings ⁽¹⁾	176,957	176,957	—	—	—
Long-Term Loans ⁽¹⁾	1,265,811	32,217	171,900	698,070	363,624
Convertible bonds ⁽²⁾	786,611	391,401	—	395,210	—
Bonds payable	494,909	—	—	494,909	—
Medium-term notes	214,502	—	—	214,502	—
Short-term notes	86,493	86,493	—	—	—
Purchase Obligations ⁽³⁾	1,045,847	1,045,847	—	—	—
Total Contractual Obligations	4,071,130	1,732,915	171,900	1,802,691	363,624

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

(2) The Company exercised its right to redeem the US\$200 million zero coupon convertible bonds due 2018, the US\$86.8 million zero coupon convertible bonds due 2018, the US\$95 million zero coupon convertible bonds due 2018 and the US\$22.2 million zero coupon convertible bonds due 2018 (the “Bonds”) on March 10, 2017 being the option redemption date when all of the Bonds will be redeemed in cash at 100% of the Bonds’ principal amount. The conversion price is HK\$7.965, approximately US\$1.027. All the bondholders also exercised their conversion options to fully convert the outstanding Bonds into the Company’s ordinary shares of 392,350,477 consolidated shares before the option redemption date and no redemption of the Bonds will be carried out.

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

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Members of our Board are elected by our shareholders. As of March 31, 2017, our Board consists of thirteen directors.

Our executive officers are appointed by, and serve at the discretion of, our Board. The following table sets forth the names, ages and positions of our directors and executive officers as of March 31, 2017.

Name	Age	Position
Directors		
Zhou Zixue	60	Chairman and Executive Director
Tzu-Yin Chiu	60	Chief Executive Officer and Executive Director
Gao Yonggang	52	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director
Chen Shanzhi	48	Non-Executive Director
Zhou Jie	49	Non-Executive Director
Ren Kai	44	Non-Executive Director
Lu Jun	48	Non-Executive Director
Tong Guohua	59	Non-Executive Director
Lip-BuTan	57	Independent Non-Executive Director
William Tudor Brown	58	Independent Non-Executive Director
Carmen I-Hua Chang	69	Independent Non-Executive Director
Shang-yi Chiang	70	Independent Non-Executive Director
Jason Jingsheng Cong	54	Independent Non-Executive Director
Senior Management		
Tzu-Yin Chiu	60	Chief Executive Officer and Executive Director
Gao Yonggang	52	Chief Financial Officer, Executive Vice President, Strategic Planning and Executive Director
Haijun Zhao	53	Chief Operating Officer and Executive Vice President
Jyishyang Liu	64	Executive Vice President, Engineering & Services
Li Zhi	53	Executive Vice President, Legal/Public Affairs/General Administration
Mike Rekuc	68	Executive Vice President, Worldwide Sales & Marketing
Tianshen Tang	60	Executive Vice President, Design Service
Gareth Kung	52	Executive Vice President, Investment and Strategic Business Development and Finance, and Company Secretary

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

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

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. Currently Dr. Zhou is a director of Nantian Electronics Information Co., Ltd (a company listed on Shenzhen Stock Exchange: 000948) and a director of Hisense Electric Company Limited (a company listed on the Shanghai Stock Exchange: 600060). He is also the chairman of the board of directors of SMIC Holdings Corporation and SJ Semiconductor (Jiangyin) Corporation and the chairman of Semiconductor Manufacturing North China (Beijing) 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), a member of the Engineering Advisory Board of University of California, Berkeley, the chairman of the board of directors of each of Brite Semiconductor Corporation, SilTech Semiconductor (Shanghai) Corporation Limited, Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International (Shenzhen) Corporation, Semiconductor Manufacturing International (Beijing) Corporation, SMIC Semiconductor Advanced Technology Research (Shanghai) Corporation, and LFoundry S.r.l.. Dr. Chiu is also the director of Semiconductor Manufacturing North China (Beijing) Corporation, 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 82 semiconductor technology patents with 20 additional patents 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 seven 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, SMIC Holdings Corporation and Ningbo Semiconductor International Corporation. He is also the chairman of the board of China Fortune-Tech Capital Co., Ltd, the Company's joint venture with independent third parties, and a director of Ningbo Semiconductor International Corporation. 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 and China Building Material Test & Certification Group 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 research and development of TD-LTE-Advanced 4G international standards. Dr. Chen has made major contributions in the technology breakthroughs, international standard development and industrialization for the introduction of China's home-grown TD-LTE-Advanced 4G. His current research is focusing on 5G communications.

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 four publications, one of which was published by the Springer in English. He has more than 150 papers in domestic and foreign academic conferences and publications, of which more than 70 were published by SCI and EI. Many of his papers have received awards. At present, he has applied for more than 20 national invention patents.

Zhou Jie
Non-Executive Director

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

Ren Kai
Non-Executive Director

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

Lu Jun
Non-Executive Director

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

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

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

Tong Guohua
Non-Executive Director

Dr. Tong Guohua has been a Director since February 14, 2017. Dr. Tong is a professorate senior engineer and doctoral tutor of the School of Public Administration of Huazhong University of Science and Technology. Dr. Tong became President and Secretary of Party of China Academy of Telecommunications Technology as well as President and Executive Director of Datang Telecom Technology & Industry Holdings Co., Ltd. in July 2016. He began working in August 1974 and was President and Secretary of Party of Wuhan Institute of Posts and Telecommunications from November 2004.

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

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

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., Quantenna Communications, Inc., 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.

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 Acom 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 and a member of the Compensation Committee of Marvell Technology Group (a company listed on NASDAQ).

Carmen I-Hua Chang
Independent Non-Executive Director

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

Shang-yi Chiang
Independent Non-Executive Director

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

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

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

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

Jason Jingsheng Cong
Independent Non-Executive Director

Dr. Jason Jingsheng Cong has been a Director since February 14, 2017. Dr. Cong received his B.S. degree in computer science from Peking University in 1985, his M.S. and Ph. D. degrees in computer science from the University of Illinois at Urbana-Champaign in 1987 and 1990, respectively. He is currently serving as a Chancellor's Professor at the Computer Science Department of University of California, Los Angeles, the Director of Center for Domain-Specific Computing, and the Director of VLSI Architecture, Synthesis and Technology (VAST) Laboratory. He served as the chair of the UCLA Computer Science Department from 2005 to 2008. He has served as an Associate Vice Provost for Internationalization and a co-director of the Peking University-UCLA Joint Research Institute since 2009. On 8 February 2017, Dr. Cong's was elected as a member of the US National Academy of Engineering. Dr. Cong is the Co-founder and Chief Scientific Advisor of Falcon Computing Solutions Inc., and currently he is serving as its Chairman of Board of Directors. He is currently also a director of Inspirit, Inc. In addition, he is a distinguished visiting professor at Peking University and the Director of PKU Center for Energy-Efficient Computing and Applications (CECA). Dr. Cong's research interests include electronic design automation and energy-efficient computing. He has published over 400 research papers in these areas. He received 10 Best Paper Awards and three 10-Year Retrospective Most Influential Paper Awards. He received the 2011 ACM/IEEE A. Richard Newton Technical Impact Award in Electric Design Automation "for pioneering work on technology mapping for FPGA that has made significant impact on the FPGA research community and industry". He was elected IEEE Fellow in 2000 and ACM Fellow in 2008. He received the 2010 IEEE Circuits and System (CAS) Society Technical Achievement Award and the 2016 IEEE Computer Society Technical Achievement Award. He is the only scientist who has received a Technical Achievement Award from both the IEEE CAS Society and the Computer Society. Dr. Cong is also an outstanding educator. Dr. Cong has taught 35 PhD students. Nine of them are now faculty members in major research universities worldwide, including Cornell University, Georgia Tech., Peking University, Purdue, SUNY Binghamton, UCLA, UIUC and UT Austin. Also, four of Dr. Cong's PhD students were co-founders, together with Dr. Cong, of three startups originated from UCLA, including Aplus Design Technologies (acquired by Magma in 2003, now under Synopsys), AutoESL (acquired by Xilinx in 2011) and Falcon Computing Solutions (for customized computing of big-data applications). Others hold key R&D or management positions in various companies related to the information technologies, such as Amazon, Arista, Bloomberg, Broadcom, Cadence, Facebook, Google, IBM, Intel, Micron, Synopsys and Xilinx.

Senior Management

Tzu-Yin Chiu
Chief Executive Officer and Executive Director

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

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

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

Haijun Zhao
Chief Operating Officer and Executive Vice President

Dr. Haijun Zhao joined SMIC in October 2010 and had been Vice President of 12-inch Operation Center and, later, Vice President of North Operations. In April 2013, he became Executive Vice President and Chief Operating Officer, and also took the role of General Manager of the joint venture, SMNC. Haijun Zhao received his B.S. and Ph.D. from Electronic Engineering, Tsinghua University, Beijing, and MBA from the University of Chicago. He has 25 years of experience in technology development and industrial production of integrated circuit.

Jyishyang Liu
Executive Vice President, Engineering & Services

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

Mr. Li Zhi
Executive Vice President, Legal /Public Affairs/General Administration

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

Mike Rekuc
Executive Vice President, Worldwide Sales and Marketing

Mr. Mike Rekuc joined SMIC in 2011 as President of SMIC Americas. In November 2012, he was promoted to Senior Vice President, initially overseeing Worldwide Sales. As of March 2013, he oversees Worldwide Sales and Marketing, and on April 25, 2013, he took on the role as Executive Vice President. Mr. Rekuc is an industry veteran with four decades of semiconductor experience in both the United States and Asia. Before joining SMIC, he was President of Grace Semiconductor USA for Shanghai-based foundry Grace Semiconductor. Before Grace, 1991 through 2010, he was Senior Vice President of Sales and Marketing of Chartered Semiconductor Manufacturing residing in their Singapore headquarters and also served as the President of Chartered American in the US (Chartered was acquired in 2010 by GlobalFoundries). Prior to joining Chartered, Mr. Rekuc spent 23 years at Motorola, rising from a district sales engineer in Motorola's semiconductor sector to become Vice President and Global Sales Director of its World Wide Wireless Subscribers Group. Mr. Rekuc began his career working for the United States Navy as a civilian semiconductor specialist. He holds a Bachelor of Science degree in Electrical Engineering from Lawrence Technological University.

Tianshen Tang
Executive Vice President, Design Services

Dr. Tianshen Tang joined SMIC as Vice President of Business Development in 2010. He became Vice President of Design Service Center in March 2011 and was promoted to Senior Vice President in April 2013. On August 10, 2016, he took on the role as Executive Vice President. Dr. Tang is also a director of Brite Semiconductor Corp. and a Co-Director of SMIC-UCR-PKU Joint Center for ESD Protection Design. Dr. Tang is a semiconductor industry veteran with near 30 years of experience spanning academic and technology research, IC design, business development, sales and marketing, start-up company and corporate management in both United States and China. Prior to joining SMIC, Dr. Tang was Vice President of Design Service at Shanghai Hua Hong NEC Electronics Company. Before Hua Hong NEC, he was a co-founder and Chief Technology Officer of Penstar Technology Company. He also previously held management positions at Intel ITP and New Business Groups and Lanstar Semiconductor USA. Dr. Tang began his career

in United States as an assistant professor in Electrical Engineering and Computer Sciences at Texas A&M University-Kingsville, rising to become a turned associate professor. Dr. Tang holds a bachelor's degree in mathematics from Tianjin Nankai University, a master and Ph.D. both in electrical engineering from Texas A&M University, College Station. Dr. Tang published over thirty peer-reviewed technical articles, led seven research programs funded by distinguished sources in both United States and China, and advised more than 20 graduate students. Dr. Tang was honored Scientific Chinese Figures 2015.

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

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

B. Director and Executive Compensation

Details of the emoluments paid or payable by us to our directors, including Zhou Zixue, our chairman and executive director, Tzu-Yin Chiu, our chief executive officer and executive director and Gao Yonggang, our chief financial officer and executive director, in 2016 are set out as below:

	Salaried and wages	Employee settled share-base payment (in US\$ thousands)	Total remuneration
Executive Directors:			
Zhou Zixue	527	655	1,182
Tzu-Yin Chiu**	920	1,038	1,958
Gao Yonggang	413	82	495
Non-executive directors:			
Chen Shanzhi	80	136	216
Zhou Jie	—	—	—
Ren Kai	63	22	85
Lu Jun	39	—	39
Li Yonghua (Alternate to Chen Shanzhi)****	—	—	—
Independent non-executive directors:			
Lip-Bu Tan	100	156	256
William Tudor Brown	85	24	109
Sean Maloney*	72	23	95
Carmen I-Hua Chang	68	78	146
Shang-yi Chiang***	—	—	—
Total remuneration	2,367	2,214	4,581

* Sean Maloney resigned as independent non-executive director with effect from November 7, 2016.

** Tzu-Yin Chiu is also the Chief Executive Officer of the Company.

*** Shang-yi Chiang was appointed as independent non-executive director with effect from December 20, 2016.

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

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

	For the Year ended December 31, 2016 (in US\$ thousands)
Short-term benefits	3,887
Share-based payments	1,668

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

In 2016, we have granted options to purchase an aggregate of 13,387,906 ordinary shares (adjusted to 1,338,790 ordinary shares upon the effect of the Share Consolidation) under our 2014 Stock Option Plan and awarded an aggregate of 13,327,906 restricted share units under our 2014 Equity Incentive Plan to certain of our executive officers. Our 2014 Stock Option Plan and our 2014 Equity Incentive Plan are described below. The exercise price of the options granted to our executive officers in 2016 to purchase ordinary shares under the 2014 Stock Option Plan range from US\$0.08 to US\$0.11 per share (adjusted to the range from US\$0.83 to US\$1.12 per share upon the effect of the Share Consolidation). The expiration dates of these options range from May 24, 2026 to September 11, 2026.

C. Board Practices

Board of Directors

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

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

Name of Director	Position	Class	Appointment Commencement Date	Year of Re-election
Zhou Zixue	Chairman and Executive Director	I	2015/3/6	2017
Tzu-Yin Chiu	Chief Executive Officer and Executive Director	I	2011/8/5	2017
Gao Yonggang	Chief Financial Officer, Executive Vice President, Strategic Planning, Executive Director	I	2009/6/23	2017
William Tudor Brown	Independent Non-executive Director	I	2013/8/8	2017
Tong Guohua#	Non-executive Director	I	2017/2/14	2017
Chen Shanzhi	Non-executive Director	II	2009/6/23	2018
Lip-Bu Tan	Independent Non-executive Director	II	2001/11/3	2018
Carmen I-Hua Chang	Independent Non-executive Director	II	2014/9/1	2018
Lu Jun	Non-executive Director	II	2016/2/18	2018
Zhou Jie	Non-executive Director	III	2009/1/23	2019
Ren Kai	Non-executive Director	III	2015/8/11	2019
Shang-yi Chiang*	Independent Non-executive Director	III	2016/12/20	2019
Jason Jingsheng Cong#	Independent Non-executive Director	III	2017/2/14	2019

* Dr. Shang-yi Chiang whose initial appointment as Director took effect as of December 20, 2016, shall retire from office at the 2017 AGM pursuant to Article 126 of the Company's Articles of Association. Dr. Shang-yi Chiang will, being eligible, offer himself for re-election as a Class III Director at the 2017 AGM to hold office until the 2019 AGM.

Dr. Tong Guohua and Dr. Jason Jingsheng Cong whose initial appointment as Director took effect as of February 14, 2017, shall retire from office at the 2017 AGM pursuant to Article 126 of the Company's Articles of Association. Dr. Tong Guohua and Dr. Jason Jingsheng Cong will, being eligible, offer themselves for re-election as a Class I Director at the 2017 AGM to hold office until the 2020 AGM and a Class III Director at the 2017 AGM to hold office until the 2019 AGM respectively.

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

Committees of Our Board of Directors

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

Audit Committee.

Currently, the members of the Company's Audit Committee ("Audit Committee") are Mr. Lip-Bu Tan (Chairman of Audit Committee), Mr. Zhou Jie and Mr. William Tudor Brown. None of these members has been an executive officer or employee of the Company or any of its subsidiaries.

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.

During the year ended December 31, 2016, the audit committee reviewed:

- the Company's budget for 2016;
- the financial reports for the year ended and as of December 31, 2015 and the six months ended and as of June 30, 2016;
- 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 HKSE's Corporate Governance Code (the "CG Code") and the Company's Insider Trading Compliance Program (the "Insider Trading Policy;");
- the reports of the Company's ethics hotline;
- the audit fees for the Company's independent auditors; and
- the Company's independent auditors' engagement letters.

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

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

At each quarterly Audit Committee meeting, the Audit Committee 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.

Compensation Committee

Currently, the members of the Company's Compensation Committee ("Compensation Committee") are Mr. William Tudor Brown (Chairman of Compensation Committee), Mr. Zhou Jie, Mr. Lip-Bu Tan, Mr. Tong Guohua and Mr. Shang-yi Chiang. None of these members has been an executive officer or employee of the Company or any of its subsidiaries.

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

- approving and overseeing the total compensation package for the Company's executive officers and any other officer, evaluating the performance of and determining and approving the compensation to be paid to the Company's Chief Executive Officer and reviewing the results of the Chief Executive Officer's evaluation of the performance of the Company's other executive officers;
- determining the compensation packages of executive Directors and making recommendations to the Board with respect to non-executive Director compensation, including equity-based compensation;
- administering and periodically reviewing and making recommendations to the Board regarding the long-term incentive compensation or equity plans made available to the Directors, employees and consultants;
- reviewing and making recommendations to the Board regarding new and existing employment, consulting, retirement and severance agreements proposed for the Company's executive officers; and
- ensuring appropriate oversight of the Company's human resources policies and reviewing strategies established to fulfill the Company's ethical, and legal human resources responsibilities.

The Compensation Committee shall have the delegated authority to determine the remuneration packages of individual executive Directors and the Company's executive officers/senior management, and make recommendations to the Board on the remuneration of non-executive Directors. During the year ended December 31, 2016, 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 2016;
- 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 newly-appointed Directors during the year;
- matters arising from the Share Consolidation.

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

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

Nomination Committee

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

The responsibilities of the Nomination Committee include:

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

The Nomination Committee meets at least once a year and on such other occasions as may be required to discuss and vote upon significant issues relating to Board composition. The Company Secretary assists the chairman of the Nomination Committee in preparing the agenda for meetings and assists the Committee in complying with the relevant rules and regulations. The relevant papers for the Nomination Committee meetings were dispatched to Committee members in accordance with the CG Code. Members of the Nomination Committee may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Nomination Committee meeting, minutes are circulated to the Nomination Committee members for their comment and review prior to their approval of the minutes at the following or a subsequent Committee meeting. During the year ended December 31, 2016, 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.

D. Employees

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

Position	As of December 31,			
	2013	2014	2015	2016
Managers	951	930	962	1,210
Professionals ⁽¹⁾	4,440	4,988	6,112	7,978
Technicians	4,751	5,116	6,170	8,100
Clerical staff	304	351	229	679
Total ⁽²⁾	10,446	11,385	13,473	17,967

(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 2013, 2014, 2015, and 2016 respectively.

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

Location of Facility	As of December 31,			
	2013	2014	2015	2016
Shanghai	6,626	6,896	7,533	8,404
Beijing	2,272	2,518	3,242	4,721
Tianjin	1,454	1,511	1,630	1,663
Chengdu	11	10	10	10
Shenzhen	43	405	843	1,284
Jiangyin	—	—	174	314
United States	20	25	20	20
Europe	6	6	7	1,537
Japan	1	2	2	2
Taiwan Office	10	9	9	9
Hong Kong	3	3	3	3
Total	10,446	11,385	13,473	17,967

Our employees are not covered by any collective bargaining agreements.

E. Share Ownership

The table below sets forth the ordinary shares beneficially owned by each of our Directors and options to purchase ordinary shares as of December 31, 2016:

Board Member	Number of Ordinary Shares Held ⁽¹⁴⁾	Derivatives Share Options ⁽¹⁴⁾	Other ⁽¹⁴⁾	Aggregate Interest ⁽¹⁴⁾	Percentage of Aggregate Interests to Total Issued Share Capital of the Company ⁽¹⁾
Executive Director					
Zhou Zixue	-	2,521,163(2)	1,080,498(3)	3,601,661	0.085%
Tzu-Yin Chiu	4,369,109	7,752,111(4)	150,252(5)	12,271,472	0.289%
Gao Yonggang	-	1,964,003(6)	85,505(7)	2,049,508	0.048%
Non-executive Director					
Chen Shanzhi	-	414,687(8)	100,156(9)	514,843	0.012%
Zhou Jie	-	-	-	-	-
Ren Kai	-	-	-	-	-
Lu Jun	-	-	-	-	-
Independent Non-executive Director					
Lip-Bu Tan	114,583	528,926(10)	856	644,365	0.015%
William Tudor Brown	-	449,229(11)	-	449,229	0.011%
Carmen I-Hua Chang	-	488,730(12)	-	488,730	0.011%
Shang-yi Chiang	-	-	-	-	-
Alternate Director					
Li Yonghua	-	-	-	-	-

Notes:

- (1) Based on 4,252,922,259 Ordinary Shares in issue as of December 31, 2016.
- (2) On May 20, 2015, Dr. Zhou was granted options to purchase 2,521,163 Ordinary Shares at a price of HK\$8.30 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of May 19, 2025 or 120 days after termination of his service as a Director to the Board. As of December 31, 2016, none of these options has been exercised.
- (3) On May 20, 2015, Dr. Zhou was granted an award of 1,080,498 Restricted Share Units (each representing the right to receive one 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, 2016, 270,124 Restricted Share Units were vested.
- (4) These options comprise: (a) On September 8, 2011, Dr. Chiu was granted options to purchase 8,698,753 Ordinary Shares at a price of HK\$4.55 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 7, 2021 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2016, options to purchase 703,106 shares at a price of HK\$6.42 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (c) On September 12, 2016, options to purchase 150,252 shares at a price of HK\$8.72 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chiu. These options are vested immediately and will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. As of December 31, 2016, a total of 1,800,000 options were exercised.
- (5) These restricted share units comprise: (a) On May 25, 2016, 703,106 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. Dr. Chiu's Restricted Share Units are vested immediately; (b) On September 12, 2016, 150,252 Restricted Share Units were granted to Dr. Chiu pursuant to the 2014 Equity Incentive Plan. Dr. Chiu's Restricted Share Units are vested immediately. As of December 31, 2016, 703,106 Restricted Share Units were exercised, among which 283,106 ordinary shares were issued to Dr. Chiu, and 420,000 were settled in cash.
- (6) These options comprise: (a) options which were granted to Dr. Gao on May 24, 2010 to purchase 314,531 Ordinary Shares at a price of HK\$6.4 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on June 17, 2013 to purchase 1,360,824 Ordinary Shares at a price of HK\$6.24 per Ordinary Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of June 16, 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on June 12, 2014 to purchase 288,648 Ordinary Shares at a price of HK\$6.4 per Ordinary Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of June 11, 2024 or 120 days after termination of his service as a Director to the Board. As of December 31, 2016, none of these options were exercised.
- (7) On November 17, 2014, Dr. Gao was granted an award of 291,083 Restricted Share Units pursuant to the 2014 Equity Incentive Plan, consisting of (a) 240,145 Restricted Share Units, 25% of which vest on each anniversary of June 17, 2013 and which shall fully vest on June 17, 2017, and (b) 50,938 Restricted Share Units, 25% of which vest on each anniversary of March 1, 2014 and which shall fully vest on March 1, 2018. As of December 31, 2016, a total of 205,578 Restricted Share Units were vested, and were settled in cash.
- (8) These options comprise: (a) On May 24, 2010, Dr. Chen was granted options to purchase 314,531 Ordinary Shares at a price of HK\$6.4 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of May 23, 2020 or 120 days after termination of his service as a Director to the Board. (b) On May 25, 2016, options to purchase 98,958 shares at a price of HK\$6.42 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board. (c) On September 12, 2016, options to purchase 1,198 shares at a price of HK\$8.72 per Ordinary Share pursuant to the 2014 Stock Option Plan were granted to Dr. Chen. These options are vested immediately and

will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. As of December 31, 2016, none of these options were exercised.

- (9) These restricted share units comprise: (a) On May 25, 2016, 98,958 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately. (b) On September 12, 2016, 1,198 Restricted Share Units were granted to Dr. Chen pursuant to the 2014 Equity Incentive Plan. Dr. Chen's Restricted Share Units are vested immediately.
- (10) These options comprise (a) options granted to Mr. Tan on February 17, 2009 to purchase 100,000 Ordinary Shares at a price of HK\$2.7 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 16, 2019 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on February 23, 2010 to purchase 313,487 Ordinary Shares at a price of HK\$7.7 per Ordinary Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of February 22, 2020 or 120 days after termination of Mr. Tan's service as a Director to the Board, (c) options granted to Mr. Tan on May 25, 2016 to purchase 114,583 Shares at a price of HK\$6.42 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options are vested immediately and will expire on the earlier of May 24, 2026 or 120 days after termination of his service as a Director to the Board, and (d) options granted to Mr. Tan on September 12, 2016 to purchase 856 Shares at a price of HK\$8.72 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options are vested immediately and will expire on the earlier of September 11, 2026 or 120 days after termination of his service as a Director to the Board. As of December 31, 2016, none of these options were exercised.
- (11) On May 25, 2016, 114,583 Restricted Share Units were granted to Mr. Tan pursuant to the 2014 Equity Incentive Plan. Mr. Tan's Restricted Share Units are vested immediately. On September 12, 2016, 856 Restricted Share Units were granted to Mr. Tan pursuant to the 2014 Equity Incentive Plan. Mr. Tan's Restricted Share Units are vested immediately. As of December 31, 2016, 114,583 were issued to Mr. Tan.
- (12) On September 6, 2013, Mr. Brown was granted options to purchase 449,229 Ordinary Shares at a price of HK\$5.62 per Ordinary Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of September 5, 2023 or 120 days after termination of his service as a Director to the Board. As of December 31, 2016, none of these options were exercised.
- (13) On November 17, 2014, Ms. Chang was granted options to purchase 488,730 Ordinary Shares at a price of HK\$8.5 per Ordinary Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of November 16, 2024 or 120 days after termination of her service as a Director to the Board. As of December 31, 2016, none of these options were exercised.
- (14) These interests have been adjusted upon the Share Consolidation on the basis of every ten ordinary shares of US\$0.0004 each into one ordinary share of US\$0.004 each taking effect from 7 December 2016.

The shareholdings set forth above excludes shares beneficially owned by entities affiliated with our Directors. Each of our Directors disclaims beneficial ownership of the shares beneficially owned by such affiliated entity, except to the extent of such director's pecuniary interest therein as disclosed above.

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

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

Stock Incentive Schemes

2004 Stock Incentive Plans

2004 Stock Option Plan

Our shareholders adopted on February 16, 2004 a 2004 Stock Option Plan which then became effective on March 18, 2004 and further amended it on June 23, 2009. The number of the Ordinary Shares that may be issued pursuant to our 2004 Stock Option Plan and our 2004 Employee Stock Purchase Plan shall not, in the aggregate, exceed 243,466,873 Ordinary Shares upon the effect of the Share Consolidation.

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

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

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

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

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

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

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

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

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

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

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

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

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

Amended and Restated 2004 Equity Incentive Plan

Our shareholders 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 101,593,172 Ordinary Shares upon the effect of the Share Consolidation. Awards issued under the Amended and Restated 2004 Equity Incentive Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of the Ordinary Shares available under the Amended and Restated 2004 Equity Incentive Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, the following Ordinary Shares or American depositary shares may become available for issuance under our Amended and Restated 2004 Equity Incentive Plan:

- Ordinary Shares or American depositary shares forfeited or withheld from issuance to settle an award;
- Ordinary Shares or American depositary shares withheld to satisfy the tax withholding obligations related to any award; and
- Ordinary Shares or American depositary shares subject to awards granted under our Amended and Restated 2004 Equity Incentive Plan that otherwise terminate or lapse without ordinary shares or American depositary shares being issued.

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

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

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

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

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

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

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

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

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

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

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

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

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

2014 Stock Incentive Plans

2014 Stock Option Plan

We adopted a 2014 Stock Option Plan that became effective on November 15, 2013 when the 2014 Stock Option Plan was registered with the PRC State Administration of Foreign Exchange. The number of Ordinary Shares that may be issued pursuant to the 2014 Stock Option Plan and the 2014 Employee Stock Purchase Plan (if adopted) shall not, in the aggregate, exceed 320,737,712 Ordinary Shares upon the effect of the Share Consolidation. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding stock option granted under this 2014 Stock Option Plan or any of our other stock option plans or any outstanding purchase right granted under the 2014 Employee Stock Purchase Plan (if adopted) or any other of our employee stock purchase plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Hong Kong Stock Exchange Listing Rules. Stock options issued under the 2014 Stock Option Plan may be issued in the form of Ordinary Shares or American depositary shares. For purposes of determining the number of our Ordinary Shares available under the 2014 Stock Option Plan, the issuance of an American depositary share is deemed to equal fifty underlying Ordinary Shares. In addition, Ordinary Shares or American depositary shares subject to stock options under the 2014 Stock Option Plan will again be available for grant and issuance under the 2014 Stock Option Plan to the extent such stock options have lapsed without Ordinary Shares or American depositary shares being issued.

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

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

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

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

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

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

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

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

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

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

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

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

2014 Employee Stock Purchase Plan

Our shareholders adopted a 2014 Employee Stock Purchase Plan on June 13, 2013. Purchases are accomplished through participation in discrete offering periods. Our 2014 Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. The number of our Ordinary Shares that may be issued pursuant to the 2014 Employee Stock Purchase Plan and our 2014 Stock Option Plan shall not, in the aggregate, exceed 320,737,712 Ordinary Shares upon the effect of the Share Consolidation. In no event may the number of Ordinary Shares that may be issued pursuant to any outstanding purchase right granted under this 2014 Employee Stock Purchase Plan or any of our other employee stock purchase plans or any outstanding stock option granted under our 2014 Stock Option Plan or any of our other stock option plans exceed, in the aggregate, thirty percent (30%) of the issued and outstanding Ordinary Shares in issuance from time to time, subject to such changes with respect to such thirty percent (30%) limit that may apply from time to time under the Hong Kong Stock Exchange Listing Rules. All shares purchased under the 2014 Employee Stock Purchase Plan shall be issued in the form of American depository shares. For purposes of determining the number of the Company's Ordinary Shares available under the 2014 Employee Stock Purchase Plan, the issuance of an American depository share is deemed to equal fifty underlying Ordinary Shares.

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

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

New participants are required to enroll in a timely manner as specified by the Company's compensation committee. Once an employee is enrolled, participation 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 our American depository shares in an amount, when aggregated with purchase rights under all our employee stock purchase plans that are also in effect in the same calendar year(s), that has a fair market value of more than \$25,000, determined as of the first day of the applicable purchase period, for each calendar year in which that right is outstanding. On the first business day of each offering period, a participant shall be granted a purchase right, determined by: (i) dividing (A) the product of \$25,000 and the number of calendar years during all or part of which the purchase right shall be outstanding by (B) the fair market value of the American depository shares on the first business day of the offering period, and (ii) subtracting from the quotient (A) the number of American depository shares the participant purchased during the calendar year in which the first business day of the applicable offering period occurs under the 2014 Employee Stock Purchase Plan or under any of our other employee stock purchase plans which is intended to qualify under Section 423 of the Code, plus (B) the number of American depository shares subject on the first business day of the applicable offering period to any outstanding purchase rights granted to the participant under any of our other employee stock purchase plans which is intended to qualify under Section 423 of the Code. If application of this formula would result in the grant of purchase rights covering, in the aggregate, more than the number of American depository shares that the compensation committee has made available for the relevant offering period, then the compensation committee shall adjust the number of American depository shares subject to the purchase right in order that, following such adjustment, the aggregate number of American depository shares subject to the purchase right shall remain within the applicable limit.

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

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

2014 Equity Incentive Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Standard Form of Share Option Plan for Subsidiaries

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

(a) Purpose of the Subsidiary Plan

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

(b) Who may join

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

(c) Stock Options

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

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

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

(d) Administration of the Subsidiary Plan

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

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

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

(e) Exercise Price

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

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

- (1) granted to a Ten Percent Holder, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and
- (2) granted to any other Subsidiary Participant, the exercise price shall be no less than 100% of the Fair Market Value per Subsidiary Share on the date of grant; and.

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

- (1) granted to a Ten Percent Holder who is a resident of the State of California, the exercise price shall be no less than 110% of the Fair Market Value per Subsidiary Share on the date of grant; and
- (2) granted to any other Subsidiary Participant who is a resident of the State of California, the exercise price shall be no less than 85% of the Fair Market Value per Subsidiary Share on the date of grant.

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

Fair Market Value shall be determined as follows:

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

(f) Limit of the Subsidiary Plan

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

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

(g) Individual Limit

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

(h) Exercise of Option

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

(i) Director Options

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

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

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

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

(j) Termination or Lapse of Option

A Subsidiary Stock Option shall terminate or lapse automatically upon:

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

(k) Rights are Personal to Subsidiary Participant

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

(l) Termination of Employment or Service

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

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

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

(m) Change in Control of the Subsidiary

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

(n) Change in the Capital Structure of the Subsidiary

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

(o) Period of the Subsidiary Plan

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

(p) Amendments and Termination

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

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

- (i) relating to local legal, regulatory and/or taxation requirements and/or implications applicable to the relevant subsidiary and/or Eligible Participants; and/or
- (ii) for the purposes of clarification, improvement or facilitation of the interpretation, and/or application of the terms of the Subsidiary Plan and/or for the purposes of improving or facilitating the administration of the Subsidiary Plan, and other changes, alterations or amendments of a similar nature.

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

(q) Voting and Dividend Rights

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

(r) Cancellation of Subsidiary Stock Options

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

(s) Ranking of Subsidiary Shares

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

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

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

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Ordinary Shares

The following table sets forth information regarding the beneficial ownership as of December 31, 2016 of our ordinary shares, by each shareholder who is known by us to beneficially own 5% or more of our outstanding ordinary shares as of such date.

Name of Shareholder	Nature of Interest	Long/Short Position	Number of Ordinary Shares Held ⁽⁶⁾	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company ⁽¹⁾	Derivatives ⁽⁶⁾	Total Interest ⁽⁶⁾	Percentage of Total Interests to Total Issued Share Capital of the Company ⁽¹⁾
Datang Telecom Technology & Industry Holdings Co., Ltd.	Interest of corporation controlled	Long Position	769,996,123 ⁽²⁾	18.11%	-	769,996,123	18.11%
China Integrated Circuit Industry Investment Fund Co., Ltd	Interest of corporation controlled	Long Position	740,000,000 ⁽³⁾	17.40%	-	740,000,000	17.40%
Tsinghua University	Interest of corporation controlled	Long Position	387,324,100 ⁽⁴⁾	9.11%	-	387,324,100 ⁽⁴⁾	9.11%
BlackRock, Inc.	Interest of corporation controlled	Long Position	270,429,217 ⁽⁵⁾	6.36%	88,800 ⁽⁵⁾	270,518,017	6.36%
		Short Position	3,265,200 ⁽⁵⁾	0.08%	1,216,200 ⁽⁵⁾	4,481,400	0.11%

Notes:

- (1) Based on 4,252,922,259 Ordinary Shares in issue as of December 31, 2016.
- (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
- (4) Tsinghua University holds 387,324,100 Ordinary Shares in long position through Tsinghua Unigroup Co., Ltd. (a 51% held subsidiary of Tsinghua University) and other corporations controlled by it.
- (5) BlackRock, Inc. holds 270,429,217 Ordinary Shares in long position and 3,265,200 Ordinary Shares in short position through Trident Merger, LLC and BlackRock Holdco 2, Inc. (both 100% held by BlackRock, Inc.) and other corporations controlled by it. In the long position of 270,429,217 Ordinary Shares, 88,800 Ordinary Shares are held through cash settled derivatives. In the short position of 3,265,200 Ordinary Shares, 1,216,200 Ordinary Shares are held through cash settled derivatives.
- (6) These interests have been adjusted upon the Share Consolidation on the basis of every ten ordinary shares of US\$0.0004 each into one ordinary share of US\$0.004 each, taking effect from December 7, 2016.

B. Related Party Transactions

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

Director Service Contracts

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

Issue of Series B Preference Shares by SJ Semiconductor Corporation

On December 8, 2015, a share purchase agreement (“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.

The Company, Xun Xin and Qualcomm have each contributed 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 as of the date of the entry into the share purchase agreement. 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. The subscription was completed on September 30, 2016.

As China Integrated Circuit Industry Investment Fund Co., Ltd. (“China IC Fund”) held approximately 11.17% ownership interest in the Company through its wholly-owned subsidiary, Xinxin at the time of entering into the Share Purchase Agreement, it is a connected person of the Company under the Listing Rules. Xun Xin, a wholly-owned subsidiary of China IC Fund, is an associate of Xinxin and thus a connected person of the Company under the Listing Rules.

As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Share Purchase Agreement exceed 0.1% but are less than 5%, the Share Purchase Agreement constitutes a connected transaction subject to the reporting and announcement requirements under the Listing Rules, and is exempt from the independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

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 Sino IC Capital Company Limited, the sole manager of China IC Fund 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.

Disposal Agreement between Siltech Shanghai and JCET, Subscription Agreement between Siltech Shanghai and JCET; Supplemental Agreement relating to Disposal Agreement between SilTech Shanghai and JCET

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

On April 27, 2016, SilTech Shanghai and JCET entered into a subscription agreement. Pursuant to the Subscription Agreement, SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 A Shares at RMB17.62 per A Share in consideration of an aggregate subscription price of RMB2,655 million in cash by way of private placement.

Immediately upon completion of both the Disposal and the Subscription, the Company (through SilTech Shanghai) would hold 193,910,210 A Shares in total (subject to any necessary adjustment) representing 14.26% shareholding interest in JCET and 14.26% attributable ownership interest in Holdco A assuming that completion of a separate agreement between China IC Fund and JCET involving the disposal of China IC Fund of its ownership interest in certain companies to JCET in consideration of 129,622,395 A Shares in JCET has taken place. The Company is expected to become the single largest shareholder of JCET after completion of the Disposal and the Subscription. The Disposal and the Subscription constitute a strategic investment which reflects the current industry trend and customers’ requests for greater integration between front-end and back-end IC manufacturing. Holdco A is the indirect holding company of STATS ChipPAC Ltd., a leading provider of advanced semiconductor packaging and test services in the world.

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

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

- (a) for the period commencing on December 31, 2015 and ending on the completion date of the Disposal (the “Transitional Period”), any profit of Holdco A will be enjoyed by JCET, while 19.61% of any loss of Holdco A will be borne by SilTech Shanghai by way of cash compensation to JCET; and
- (b) an agreed sum of net profit be set for Holdco A for the years of 2017, 2018 and 2019, and if the aggregate amount of Holdco A’s consolidated net profit for each of those years is lower than the agreed sum, SilTech Shanghai will compensate JCET up to a capped limit with a cash amount equivalent to the shortfall of its proportion of shareholding less any compensation SilTech Shanghai has already paid for Holdco A’s loss during the 2017 Transitional Period (if any).

On March 1, 2017, the Company was notified by JCET that CSRC has granted conditional approval for the Disposal and the Subscription (the “Conditional Approval”). Completion of the Disposal Agreement and agreed sum, SilTech Shanghai will company the Subscription Agreement is subject to the satisfaction of conditions in the Conditional Approval, which have been disclosed on the website of the CSRC.

Capital Contribution and Deemed Disposal of Ownership Interest in a Joint Venture in Beijing

On May 10, 2016, the Company, Semiconductor Manufacturing International (Beijing) Corporation (“SMIC Beijing”), China IC Fund, Beijing Semiconductor Manufacturing and Equipment Equity Investment Centre (Limited Partnership) (“Beijing Semi Fund”), Beijing Industrial Development Investment Management Co., Ltd. (“IDIMC”) and Zhongguancun Development Group (“ZDG”) agreed to amend the previous joint venture agreement between the parties dated June 3, 2013 by entering into an amendment joint venture agreement, pursuant to which: (i) the Company and SMIC Beijing’s outstanding aggregate capital contribution obligations as contained in the previous joint venture agreement would decrease from US\$804.38 million to US\$708.38 million, and their aggregate shareholding in the joint venture company — Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”) would decrease from 55% to 51%; and (ii) China IC Fund would make a cash contribution of US\$636 million into the registered capital of SMNC. The above would lead to an increase in the registered capital of the SMNC from US\$1.2 billion to US\$2.4 billion. Pursuant to the Amendment JV Agreement, the total investment under the Amendment JV Agreement is estimated to be US\$3.59 billion. The remaining US\$1.19 billion of the total investment under the Amendment JV Agreement is intended to be funded through SMNC’s internal cash flow and debt financing.

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

As China IC Fund held approximately 17.55% ownership interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited at the time of entering into the Amendment JV Agreement, it is a connected person of the Company under the Listing Rules. The Company’s entering into the Amendment JV Agreement with, amongst others, China IC Fund constitutes a connected transaction under Chapter 14A of the Listing Rules. China IC Fund’s cash contribution of US\$636 million into the registered capital of SMNC, a subsidiary of the Company, also constitutes a connected transaction under Chapter 14A of the Listing Rules. The Amendment JV Agreement is a non-exempt connected transaction subject to reporting, announcement and the independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

Mr. Lu Jun, who is a Director and a member of the Nomination Committee of the Company, holds the position of President in China IC Fund’s sole manager Sino IC Capital Co., Ltd. Mr. Ren Kai, who is a Director and a member of the Strategic Advisory Committee of the Company, holds the position of Vice President in China IC Fund’s sole manager Sino IC Capital Co., Ltd. Mr. Ren Kai has abstained from voting on the relevant board resolution in respect of the Amendment JV Agreement. Mr. Lu Jun did not participate in the voting on the relevant board resolution as he was not a Director then.

The joint venture agreement and all transactions contemplated thereunder were approved by the independent shareholders of the Company at the extraordinary general meeting (Ltd. Mr. Ren Kai, who is a Director and 016 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

Grants of Restricted Share Units to CEO and Certain Directors

On May 25, 2016, the Board resolved to grant, subject to independent shareholders’ approval, 7,031,061 restricted share units to Dr. Tzu-Yin Chiu, 989,583 restricted share units to Dr. Chen Shanzhi and 1,145,833 restricted share units to Mr. Lip-Bu Tan. Each of the restricted share units granted to Dr. Chiu, Dr. Chen and Mr. Tan represents the right to receive an ordinary share of the Company on the date it vests.

The grants of restricted share units are part of the Company’s remuneration system, the purpose of which is to closely align the interests and benefits of and risk sharing among the shareholders, the Company and the employees in order to maximize the motivation of the Directors and senior management..

Dr. Chiu is the Chief Executive Officer of the Company and an executive director, Dr. Chen is a non-executive Director and Mr. Tan is an independent non-executive Director. As such, each of Dr. Chiu, Dr. Chen and Mr. Tan is a connected person of the Company. The grants of restricted share units and the transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and independent shareholders’ approval requirements.

The grants of restricted share units to Dr. Chiu, Dr. Chen and Mr. Tan were approved by independent shareholders at the extraordinary general meeting of the Company held on June 24, 2016.

Entering into Partnership Agreement for the Establishment of a Fund

On June 23, 2016, Shanghai Zhaoxin Investment Center (Limited Partnership) (“Shanghai Zhaoxin”) as the General Partner and China IC Fund and China IC Capital Co., Ltd. (“China IC Capital”) (an investment fund company established under the laws of the PRC and a wholly-owned subsidiary of Semiconductor Manufacturing International (Shanghai) Corporation, a wholly-owned subsidiary of the Company), as the Initial Limited Partners entered into a partnership agreement in relation to the establishment and management of Shanghai Juxin IC Investment Fund (“the Fund”). The Fund would be established in the PRC as a limited partnership for the purpose of equity investment, investment management and investment consulting in specified sectors.

Pursuant to the Partnership Agreement, the total capital commitment to the Fund is expected to be RMB2 billion, of which RMB997.75 million is to be contributed by China IC Fund, RMB700 million is to be contributed by China IC Capital, RMB15 million is to be contributed by the Shanghai Zhaoxin and RMB287.25 million is to be contributed subsequently by other investors. The Fund would be managed by China Fortune-Tech Capital Co., Ltd. (“CFT Capital”), an equity investment management company established by Semiconductor Manufacturing International (Shanghai) Corporation and an independent third party.

As China IC Fund held approximately 17.54% ownership interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited at the time of entering into the Partnership Agreement, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Capital is an indirect wholly-owned subsidiary of the Company. Accordingly, the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The Partnership Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but exempt from the circular and independent shareholders’ approval requirements of Chapter 14A of the Listing Rules.

Mr. Ren Kai, who is a Class III non-executive Director, holds the position of Vice President in China IC Fund’s sole manager Sino IC Capital Co., Ltd and as such has abstained from voting on the relevant board resolution in respect of the Partnership Agreement. Mr. Lu Jun, who is a Class II non-executive Director, holds the position of President in Sino IC Capital Co., Ltd, but had not yet been appointed as a director of the Company on the date that the relevant board resolution was passed.

Further Grants of Restricted Share Units to CEO and Certain Directors

On August 10, 2016, the Board resolved to grant, subject to independent shareholders’ approval, 1,502,528 restricted share units to Dr. Tzu-Yin Chiu, 11,986 restricted share units to Dr. Chen Shanzhi and 8,561 restricted share units to Mr. Lip-Bu Tan. Each of the restricted share units granted to Dr. Chiu, Dr. Chen and Mr. Tan represents the right to receive an ordinary share of the Company on the date it vests.

The grants of restricted share units are part of the Company’s remuneration system, the purpose of which is to closely align the interests and benefits of and risk sharing among the shareholders, the Company and the employees in order to maximize the motivation of the Directors and senior management.

Dr. Chiu is the Chief Executive Officer of the Company and an executive director, Dr. Chen is a non-executive Director and Mr. Tan is an independent non-executive Director. As such, each of Dr. Chiu, Dr. Chen and Mr. Tan is a connected person of the Company. The grants of restricted share units and the transactions contemplated thereunder constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and independent shareholders’ approval requirements.

The grants of restricted share units to Dr. Chiu, Dr. Chen and Mr. Tan were approved by independent shareholders at the extraordinary general meeting of the Company held on December 6, 2016.

Provision of Guarantees to Connected Person

Pursuant to the framework agreement dated March 30, 2016 between the Company and Sino IC Leasing Co., Ltd. (“Sino IC Leasing”) and the supplemental agreement between the same parties dated December 21, 2016, SMNC, a subsidiary of the Company, entered into two lease agreements with Sino IC Leasing (Tianjin) Co., Ltd. (“Sino IC (Leasing) Tianjin”) on December 21, 2016, pursuant to which Sino IC Leasing (Tianjin) as lessor will lease certain machinery to SMNC as lessee in return for the payment of rental during the term of the Lease Agreements.

In addition, Semiconductor Manufacturing International (Beijing) Corporation, a wholly-owned subsidiary of the Company, entered into two guarantee agreements with Sino IC Leasing (Tianjin) to provide guarantees of an aggregate amount of approximately US\$59,583,000 in favor of Sino IC Leasing (Tianjin) in respect of the payment obligations of SMNC under the Lease Agreements.

The Company considers that the entering into of the Guarantee Agreements will lower the funding cost of SMNC and enable SMNC to lease the relevant machinery to support its normal operations and production.

As China IC Fund held approximately 17.41% ownership interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited at the time of entering into the Guarantee Agreements, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund also held approximately 35.21% ownership interest in Sino IC Leasing, therefore Sino IC Leasing is a connected person of the Company under the Listing Rules by virtue of being an associate of a connected person of the Company as defined under Rule 14A.13 of the Listing Rules. Sino IC Leasing (Tianjin) is a wholly-owned subsidiary of Sino IC Leasing and also a connected person of the Company. The Guarantee Agreements are subject to the reporting and announcement requirements but exempt from the circular and shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Financial Services Agreement with Datang Finance — 2016 to 2018

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

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

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

1. Deposit services

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

2. Loan services

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

3. Foreign exchange services

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

4. Other financial services

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

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

Annual Caps	For the year ended December 31,		
	2016	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.

The actual transaction amounts for the range of financial services which Datang Finance has provided to the Company pursuant to the Financial Services Agreement during the year ended December 31, 2016 are set out below.

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

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2016.

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

- 1) The entering into of the Financial Services Agreement does not preclude the Group from using the financial services of other PRC commercial banks. The Group has the discretion in selecting other PRC commercial banks as its financial services provider as it thinks fit and appropriate for the benefits of the Group;
- 2) The entering into of the Financial Services Agreement enables the Group to broaden its existing financing channels; and
- 3) The terms in respect of the deposit services, the loan services and the foreign exchange services offered by Datang Finance to the Group will be no less favourable than those offered to the Group by third parties and the commercial banks in the PRC in respect of comparable services, which enables the Group to lower its finance costs.

Each of Datang Finance and Datang Telecom Technology & Industry Holdings Co., Ltd. (LDatang Holdings Technology & Industry Holdings Co., Ltd. (Ldemy of Telecommunications Technology and Datang Holdings in turn wholly owns Datang Holdings (Hongkong) Investment Company Limited (Datang Hongkongn turn wholly owns Datang Holdings (Hongkong) Investment Company Limi 18.30% of the total issued share capital of the Company as of the date of entering into the Financial Services Agreement. Datang Finance is a fellow subsidiary of Datang Holdings and an associate of Datang Hongkong, and thus a connected person of the Company under Chapter 14A of the Listing Rules. The Financial Services Agreement and the transactions contemplated thereunder are exempt from the independent shareholders Agreement and the transactions contemplated by the Listing Rules.

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

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Financial Services Agreement that took place between Datang Finance and the Group during the period ended December 31, 2016 had been entered into:

- 1) in the ordinary and usual course of business of the Group;
- 2) on normal commercial terms or better; and
- 3) in accordance with the Financial Services Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Renewed Framework Agreement with Datang Holdings – 2016 to 2018

On December 28, 2015, the Company entered into a new framework agreement (the "2015 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 2015 Renewed Framework Agreement is three years commencing from January 1, 2016. The pricing for the transactions contemplated under the 2015 Renewed Framework Agreement is determined based on the same as the 2014 Renewed 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 2015 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.

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

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

The aggregate revenues generated by the Group from the transactions entered into pursuant to the 2014 Framework Agreement and the Renewed Framework Agreement were US\$14.5 million, US\$22.6 million and US\$17.9 million for the year ended December 31, 2014, 2015 and 2016 respectively.

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

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

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Renewed Framework Agreement that took place between Datang Holdings (or any of its associates) and the Company (or any of its subsidiaries) for the year ended December 31, 2016 had been entered into:

- 1) in the ordinary and usual course of business of the Group;
- 2) on normal commercial terms or better; and
- 3) in accordance with the Renewed Framework Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Framework Agreement with the Company's Majority Owned Subsidiary, SJ Cayman — January 2016 to December 2016

On March 11, 2016, the Company and its majority owned subsidiary SJ Semiconductor Corporation ("SJ Cayman") entered into the Framework Agreement in relation to supply of goods and services, transfer of equipment and provision of technical authorization or licensing with a term commencing on January 1, 2016 and ending on December 31, 2016 and subject to terms and conditions provided therein.

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

1. Purchase and sale of spare parts and raw materials;
2. Rendering of or receiving services including, without limitation, (a) processing and testing service; (b) procurement service; (c) research, development and experiment support service; and (d) comprehensive administration, logistics, production management and IT service;
3. Transfer of equipment; and
4. Provision of technical authorization or licensing by the Company to SJ Cayman.

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

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

- 2) a reasonable price in accordance with the industry guided price for a particular type of service or product issued by the relevant industry association (if any);
- 3) the comparable local market price, which shall be determined after arm's length negotiation between both parties of the contract;
- 4) where there is no comparable local market price, price based on the principle of cost plus a fair and reasonable profit rate.

The proposed annual caps for the Continuing Connected Transactions for the year ending December 31, 2016 were:

- US\$49 million (or its equivalent in other currencies) for supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company
- US\$49 million (or its equivalent in other currencies) for supply of goods and services and transfer of equipment by SJ Cayman

The historical transactions between the Company and SJ Cayman were incidental and immaterial in value, therefore in arriving at the proposed annual caps, the Company considered reasonable factors such as the expected occurrences of Continuing Connected Transactions in light of current market conditions and the technological capability of the Company as well as the Company's historical revenues.

The actual transaction amounts for supply of goods and services, transfer of equipment and provision of technical authorization or licensing generated by the Company and for supply of goods and services and transfer of equipment generated by SJ Cayman for the year ended December 31, 2016 were US\$1.2 million and US\$12.3 million respectively. None of the transaction amounts exceeded the annual cap for the year ended December 31, 2016.

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

As China IC Fund held approximately 17.59% ownership interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited at the time of entering into the Framework Agreement, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Fund held approximately 25.0% ownership interest in SJ Cayman at the time of entering into the Framework Agreement through its wholly-owned subsidiary, Xun Xin. SJ Cayman is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules. The transactions contemplated under the Framework Agreement are subject to the reporting, announcement and annual review requirements but exempt from the circular and the Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement that took place between SJ Cayman on behalf of itself and its wholly-owned subsidiaries (SJ Hong Kong and SJ Jiangyin); and the Company on behalf of itself and its subsidiaries (other than SJ Cayman, SJ Hong Kong and SJ Jiangyin) for the year ended December 31, 2016 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.

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

Continuing Connected Transactions in relations to Centralized Fund Management Agreement — 2016 to 2018

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

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

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

1. Internal Deposit Services

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

2. Collection and Payment Services and Foreign Exchange Services

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

3. Internal Loan Services

The terms (including interest rates) in respect of the internal loan services provided by SMIC Beijing to SJ Jiangyin will be on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, subject to the relevant provisions of PRC laws and regulations. The interest rate applicable to loans granted to SJ Jiangyin by SMIC Beijing will be based on arm's length negotiation by the parties. The Company will

make reference to the benchmark interest rate (if any) prescribed by the PBOC applicable to RMB loans from time to time and published on the PBOC's website for the same type of loans.

4. Provision of Letter of Credit Services

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

5. Other Financial Services

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

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

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

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

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

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

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement during the year ended December 31, 2016 are set out below.

Transactions	Actual Transaction Amounts for the year ended December 31, 2016
	US\$ million
Internal Deposit Services	93.2
Collection and Payment Services and Foreign Exchange Services	—
Internal Loan Services	—
Letter of Credit Services	—
Other Financial Services	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2016.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Centralized Fund Management Agreement that that took place between the Company and SJ Jiangyin for the year ended December 31, 2016 had been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. in accordance with the Centralized Fund Management Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Centralized Fund Management Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2016 to 2018

On March 31, 2016, the Company and its subsidiaries, SMIC Beijing and SMNC entered into the Centralized Fund Management Agreement providing the terms under which: (i) the Company would procure its wholly-owned subsidiary SMIC Beijing to carry out centralized management of the Grouppt Agreement providing the terms under

which: (transactions.Company under the 1 meeting (“EGM”) of the Company held on ate in the Group’s centralized fund management system. SMIC Beijing provides internal deposit services, collection and payment services, foreign exchange services, internal loan services, provision of letter of credit services and other financial services to SMNC within the scope permitted by the relevant PRC policies.

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

The expected Annual Caps were:

1. The Internal Deposit Cap (representing the proposed maximum daily outstanding balances including accrued interests placed by SMNC with SMIC Beijing) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.
2. The Collection and Payment and Foreign Exchange Cap (representing the proposed maximum daily transaction amount for collection and payment services and foreign exchange services provided by SMIC Beijing to SMNC) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.
3. The Internal Loan Cap (representing the proposed maximum daily outstanding balance of loans including accrued interest provided by SMIC Beijing to SMNC) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.
4. The Letter of Credit Cap (representing the proposed maximum aggregate principal amount of the letter(s) of credit issued on SMNC by SMIC Beijing to SMNC) is US\$2 billion for each of the three years ending December 31, 2016, 2017 and 2018 respectively.
5. The Other Financial Services Cap (representing the proposed maximum fees charged by SMIC Beijing for providing other financial services to SMNC per calendar year) is US\$50 million for each of the three years ending December 31, 2016, 2017 and 2018 respectively.

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

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

1. open up the domestic and foreign funding channels of the Group;
2. reduce the Group Group and foreign funding channels of the Group; up; re;
3. reduce the Group Group and foreign fundi
4. obtain favorable exchange rate for the Group.

The actual transaction amounts generated by the Company from the fund management services entered into pursuant to the Centralized Fund Management Agreement during the year ended December 31, 2016 are set out below.

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

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2016.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Centralized Fund Management Agreement that took place between the Company and its subsidiaries, SMIC Beijing and SMNC for the year ended December 31, 2016 had been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. in accordance with the Centralized Fund Management Agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

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

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

1. Finance related Services

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

3. Other related Services

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

The Annual Caps under the Framework Agreement are set out below.

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

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

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

1. the entering into of the Framework Agreement with Sino IC Leasing will enable the Group to broaden its existing financing channels; and
2. optimise the existing machinery of the Company and increase operating cash flow.

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

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

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

The actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement during the year ended December 31, 2016 are set out below.

	<u>Actual Transaction Amounts for the year ended December 31, 2016</u>
	US\$ million
Financial Services	—
Other Related Services	—

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2016.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement that took place between the Company and Sino IC Leasing Co., Ltd. for the year ended December 31, 2016 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.

Pursuant to Rule 14A.56 of the Listing Rules, the Company is fair and reasonable and in the interests of the shareholders of the Company as a whole. and confirmed that the transactions under the Framework Agreement that took place between the Company and Sino IC Leasing Co., Ltd. for the year ended December 31, 2016 had been entered into.

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

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

Save for the above amendments, all other terms and conditions of the Framework Agreement, including the term, the scope of services, the pricing policy, the payment terms and the annual caps for the years ending December 31, 2016, 2017, 2018, 2019 and 2020 respectively remain the same.

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

Framework Agreement with Semiconductor Manufacturing North China (Beijing) Corporation — 2016 to 2017

On September 30, 2016 the Company and Semiconductor Manufacturing North China (Beijing) Corporation (China (Beijing) Corporation) and Semiconductor Corporation entered into the supply of goods and services, leasing of assets, transfer of equipment and provision of technical authorization or licensing with a term commencing on the date of the Framework Agreement and ending on December 31, 2017.

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

1. Purchase and sale of spare parts, raw materials, photomasks and finished products;
2. Rendering of or receiving services including, without limitation, (a) processing and testing service; (b) sales service; (c) overseas market promotion and customer service; (d) procurement service; (e) research, development and experiment support service; (f) comprehensive administration, logistics, production management and IT service; and (g) water, electricity, gas and heat provision service;
3. Leasing of assets such as plant, office premises and equipment;
4. Transfer of equipment; and
5. Provision of technical authorization or licensing by the Company to SMNC, as well as the sharing of research and development costs in relation to 28-nanometer technologies.

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

- 1) the price prescribed or approved by state or local price control department (if any);
- 2) a reasonable price in accordance with the industry guided price for a particular type of service or product issued by the relevant industry association (if any);
- 3) The comparable local market price, which shall be determined after arm's length negotiation between both parties with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can obtain by way of public tender;
- 4) where there is no comparable local market price, the price based on the principle of cost plus a fair and reasonable profit rate, being the aggregate sum of (a) the actual reasonable cost; and (b) a fair and reasonable profit rate. The expected range of profit is from 5% to 8%; which is in line with the industry and not lower than the profit rate charged by the Company or SMNC (as applicable) to independent third parties (to the extent available); and
- 5) where general pricing principles (1) to (4) are not applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.

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

As to the price prescribed by the state or local price control department, state-prescribed fees apply to water and electricity, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority.

Under the Pricing Law of the PRC, the PRC government may implement a state-prescribed or guidance price for specific goods and services if necessary, and such price will be promulgated in accordance with the requirements of relevant laws, regulations or administrative rules from time to time. If any state-prescribed price or guidance price becomes available to the Continuing Connected Transactions in the future, the parties will execute such price first in accordance with pricing principle (1) above.

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

Annual Caps	For the year ending December 31,	
	2016	2017
	US\$ million	US\$ million
Purchase and sale of goods	310	650
Rendering of or receiving services	120	200
Leasing of assets	2	200
Transfer of equipment	0	200
Provision of technical authorization or licensing (including the sharing of research and development costs)	100	200
Total:	532 million	1.45 billion

The Company believes that the business partnership between itself and SMNC will eliminate some duplicated efforts on introducing and manufacturing advanced nodes for IC design houses, therefore reducing the time to market and some overhead expenses for both parties. With the expansion of its capacity and continuous innovation, the Company believes that it will be able to increase its market share, enhance its position in the industry and benefit from the increase in its economies of scale. Furthermore, SMNC is expects to build up and expand its manufacturing capacity following the capital contribution by China IC Fund. The Company can therefore leverage SMNC's manufacturing capacity to expand the capacity of its advanced technology in a capital-efficient manner to meet the surging customer demand.

As China IC Fund holds approximately 17.51% ownership interest in the Company at the time of entering into the Framework Agreement through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. As China IC Fund holds 26.5% ownership interest in the registered capital of SMNC at the date of entering into the Framework Agreement, SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules. The Framework Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions subject to the reporting, announcement and shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Framework Agreement and all transactions contemplated thereunder; and the annual caps in respect of the Framework Agreement were approved by the independent shareholders of the Company at the extraordinary general meeting ("EGM") of the Company held on December 6, 2016 as required under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

The actual amounts generated by the Company from the transactions entered into pursuant to the Framework Agreement during the year ended December 31, 2016 are set out below.

Transactions	Actual Transaction Amounts for the year ended
	December 31, 2016
	US\$ million
Purchase and sale of goods	168.7

Rendering of or receiving services	23.8
Leasing of assets	0.4
Transfer of equipment	—
Provision of technical authorization or licensing	69.1
Total	262.0

None of the transaction amounts exceeded the annual cap for the year ended December 31, 2016.

Pursuant to Rule 14A.55 of 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 the Company and Semiconductor Manufacturing North China (Beijing) Corporation for the year ended December 31, 2016 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.

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

Framework Agreement with SJ Semiconductor Corporation — 2017 to 2019

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

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

1. Purchase and sale of spare parts and raw materials;
2. Rendering of or receiving services including, without limitation, (a) processing and testing service; (b) procurement service; (c) research, development and experiment support service; and (d) comprehensive administration, logistics, production management and IT service;
3. Transfer of equipment; and
4. Provision of technical authorization or licensing by the Company to SJ Cayman.

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

- 1) the price prescribed or approved by state or local price control department (if any);
- 2) a reasonable price in accordance with the industry guided price for a particular type of service or product issued by the relevant industry association (if any);
- 3) the comparable local market price, which shall be determined after arm's length negotiation between both parties of the contract with reference to (a) the market price charged by independent third parties for comparable product or services at the same time and in the same region; and (b) the lowest quotation that the purchaser can

obtain by way of public tender. The Company will obtain at least two quotations or tenders from independent third parties before agreeing upon the applicable price;

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

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

The proposed annual caps for the Continuing Connected Transactions are the same for each of the three years ending on December 31, 2017, 2018 and 2019 and are set out below:

- US\$11 million (or its equivalent in other currencies) for Supply of goods and services, transfer of equipment and provision of technical authorization or licensing by the Company; and
- US\$100 million (or its equivalent in other currencies) for Supply of goods and services and transfer of equipment by SJ Cayman.

In arriving at the proposed annual caps, the Company considered the historical transaction amounts between the Company and SJ Cayman, as well as reasonable factors such as the expected occurrences of Non-Exempt Continuing Transactions in light of current market conditions of the semiconductor industry and the technological capability of the Company. The Company has also considered the fact that SJ Cayman has only been established recently in August 2014 and is expected to steadily progress towards establishing full operations in 2019. For further details of the historical transaction amounts between the Company and SJ Cayman for the year ended December 31, 2016, please refer to page 117.

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

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

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

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the non-exempt continuing connected transactions and confirmed that the transactions under the Framework Agreement that took place between the Company and its majority owned subsidiary SJ Semiconductor Corporation for the year ended December 31, 2016 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.

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

Contemplating the Exercise of SilTech Shanghai's Put Option

On December 22, 2014, we entered into a co-investment agreement through SilTech Shanghai with JCET and China IC Fund to acquire all or part of the issued and paid-up ordinary shares in the capital of STATS ChipPAC through JCET-SC (Singapore) Pte. Ltd.. On June 18, 2015, according to the co-investment agreement, we made a total capital contribution of the RMB equivalent of US\$100 million to subscribe for 19.61% ownership interest in Changjiang Xinke.

Furthermore, based on an investment exit agreement entered into by SilTech Shanghai, JCET and Jiangsu Xinchao Technology Group Co., Ltd (a substantial shareholder of JCET), JCET granted us an option ("SilTech Shanghai's put option") to sell the shares of Changjiang Xinke to JCET at exercise price equivalent to our initial investment plus an annual return rate at any time after Stats ChipPAC was acquired. We recently made a voluntary announcement of contemplating the exercise of SilTech Shanghai's put option.

On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% ownership interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET's issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. As of the date of this report, the CSRC has granted conditional approval for this transaction but the related conditions have not been satisfied.

Other Related Party Transactions

Please see Note 40 of Notes to the Consolidated Financial Statements for further information regarding the transactions between us and our related parties.

C. Interests of Experts and Counsel.

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Please see “Item 18 — Financial Statements” for our audited consolidated financial statements filed as a part of this annual report on Form 20-F.

See “Item 4.B — Information on the Company — Business Overview — Customers and Markets” regarding the percentage of our sales which are exported from China.

Dividends and Dividend Policy

As of December 31, 2016, our accumulated deficit decreased to US\$910.8 million from an accumulated deficit of US\$1,287.5 million at the end of 2015. We have not declared or paid any cash dividends on the ordinary shares. We intend to retain any earnings for use in our business and do not currently intend to pay cash dividends on the ordinary shares. Dividends, if any, on the outstanding shares will be declared by and subject to the discretion of the Board and must be approved at the annual general meeting of shareholders. The timing, amount and form of future dividends, if any, will also depend, among other things, on:

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

Our ability to pay cash dividends will also depend upon the amount of distributions, if any, received by us from our wholly-owned Chinese operating subsidiaries. Under the applicable requirements of Chinese Company Law, our 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 our 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.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

Our ordinary shares are principally traded on the HKSE under the stock code “981.” Our ordinary shares began trading on the HKSE on March 18, 2004. Our ADSs, which began trading on the NYSE on March 17, 2004, are traded under the symbol “SMI.”

The table below sets forth the high and low closing prices on the HKSE and the NYSE for the ordinary shares and ADSs representing such ordinary shares, respectively, since 2012 and for the most recent six months.

	Stock Exchange of Hong Kong ⁽¹⁾				New York Stock Exchange ⁽²⁾			
	Closing price per ordinary share				Closing Price per ADS			
	High Price		Low Price		High Price		Low Price	
Annual								
Fiscal year 2012	HK\$	4.45	HK\$	2.39	US\$	2.86	US\$	1.49
Fiscal year 2013	HK\$	7.20	HK\$	4.00	US\$	4.56	US\$	2.56
Fiscal year 2014	HK\$	8.60	HK\$	5.80	US\$	5.46	US\$	3.76
Fiscal year 2015	HK\$	9.50	HK\$	6.00	US\$	6.06	US\$	3.91
Fiscal year 2016	HK\$	12.18	HK\$	5.90	US\$	7.62	US\$	3.90
Quarterly								
First Quarter 2015	HK\$	7.50	HK\$	6.70	US\$	4.73	US\$	4.10
Second Quarter 2015	HK\$	9.50	HK\$	7.780	US\$	6.06	US\$	4.96
Third Quarter 2015	HK\$	8.30	HK\$	6.00	US\$	5.38	US\$	3.39
Fourth Quarter 2015	HK\$	8.80	HK\$	7.10	US\$	5.60	US\$	4.49
First Quarter 2016	HK\$	7.80	HK\$	6.40	US\$	4.97	US\$	4.06
Second Quarter 2016	HK\$	7.00	HK\$	5.90	US\$	4.51	US\$	3.90
Third Quarter 2016	HK\$	9.00	HK\$	6.20	US\$	5.84	US\$	4.04
Fourth Quarter 2016	HK\$	12.18	HK\$	8.80	US\$	7.62	US\$	5.39
First Quarter 2017	HK\$	11.62	HK\$	9.62	US\$	7.56	US\$	6.28
Monthly								
October 2016	HK\$	9.90	HK\$	8.80	US\$	6.34	US\$	5.58
November 2016	HK\$	11.20	HK\$	10.10	US\$	7.17	US\$	6.46
December 2016	HK\$	12.18	HK\$	9.24	US\$	7.62	US\$	5.96
January 2017	HK\$	11.62	HK\$	10.56	US\$	7.56	US\$	6.88

February 2017	HK\$	11.44	HK\$	10.10	US\$	7.40	US\$	6.57
March 2017	HK\$	10.70	HK\$	9.62	US\$	6.91	US\$	6.28
April 2017 (through April 26, 2017)	HK\$	9.71	HK\$	9.07	US\$	6.29	US\$	5.86

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the first trading day in the 6 months immediately preceding our pre-emptive issues of new ordinary shares to Country Hill and Datang on September 25, 2015 and October 9, 2015, respectively are set forth below:

	Stock Exchange of Hong Kong⁽¹⁾	New York Stock Exchange⁽²⁾
	Closing price per ordinary share	Closing price per ADS
May 1, 2016	Market closed	Market closed
April 1, 2016	HK\$ 7.90	US\$ 4.960
May 1, 2016	Market closed	US\$ 5.470
June 1, 2016	HK\$ 8.90	US\$ 5.680
July 1, 2016	Market closed	US\$ 5.380
August 1, 2016	Market closed	Market closed
September 1, 2016	HK\$ 6.60	Market closed

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the last trading day before our announcement dated December 18, 2013 of the pre-emptive issues to Datang and Country Hill are set forth below:

	Stock Exchange of Hong Kong⁽¹⁾	New York Stock Exchange⁽²⁾
	Closing price per ordinary share	Closing price per ADS
December 17, 2013	HK\$ 6.00	US\$ 3.760

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the last trading day before our announcement dated August 22, 2014 of the pre-emptive issues to Datang and Country Hill are set forth below:

	Stock Exchange of Hong Kong⁽¹⁾	New York Stock Exchange⁽²⁾
	Closing price per ordinary share	Closing price per ADS
August 22, 2014	HK\$ 7.30	US\$ 4.630

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on the last trading day before our announcement dated June 12, 2015 of the pre-emptive issues to Datang and Country Hill are set forth below:

	Stock Exchange of Hong Kong⁽¹⁾	New York Stock Exchange⁽²⁾
	Closing price per ordinary share	Closing price per ADS
June 12, 2015	HK\$ 8.70	US\$ 5.560

The closing prices on the HKSE and the NYSE for our ordinary shares and ADSs, respectively, on April 22, 2016 are set forth below:

	Stock Exchange of Hong Kong⁽¹⁾		New York Stock Exchange⁽²⁾	
	Closing price per ordinary share		Closing price per ADS	
April 22, 2016	HK\$	6.70	US\$	4.310

(1) Upon the Share Consolidation becoming effective on 7 December 2016, every ten (10) issued and unissued shares of US\$0.0004 each were consolidated into one (1) consolidated share of US\$0.004 each. The closing price has been adjusted for the Share Consolidation.

(2) Each ADS represents 5 ordinary shares

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The section entitled “Description of Share Capital” in our IPO registration statement is incorporated by reference into this annual report.

The sections entitled “Item 10 — Additional Information-Memorandum and Articles of Association” in our annual report on Form 20-F for the fiscal year ended December 31, 2004, filed with the SEC on June 26, 2005 and in our annual report on Form 20-F for the fiscal year ended December 31, 2005, filed with the SEC on June 26, 2006 are incorporated by reference into this annual report. In addition, at the annual general meeting of our shareholders held on June 2, 2008, our shareholders approved an amendment to our Articles of Association to provide that a member of our board of directors may be removed by Ordinary Resolution.

C. Material Contracts

Sale and Purchase Agreement to Acquire 70% of the Corporate Capital of LFoundry S.r.l.

On June 24, 2016, the Company, LFoundry Europe and Marsica entered into the Sale and Purchase Agreement pursuant to which LFoundry Europe and Marsica agreed to sell and the Company agreed to purchase the Quota (representing 70% of the corporate capital of *LFoundry S.r.l.*) for an aggregate cash consideration of EUR49 million (subject to adjustment) on the terms of and subject to the conditions set out in the Sale and Purchase Agreement. The amount of total consideration has been paid off on 29 July 2016 (“Closing Date”). Upon Closing, the Company, LFoundry Europe and Marsica entered into the Quotaholders’ Agreement to regulate the rights and obligations of the quotaholders of *LFoundry S.r.l.*

Joint Venture Agreement with Ningbo Senson and Beijing IC Fund

On October 14, 2016, China IC Capital (our wholly owned subsidiary) entered into a Joint Venture Agreement with Ningbo Senson Electronics Technology Co., Ltd (“Ningbo Senson”), and Beijing Integrated Circuit Industry Development Fund-Design and Packaging Sub-Fund (“Beijing IC Fund”) in relation to the establishment of Ningbo Semiconductor International Corporation (“NSI”), a company incorporated under PRC law and located in Ningbo, for the purpose of developing analog and specialty semiconductor process technology platforms in the areas of high-voltage analog, radio frequency, and optoelectronics.

Under the Joint Venture Agreement, China IC Capital shall contribute 66.76% of the registered capital, and Ningbo Senson and Beijing IC Fund shall contribute 33.24% of the registered capital. The total registered capital of NSI is RMB355 million, equal to US\$52.8 million. China IC Capital is entitled to appoint three out of four directors of NSI.

Joint Venture Agreement with ZDG and BIDIMC

On June 3, 2013, we entered into a Joint Venture Agreement with SMIC Beijing, Beijing industrial Developing Investment Management Co., Ltd (“BIDIMC”) and Zhongguancun Development Group (“ZDG”) in relation to the establishment of a joint venture which will principally engage in, among other things, the testing, development, design, manufacturing, packaging and sale of integrated circuits.

Pursuant to the Joint Venture Agreement, the parties established SMNC, a new company to be established in Beijing, for the purpose of establishing and building up significant manufacturing capacity with a focus on 45-nanometer and finer technologies, with a goal to reach a manufacturing capacity of 35,000 wafers per month. Under the Joint Venture Agreement, we and SMIC Beijing shall contribute 55% of the registered capital, and ZDG and BIDIMC shall contribute 45% of the registered capital. The registered capital of SMNC is US\$1.2 billion.

On December 8, 2014, the Joint Venture Agreement was revised and entered into by and between the Company, SMIC Beijing, ZDG, BIDIMC and Beijing Integrated Circuits Industrial Development Fund Manufacturing and Equipment Sub-Fund (“Sub-Fund”). Pursuant to the revised Joint Venture Agreement, we and SMIC Beijing shall still contribute 55% of the SMNC registered capital, and Sub-Fund, ZDG and BIDIMC shall contribute 45% of the SMNC registered capital.

SMNC shared part of Group’s advance-technology research and development expenses in 2014 and had the start-up cost in 2015, which also caused the change in loss of year attributable to non-controlling interests.

On May 10, 2016, the Joint Venture Agreement was amended and entered into by and between the Company, SMIC Beijing, ZDG, BIDIMC, Sub-Fund and China Integrated Circuit Industry Investment Fund Co., Ltd. (“China IC Fund”). Pursuant to the Amendment Joint Venture Agreement, we and SMIC Beijing’s outstanding aggregate shareholding in SMNC decreased from 55% to 51%; China IC Fund has agreed to contribute 26.5% of the register capital in an aggregate amount of US\$636 million. Sub-Fund, BIDIMC and ZDG has agreed to contribute 22.5% of the register capital in an aggregate amount of US\$ 540 million. The above parties’ performance of their capital contribution obligations will lead to an increase in the registered capital of SMNC from US\$1.2 billion to US\$2.4 billion.

Co-investment Agreement and Investment Exit Agreement in relation to Proposed Acquisition of STATS ChipPAC

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

Under such co-investment agreement, SilTech Shanghai, JCET and China IC Fund will make a total capital contribution of the RMB equivalent of US\$100 million, US\$260 million and US\$150 million, respectively to subscribe for, respectively, 19.61%, 50.98% and 29.41% ownership interest in Changjiang Xinke. Changjiang Xinke and China IC Fund will make a total capital contribution of the RMB equivalent of US\$510 million and US\$10 million respectively to subscribe for, respectively, 98.08% and 1.92% ownership interest in Suzhou Changdian Xinpeng Investment Co., Ltd. China IC Fund is committed to providing Suzhou Changdian Xinpeng Investment Co., Ltd. with a shareholder’s loan of US\$140 million and is entitled, at any time after the third anniversary of the date on which Bidco becomes a shareholder of STATS ChipPAC, to convert its shareholder’s loan into the equity of Suzhou Changdian Xinpeng Investment Co., Ltd. in accordance with the co-investment agreement. JCET-SC (Singapore) Pte. Ltd., a company incorporated and wholly owned by Suzhou Changdian Xinpeng Investment Co., Ltd. in the Republic of Singapore was established as a wholly-owned subsidiary of Suzhou Changdian Xinpeng Investment Co., Ltd. and will be the entity carrying out the proposed acquisition. The acquisition was completed in the second half of 2015.

Furthermore, on December 22, 2014, in connection with the co-investment agreement, SilTech Shanghai, JCET and Jiangsu Xinchao Technology Group Co., Ltd., a company incorporated under PRC law and a substantial shareholder of JCET, entered into an investment exit agreement, pursuant to which JCET agreed to grant to SilTech Shanghai a put option to sell the shares it acquires pursuant to the co-investment agreement.

Under such investment exit agreement, at any time after the completion of the proposed acquisition, SilTech Shanghai has the option to sell all the option shares to JCET at an exercise price equivalent to SilTech Shanghai’s capital contribution to Holdco A with an annualized effective compounded return rate of between 10% and 12%. SilTech Shanghai has the right to choose the issuance of shares by JCET or cash or any other payment methods within the range permitted by China’s securities regulatory authorities as JCET’s payment method. JCET and SilTech Shanghai shall sign a relevant share transfer agreement within ninety (90) days from the date of SilTech Shanghai and JCET reaching consensus.

On April 27, 2016, SilTech Shanghai and JCET entered into the Disposal Agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% ownership interest in Holdco A to JCET in consideration of RMB664 million, which will be satisfied by JCET’s issue of 43,229,166 Consideration Shares to SilTech Shanghai at RMB15.36 per share.

On April 27, 2016, SilTech Shanghai and JCET entered into the Subscription Agreement, pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 Subscription Shares in consideration of an aggregate subscription price of RMB2,655 million in cash.

On March 1, 2017, the Company was notified by JCET that China Securities Regulatory Commission (“CSRC”) has granted conditional approval for the Disposal and the Subscription (the “Conditional Approval”). Completion of the Disposal and the Subscription is subject to the satisfaction of conditions in the Conditional Approval.

Immediately upon completion of both the Disposal and the Subscription, the Company (through SilTech Shanghai) will hold 193,910,210 A Shares in total (subject to any necessary adjustment to the number of Consideration Shares or Subscription Shares) representing 14.26% shareholding interest in JCET and 14.26% attributable ownership interest in Holdco A (being a subsidiary of JCET) assuming that completion of the China IC Fund Agreement has taken place. The Company is expected to become the single largest shareholder of JCET after completion of the Disposal and the Subscription.

Shanghai Commercial Housing Sale Contract

On December 7, 2015, we executed Shanghai Commercial Housing Sale Contract with Shanghai Zhangjiang Integrated Circuit Industry Zone Developing Co., Ltd. in respect of acquiring the whole office building located at 1158 Zhangdong Road and 1059 Dangu Road, Building No. 1, named Zhangdong Business Center.

Zhangdong Business Center has 11 floors with floor area of 26,869.84 square meters. The total payment is RMB 487,092,040. The property has been delivered to us on December 21, 2015. We acquired Zhangdong Business Center for office use of SMIC Holdings Corporation mainly.

Equity Joint Venture Contract

On June 23, 2015, the Company executed Equity Joint Venture Contract with Huawei Technologies Co., Ltd. (“Huawei”), Qualcomm Global Trading Pte. Ltd. (“Qualcomm”) and IMEC International (“IMEC”) in respect of establishment, via capital increase, of SMIC Advanced Technology Research & Development (Shanghai) Corporation (“ATD”).

ATD was originally wholly owned by the Company with registered capital of US\$12 million. ATD’s registered capital was increased by US\$87 million, which was subscribed and contributed by the Company with US\$76.8 million in addition, by Huawei with US\$3 million, by Qualcomm with US\$5 million and by IMEC with US\$2.2 million. After capital increase, each of the Company, Huawei, Qualcomm and IMEC owns approximately 89.697%, 3.030%, 5.051% and 2.222% of ATD.

The Company is entitled to appoint four out of five directors of ATD. The fifth board member is jointly appointed by all parties. The matters that need unanimous approval from board members are minimal according to PRC law.

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

On February 12, 2015, the Company and China IC Fund entered into a Share Purchase Agreement related to the proposed issuance of 4,700,000,000 new shares (the “New Shares”), pursuant to which:

- 1) The New Shares will be issued pursuant to the general mandate granted to the Directors to allot and issue up to 20% of the then issued share capital of the Company, being 6,966,266,242 New Shares, by the Company’s shareholders at the annual general meeting of the Company held on June 27, 2014. The issue of the New Shares is not subject to Company shareholders’ approval.
- 2) the Company conditionally agreed to allot and issue to China IC Fund, and China IC Fund conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 New Shares at a subscription price of HK\$0.6593 per New Share.
- 3) The aggregate consideration for the New Shares is HK\$3,098.71 million.

- 4) The New Shares represent approximately 13.10% of the existing issued share capital of the Company as of February 12, 2015, and approximately 11.58% of the issued share capital of the Company as enlarged by the issue of the New Shares.

- 5) The gross proceeds from the issue of the New Shares will be approximately HK\$3,098.71 million and the net proceeds will be approximately HK\$3,094.71 million (HK\$0.6584 per New Share). The Company intends to use the net proceeds from the issue of the New Shares, for the purpose of capital expenditure, debt repayment and general corporate purposes.

Issue of 2,590,000,000 New Ordinary Shares

On June 9, 2014, the Company issued 2,590,000,000 new ordinary shares pursuant to the terms and conditions of the Placing and Subscription Agreement of the same date, and entered into by the Company and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (the “Joint Placing Agents”) which included, among other things, the following terms:

- 1) A total of 2,590,000,000 new ordinary shares were successfully placed by the Joint Placing Agents to not fewer than six (6) independent placees, who are third parties independent of and not connected with the Company and its connected persons;
- 2) None of the placees became substantial shareholder of the Company immediately after the completion of the placing.
- 3) The placing price was HK\$0.60 per share;
- 4) The allotted and issued 2,590,000,000 new ordinary shares represented approximately 7.44% of the issued share capital of the Company following the issuance of the 2,590,000,000 new shares.

Joint Venture Agreement with Jiangsu Changjiang Electronics Technology Co., Ltd

On February 20, 2014, the Company and JCET entered into a joint venture agreement. On October 17, 2014, the Company and Changjiang Electronics International (Hong Kong) Trading & Investing Limited (“JCET HK”), a wholly owned subsidiary of JCET, jointly established SJ Semiconductor Corporation, an exempted company incorporated with limited liability in the Cayman Islands, with a total capitalization of US\$50,000,000, subscribing for, respectively, 51% and 49% interest therein. On November 25, 2014, SJ Semiconductor (Jiangyin) Corp. (“SJ Jiangyin”), a wholly-owned subsidiary of SJ Semiconductor Corporation was established in Jiangyin National High-Tech Industrial Development Zone (JOIND), in Jiangsu Province, China.

Issue of US\$ 450 million Zero Convertible Bonds due 2022

On June 7, 2016, the Company entered into a subscription agreement with J.P Morgan Securities PLC (referred to as “the manager”) related to the issuance of US\$ 450 million Zero Convertible Bonds due 2022, pursuant to which:

- 1) The manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principle amount of US\$450 million (“the Placed Bond”);
- 2) Based on the initial Conversion Price of HK \$0.9250 per Share and assuming full conversion of the Placed Bonds at the initial Conversion Price, the Placed Bonds will be convertible into 3,778,881,081 Shares, representing (i) approximately 8.96% of the issued share capital of the Company on 7 July 2016 and (ii) approximately 8.22% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The issue of the Bonds was authorized by a resolution of the Board of Directors of the Issuer passed at a board meeting held on May 12, 2016;

- 3) Application was made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the conversion shares. An application was made to the Singapore Exchange for the listing of the Bonds;
- 4) The maturity date for the Bonds is July 7, 2022. Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each Bond at its principal amount on the maturity date. The Bonds will not bear interest;
- 5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds will be approximately US\$440 million;

- 6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds for the Company's capital expenditure for capacity expansion and other general corporate purposes.

Issue of US\$200 Million Zero Coupon Convertible Bonds due 2018

The Subscription Agreement related to US\$200 Million Zero Coupon Convertible Bonds due 2018 convertible into our ordinary shares, dated as of October 24, 2013 and entered into by us and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as "the Joint Managers"), includes among others, the following terms:

- 1) Agreement by each of the Joint Managers to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principal amount of US\$200 million ("the Placed Bonds");
- 2) Based on the initial Conversion Price of HK\$0.7965 and assuming full conversion of the Bonds at the initial conversion price, the Bonds were convertible into 1,946,817,325 shares, representing (i) approximately 6.07% of the issued share capital of the Company on the last trading day before Bond issuance and (ii) approximately 5.72% of the issued share capital of the Company as enlarged by the issue of the conversion shares. The conversion shares were allotted and issued pursuant to the general mandate of the Company granted to the Directors at the annual general meeting held on 13 June 2013 and rank pari passu in all respects with the shares then in issue on the relevant conversion date. The issue of the Bonds was not subject to the approval of the shareholders;
- 3) Application was made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the conversion shares. An application was made to the Singapore Exchange for the listing of the Bonds;
- 4) The maturity date for the Bonds is November 7, 2018. Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each Bond at its principal amount on the maturity date. The Bonds will not bear interest;
- 5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds will be approximately US\$194.6 million;
- 6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds, for the Company's capital expenditure used for capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes.

The Company exercised its right to redeem the US\$200 million zero coupon convertible bonds due 2018 on March 10, 2017 being the option redemption date when all of the Bonds would be redeemed in case at 100% of the Bonds' principal amount.

Issue of US\$95 million Zero Coupon Convertible Bonds Due 2018

The Subscription Agreement related to US\$95 Million Zero Coupon Convertible Bonds due 2018 convertible into the Company's ordinary shares, dated as of June 4, 2014 and entered into by the Company and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as "the Joint Managers"), includes among others, the following terms:

- 1) Agreement by each of the Joint Managers to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principal amount of US\$95 million ("the Placed Bonds");
- 2) Based on the initial Conversion Price of HK\$0.7965 and assuming full conversion of the Bonds at the initial conversion price, the Bonds were convertible into 924,738,230 shares, representing (i) approximately 2.65% of the issued share capital of the Company on the last trading day before the Bond issuance and (ii) approximately 2.59% of the issued share capital of the Company following the issuance of the conversion shares. The conversion shares were authorized and issued by a resolution passed at a meeting of the Board of Directors held February 17, 2014, and rank pari passu in all respects with the shares then in issue on the relevant conversion date. The issue of the Bonds was not subject to the approval of the shareholders;
- 3) Application was made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the conversion shares. An application was made to the Singapore Exchange for the listing of the Bonds;
- 4) The maturity date for the Bonds is November 7, 2018. Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each Bond at its principal amount on the maturity date. The Bonds will not bear interest;
- 5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds was approximately US\$94.2 million;
- 6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds, for the Company's capital expenditure used for capacity expansion associated with 8-inch and 12-inch manufacturing facilities, and general corporate purposes.

The Company exercised its right to redeem the US\$95 million zero coupon convertible bonds due 2018 on March 10, 2017 being the option redemption date when all of the Bonds would be redeemed in case at 100% of the Bonds' principal amount.

Issue of US\$500 million 4.125% Bonds Due 2019

The Subscription Agreement related to US\$500 Million 4.125% Bonds due 2019, dated as of September 25, 2014 and entered into by us and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch (jointly referred to as "the Joint Lead Managers"), includes among others, the following terms:

- 1) Agreement by each of the Joint Managers to subscribe and pay for, or to procure subscribers to subscribe and pay for the placed bonds to be issued by the Company in an aggregate principal amount of US\$500 million ("the Bonds");
- 2) The issue of the Bonds was authorised by a resolution passed at a meeting of the Board of Directors of the Company held on August 6, 2014;
- 3) Approval in principle was obtained from the Singapore Exchange for the listing and quotation of the Bonds;
- 4) The maturity date for the Bonds is October 7, 2019. Unless previously redeemed, purchased, or cancelled, the Company will redeem each Bond at its principal amount

on the maturity date. The Bonds will bear 4.125% interest per annum;

- 5) The net proceeds (net of fees, commissions and expenses) from the issue of the Bonds was approximately US\$491.2 million;

- 6) The Company intends to use the net proceeds (net of fees, commissions and expenses) from the issue of the Bonds, for the Company's debt repayment and capital expenditure for capacity expansion associated with 8-inch and 12-inch manufacturing facilities, and general corporate purposes.

Framework Agreement with Semiconductor Manufacturing North China (Beijing) Corporation (2016)

Please see "Item 7.B — Major Shareholders and Related Party Transactions — Related Party Transactions — Transactions with Semiconductor Manufacturing North China (Beijing) Corporation In Relation To Framework Agreement – Supply of Goods and Services."

Framework Agreement with SJ Cayman (2016) and Renewed Agreement (2017-2019)

Please see "Item 7.B — Major Shareholders and Related Party Transactions — Related Party Transactions — Transactions with SJ Semiconductor Corporation In Relation To Framework Agreement – Supply of Goods and Services."

Partnership Agreement for the Establishment of Juxin Fund

Please see "Item 7.B — Major Shareholders and Related Party Transactions — Related Party Transactions — Entering into Partnership Agreement for the Establishment of a Fund."

Centralized Fund Management Agreement with SMNC and SJ Jiangyin (2016)

Please see "Item 7.B — Major Shareholders and Related Party Transactions — Related Party Transactions — Transactions with Semiconductor Manufacturing North China (Beijing) Corporation and SJ Semiconductor (Jiangyin) Corporation In Relation To Centralized Fund Management Agreement."

Framework Agreement with Sino IC Leasing Co., Ltd. (2016) and Supplemental Agreement

Please see "Item 7.B — Major Shareholders and Related Party Transactions — Related Party Transactions — Framework Agreement with Sino IC Leasing Co., Ltd — Financial Services and Other Related Services."

Issue of Series B Preference Shares by SJ Semiconductor Corporation

Please see "Item 7.B — Major Shareholders and Related Party Transactions — Related Party Transactions — Issue of Series B Preference Shares by SJ Semiconductor Corporation."

D. Exchange Controls

We receive government fundings and a portion of our sales in Renminbi, which is currently not a freely convertible currency. Approximately 23.8% of our sales for the year ended December 31, 2014, approximately 28.4% of our sales for the year ended December 31, 2015 and approximately 30.7% of our sales for the year ended December, 31, 2016 were denominated in Renminbi. While we have used these proceeds for the payment of our Renminbi expenses, we may in the future need to convert these sales into foreign currencies to allow us to purchase imported materials and equipment, particularly as we expect the proportion of our sales to China-based companies to increase in the future. Under China's existing foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade may be made in foreign currencies without government approval, except for certain procedural requirements. The Chinese government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies.

E. Taxation

The following discussion of the material U.S. federal income and Cayman Islands tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change, possibly with retroactive effect. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and non-U.S. tax laws.

United States Federal Income Taxation

Except where noted, this summary deals only with the ownership and disposition of the ADSs and ordinary shares that are held as capital assets by U.S. Holders. This summary does not represent a detailed description of the U.S. federal income tax consequences applicable to U.S. Holders that are subject to special treatment under the U.S. federal income tax laws, including:

- banks;
- dealers in securities or currencies;
- financial institutions;
- real estate investment trusts;
- insurance companies;
- tax-exempt organizations;
- persons holding ADSs or ordinary shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle;
- traders in securities that have elected the mark-to-market method of accounting;
- persons liable for the alternative minimum tax;
- persons who have ceased to be U.S. citizens or to be taxed as resident aliens;
- persons who own or are deemed to own more than 10% of our voting shares; or
- U.S. persons whose “functional currency” is not the U.S. dollar.

This summary is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and U.S. Treasury Regulations, Internal Revenue Service rulings and judicial decisions as of the date hereof. Such authorities may be replaced, revoked or modified, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below.

A U.S. Holder that holds ADSs or ordinary shares is urged to consult its own tax advisor concerning the U.S. federal income tax consequences as well as any consequences arising under the laws of any other taxing jurisdiction (including any U.S. state or locality) or any aspect of U.S. federal gift or estate law in light of the particular circumstances of the U.S. Holder.

A U.S. Holder is a beneficial owner of ADSs or ordinary shares that is a U.S. person. A U.S. person is:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or
- a trust if (i) it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership holds ADSs or ordinary shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A U.S. Holder that is a partner of a partnership holding ADSs or ordinary shares is urged to consult its own tax advisors.

ADSs or Ordinary Shares. In general, for U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Deposits and withdrawals of ordinary shares in exchange for ADSs will not be subject to U.S. federal income taxation.

Distributions on ADSs or Ordinary Shares. Subject to the discussion under “-Passive Foreign Investment Company Rules” below, the gross amount of the cash distributions on the ADSs or ordinary shares will be taxable to a U.S. Holder as dividends to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Subject to certain limitations, dividends paid to noncorporate U.S. Holders, including individuals may be eligible for a reduced rate of taxation if we are deemed to be a “qualified foreign corporation” for U.S. federal income tax purposes. A qualified foreign corporation includes:

- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; or
- a foreign corporation if its stock with respect to which a dividend is paid or its ADSs backed by such stock are readily tradable on an established securities market within the United States but does not include an otherwise qualified corporation that is a passive foreign investment company. We believe that we will be a qualified foreign corporation for so long as we are not a passive foreign investment company and the ordinary shares or ADSs are considered to be readily tradable on an established securities market within the United States. A U.S. Holder that exchanges its ADSs for ordinary shares may not be eligible for the reduced rate of taxation on dividends if the ordinary shares are not readily tradable on an established securities market within the United States. Our status as a qualified foreign corporation, however, may change.

Dividends will be includable in a U.S. Holder’s gross income on the date actually or constructively received by such U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. These dividends will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

To the extent that the amount of any cash distribution exceeds our current and accumulated earnings and profits, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares (thereby increasing the amount of gain, or decreasing the amount of loss, a U.S. Holder would recognize on a subsequent disposition of the ADSs or ordinary shares), and the balance in excess of adjusted basis will be subject to tax as capital gain.

To the extent we pay dividends on the ADSs or the ordinary shares in Hong Kong dollars, the U.S. dollar value of such dividends should be calculated by reference to the exchange rate prevailing on the date of actual or constructive receipt of the dividend, regardless of whether the Hong Kong dollars are converted into U.S. dollars at that time. If Hong Kong dollars are converted into U.S. dollars on the date of actual or constructive receipt of such dividends, the tax basis of the U.S. holder in such Hong Kong dollars will be equal to their U.S. dollar value on that date and, as a result, the U.S. Holder generally should not be required to recognize any foreign currency exchange gain or loss. Any gain or loss recognized on a subsequent conversion or other disposition of the Hong Kong dollars generally will be treated as U.S. source ordinary income or loss.

Dividends paid on the ADSs or ordinary shares will be income from sources outside of the United States and will constitute “passive category income” or, in the case of certain U.S. Holders, “general category income” for U.S. foreign tax credit limitation purposes.

Sale, Exchange or Other Disposition of ADSs or Ordinary Shares. Subject to the discussion under “- Passive Foreign Investment Company Rules” below, upon the sale, exchange or other disposition of ADSs or ordinary shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or ordinary shares. A U.S. Holder’s tax basis in an ADS or an ordinary share will be, in general, the price it paid for that ADS or ordinary share. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or ordinary share for more than one year. Net long-term capital gains of noncorporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital loss is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Medicare Tax. US Holders who are individuals, estates or trusts may be required to pay up to an additional 3.8% tax on, among other things, dividends and capital gains. You are urged to consult your tax advisor regarding the potential tax consequences to you from the Medicare Tax, also called the Net Investment Income Tax.

Passive Foreign Investment Company Rules. We believe that we were not a passive foreign investment company for 2016. Based on the projected composition of our income, the timing of our anticipated capital expenditures and valuation of our assets, we do not expect to be a passive foreign investment company for 2017 and do not expect to become one in the future, although this may change.

In general, we will be deemed to be a passive foreign investment company for any taxable year in which either (i) at least 75% of our gross income is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income.

If we are a PFIC in any taxable year, unless a mark-to-market election described below is made, U.S. Holders will generally be subject to additional taxes and interest charges on certain “excess” distribution we make and on any gain realized on the disposition or deemed disposition of ADSs or ordinary shares regardless of whether we continue to be a PFIC in the year of the “excess” distribution or disposition. Distributions in respect of a U.S. Holder’s ADSs or ordinary shares during the taxable year will generally constitute “excess” distributions if, in the aggregate, they exceed 125% of the average amount of distributions in respect of the U.S. Holder’s ADSs or ordinary shares over the three preceding taxable years or, if shorter, the portion of the U.S. Holder’s holding period before such taxable year.

To compute the tax on “excess” distributions or any gain, (i) the “excess” distribution or the gain will be allocated ratably to each day in the holding period; (ii) the amount allocated to the current year and any tax year before we became a PFIC will be taxed as ordinary income in the current year; (iii) the amount allocated to other taxable years will be taxable at the highest applicable marginal rate in effect for that year; and (iv) an interest charge at the rate for underpayment of taxes will be imposed with respect to any portion of the “excess” distribution or gain described under (iii) above that is allocated to such other taxable years. In addition, if we are PFIC, no distribution will qualify for taxation at the preferential rate for non-corporate holders discussed in “-Distributions on ADSs or Ordinary Shares” above.

If we are a PFIC in any year in which our ADSs or ordinary shares are “marketable”, a U.S. Holder will be able to avoid the “excess” distribution rules described above if such U.S. Holder makes a timely “mark-to-market” election with respect to its ADSs or ordinary shares. The ADSs or ordinary shares will be “marketable” as long as they remain regularly traded on a national securities exchange, such as the New York Stock Exchange or the Hong Kong Stock Exchange. If this election is made in a timely fashion, the U.S. Holder will generally recognize as ordinary income or ordinary loss the difference between the fair market value of the ADSs or ordinary shares on the last day of any taxable year and the U.S. Holder’s adjusted tax basis in the ADSs or ordinary shares. Any ordinary income resulting from this election will generally be taxed at ordinary income rates. Any ordinary losses will be deductible only to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. The U.S. Holder’s adjusted tax basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss.

Alternatively, the “excess” distribution” rules described above may generally be avoided by electing to treat us as a “Qualified Electing Fund,” or QEF, under Section 1295 of the Internal Revenue Code of 1986, as amended. A QEF election is available only if the U.S. Holder receives an annual information statement from the PFIC setting forth its ordinary earnings and net capital gains, as calculated for U.S. federal income tax purposes. We will not provide our U.S. Holders with the information statement necessary to make a QEF election. Accordingly, U.S. Holders will not be able to make or maintain such an election.

A U.S. Holder is urged to consult its own tax advisors concerning the availability of making a mark-to-market election or a qualified electing fund election and the U.S. federal income tax consequences of holding the ADSs or ordinary shares if we are deemed to be a passive foreign investment company in any taxable year.

Information Reporting and Backup Withholding. In general, unless a U.S. Holder belongs to a category of certain exempt recipients (such as corporations), information reporting requirements will apply to distributions on ADSs or ordinary shares made within the United States and to the proceeds of sales of ADSs or ordinary shares that are effected through the U.S. office of a broker or the non-U.S. office of a broker that has certain connections with the United States. Backup withholding currently imposed at a rate of 28% may apply to these payments if a U.S. Holder fails to provide a correct taxpayer identification number or certification of exempt status, fails to report in full dividend and interest income or, in certain circumstances, fails to comply with applicable certification requirements.

Any amounts withheld under the backup withholding rules may generally be allowed as a refund or a credit against a U.S. Holder’s U.S. federal income tax, provided the U.S. Holder furnishes the required information to the Internal Revenue Service in a timely manner.

Cayman Islands Taxation

The following summary constitutes the opinion of Conyers Dill & Pearman (Cayman) Limited to the material Cayman Islands tax consequences of acquiring, owning, and transferring our ADSs and ordinary shares.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. You will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your ADSs or ordinary shares. In addition, you will not be subject to withholding tax on payments of dividends or distributions, including upon a return of capital, nor will gains derived from the disposal of ADSs or ordinary shares be subject to Cayman Islands income or corporation tax.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of ADSs or ordinary shares. However, an instrument transferring title to an ADS, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We were incorporated under the laws of the Cayman Islands as an exempted company and, as such, obtained an undertaking in April 2000 from the Governor in Council of the Cayman Islands substantially that, for a period of twenty years from the date of such undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our ADSs or ordinary shares.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

Documents on Display

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, we file reports and other information with the SEC. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss related to adverse changes in market prices, including foreign currency exchange rates and interest rates of financial instruments. We are exposed to these risks in the ordinary course of our business. Our exposure to these risks derives primarily from changes in interest rates and foreign currency exchange rates. To mitigate some of these risks, we utilize spot, forward, and derivative financial instruments.

Foreign Exchange Rate Fluctuation Risk

Our revenue, expense, and capital purchasing activities are primarily transacted in U.S. dollars. However, since we have operations consisting of manufacturing, sales activities and purchase outside of the U.S., we enter into transactions in other currencies. We are primarily exposed to changes in exchange rate for the Euro, Japanese Yen, and Renminbi.

To minimize these risks, we purchase 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 Renminbi, Japanese Yen or Euros, and do not qualify for hedge accounting. As of December 31, 2016, we had no outstanding foreign currency forward exchange contracts.

In 2016 and 2015, we entered into or issued several RMB denominated loan facility agreements, short-term notes and medium-term notes (the “RMB Debts”) in the aggregate principal amount of RMB5,447 million (approximately US\$785.2 million) and RMB480 million (approximately US\$74.0 million), respectively. To minimize the currency risk, we 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. As of December 31, 2016, we had outstanding cross currency swap contracts with notional amounts of RMB5,927 million (approximately US\$854.4 million).

The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities			Assets		
	12/31/14 USD’000	12/31/15 USD’000	12/31/16 USD’000	12/31/14 USD’000	12/31/15 USD’000	12/31/16 USD’000
EUR	2,488	76,462	112,827	480	33,968	39,619
JPY	7,560	5,553	41,976	606	2,986	35,237
RMB	221,336	586,931	2,714,492	1,148,146	909,497	1,633,433
Others	4,684	14,127	27,083	1,100	2,529	3,860

We do not enter into foreign currency exchange contracts for speculative purposes. See “Item 3.D — Key Information — Risk Factors — Risks Related to Our Financial Condition and Business-Exchange rate fluctuations could increase our costs, which could adversely affect our operating results and the value of our ADSs” and “Item 3.D — Key Information — Risk Factors — Risks Related to Conducting Operations in China-Devaluation or appreciation in the value of the Renminbi or restrictions on convertibility of the Renminbi could adversely affect our business and operating results.”

Interest Rate Risk

Our exposure to interest rate risks relates primarily to our long-term loans, which we generally assume 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 our debt obligations outstanding as of December 31, 2016. Our long-term loans are all subject to variable interest rates. The interest rates on our U.S. dollar-denominated loans are linked to the LIBOR. The interest rates on our RMB denominated loan is linked to People's Bank of China (PBOC) RMB Interest Rate. As a result, the interest rates on our loans are subject to fluctuations in the underlying interest rates to which they are linked.

	2017	2018	2019	2020	2021 and thereafter
	(Expected Maturity Date)				
	(in US\$ thousands, except percentages)				
US\$ denominated					
Average balance	702,032	1,117,130	1,037,643	398,754	38,395
Average interest rate	3.55%	4.04%	4.02%	3.64%	3.54%
RMB denominated					
Average balance	1,186,476	1,172,366	946,979	625,762	187,726
Average interest rate	2.57%	2.57%	2.57%	2.12%	1.29%
EUR denominated					
Average balance	37,709	32,689	27,358	19,532	8,405
Average interest rate	1.85%	1.92%	2.01%	2.08%	1.96%
JYP denominated					
Average balance	3,787	2,569	505	—	—
Average interest rate	4.04%	4.04%	4.04%	NA	NA
Weighted average forward interest rate	2.98%	3.32%	3.36%	2.75%	1.35%

Item 12. Description of Securities Other Than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges That An ADR Holder May Have To Pay

Category (as defined by SEC)	Depositary Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions (as such terms are defined in paragraph (10) of the Deposit Agreement as filed with the SEC on March 10, 2004 which we are referred to herein as the “Depositary Agreement”)	\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Receiving or distributing dividends	Distribution of dividends	\$0.02 or less per ADS (or portion thereof)
(c) Selling or exercising rights	Distribution or sale of securities	Such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities
(d) Withdrawing an underlying security	Each person surrendering ADSs for withdrawal of Deposited Securities	\$5.00 for each 100 ADSs (or portion thereof) surrendered.
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depositary receipts	\$1.50 per ADR
(f) General depositary services, particularly those charged on an annual basis	Not applicable	Not applicable
(g) Expenses of the depositary	Fees and expenses incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary’s or its Custodian’s compliance with applicable law, rule or regulation.	The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by

such persons or Holders), (iii) transfer or registration fees for the registration of transfer of

Deposited Securities on any applicable register in connection with the deposit or withdrawal of

Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), and (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency). These charges may be changed in the manner indicated in paragraph (16) of the Depositary Agreement

Fees and Payments Made By The Depositary To The Company

DIRECT PAYMENTS

We did not receive any direct payment from the depositary in 2016.

INDIRECT PAYMENTS

As part of its service to us, J.P. Morgan has agreed to waive US\$120,000 annually for on-going ADR program maintenance. The table below sets forth the fees that J.P. Morgan has agreed to waive and/or expenses that J.P. Morgan has agreed to pay in the year ended December 31, 2016.

	<u>Amount Waived or Paid for Fiscal Year Ended December 31, 2016</u>	
Category of Expenses		
Third-party expenses paid directly	US\$	—
Fees waived	US\$	120,000

Part II

Item 13. Defaults, Dividend Arrearages, and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2016. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective and designed to ensure that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules, regulations and forms and to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Report by Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS and includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with IFRS and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management assessed the effectiveness of the internal control over financial reporting as of December 31, 2016 using criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our management excluded LFoundry from management's report on internal control over financial reporting as of December 31, 2016 because it was acquired in the business purchase combination in 2016, as described in Note 41 to the consolidated financial statements. The total assets of LFoundry as of December 31, 2016 were US\$243.8 million, representing approximately 2.4% of the total assets in our consolidated balance sheet as of December 31, 2016. The total revenues of LFoundry were US\$87.4 million, representing approximately 3.0% of total revenues in our consolidated statement of operations for the year ended December 31, 2016.

Based on this evaluation, our management has concluded that the internal control over financial reporting was effective as of December 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued COSO.

Attestation Report of the Registered Public Accounting Firm

PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, audited the effectiveness of our company's internal control over financial reporting as of December 31, 2016, which has also excluded LFoundry acquired in 2016 from audit of internal control over financial reporting, as stated in its report, which appears on page F-2 of this Form 20-F.

Changes in Internal Control Over Financial Reporting

There were no changes in the design in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board has determined that Mr. Lip-Bu Tan is an audit committee financial expert as defined under the applicable rules of the SEC issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Mr. Tan is independent as such term is defined under Section 303A.02 of the New York Stock Exchange Listed Company Manual.

Item 16B. Code of Ethics

We have adopted a Code of Business Conduct and Ethics which is applicable to all of our employees, including our Chief Executive Officer, Chief Financial Officer, and any other persons performing similar functions.

Our Code of Business Conduct and Ethics is available, free of charge, to any person who sends a request for a paper copy to us at Semiconductor Manufacturing International Corporation, 18 Zhangjiang Road, Pudong New Area, Shanghai, China 201203, Attention: Investor Relations.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, 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 years ended December 31, 2015 and December 31, 2016.

	2015		2016	
	(in US\$ thousands)			
Audit and Audit-Related Fees ⁽¹⁾	US \$	1,142	US \$	1,420
Tax Fees ⁽²⁾	US \$	36	US \$	43
Other Fees ⁽³⁾	US \$	-	US \$	544

- (1) Audit fees consist of the standard work associated with the statutory audit as well as audit of our annual financial statements including the review of our quarterly financial results and filings with the Securities and Exchange Commission, Hong Kong Stock Exchange and other regulators. Audit fees also include services relating to our compliance with the requirements of the Sarbanes - Oxley Act and services relating to our resolution of SEC related comments. Audit-related fees represent the aggregate fees billed in each of the last two fiscal years for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported under "Audit fees".
- (2) Tax Fees represent the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal accountant for tax compliance, tax advice and tax planning.
- (3) Other Fees represent the aggregate fees incurred in each of the fiscal years listed for products and services provided by our principal accountant, other than the services reported in (1) and (2).

PwC was the principal auditor for the year ended December 31, 2016. The audit committee has also approved and will continue to consider, on a case-by-case basis, all non-audit services. According to the charter of our audit committee, before our principal accountants are engaged by us to render audit or non-audit services, the engagement, including the nature and scope of the work to be performed and the associated fees, must be approved by our audit committee. Our audit committee has not established any pre-approval policies and procedures.

Item 16D. Exemptions from the Listing Standards of Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Changes in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

We are incorporated under the laws of the Cayman Islands. The principal trading market for our shares is the Hong Kong Stock Exchange. We have adopted a set of corporate governance guidelines in accordance with the applicable laws, rule and regulations, including our Corporate Governance Policy and our Code of Business Conduct and Ethics, each of which are posted on our website.

Companies listed on the New York Stock Exchange, or the NYSE, must comply with certain corporate governance standards under Section 303A of the New York Stock Exchange Listed Company Manual, or the NYSE Standards. Because our American Depositary Shares are registered with the SEC and are listed on NYSE, we are also subject to certain U.S. corporate governance requirements, including many of the provisions of the Sarbanes-Oxley Act of 2002. However, because we are a “foreign private issuer”, we are permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of certain corporate governance standards contained in the NYSE Standards.

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 majority of independent directors on the board of directors. We have elected to follow our home country practice according to the laws of the Cayman Islands, which do not contain definition or requirements relating to “independent directors” nor require any member of a company’s board be independent, and the Hong Kong Stock Exchange Listing Rules, which requires a company’s board to include at least three independent non-executive directors and at least one-third of the members of a company’s board to be independent non-executive directors.
- The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not required under the laws of the Cayman Islands or the Hong Kong Stock Exchange Listing Rules to have a nominating/corporate governance committee composed entirely of independent directors, 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 also require U.S. domestic issuers to have a compensation committee composed entirely of independent directors. We have elected to follow our home country practice according to the laws of the Cayman Islands, which do not contain definition or requirements relating to “independent directors” nor require a Cayman Islands exempted company to have a compensation committee, and the Hong Kong Stock Exchange Listing Rules, which requires that a majority of the members of the compensation committee be independent non-executive directors.

- 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 have not addressed this in our compensation committee charter as we are not required under the laws of the Cayman Islands to have a compensation committee, or under the Hong Kong Stock Exchange Listing Rules to have such a compensation committee report, though we are required to disclose certain corporate governance matters in relation to the compensation committee in our annual report filed with the Hong Kong Stock Exchange. We disclose the amounts of compensation of our directors on a named basis, remuneration payable to members of the senior management by band, and remuneration payable to the five highest individuals on an aggregate basis in our annual report in accordance with the requirements of the Hong Kong Stock Exchange Listing Rules.
- 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".

The above summary is not a detailed, item-by-item analysis of the differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic issuers, but rather is intended to provide our U.S. shareholders with a brief, general summary of the significant ways that our corporate governance practices differ from those of a U.S. domestic issuer.

Item 16H. Mine Safety Disclosure

Not applicable.

Part III

Item 17. Financial Statements

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements

See pages F-1 to F-117.

Item 19. Exhibits

- Exhibit 1.1 Eleventh Amended and Restated Articles of Association, as adopted at the Registrant's annual general meeting of shareholders on June 2, 2008⁽¹⁾
- Exhibit 4.1 Form of Indemnification Agreement, as adopted at the Registrant's annual general meeting of shareholders on May 6, 2005⁽²⁾
- Exhibit 4.2 Form of Service Contract between the Company and each of its executive directors⁽³⁾
- Exhibit 4.3 Form of Service Contract between the Company and each of its non-executive directors and independent non-executive directors⁽³⁾
- Exhibit 4.4 English language translation of Strategic Cooperation Agreement, dated December 24, 2008 by and between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd.⁽⁴⁾
- Exhibit 4.5 Placing Agreement dated July 8, 2010 by and between the Company as the Issuer and J.P. Morgan (Asia Pacific) Limited and The Royal Bank of Scotland N.V., Hong Kong Branch as placing agents⁽⁵⁾
- Exhibit 4.6 Subscription Agreement related to US\$200 Million Zero Coupon Convertible Bonds due 2018, dated October 24, 2013 by and between the Company as the Issuer and Deutsche Bank AG, Hong Kong Branch and J.P.Morgan Securities PLC as the Manager⁽⁶⁾
- Exhibit 4.7 English language summary of Chinese language Joint Venture Agreement dated June 3, 2013, among SMIC Beijing, SMIC, ZDG and BIDIMC⁽⁶⁾
- Exhibit 4.8 The Subscription Agreement related to US\$95 Million Zero Coupon Convertible Bonds due 2018 convertible into our ordinary shares, dated as of June 4, 2014 and entered into by SMIC and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch⁽⁷⁾
- Exhibit 4.9 Summary of Syndicate Loan Agreement dated August 7, 2013, between Semiconductor Manufacturing International (Shanghai) Corporation, Semiconductor Manufacturing International Corporation, as guarantor, and Bank of China, The Export-Import Bank of China, China Development Bank, China Construction Bank and Bank of Shanghai⁽⁶⁾
- Exhibit 4.10 The Subscription Agreement related to US\$500 Million 4.125% Bonds due 2019, dated as of September 25, 2014 and entered into by SMIC and J.P. Morgan Securities PLC and Deutsche Bank AG, Hong Kong Branch⁽⁷⁾

Exhibit 4.11 The Placing and Subscription Agreement related to issue of 2,590,000,000 new ordinary shares, dated as of June 4, 2014 and entered into by SMIC, J.P. Morgan Securities PLC, Deutsche Bank AG, Hong Kong Branch and Datang Holdings (Hongkong) Investment Company Limited⁽⁷⁾

Exhibit 4.12 The Share Purchase Agreement related to the proposed issuance of 4,700,000,000 new shares dated as of February 12, 2015, and entered into by the Company and China Integrated Circuit Industry Investment Fund Co., Ltd.⁽⁷⁾

- Exhibit 4.13 Share Purchase Agreement by and between the Company and Datang Holdings (Hongkong) Investment Company Limited dated as of June 11, 2015⁽⁸⁾
- Exhibit 4.14 Shares Purchase Agreement by and between the Company and Country Hill Limited dated as of June 11, 2015⁽⁸⁾
- Exhibit 4.15 Summary of Disposal Agreement between Siltech Shanghai and JCET, Subscription Agreement between Siltech Shanghai and JCET, and Supplemental Agreement relating to Disposal Agreement between SilTech Shanghai and JCET
- Exhibit 4.16 The Subscription Agreement relating to US\$450 Million Zero Coupon Convertible Bonds due 2022 convertible into our ordinary shares of Semiconductor Manufacturing International Corporation, dated as of June 7, 2016 and entered into by SMIC and J.P. Morgan Securities PLC
- Exhibit 4.17 Summary of Sale and Purchase Agreement to Acquire 70% of the Corporate Capital of LFoundry S.r.l.
- Exhibit 4.18 Form of Director Service Agreement (For Directors Appointed by the Board)⁽⁸⁾
- Exhibit 4.19 Form of Director Service Agreement (For Directors Elected or Re-elected by the Shareholders)⁽⁸⁾
- Exhibit 8.1 List of Subsidiaries
- Exhibit 12.1 Certification of CEO under Section 302 of the U.S. Sarbanes-Oxley Act of 2002
- Exhibit 12.2 Certification of CFO under Section 302 of the U.S. Sarbanes-Oxley Act of 2002
- Exhibit 13.1 Certification of CEO and CFO under Section 906 of the U.S. Sarbanes-Oxley Act of 2002⁽⁹⁾
- Exhibit 15.1 Consent of PricewaterhouseCoopers Zhong Tian LLP

- (1) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2007, filed June 27, 2008 and amended November 28, 2008.
- (2) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2004, filed June 28, 2005. With respect to Exhibit 4.1, please refer to Item 8 "Litigation" in the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2008.
- (3) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed April 15, 2013.
- (4) Previously filed as an exhibit to the Registrant's Form 6-K dated January 5, 2009. Portions of this exhibit were omitted and filed separately with the Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, concerning confidential treatment.
- (5) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2010, filed June 28, 2011.
- (6) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2013, filed April 14, 2014.
- (7) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2014, filed April 28, 2015.
- (8) Previously filed as an exhibit to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed April 25, 2016.
- (9) Furnished herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

Date: April 27, 2017

By: /s/ Dr. Tzu-Yin Chiu

Name: Dr. Tzu-Yin Chiu

Title: Chief Executive Officer and Executive Director

Table of Contents

INDEX OF FINANCIAL STATEMENTS

Contents	Page(s)
Report of Independent Registered Public Accounting Firm	F-2
Consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2016, 2015 and 2014	F-3
Consolidated statements of financial position as of December 31, 2016, 2015 and 2014	F-4
Consolidated statements of changes in equity for the years ended December 31, 2016, 2015 and 2014	F-6
Consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014	F-7
Notes to the consolidated financial statements	F-9

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Semiconductor Manufacturing International Corporation

In our opinion, the accompanying consolidated statement of financial position as at December 31, 2016, 2015 and 2014, 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 years then ended present fairly, in all material respects, the financial position of Semiconductor Manufacturing International Corporation and its subsidiaries at December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying report by management on internal control over financial reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 15 in the accompanying Form 20-F, management has excluded LFoundry S.r.l. acquired during 2016, as described in Note 41 to the consolidated financial statements, from its assessment of internal control over financial reporting as of December 31, 2016 because LFoundry S.r.l. was acquired by the Company in the purchase business combination during 2016. We have also excluded LFoundry S.r.l. from our audit of internal control over financial reporting. LFoundry S.r.l. is a subsidiary of the Company whose total assets and total revenues represent 2.4% and 3.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2016.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

April 27, 2017

F-2

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2016, 2015 and 2014

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

	Notes	Year ended 12/31/16 USD'000	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000
Revenue	5	2,914,180	2,236,415	1,969,966
Cost of sales		(2,064,499)	(1,553,795)	(1,486,514)
Gross profit		849,681	682,620	483,452
Research and development expenses, net		(318,247)	(237,157)	(189,733)
Sales and marketing expenses		(35,034)	(41,876)	(38,252)
General and administration expenses		(157,371)	(213,177)	(139,428)
Other operating income (expense), net	7	177	31,594	14,206
Profit from operations		339,206	222,004	130,245
Interest income		11,243	5,199	14,230
Finance costs	8	(23,037)	(12,218)	(20,715)
Foreign exchange gains or losses		(1,640)	(26,349)	(5,993)
Other gains or losses, net	9	(2,113)	55,611	18,210
Share of (loss) profit of investment using equity method		(13,777)	(13,383)	2,073
Profit before tax		309,882	230,864	138,050
Income tax benefit (expense)	10	6,552	(8,541)	(11,789)
Profit for the year	11	316,434	222,323	126,261
Other comprehensive income (loss)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translating foreign operations		(19,031)	(8,185)	(324)
Change in value of available-for-sale financial assets		807	452	—
Cash flow hedges		(34,627)	—	—
Others		1	130	—
<i>Items that will not be reclassified to profit or loss</i>				
Actuarial gains or losses on defined benefit plans		1,520	—	—
Total comprehensive income for the year		265,104	214,720	125,937
Profit (loss) for the year attributable to:				
Owners of the Company		376,630	253,411	152,969
Non-controlling interests		(60,196)	(31,088)	(26,708)
		316,434	222,323	126,261
Total comprehensive income (loss) for the year attributable to:				
Owners of the Company		326,191	245,803	152,645

Non-controlling interests		(61,087)	(31,083)	(26,708)
		<u>265,104</u>	<u>214,720</u>	<u>125,937</u>
Earnings per share*				
Basic	14	0.09	0.07	0.05
Diluted	14	0.08	0.06	0.04

* The basic and diluted earnings per share for the prior years have been adjusted to reflect the impact of the share consolidation, on the basis that every ten ordinary shares of US\$0.0004 each consolidated into one ordinary share of US\$0.004 each, which was accounted for as a reverse stock split effective on December 7, 2016 (“Share Consolidation”). Please refer to Note 14 for more details.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016, 2015 and 2014

	Notes	12/31/16 USD'000	12/31/15 USD'000	12/31/14 USD'000
Assets				
<i>Non-current assets</i>				
Property, plant and equipment	17	5,687,357	3,903,818	2,995,086
Land use right		99,267	91,030	135,331
Intangible assets	18	248,581	224,279	207,822
Investments in associates	20	240,136	181,331	57,631
Investments in joint ventures	21	14,359	17,646	—
Deferred tax assets	10	45,981	44,942	44,383
Derivative financial instrument	22	32,894	30,173	—
Restricted cash	27	20,080	—	—
Other assets	23	42,870	32,078	30,867
Total non-current assets		6,431,525	4,525,297	3,471,120
<i>Current assets</i>				
Inventories	25	464,216	387,326	316,041
Prepayment and prepaid operating expenses		27,649	40,184	40,628
Trade and other receivables	26	645,822	499,846	456,388
Other financial assets	24	31,543	282,880	644,071
Restricted cash	27	337,699	302,416	238,051
Cash and cash equivalent		2,126,011	1,005,201	603,036
		3,632,940	2,517,853	2,298,215
Assets classified as held-for-sale	16	50,813	72,197	44
Total current assets		3,683,753	2,590,050	2,298,259
Total assets		10,115,278	7,115,347	5,769,379

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016, 2015 and 2014

	Notes	12/31/16 USD'000	12/31/15 USD'000	12/31/14 USD'000
Equity and liabilities				
<i>Capital and reserves</i>				
Ordinary shares, \$0.004 par value, 5,000,000,000 shares authorized, 4,252,922,259, 4,207,374,896 and 3,585,609,617 shares issued and outstanding at December 31, 2016, 2015 and 2014, respectively	28	17,012	16,830	14,342
Share premium	28	4,950,948	4,903,861	4,376,630
Reserves	29	93,563	96,644	98,333
Accumulated deficit	30	(910,849)	(1,287,479)	(1,540,890)
Equity attributable to owners of the Company		4,150,674	3,729,856	2,948,415
Non-controlling interests		1,252,553	460,399	359,307
Total equity		5,403,227	4,190,255	3,307,722
<i>Non-current liabilities</i>				
Borrowings	31	1,233,594	416,036	256,200
Convertible bonds	32	395,210	—	379,394
Bonds payable	34	494,909	493,207	491,579
Medium-term notes	33	214,502	—	—
Deferred tax liabilities	10	15,382	7,293	69
Deferred government funding		265,887	175,604	184,174
Other financial liabilities	38	74,170	—	—
Other liabilities	35	37,497	65,761	—
Total non-current liabilities		2,731,151	1,157,901	1,311,416
<i>Current liabilities</i>				
Trade and other payables	36	940,553	1,047,766	794,361
Borrowings	31	209,174	113,068	162,054
Short-term notes	33	86,493	—	—
Convertible bonds	32	391,401	392,632	—
Deferred government funding		116,021	79,459	62,609
Accrued liabilities	37	230,450	132,452	131,114
Other financial liabilities	38	6,348	1,459	—
Current tax liabilities	10	460	355	103
Total current liabilities		1,980,900	1,767,191	1,150,241
Total liabilities		4,712,051	2,925,092	2,461,657
Total equity and liabilities		10,115,278	7,115,347	5,769,379

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016, 2015 and 2014

	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available-for-sale financial assets	Convertible bonds equity reserve	Defined benefit plan reserve	Cash flow hedges	Others	Accumulated deficit	Attributable to owner of the Company	Non-controlling interest	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
	(Note 28)	(Note 28)	(Note 29)	(Note 29)	(Note 29)	(Note 29)	(Note 29)	(Note 29)		(Note 30)			
Balance at December 31, 2013	12,845	4,089,846	55,177	4,553	—	15,210	—	—	—	(1,693,859)	2,483,772	109,410	2,593,182
Profit for the year	—	—	—	—	—	—	—	—	—	152,969	152,969	(26,708)	126,261
Other comprehensive loss for the year	—	—	—	(324)	—	—	—	—	—	—	(324)	—	(324)
Total comprehensive loss for the year	—	—	—	(324)	—	—	—	—	—	152,969	152,645	(26,708)	125,937
Issuance of ordinary shares	1,411	268,362	—	—	—	—	—	—	—	—	269,773	—	269,773
Exercise of stock options	86	18,422	(9,025)	—	—	—	—	—	—	—	9,483	—	9,483
Share-based compensation	—	—	18,388	—	—	—	—	—	—	—	18,388	—	18,388
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	276,605	276,605
Recognition of equity component of convertible bonds	—	—	—	—	—	14,354	—	—	—	—	14,354	—	14,354
Subtotal	1,497	286,784	9,363	—	—	14,354	—	—	—	—	311,998	276,605	588,603
Balance at December 31, 2014	14,342	4,376,630	64,540	4,229	—	29,564	—	—	—	(1,540,890)	2,948,415	359,307	3,307,722
Profit for the year	—	—	—	—	—	—	—	—	—	253,411	253,411	(31,088)	222,323
Other comprehensive income (losses) for the year	—	—	—	(8,185)	447	—	—	—	130	—	(7,608)	5	(7,603)
Total comprehensive income (losses) for the year	—	—	—	(8,185)	447	—	—	—	130	253,411	245,803	(31,083)	214,720
Issuance of ordinary shares	2,395	506,412	—	—	—	—	—	—	—	—	508,807	—	508,807
Exercise of stock options	93	20,819	(12,169)	—	—	—	—	—	—	—	8,743	—	8,743
Share-based	—	—	18,088	—	—	—	—	—	—	—	18,088	241	18,329

compensation														
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	132,082	132,082
Deconsolidation of subsidiaries due to loss of control	—	—	—	—	—	—	—	—	—	—	—	—	(148)	(148)
Subtotal	2,488	527,231	5,919	—	—	—	—	—	—	—	—	535,638	132,175	667,813
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956)	447	29,564	—	—	130	(1,287,479)	3,729,856	460,399	4,190,255	
Profit for the year	—	—	—	—	—	—	—	—	—	376,630	376,630	(60,196)	316,434	
Other comprehensive income (losses) for the year	—	—	—	(18,131)	798	—	1,520	(34,627)	1	—	(50,439)	(891)	(51,330)	
Total comprehensive income (losses) for the year	—	—	—	(18,131)	798	—	1,520	(34,627)	1	376,630	326,191	(61,087)	265,104	
Exercise of stock options	140	36,064	(18,594)	—	—	—	—	—	—	—	17,610	—	17,610	
Share-based compensation	—	—	13,838	—	—	—	—	—	—	—	13,838	372	14,210	
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	831,254	831,254
Conversion options of convertible bonds exercised during the year	42	11,023	—	—	—	(821)	—	—	—	—	10,244	—	10,244	
Recognition of equity component of convertible bonds	—	—	—	—	—	52,935	—	—	—	—	52,935	—	52,935	
Business combination	—	—	—	—	—	—	—	—	—	—	—	21,615	21,615	
Subtotal	182	47,087	(4,756)	—	—	52,114	—	—	—	—	94,627	853,241	947,868	
Balance at December 31, 2016	17,012	4,950,948	65,703	(22,087)	1,245	81,678	1,520	(34,627)	131	(910,849)	4,150,674	1,252,553	5,403,227	

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016, 2015 and 2014

	Year ended 12/31/16 USD'000	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000
Operating activities			
Profit for the year	316,434	222,323	126,261
Adjustments for:			
Income tax (benefit) expense	(6,552)	8,541	11,789
Amortization of intangible assets and land use right	56,705	50,541	43,102
Depreciation of property, plant and equipment	673,161	473,008	506,366
Expense recognized in respect of equity-settled share-based payments	14,210	18,329	18,388
Finance costs	23,037	12,218	20,715
Gain on disposal of available for sale investment	—	(387)	—
Loss (gain) on disposal of property, plant and equipment and assets classified as held-for-sale	1,846	(28,949)	(13,904)
Loss on deconsolidation of subsidiaries	—	57	208
Interest income recognized in profit or loss	(11,243)	(5,199)	(14,230)
Bad debt allowance on trade receivables	201	528	1,616
Impairment loss recognized (reversed) on inventory	3,706	(13,338)	29,577
Impairment loss recognized on property, plant and equipment	7,529	—	—
Net gain arising on financial assets at fair value through profit or loss	(7,372)	(52,834)	(8,649)
Net loss arising on financial liabilities at fair value through profit or loss	14,989	1,459	—
Net (gain) loss on foreign exchange	(26,236)	15,608	—
Reversal of bad debt allowance on trade and other receivables	(10,412)	(541)	(59)
Share of loss (profit) of investment using equity method	13,777	13,383	(2,073)
Other non-cash loss (gain)	175	—	(769)
	1,063,955	714,747	718,338
Operating cash flows before movements in working capital: Increase in trade and other receivables	(100,980)	(39,902)	(89,232)
Increase in inventories	(51,344)	(57,947)	(59,367)
Increase in restricted cash relating to operating activities	(147,834)	(16,675)	(41,637)
Decrease (increase) in prepaid operating expenses	17,615	(856)	1,129
Decrease (increase) in other assets	1,576	(6,476)	(1,731)
Increase in trade and other payables	59,046	39,096	79,340
Increase in deferred government funding	126,845	8,280	8,268
Increase (decrease) in accrued liabilities and other liabilities	25,031	49,928	(3,768)
Cash generated from operations	993,910	690,195	611,340
Interest paid	(27,497)	(26,174)	(16,087)
Interest received	12,464	4,894	14,239
Income taxes (paid) received	(1,675)	282	(1,390)

Net cash generated from operating activities

977,202

669,197

608,102

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016, 2015 and 2014

	Year ended 12/31/16 USD'000	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000
Investing activities			
Payments to acquire financial assets	(917,272)	(2,412,259)	(1,997,624)
Proceeds on sale of financial assets	1,175,768	2,782,181	1,602,513
Payments for property, plant and equipment	(2,757,202)	(1,230,812)	(653,134)
Proceeds from disposal of property, plant and equipment	259,799	87,890	52,911
Proceeds from disposal of joint ventures and available-for-sale investment	5,523	1,204	—
Payments for intangible assets	(85,729)	(29,384)	(49,285)
Payments for land use rights	—	(9,265)	(1,123)
Payments to acquire long-term investment	(87,645)	(160,777)	(49,034)
Change in restricted cash relating to investing activities	34,614	181,963	(48,411)
Net cash outflow from deconsolidation of subsidiaries	—	(297)	(936)
Payment for business combination	(73,216)	—	—
Distributions received from joint ventures	2,027	—	—
Net cash used in investing activities	<u>(2,443,333)</u>	<u>(789,556)</u>	<u>(1,144,123)</u>
Financing activities			
Proceeds from borrowings	1,239,265	341,176	376,554
Repayment of borrowings	(228,928)	(453,730)	(952,383)
Proceeds from issuance of new shares	—	508,807	270,180
Proceeds from issuance of convertible bonds	441,155	—	203,763
Proceeds from issuance of corporate bonds	—	—	492,315
Proceeds from issuance of short-term and medium-term notes	314,422	—	—
Proceeds from exercise of employee stock options	17,610	8,743	9,483
Proceeds from non-controlling interests-capital contribution	831,254	132,082	276,771
Net cash from financing activities	<u>2,614,778</u>	<u>537,078</u>	<u>676,683</u>
Net increase in cash and cash equivalent	<u>1,148,647</u>	<u>416,719</u>	<u>140,662</u>
Cash and cash equivalent at the beginning of the year	1,005,201	603,036	462,483
Effects of exchange rate changes on the balance of cash held in foreign currencies	(27,837)	(14,554)	(109)
Cash and cash equivalent at the end of the year	<u><u>2,126,011</u></u>	<u><u>1,005,201</u></u>	<u><u>603,036</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

1. General information

Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) was established as an exempt company incorporated under the laws of the Cayman Islands on April 3, 2000. The address of the principal place of business is 18 Zhangjiang Road, Pudong New Area, Shanghai, China, 201203. The registered address is at PO Box 309, Uglan House, Grand Cayman, KY1-1104 Cayman Islands. Semiconductor Manufacturing International Corporation is an investment holding company.

Semiconductor Manufacturing International Corporation and its subsidiaries (hereinafter collectively referred to as the “Group”) are mainly engaged in the computer-aided design, manufacturing, testing, packaging, and trading of integrated circuits and other semiconductor services, as well as designing and manufacturing semiconductor masks. The principal subsidiaries and their activities are set out in Note 19.

These financial statements are presented in US dollars, unless otherwise stated.

2. Application of new and revised International Financial Reporting Standards (“IFRSs”)

(a) New and revised IFRSs that are mandatorily effective for the year ended December 31, 2016

In the current year, the Group has adopted the following amendments to IFRSs that are mandatorily effective for an accounting period that begins on or after January 1, 2016. Such adoption did not have a material effect on the Group’s consolidated financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle

The amendments to IFRS 7 clarify that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement. The amendment shall be applied prospectively with an option to apply retrospectively, for annual periods beginning on or after January 1, 2016.

Amendment to IAS 27 “Equity method in separate financial statements”

Amendment to IAS 27, ‘Equity method in separate financial statements’, allows entities to use equity method to measure investments in subsidiaries, joint ventures and associates in their separate financial statements. Previously, IAS 27 allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendment introduces the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively. The amendment is effective for annual period beginning on or after January 1, 2016.

The Company has changed cost method to equity method to measure investments in subsidiaries in the separate financial statements from January 1, 2016 and accordingly made retrospective adjustments. Please refer to Note 44 for the details of the retrospective adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) *(continued)*

(a) **New and revised IFRSs that are mandatorily effective for the year ended December 31, 2016** *(continued)*

Amendments to IAS 1 “Disclosure initiative”

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments shall be applied for annual periods beginning on or after January 1, 2016, with earlier application permitted.

(b) **New or revised IFRSs in issue but not yet effective**

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

<u>New or revised IFRS</u>	<u>Effective date</u>
IFRS 9 — Financial Instruments	On or after January 1, 2018
IFRS 15 — Revenue from contracts with customers	On or after January 1, 2018
IFRS 16 — Lease	On or after January 1, 2019
Amendments to IAS 12 — Income taxes	On or after January 1, 2017
Amendments to IAS 7 — Statement of cash flows	On or after January 1, 2017
Amendments to IFRS 10 and IAS 28 — Sale or contribution of assets between an investor and its association or joint venture	Not yet determined

The new IFRS 9 standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities and the accounting for hedging relationships. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new IFRS 15 standard requires revenue to be recognized when the control of promised goods or services are transferred to a customer. The standard permits either a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Group is currently evaluating the method of adoption.

The new standard will be effective for the Group beginning January 1, 2018. The Group anticipates this standard may have a material impact on its consolidated financial statements, and continues to make progress in assessing all potential impacts of the standard. The Group currently believes the most significant impact relates to its accounting for revenue of wafer sales. Specifically, under the new standard, the Group expects to recognize revenue of wafer sales over time in proportion of wafer-manufacturing rather than at the point in time when the goods are delivered and title has passed. However, the analysis is preliminary and subject to change as the Group has not yet completed its assessment.

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) *(continued)*

(b) New or revised IFRSs in issue but not yet effective *(continued)*

IFRS 16 will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The Group is in the process of evaluating the impact of the new standards or amendments on its consolidated financial statements.

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable IFRS issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as explained in the accounting policies set out below. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Basis of preparation *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Basis of consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Separate Principal Statement

Investments in subsidiaries are accounted for at equity method in accordance with IAS 39.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that

associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. Significant accounting policies (*continued*)

Investments in associates (*continued*)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. The difference between the recoverable amount and the carrying amount is recognized as impairment loss in the profit or loss. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies (*continued*)

Investments in joint ventures

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

The Group manufactures semiconductor wafers for its customers based on the customers' designs and specifications pursuant to manufacturing agreements and/or purchase orders. The Group also sells certain semiconductor standard products to customers.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Customers have the right of return within one year pursuant to warranty provisions. The Group typically performs tests of its products prior to shipment to identify yield rate per wafer. Occasionally, product tests performed after shipment identify yields below the level agreed with the customer. In those circumstances, the customer arrangement may provide for a reduction to the price paid by the customer or for the costs to return products and to ship replacement products to the customer. The Group estimates the amount of sales returns and the cost of replacement products based on the historical trend of returns and warranty replacements relative to sales as well as a consideration of any current information regarding specific known product defects at customers that may exceed historical trends.

Gain on sale of real estate property

Gain from sales of real estate property is recognized when all the following conditions are satisfied: 1) sales contract executed, 2) full payment collected, or down payment collected and non-cancellable mortgage contract is executed with borrowing institution, 3) and the respective properties have been delivered to the buyers.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States dollar ("US dollar"), which is the Company's functional and the Group's presentation currency.

In preparing the financial statements of each individual group entity transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into United States dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3. Significant accounting policies (*continued*)

Government funding

Government funding is not recognized in profit or loss until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the funding will be received.

Government funding relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government funding relating to property, plant and equipment, whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government funding that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related cost are recognized in profit or loss in the period in which they become receivable.

Retirement benefits

The Group's local Chinese employees are entitled to a retirement benefit based on their salary and their length of service in accordance with a state-managed pension plan. The PRC government is responsible for the pension liability to these retired staff. The Group is required to make contributions to the state-managed retirement plan at a rate equal to 19.0% to 20.0% (the standard in Shenzhen site ranges from 13% to 14% according to Shenzhen government regulation) of the monthly basic salary of current employees. The Group has no further payment obligations once the contributions have been paid. The costs are recognized in profit or loss when incurred.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies (*continued*)

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 39.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve. When share options are exercised, the amount previously recognized in the reserve will be transferred to share premium.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. Significant accounting policies (*continued*)

Taxation (*continued*)

Deferred tax (*continued*)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their costs, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

The Group constructs certain of its plant and equipment. In addition to costs under the construction contracts, external costs that are directly related to the construction and acquisition of such plant and equipment are capitalized. Depreciation is recorded at the time assets are ready for their intended use. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An item at property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

The following useful lives are used in the calculation of depreciation.

Buildings	25 years
Plant and equipment	5–10 years
Office equipment	3–5 years
Leasehold equipment under finance leases	Over the lease terms

Land use right

Land use rights, which are all located in the PRC, are recorded at cost and are charged to profit or loss ratably over the term of the land use agreements which range from 50 to 70 years.

Intangible assets

Acquired intangible assets which consists primarily of technology, licenses and patents, are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization is computed using the straight-line method over the expected useful lives of the assets of three to ten years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit ("CGU") to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the CGU retained.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Impairment of tangible and intangible assets other than goodwill *(continued)*

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized as income.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subjected to an insignificant risk of changes in value, with original maturities of three months or less.

Restricted cash

Restricted cash consists of bank deposits pledged against letters of credit, short-term and long-term credit facilities, and unused government funding for certain research and development projects. Changes of restricted cash pledged against letter of credit, short-term and long-term credit facilities and changes of restricted cash paid for property, plant and equipment are presented as investing activity in consolidated statements of cash flows. Changes of restricted cash of unused government funding for expensed research and development activities are presented as operating activity in consolidated statements of cash flows.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL") and 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

3. Significant accounting policies (*continued*)

Financial assets (*continued*)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL (including foreign currency forward contracts and financial products sold by banks) are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets are initially recognized at fair value plus transaction costs and subsequently carried at fair value, with changes in fair value recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are include in the income statement as "other gains and losses".

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of "other income".

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, and cash and bank balances and restricted cash are measured at amortized cost using the effective interest method, less any impairment loss.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Financial assets *(continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For assets classified as available for sale, it is assessed at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

3. Significant accounting policies *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss — is removed from equity and recognized in profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

3. Significant accounting policies (*continued*)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Convertible Bonds

The component parts of the convertible bonds issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

The Group assesses if the embedded derivatives in respect of the early redemption features are deemed to be clearly and closely related to the host debt contract. Embedded derivatives need not be separated if they are regarded as closely related to its host contract. If they are not, they would be separately accounted for.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Financial liabilities and equity instruments *(continued)*

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL (including foreign currency forward contracts and cross currency swap contracts) when the financial liability is held for trading.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 40.

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables, long-term financial liabilities, short-term and medium-term notes and bonds payable) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or (where appropriate) shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments and hedging accounting

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and cross currency swap contracts. Further details of derivative financial instruments are disclosed in Note 40.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which

event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

3. Significant accounting policies *(continued)*

Financial liabilities and equity instruments *(continued)*

Derivative financial instruments and hedging accounting *(continued)* *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognized immediately in the statement of profit or loss.

Amounts recognized in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or nonfinancial liability, the amounts recognized in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Inventories

Inventories are stated at the lower of cost (weighted average) or net realizable value (NRV), with NRV being the "estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale". The Group estimates the recoverability for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions. If the NRV of an inventory item is determined to be below its carrying value, the Group records a write-down to cost of sales for the difference between the carrying cost and NRV.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty *(continued)*

Long-lived assets

The Group assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of asset or cash-generating unit (“CGU”) may not be recoverable. Factors that the Group considers in deciding when to perform an impairment review include, but are not limited to significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in the use of the assets.

An impairment analysis is performed at the lowest level of identifiable independent cash flows for an asset or CGU. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

The Group makes subjective judgments in determining the independent cash flows that can be related to a specific CGU based on its asset usage model and manufacturing capabilities. The Group measures the recoverability of assets that will continue to be used in the Group’s operations by comparing the carrying value of CGU to the Group’s estimate of the related total future discounted cash flows. If a CGU’s carrying value is not recoverable through the related discounted cash flows, the impairment loss is measured by comparing the difference between the CGU’s carrying value and its recoverable amount, based on the best information available, including market prices or discounted cash flow analysis. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate and sales margin used for extrapolation purposes.

In order to remain technologically competitive in the semiconductor industry, the Group has entered into technology transfer and technology license arrangements with third parties in an attempt to advance the Group’s process technologies. The payments made for such technology licenses are recorded as an intangible asset or as a deferred cost and amortized on a straight-line basis over the estimated useful life of the asset. The Group routinely reviews the remaining estimated useful lives of these intangible assets and deferred costs. The Group also evaluates these intangible assets and deferred costs for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When the carrying amounts of such assets are determined to exceed their recoverable amounts, the Group will impair such assets and write down their carrying amounts to recoverable amount in the year when such determination was made.

4. Critical accounting judgments and key sources of estimation uncertainty (*continued*)

Key sources of estimation uncertainty (*continued*)

Share-based Compensation Expense

The fair value of options and shares issued pursuant to the Group's option plans at the grant date was estimated using the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected term of the options, the estimated forfeiture rates and the expected stock price volatility. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The Group estimated forfeiture rates using historical data to estimate option exercise and employee termination within the pricing formula. The Group uses projected volatility rates based upon the Group's historical volatility rates. These assumptions are inherently uncertain. Different assumptions and judgments would affect the Group's calculation of the fair value of the underlying ordinary shares for the options granted, and the valuation results and the amount of share-based compensation would also vary accordingly. Further details on share-based compensation are disclosed in Note 39.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

As of December 31, 2016, no deferred tax asset was recognized in respect of tax losses of US\$444.0 million (December 31, 2015: US\$577.3 million and December 31, 2014: US\$532.8 million) due to the unpredictability of future profit streams. The realizability of the deferred tax asset mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

4. Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Key sources of estimation uncertainty *(continued)*

Fair value of financial instruments

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

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

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 40 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Impairment of trade and other receivable

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of the Group's trade and other receivable at the end of the reporting period is disclosed in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. Segment information

The Group is engaged principally in the computer-aided design, manufacturing and trading of integrated circuits. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about resources allocation and assessing performance of the Group. The Group operates in one segment. The measurement of segment profits is based on profit from operation as presented in the statements of profit or loss and other comprehensive income.

The Group operates in three principal geographical areas — United States, Europe, and Asia Pacific. The Group's operating revenue from customers, based on the location of their headquarters, is detailed below.

	Revenue from external customers		
	Year ended	Year ended	Year ended
	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
United States	858,858	776,223	855,792
Mainland China and Hong Kong	1,447,427	1,066,558	852,204
Eurasia*	607,895	393,634	261,970
	2,914,180	2,236,415	1,969,966

* Not including Mainland China and Hong Kong

The Group's operating revenue by product and service type is detailed below:

	Revenue from external customers		
	Year ended	Year ended	Year ended
	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Sales of wafers	2,803,819	2,134,943	1,864,524
Mask making, testing and others	110,361	101,472	105,442
	2,914,180	2,236,415	1,969,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

5. Segment information *(continued)*

The Group's business is characterized by high fixed costs relating to advanced technology equipment purchases, which result in correspondingly high levels of depreciation expenses. The Group will continue to incur capital expenditures and depreciation expenses as it equips and ramps-up additional fabs and expand its capacity at the existing fabs. The following table summarizes property, plant and equipment of the Group by geographical location.

	Property, plant and equipment		
	Year ended	Year ended	Year ended
	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
United States	69	95	124
Europe	125,339	5	4
Taiwan	97	122	9
Hong Kong	2,839	3,040	3,240
Mainland China	5,559,013	3,900,556	2,991,709
	5,687,357	3,903,818	2,995,086

6. Significant customers

The following table summarizes net revenue or gross accounts receivable for customers which accounted for 10% or more of net revenue and gross accounts receivable:

	Net revenue			Gross accounts receivable		
	Year ended December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Customer A	609,802	324,267	*	129,619	50,068	*
Customer B	382,853	366,696	483,430	78,639	75,643	107,475
Customer C	342,095	168,352	*	54,970	55,852	*
Customer D	*	215,527	*	*	25,548	*
Customer A	21%	15%	*	26%	13%	*
Customer B	13%	16%	25%	16%	19%	25%
Customer C	12%	8%	*	11%	14%	*
Customer D	*	10%	*	*	6%	*

* Less than 10% of net revenue and gross accounts receivable in the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

7. Other operating income (expense), net

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
(Loss) gain on disposal of property, plant and equipment and assets classified as held-for-sale	(1,846)	28,949	13,904
Impairment loss recognized on property, plant and equipment	(7,529)	—	—
Government funding	9,542	2,697	329
Loss on deconsolidation of subsidiaries	—	(57)	(208)
Others	10	5	181
	<u>177</u>	<u>31,594</u>	<u>14,206</u>

The loss on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2016 was primarily due to the loss arising from the disposal of equipment and the gain arising from the sales of the staff living quarters in Beijing to employees.

The gain on disposal of property, plant and equipment and assets classified as held-for-sale for the year ended December 31, 2015 and 2014 was primarily from the sales of the staff living quarters in Shanghai and Beijing to employees.

8. Finance costs

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Interest on:			
Bank and other borrowings			
— wholly repayable within five years	1,222	6,782	19,245
— not wholly repayable within five years	4,932	202	—
Interest on finance leases	62	—	—
Interest on convertible bonds	16,352	13,238	9,614
Interest on corporate bonds	22,327	22,253	5,554
Interest on medium-term notes	4,625	—	—
Interest on short-term notes	1,509	—	—
Total interest expense for financial liabilities not classified as at FVTPL	<u>51,029</u>	<u>42,475</u>	<u>34,413</u>
Less: amounts capitalized	(27,992)	(30,257)	(13,698)
	<u>23,037</u>	<u>12,218</u>	<u>20,715</u>

The weighted average effective interest rate on funds borrowed generally is 2.12% per annum (2015: 3.75% per annum and 2014: 2.91% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

9. Other gains or losses, net

For the year ended December 31, 2016, other gains or losses, net was US\$2.1 million net loss (2015: US\$55.6 million net gain and 2014: US\$18.2 million net gain), within which the gain from changes of fair value of the financial products was US\$4.7 million (2015: US\$22.5 million and 2014: US\$14.5 million) and the change of fair value of the put option was US\$2.7 million gain (2015: US\$30.2 million gain and 2014: nil, please refer to Note 22); and the changes of fair value of cross currency swap contracts were US\$15.0 million loss (2015: US\$1.3 million loss and 2014: nil, please refer to Note 40).

10. Income taxes

Income tax recognized in profit or loss

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Current tax — Enterprise Income Tax	1,306	(47)	1,226
Deferred tax	(8,589)	6,665	(591)
Current tax — Land Appreciation Tax	731	1,923	11,154
Total income tax (benefit) expense raised in the current year	<u>(6,552)</u>	<u>8,541</u>	<u>11,789</u>

The income tax expense (benefit) for the year can be reconciled to the accounting profit as follows:

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Profit before tax	<u>309,882</u>	<u>230,864</u>	<u>138,050</u>
Income tax expense calculated at 15% (2015: 15% and 2014: 15%)	46,482	34,630	20,708
Effect of tax holiday and additional deduction for research and development expenditures	(54,591)	(54,483)	(12,032)
Tax losses for which no deferred tax assets were recognized	39,777	25,732	20,134
Utilization of previously unrecognized tax losses and temporary differences	(43,440)	(3,687)	(32,818)
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,517	4,226	6,387
Others	82	488	(71)
Land Appreciation Tax (after tax)	621	1,635	9,481
Income tax (benefit) expense	<u>(6,552)</u>	<u>8,541</u>	<u>11,789</u>

The tax rate used for the 2016, 2015 and 2014 reconciliation above is the corporate tax rate of 15% payable by most of the Group's entities in Mainland China under tax law in that jurisdiction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

10. Income taxes (continued)

Current tax liabilities

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Current tax liabilities			
Income tax payable	460	355	103

Deferred tax balances

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statement of financial position:

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Deferred tax assets	45,981	44,942	44,383
Deferred tax liabilities	(15,382)	(7,293)	(69)
	<u>30,599</u>	<u>37,649</u>	<u>44,314</u>

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Deferred tax assets			
Net operating loss carry forwards	—	419	524
Property plant and equipment	45,981	44,523	43,859
Deferred tax assets	<u>45,981</u>	<u>44,942</u>	<u>44,383</u>
Deferred tax liabilities			
Capitalized interest	—	(3)	(69)
Property plant and equipment	(15,382)	(7,290)	—
Deferred tax liabilities	<u>(15,382)</u>	<u>(7,293)</u>	<u>(69)</u>

2016.12.31

	<u>Opening balance</u>	<u>Business Combination</u>	<u>Recognize in profit or loss</u>	<u>Closing balance</u>
	USD'000	USD'000	USD'000	USD'000
Deferred tax (liabilities)/assets in relation to:				

Property plant and equipment	37,233	(15,639)	9,005	30,599
Capitalized interest	(3)	—	3	—
Others	419	—	(419)	—
	<u>37,649</u>	<u>(15,639)</u>	<u>8,589</u>	<u>30,599</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

10. Income taxes (continued)

Deferred tax balances (continued)

2015.12.31

	Opening balance	Recognized in profit or loss	Closing balance
	USD'000	USD'000	USD'000
Deferred tax (liabilities)/assets in relation to:			
Property plant and equipment	43,859	(6,626)	37,233
Capitalized interest	(69)	66	(3)
Others	524	(105)	419
	<u>44,314</u>	<u>(6,665)</u>	<u>37,649</u>

2014.12.31

	Opening balance	Recognized in profit or loss	Closing balance
	USD'000	USD'000	USD'000
Deferred tax (liabilities)/assets in relation to:			
Property plant and equipment	43,890	(31)	43,859
Capitalized interest	(167)	98	(69)
Others	—	524	524
	<u>43,723</u>	<u>591</u>	<u>44,314</u>

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax, or the EIT Law, the profits of a foreign invested enterprise arising in 2008 and beyond that distributed to its immediate holding company who is a non-PRC tax resident will be subject to a withholding tax rate of 10%. A lower withholding tax rate may be applied if there is a favorable tax treaty between mainland China and the jurisdiction of the foreign holding company. For example, holding companies in Hong Kong that are also tax residents in Hong Kong (which should have commercial substance and proceed the formal treaty benefit application with in-charge tax bureau) are eligible for a 5% withholding tax on dividends under the Tax Memorandum between China and the Hong Kong Special Administrative Region.

The Company is incorporated in the Cayman Islands, where it is not currently subject to taxation.

The EIT law (became effective on January 1, 2008) applies a uniform 25% enterprise income tax rate to both tax resident enterprise and non-tax resident enterprise, except where a special preferential rate applies. In addition, according to the law of Italy on enterprise income tax, the enterprise income tax (IRES) rate is 24%.

Pursuant to Caishui Circular [2008] No. 1 (“Circular No. 1”) promulgated on February 22, 2008, integrated circuit production enterprises whose total investment exceeds RMB8,000 million (approximately US\$1,095 million) or whose integrated circuits have a line width of less than 0.25 micron are entitled to a preferential tax rate of 15%. Enterprises with an operation period of more than 15 years are entitled to a full exemption from income tax for five years starting from the first profitable year after utilizing all prior years’ tax losses and 50% reduction of the tax for the following five years. Pursuant to Caishui Circular [2009] No. 69 (“Circular No. 69”), the 50% reduction should be based on the statutory tax rate of 25%.

10. Income taxes (*continued*)

Deferred tax balances (*continued*)

On January 28, 2011, the State Council of China issued Guofa [2011] No. 4 (“Circular No. 4”), the Notice on Certain Policies to Further Encourage the Development of the Software and Integrated Circuit Industries which reinstates the EIT incentives stipulated by Circular No. 1 for the software and integrated circuit enterprises.

On April 20, 2012, State Tax Bureau issued CaiShui [2012] No. 27 (“Circular No. 27”), stipulating the income tax policies for the development of integrated circuit industry. Circular No. 1 was partially abolished by Circular No. 27 and the preferential taxation policy in Circular No. 1 was replaced by Circular No. 27.

On July 25, 2013, State Tax Bureau issued [2013] No. 43 (“Circular No. 43”), clarifying that the accreditation and preferential tax policy of integrated circuit enterprise established before December 31, 2010, is applied pursuant to Circular No. 1.

On May 4, 2016, State Tax Bureau, Ministry of Finance and other joint ministries issued Caishui [2016] No. 49 (“Circular No. 49”), which highlights the implementation of the record-filing system, clarification on certain criteria for tax incentive entitlement and establishment of a post-record filing examination mechanism and enhancement of post-administration.

The detailed tax status of SMIC’s principal PRC entities with tax holidays is elaborated as follows:

1) *Semiconductor Manufacturing International (Shanghai) Corporation (“SMIS” or “SMIC Shanghai”)*

Pursuant to the relevant tax regulations, SMIS is qualified as an integrated circuit enterprise and enjoyed a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2004 after utilizing all prior years’ tax losses. The income tax rate for SMIS for was 15% in 2016. (2015: 15% and 2014: 15%).

2) *Semiconductor Manufacturing International (Tianjin) Corporation (“SMIT” or “SMIC Tianjin”)*

In accordance with Circular No. 43 and Circular No. 1, SMIT is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2013 after utilizing all prior years’ tax losses. The income tax rate for SMIT was 0% from 2013 to 2017 and 12.5% from 2018 to 2022.

3) *Semiconductor Manufacturing International (Beijing) Corporation (“SMIB” or “SMIC Beijing”)*

In accordance with Circular No. 43 and Circular No. 1, SMIB is qualified as an integrated circuit enterprise and enjoying a 10-year tax holiday (five year full exemption followed by five year half reduction) beginning from 2015 after utilizing all prior years’ tax losses. The income tax rate for SMIB was 0% from 2015 to 2019 and 12.5% from 2020 to 2024. After that, the income tax rate will be 15%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

10. Income taxes (continued)

Deferred tax balances (continued)

- 4) *Semiconductor Manufacturing International (Shenzhen) Corporation (“SMIC Shenzhen”), Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”) and SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)*

In accordance with Circular No. 43, Circular No. 1 and Circular No. 27, SMIC Shenzhen, SMNC and SJ Jiangyin are entitled to the preferential tax rate of 15% and 10-year tax holiday (five year full exemption followed by five year half reduction) subsequent to its first profit-making year after utilizing all prior tax losses on or before December 31, 2017. SMIC Shenzhen, SMNC and SJ Jiangyin were in accumulative loss positions as of December 31, 2016 and the tax holiday has not begun to take effect.

All the other PRC entities of SMIC are subject to income tax rate of 25%. Under the law of Italy on enterprise income tax, LFoundry’s income tax (IRES) rate is 24%.

Unused tax losses

At the end of the reporting period, no deferred tax asset was recognized in respect of tax losses of US\$444.0 million (December 31, 2015: US\$577.3 million and December 31, 2014: US\$532.8 million) due to the unpredictability of future profit streams, of which US\$160.4 million, US\$16.1 million, US\$30.4 million, US\$78.7 million and US\$158.2 million will expire in 2017, 2018, 2019, 2020 and 2021, respectively.

11. Profit (loss) for the year

Profit (loss) for the year has been arrived at after charging (crediting)

11.1 Impairment losses (reversal of impairment losses) on trade receivables

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD’000	USD’000	USD’000
Allowance on trade receivables (see Note 26)	201	528	1,616
Reversal of allowance on doubtful trade receivables (see Note 26)	(1,603)	(541)	(59)
Reversal of allowance on doubtful other receivables	(8,809)	—	—
	<u>(10,211)</u>	<u>(13)</u>	<u>1,557</u>

In 2016, the Group reversed a portion of the allowance on doubtful accounts due to collection of part of the trade and other receivables from customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

11. Profit (loss) for the year *(continued)*

Profit (loss) for the year has been arrived at after charging (crediting) *(continued)*

11.2 Depreciation and amortization expense

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Depreciation of property, plant and equipment	673,161	473,008	506,366
Amortization of intangible assets and land use right	56,705	50,541	43,102
Total depreciation and amortization expense	<u>729,866</u>	<u>523,549</u>	<u>549,468</u>

11.3 Employee benefits expense

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Wages, salaries and social security contributions	378,709	299,267	249,622
Bonus	123,313	107,859	50,157
Paid annual leave	—	66	796
Non-monetary benefits	31,686	21,414	17,231
Equity-settled share-based payments (Note 39)	14,210	18,329	18,388
Total employee benefits expense	<u>547,918</u>	<u>446,935</u>	<u>336,194</u>

11.4 Royalties expense

	Year Ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Royalties expense	37,023	36,262	26,344

11. Profit (loss) for the year *(continued)*

Profit (loss) for the year has been arrived at after charging (crediting) *(continued)*

11.5 Government funding

Government funding under specific R&D projects

The Group received government funding (including those with primary condition that the Group should purchase, construct or otherwise acquire non-current assets) of US\$181.1 million, US\$40.2 million and US\$57.3 million and recognized US\$52.5 million US\$34.3 million and US\$37.4 million as reductions of certain R&D expenses in 2016, 2015 and 2014 for several specific R&D projects respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of R&D expenses until the milestones specified in the terms of the funding have been reached.

Government funding for specific intended use

The Group received government funding of US\$21.1 million, US\$7.6 million and US\$21.7 million in 2016, 2015 and 2014, respectively. The Group recognized US\$11.6 million, US\$4.9 million and US\$21.4 million as reduction of interest expense and recognized US\$9.5 million, US\$2.7 million and US\$0.3 million as other operating income in 2016, 2015 and 2014, respectively. The government funding is recorded as a liability upon receipt and recognized as reduction of interest expense or as other operating income until the requirements (if any) specified in the terms of the funding have been reached.

11.6 Auditors' remuneration

	Year ended 12/31/16	Year ended	Year ended
	USD'000	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Audit services	1,529	1,322	1,568
Non-audit services	587	65	94

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

12. Directors' remuneration

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Salaries	2,367	2,384	2,216
Equity-settled share-based payments	2,214	1,550	1,305
	4,581	3,934	3,521

The equity-settled share-based payments granted to directors include both stock options and restricted share units ("RSUs").

The Group granted 10,689,552, 30,917,241 and 7,773,789 options to purchase ordinary shares of the Company to the directors in 2016, 2015 and 2014, respectively (adjusted to 1,068,955, 3,091,724 and 777,378, respectively upon the effect of the Share Consolidation). During the year ended December 31, 2016, 18,000,000 stock options were exercised and 7,328,203 stock options were expired (adjusted to 1,800,000 stock options were exercised and 732,820 stock options were expired upon the effect of the Share Consolidation). During the year ended December 31, 2015, 18,353,433 stock options were exercised and 1,117,811 stock options were expired. And during the year ended December 31, 2014, 1,123,074 stock options were exercised and 3,369,223 stock options were expired.

The Group granted 10,689,552, 10,804,985 and 2,910,836 RSUs to purchase ordinary shares of the Company to the directors in 2016, 2015 and 2014, respectively (adjusted to 1,068,955, 1,080,498 and 291,083, respectively upon the effect of the Share Consolidation). During the year ended December 31, 2016, 14,118,507 RSUs automatically vested and no RSUs were forfeited (adjusted to 1,411,850 RSUs were vested and no RSUs were forfeited upon the effect of the Share Consolidation). During the year ended December 31, 2015, 12,377,826 RSUs automatically vested and no RSUs were forfeited. And during the year ended December 31, 2014, 12,250,480 RSUs automatically vested and no RSUs were forfeited.

In 2016, 2015 and 2014, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the waiver of all options previously granted to Ren Kai subject to his request on February 18, 2016, no directors waived any emoluments in 2016, 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

12. Directors' remuneration (*continued*)

(a) **Independent non-executive directors**

The fees paid or payable to independent non-executive directors of the Company during the year were as follows:

	Salaries and wages	Employee settle share- based payment	Total remuneration
	USD'000	USD'000	USD'000
2016			
Lip-Bu Tan	100	156	256
William Tudor Brown	85	24	109
Sean Maloney*	72	23	95
Carmen I-Hua Chang	68	78	146
Shang-yi Chiang***	—	—	—
	325	281	606

	Salaries and wages	Employee settle share- based payment	Total remuneration
	USD'000	USD'000	USD'000
2015			
Lip-Bu Tan	70	—	70
Frank Meng	28	6	34
William Tudor Brown	47	47	94
Sean Maloney*	50	46	96
Carmen I-Hua Chang	42	149	191
	237	248	485

	Salaries and wages	Employee settle share- based payment	Total remuneration
	USD'000	USD'000	USD'000
2014			
Lip-Bu Tan	92	1	93
Frank Meng	76	18	94
William Tudor Brown	57	90	147

Sean Maloney*	62	87	149
Carmen I-Hua Chang	13	59	72
	<u>300</u>	<u>255</u>	<u>555</u>

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil and 2014: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

12. Directors' remuneration (*continued*)

(b) Executive directors and non-executive director

	Salaries and wages	Employee settle share- based payment	Total remuneration
	USD'000	USD'000	USD'000
2016			
Executive directors:			
Zhou Zixue	527	655	1,182
Tzu-Yin Chiu**	920	1,038	1,958
Gao Yonggang	413	82	495
	1,860	1,775	3,635
Non-executive director:			
Chen Shangzhi	80	136	216
Zhou Jie	—	—	—
Ren Kai	63	22	85
Lu Jun	39	—	39
Li Yonghua (Alternate to Chen Shanzhi)****	—	—	—
	182	158	340
	Salaries and wages	Employee settle share- based payment	Total remuneration
	USD'000	USD'000	USD'000
2015			
Executive directors:			
Zhou Zixue	225	873	1,098
Zhang Wenyi	578	32	610
Tzu-Yin Chiu**	918	130	1,048
Gao Yonggang	376	201	577
	2,097	1,236	3,333
Non-executive director:			
Chen Shangzhi	50	—	50
Zhou Jie	—	—	—
Li Yonghua (Alternate to Chen Shanzhi)****	—	—	—
Ren Kai	—	66	66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

12. Directors' remuneration (*continued*)

(b) Executive directors and non-executive director (*continued*)

	Salaries and wages	Employee settle share- based payment	Total remuneration
	USD'000	USD'000	USD'000
2014			
Executive directors:			
Zhang Wenyi	524	124	648
Tzu-Yin Chiu**	973	442	1,415
Gao Yonggang	307	399	706
	<u>1,804</u>	<u>965</u>	<u>2,769</u>
Non-executive director:			
Chen Shangzhi	61	3	64
Lawrence Juen-Yee Lau	51	82	133
Zhou Jie	—	—	—
Li Yonghua (Alternate to Chen Shanzhi)****	—	—	—
Chen Datong (Alternate to Lawrence Juen-Yee Lau)	—	—	—
	<u>112</u>	<u>85</u>	<u>197</u>

* Sean Maloney resigned as independent non-executive director with effect from November 7, 2016.

** Tzu-Yin Chiu is also the Chief Executive Officer of the Company.

*** Shang-yi Chiang was appointed as independent non-executive director with effect from December 20, 2016.

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

On February 18, 2016, Ren Kai waived all granted options. There was no other arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

13. Five highest paid employees

The five highest paid individuals during the year included two (2015: two and 2014: three) directors, details of whose remuneration are set out in Note 12 above. Details of the remuneration of the remaining three (2015: three and 2014: two) non-directors, highest paid individuals for the year are as follows:

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Salaries and other benefits	692	962	633
Bonus	611	636	328
Stock option benefits	412	552	473
	<u>1,715</u>	<u>2,150</u>	<u>1,434</u>

The bonus is determined on the basis of the basic salary and the performance of the Group and the individual.

In 2016, 2015 and 2014, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees		
	2016	2015	2014
HK\$4,000,001 (US\$515,804) to HK\$4,500,000 (US\$580,278)	2	—	—
HK\$4,500,001 (US\$580,279) to HK\$5,000,000 (US\$644,754)	—	1	—
HK\$5,000,001 (US\$644,755) to HK\$5,500,000 (US\$709,229)	1	—	1
HK\$5,500,001 (US\$709,230) to HK\$6,000,000 (US\$773,704)	—	1	1
HK\$6,000,001 (US\$773,705) to HK\$6,500,000 (US\$838,180)	—	1	—
	<u>3</u>	<u>3</u>	<u>2</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

14. Earnings per share

	Year ended 12/31/16	Year ended*	Year ended*
	USD	12/31/15 USD	12/31/14 USD
Basic earnings per share	0.09	0.07	0.05
Diluted earnings per share	0.08	0.06	0.04

The Share Consolidation pursuant to the shareholders' resolutions passed at an extraordinary general meeting of the Company held on December 6, 2016 is adjusted in the weighted average number of ordinary shares in issue as if the Share Consolidation had occurred at January 1, 2014, the beginning of the earliest period reported.

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Year ended 12/31/16	Year ended*	Year ended*
	USD'000	12/31/15 USD'000	12/31/14 USD'000
Profit for the year attributable to owners of the Company	376,630	253,411	152,969
Earnings used in the calculation of basic earnings per share	376,630	253,411	152,969
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,221,765,945	3,896,041,667	3,381,916,274

The weighted average number of ordinary shares for the prior years have been adjusted to reflect the impact of the Share Consolidation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

14. Earnings per share (*continued*)

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Earnings used in the calculation of basic earnings per share	376,630	253,411	152,969
Interest expense from convertible bonds	16,352	13,238	9,614
Earnings used in the calculation of diluted earnings per share	392,982	266,649	162,583

The weighted average number of ordinary shares used in the calculation of basic earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of diluted earnings per share as follows:

	Year ended 12/31/16	Year ended*	Year ended*
	12/31/16	12/31/15	12/31/14
Weighted average number of ordinary shares used in the calculation of basic earnings per share	4,221,765,945	3,896,041,667	3,381,916,274
Employee option and restricted share units	36,240,710	36,944,830	34,303,032
Convertible bonds	575,099,614	393,257,100	293,129,351
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	4,833,106,269	4,326,243,597	3,709,348,657

During the year ended December 31, 2016, the Group had 19,757,421 weighted average outstanding employee stock options which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

During the year ended December 31, 2015, the Group had 40,367,017 weighted average outstanding employee stock options which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

During the year ended December 31, 2014, the Group had 52,886,012 weighted average outstanding employee stock options which were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

All the above numbers of ordinary shares for the prior years have been adjusted to reflect the impact of the Share Consolidation.

* The basic and diluted earnings per share for the prior years have been adjusted to reflect the impact of the Share Consolidation, on the basis that every ten ordinary shares of US\$0.0004 each consolidated into one ordinary share of US\$0.004 each, which was accounted for as a reverse stock split effective on

December 7, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

15. Dividend

The Board did not recommend the payment of any dividend for the year ended December 31, 2016 (December 31, 2015: Nil and December 31, 2014: Nil).

16. Assets classified as held for sale

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Assets related to employee's living quarters	50,813	72,197	44

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

17. Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Office equipment</u>	<u>Construction in progress (CIP)</u>	<u>Total</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Cost						
Balance at December 31, 2013	—	319,083	8,129,374	108,031	500,910	9,057,398
Transfer from (out) CIP	—	6,896	366,298	13,652	(386,846)	—
Addition	—	—	—	—	977,487	977,487
Disposals	—	(635)	(23,486)	(1,611)	(3,471)	(29,203)
Balance at December 31, 2014	—	325,344	8,472,186	120,072	1,088,080	10,005,682
Transfer from (out) CIP	—	263,476	985,820	14,966	(1,264,262)	—
Addition	—	—	—	—	1,498,201	1,498,201
Disposals	—	—	(53,550)	(180)	(654)	(54,384)
Reclassified as held for sale	—	—	—	—	(114,534)	(114,534)
Balance at December 31, 2015	—	588,820	9,404,456	134,858	1,206,831	11,334,965
Business combination	2,485	42,612	63,519	290	4,213	113,119
Transfer from (out) CIP	—	93,535	2,338,662	34,546	(2,466,743)	—
Addition	—	—	—	—	2,597,970	2,597,970
Disposals	—	—	(283,420)	(2,136)	(9,257)	(294,813)
Balance at December 31, 2016	<u>2,485</u>	<u>724,967</u>	<u>11,523,217</u>	<u>167,558</u>	<u>1,333,014</u>	<u>13,751,241</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

17. Property, plant and equipment *(continued)*

	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Office equipment</u>	<u>Construction in progress (CIP)</u>	<u>Total</u>
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Accumulated depreciation and impairment						
Balance at December 31, 2013	—	108,473	6,303,714	88,179	28,198	6,528,564
Disposal	—	(170)	(21,687)	(1,610)	(867)	(24,334)
Depreciation expense	—	13,377	476,044	16,945	—	506,366
Balance at December 31, 2014	—	121,680	6,758,071	103,514	27,331	7,010,596
Disposal	—	—	(51,840)	(180)	(437)	(52,457)
Depreciation expense	—	13,858	451,027	8,123	—	473,008
Balance at December 31, 2015	—	135,538	7,157,258	111,457	26,894	7,431,147
Disposal	—	(289)	(33,917)	(2,136)	(11,611)	(47,953)
Depreciation expense	—	18,133	639,986	15,042	—	673,161
Impairment loss	—	—	—	—	7,529	7,529
Balance at December 31, 2016	—	153,382	7,763,327	124,363	22,812	8,063,884
	<u>Land</u>	<u>Buildings</u>	<u>Plant and equipment</u>	<u>Office equipment</u>	<u>Construction in progress (CIP)</u>	<u>Total</u>
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at December 31, 2014	—	203,664	1,714,115	16,558	1,060,749	2,995,086
Balance at December 31, 2015	—	453,282	2,247,198	23,401	1,179,937	3,903,818
Balance at December 31, 2016	2,485	571,585	3,759,890	43,195	1,310,202	5,687,357

Construction in progress

The construction in progress balance of approximately US\$1,310 million as of December 31, 2016, primarily consisted of US\$810 million of the manufacturing equipment acquired to further expand the production capacity at two 300mm fabs in Beijing, US\$288 million of the manufacturing equipment acquired to further expand the production capacity at one 300mm fab and one 200mm fab in Shanghai, US\$84 million of the manufacturing equipment acquired to further expand the production capacity at the 200mm fab in Shenzhen, US\$13 million of the manufacturing equipment acquired to further expand the production capacity at the majority-owned 300mm bumping facility in Jiangyin, US\$36 million of machinery and equipment acquired to more research and development activities at the subsidiary, SMIC Advanced Technology Research & Development (Shanghai) Corporation in Shanghai. In addition, US\$79 million was related to various ongoing capital expenditures projects of other SMIC subsidiaries, which are expected to be completed by the end of 2017.

Impairment losses recognized in the year

In 2016, the Group recorded US\$7.5 million (2015 and 2014: nil) impairment loss of equipment. The whole amount was recognized as other operating expense in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

17. Property, plant and equipment (*continued*)

Assets pledged as security

Property, plant and equipment with carrying amount of approximately US\$631 million (2015: approximately US\$324 million and 2014: approximately US\$306 million) have been pledged to secure borrowings of the Group (see Note 31). The plant and equipment have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to other entities.

Finance lease

The net carrying amount of the Group's fixed assets held under finance leases included in the total amounts of facility machinery and equipment at December 31, 2016 was US\$7.0 million (2015 and 2014: nil).

18. Intangible assets

	<u>Goodwill</u>	<u>Other intangible assets</u>	<u>Total</u>
	USD'000	USD'000	USD'000
Cost			
Balance at December 31, 2013	—	348,421	348,421
Additions	—	37,595	37,595
Expired and disposal	—	(15,295)	(15,295)
Balance at December 31, 2014	—	370,721	370,721
Additions	—	65,269	65,269
Expired and disposal	—	(44,813)	(44,813)
Balance at December 31, 2015	—	391,177	391,177
Business combination	3,933	8,088	12,021
Additions	—	67,936	67,936
Expired and disposal	—	(21,164)	(21,164)
Balance at December 31, 2016	<u>3,933</u>	<u>446,037</u>	<u>449,970</u>
Accumulated amortization and impairment			
Balance at December 31, 2013	—	133,156	133,156
Amortization expense for the year	—	41,046	41,046
Expired and disposal	—	(11,303)	(11,303)
Balance at December 31, 2014	—	162,899	162,899
Amortization expense for the year	—	48,812	48,812
Expired and disposal	—	(44,813)	(44,813)

Balance at December 31, 2015	—	166,898	166,898
Amortization expense for the year	—	55,080	55,080
Expired and disposal	—	(20,589)	(20,589)
Balance at December 31, 2016	—	<u>201,389</u>	<u>201,389</u>
Balance at December 31, 2014	—	207,822	207,822
Balance at December 31, 2015	—	224,279	224,279
Balance at December 31, 2016	<u>3,933</u>	<u>244,648</u>	<u>248,581</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

19. Subsidiaries

Details of the Company's subsidiaries at the end of the reporting period are as follows:

Name of company	Place of establishment and operation	Class of shares held	Paid up registered capital		Proportion of ownership interest held by the Company		Proportion of voting power held by the Company	Principal activities
Better Way Enterprises Limited ("Better Way")#	Samoa	Ordinary	USD	1,000,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Shanghai) Corporation ("SMIS" or "SMIC Shanghai")#	People's Republic of China (the "PRC")	Ordinary	USD	1,740,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SMIC, Americas	United States of America	Ordinary	USD	500,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing")#	PRC	Ordinary	USD	1,000,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Japan	Japan	Ordinary	JPY	10,000,000	Directly	100%	100%	Provision of marketing related activities
SMIC Europe S.R.L	Italy	Ordinary	EUR	100,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Solar Cell) Corporation	Cayman Islands	Ordinary	USD	11,000	Directly	100%	100%	Investment holding
SMIC Commercial Shanghai Limited Company (formerly SMIC Consulting Corporation)	PRC	Ordinary	USD	800,000	Directly	100%	100%	Provision of marketing related activities
Semiconductor Manufacturing International (Tianjin) Corporation ("SMIT" or "SMIC Tianjin")#	PRC	Ordinary	USD	690,000,000	Directly	100%	100%	Manufacturing and trading of semiconductor products
SMIC Development (Chengdu)	PRC	Ordinary	USD	5,000,000	Directly	100%	100%	Construction,

Corporation (“SMICD”)#									operation, and management of SMICD’s living quarters, schools, and supermarket
Semiconductor Manufacturing International (BVI) Corporation (“SMIC (BVI)”)#	British Virgin Islands	Ordinary	USD	10	Directly	100%	100%	100%	Provision of marketing related activities
Admiral Investment Holdings Limited	British Virgin Islands	Ordinary	USD	10	Directly	100%	100%	100%	Investment holding
SMIC Shanghai (Cayman) Corporation	Cayman Islands	Ordinary	USD	50,000	Directly	100%	100%	100%	Investment holding
SMIC Beijing (Cayman) Corporation	Cayman Islands	Ordinary	USD	50,000	Directly	100%	100%	100%	Investment holding
SMIC Tianjin (Cayman) Corporation	Cayman Islands	Ordinary	USD	50,000	Directly	100%	100%	100%	Investment holding
SilTech Semiconductor Corporation	Cayman Islands	Ordinary	USD	10,000	Directly	100%	100%	100%	Investment holding
SMIC Shenzhen (Cayman) Corporation	Cayman Islands	Ordinary	USD	50,000	Directly	100%	100%	100%	Investment holding
SMIC Advanced Technology Research & Development (Shanghai) Corporation	PRC	Ordinary	USD	99,000,000	Directly	89.697%	89.697%	89.697%	Manufacturing and trading of semiconductor products
SMIC Holdings Corporation	PRC	Ordinary	USD	50,000,000	Directly	100%	100%	100%	investment holding
SJ Semiconductor Corporation	Cayman Islands	Ordinary and preferred	USD	5,668	Directly	56.045%	56.045%	56.045%	Investment holding
SMIC Energy Technology (Shanghai) Corporation (“Energy Science”)#	PRC	Ordinary	USD	10,400,000	Indirectly	100%	100%	100%	Manufacturing and trading of solar cell related semiconductor products
Magnificent Tower Limited	British Virgin Islands	Ordinary	USD	50,000	Indirectly	100%	100%	100%	investment holding
SMIC Hong Kong International Company Limited (formerly “SMIC Shanghai (HK) Company Limited”)	Hong Kong	Ordinary	HKD	1	Indirectly	100%	100%	100%	investment holding
SMIC Beijing (HK) Company Limited	Hong Kong	Ordinary	HKD	1	Indirectly	100%	100%	100%	Investment holding
SMIC Tianjin (HK) Company Limited	Hong Kong	Ordinary	HKD	1	Indirectly	100%	100%	100%	Investment holding
SMIC Solar Cell (HK) Company Limited	Hong Kong	Ordinary	HKD	1	Indirectly	100%	100%	100%	Investment holding
SMIC Shenzhen (HK) Company Limited	Hong Kong	Ordinary	HKD	1	Indirectly	100%	100%	100%	Investment holding
SilTech Semiconductor (Hong Kong) Corporation Limited	Hong Kong	Ordinary	HKD	1,000	Indirectly	100%	100%	100%	Investment holding
Semiconductor Manufacturing International (Shenzhen)	PRC	Ordinary	USD	127,000,000	Indirectly	100%	100%	100%	Manufacturing and trading of

Corporation								semiconductor products
SilTech Semiconductor (Shanghai) Corporation Limited (“SilTech Shanghai”)	PRC	Ordinary	USD	12,000,000	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”)#	PRC	Ordinary	USD	2,400,000,000	Directly and indirectly	51%	51%	Manufacturing and trading of semiconductor products
China IC Capital Co., Ltd	PRC	Ordinary	RMB	777,000,000	Indirectly	100%	100%	Investment holding
Shanghai Hexin Investment Management Limited Partnership	PRC	Ordinary	RMB	50,000,000	Indirectly	99%	99%	Investment holding
Shanghai Rongxin Investment Management Limited Partnership	PRC	Ordinary		—	Indirectly	99%	99%	Investment holding
SJ Semiconductor (HK) Limited	Hong Kong	Ordinary	HKD	1,000	Indirectly	56.045%	56.045%	Investment holding
SJ Semiconductor (Jiangyin) Corporation (“SJ Jiangyin”)#	PRC	Ordinary	USD	259,500,000	Indirectly	56.045%	56.045%	Bumping and circuit probe testing activities
LFoundry S.r.l. (“LFoundry”)#	Italy	Ordinary	EUR	2,000,000	Indirectly	70%	70%	Manufacturing and trading of semiconductor products
Ningbo Semiconductor International Corporation	PRC	Ordinary	RMB	255,000,000	Indirectly	66.7606%	66.7606%	Manufacturing and trading of semiconductor products
Semiconductor Manufacturing South China Corporation	PRC	Ordinary		—	Indirectly	100%	100%	Manufacturing and trading of semiconductor products
SJ Semiconductor USA Co.	United States of America	Ordinary	USD	500,000	Indirectly	56.045%	56.045%	Provision of marketing related activities

Abbreviation for identification purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

19. Subsidiaries (continued)

In June 2016, China IC Fund made a capital contribution of US\$636 million into the registered capital of SMNC.

In September 2016, China IC Fund made another capital contribution of US\$50 million into the registered capital of SJ Jiangyin.

On June 24, 2016, the Company entered into a purchase and sale agreement to acquire 70% of the corporate capital of LFoundry in consideration of EUR49 million. The acquisition was completed on July 29, 2016.

On October 14, 2016, Ningbo Semiconductor International Corporation was jointly established by China IC Capital (the wholly-owned subsidiary of SMIC), Ningbo Senson Electronics Technology Co., Ltd, and Beijing Integrated Circuit Design and Testing Fund.

On December 1, 2016, Semiconductor Manufacturing South China Corporation was established by SMIC Holdings Corporation and SMIC Shanghai.

Details of non-wholly owned subsidiaries that have material non-controlling interests (“NCI”)

The table below shows details of a non-wholly owned subsidiary of the Company that have material non-controlling interests:

Name of company	Place of establishment and operation	Proportion of ownership interests and voting rights held by non-controlling interests			Profit (loss) allocated to non-controlling interests			Accumulated non-controlling interests		
		12/31/16	12/31/15	12/31/14	12/31/16 USD'000	12/31/15 USD'000	12/31/14 USD'000	12/31/16 USD'000	12/31/15 USD'000	12/31/14 USD'000
Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”)	Beijing, PRC	49.0%	45.0%	45.0%	(55,868)	(25,596)	(26,353)	1,069,703	371,446	335,057
SJ Semiconductor Corporation	Cayman Islands	44.0%	44.7%	49.0%	(3,545)	(5,077)	(424)	136,458	79,621	24,076
Total					<u>(59,413)</u>	<u>(30,673)</u>	<u>(26,777)</u>	<u>1,206,161</u>	<u>451,067</u>	<u>359,133</u>

Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”, the Company’s majority owned subsidiary in Beijing) shared part of the Group’s advance-technology R&D expenses in 2016, had start-up cost in 2015 and shared part of the Group’s advance-technology R&D expenses in 2014, which also caused the change in loss of year attributable to non-controlling interests.

According to the joint venture agreements entered into by the Group and the NCI of SMNC, additional capital injection into SMNC was completed in 2016, 2015 and 2014. The additional capital injection from NCI amounted to US\$754.1 million in 2016, US\$61.9 million in 2015 and US\$252 million in 2014 respectively.

According to the joint venture agreements entered into by the Company and the NCI of SJ Semiconductor Corporation, additional capital injection into SJ Semiconductor Corporation was completed in 2016, 2015 and 2014. The additional capital injection from NCI amounted to US\$60.0 million in 2016, US\$60.0 million

in 2015 and US\$24.5 million in 2014 respectively.

Summarized financial information in respect of the Company's subsidiary that has material non- controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

19. Subsidiaries *(continued)*

SMNC

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Current assets	1,103,214	381,640	659,596
Non-current assets	1,807,207	917,719	550,859
Current liabilities	(409,898)	(350,298)	(347,217)
Non-current liabilities	(327,995)	(123,626)	(118,667)
Net assets	2,172,528	825,435	744,571
Equity attributable to owners of the Company	1,102,825	453,989	409,514
Non-controlling interests	1,069,703	371,446	335,057
	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Revenue	243,715	4,721	—
Expense	(339,910)	(64,032)	(65,058)
Other (expense) income	(19,480)	2,430	6,496
Loss for the year	(115,675)	(56,881)	(58,562)
Loss attributable to owners of the Company	(59,807)	(31,285)	(32,209)
Loss attributable to the non-controlling interests	(55,868)	(25,596)	(26,353)
Loss for the year	(115,675)	(56,881)	(58,562)
Other comprehensive income attributable to owners of the Company	—	—	—
Other comprehensive income attributable to the non-controlling interests	—	—	—
Other comprehensive income for the year	—	—	—
Total comprehensive loss attributable to owners of the Company	(59,807)	(31,285)	(32,209)
Total comprehensive loss attributable to the non-controlling interests	(55,868)	(25,596)	(26,353)
Total comprehensive loss for the year	(115,675)	(56,881)	(58,562)
Dividends paid to non-controlling interests	—	—	—
Net cash (outflow) inflow from operating activities	(13,082)	(71,817)	7,758
Net cash outflow from investing activities	(1,627,788)	(173,535)	(436,449)
Net cash inflow from financing activities	1,655,011	137,500	560,000
Net cash inflow (outflow)	14,141	(107,852)	131,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

19. Subsidiaries *(continued)*

SJ Semiconductor Corporation and its subsidiaries

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Current assets	224,737	164,495	49,901
Non-current assets	102,790	66,772	59
Current liabilities	(11,656)	(18,904)	(825)
Non-current liabilities	(5,421)	(34,331)	—
Net assets	310,450	178,032	49,135
Equity attributable to owners of the Company	173,992	98,411	25,059
Non-controlling interests	136,458	79,621	24,076
	Year ended	Year ended	Year ended
	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Revenue	12,782	1,543	—
Expense	(27,300)	(9,621)	(175)
Other income (expense)	6,564	(3,274)	(690)
Loss for the year	(7,954)	(11,352)	(865)
Loss attributable to owners of the Company	(4,409)	(6,275)	(441)
Loss attributable to the non-controlling interests	(3,545)	(5,077)	(424)
Loss for the year	(7,954)	(11,352)	(865)
Other comprehensive income attributable to owners of the Company	—	—	—
Other comprehensive income attributable to the non-controlling interests	—	—	—
Other comprehensive income for the year	—	—	—
Total comprehensive loss attributable to owners of the Company	(4,409)	(6,275)	(441)
Total comprehensive loss attributable to the non-controlling interests	(3,545)	(5,077)	(424)
Total comprehensive loss for the year	(7,954)	(11,352)	(865)
Dividends paid to non-controlling interests	—	—	—
Net cash outflow from operating activities	(1,194)	(9,841)	(38)
Net cash outflow from investing activities	(147,752)	(60,336)	(67)
Net cash inflow from financing activities	109,291	175,211	50,000
Net cash (outflow) inflow	(39,655)	105,034	49,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

20. Investments in associates

Details of the Company's associates, which are all unlisted companies, at the end of the reporting period are as follows:

Name of company	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group		
			12/31/16	12/31/15	12/31/14
Toppan SMIC Electronic (Shanghai) Co., Ltd ("Toppan")	Shanghai, PRC	Ordinary	30.0%	30.0%	30.0%
Zhongxin Xiecheng Investment (Beijing) Co., Ltd ("Zhongxin Xiecheng")	Beijing, PRC	Ordinary	49.0%	49.0%	49.0%
Brite Semiconductor Corporation	Cayman Island	Ordinary	47.3%	47.8%	47.8%
Suzhou Changjiang Electric Xinke Investment Co., Ltd. ("Changjiang Xinke")	Jiangsu, PRC	Ordinary	19.6%	19.6%	NA
Sino IC Leasing Co., Ltd. ("Sino IC Leasing")	Shanghai, PRC	Ordinary	11.4%*	8.8%*	NA
China Fortune-Tech Capital Co., Ltd ("China Fortune-Tech")	Shanghai, PRC	Ordinary	30.0%	45.0%	45.0%
Beijing Wu Jin Venture Investment Center (Limited Partnership) ("WuJin")**	Beijing, PRC	Ordinary	32.6%	32.6%	32.6%
Shanghai Fortune-Tech Qitai Invest Center (Limited Partnership) ("Fortune-Tech Qitai")**	Shanghai, PRC	Ordinary	33.0%	33.0%	NA
Shanghai Fortune-Tech Zaixing Invest Center (Limited Partnership) ("Fortune-Tech Zaixing")**	Shanghai, PRC	Ordinary	66.2%*	66.2%*	NA
Suzhou Fortune-Tech Oriental Invest Fund Center (Limited Partnership) ("Fortune-Tech Oriental")**	Jiangsu, PRC	Ordinary	44.8%	44.8%	NA
Juyuan Juxin Integrated Circuit Fund ("Juyuan Juxin")**	Shanghai, PRC	Ordinary	40.9%	NA	NA

* In accordance with investment agreements, the Group has significant influence over Fortune-Tech Zaixing and Sino IC Leasing.

** The Group invested in these associates indirectly through China IC Capital Co., Ltd (the "Fund"), a wholly-owned investment fund company of SMIC, as set out in Note 19. The Fund is intended to invest primarily in integrated circuits related fund products and investment projects. The Group's joint ventures and available-for-sale investments invested indirectly through the Fund are disclosed in Note 21 and Note 23, respectively.

All of these associates are accounted for using the equity method in these consolidated financial statements.

In December 2014, the Company entered into an investment agreement through SilTech Shanghai with Jiangsu Changjiang Electronics Technology Co., Ltd ("JCET") and China Integrated Circuit Industry Investment Fund Co., Ltd., ("China IC Fund") to set up Changjiang Xinke. The Group paid US\$102 million to obtain 19.6% of total shares and 1 of 7 board seats. Changjiang Xinke and China IC Fund set up Suzhou Changdian Xinpeng Investment Ltd., Co. ("Changdian Xinpeng") which acquired STATS ChipPAC Limited ("STATS ChipPAC"), a public company listed in Singapore capital market before acquired by Changdian Xinpeng. The investment was made in 2015 and the acquisition was completed in the same year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

20. Investments in associates (*continued*)

Furthermore, JCET granted the Group an option to sell the shares of Changjiang Xinke to JCET at an exercise price equivalent to the Group's initial investment plus an annual return rate at any time after STATS ChipPAC was acquired. Please refer to Note 22.

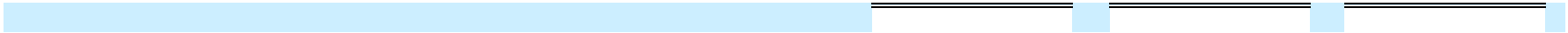
On April 27, 2016, SilTech Shanghai and JCET entered into a disposal agreement ("Disposal Agreement"), pursuant to which SilTech Shanghai agreed to sell its 19.61% equity interest in Changjiang Xinke to JCET in consideration of RMB664 million, which will be satisfied by JCET's issue of 43,229,166 shares of JCET to SilTech Shanghai at RMB15.36 per share. On the same day, SilTech Shanghai and JCET entered into a subscription agreement ("Subscription Agreement"), pursuant to which SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 shares of JCET in consideration of an aggregate subscription price of RMB2,655 million in cash. As of the date of this report, the China Securities Regulatory Commission ("CSRC"), has granted conditional approval for both the disposal agreement and the subscription agreement but the related conditions have not been satisfied. Please refer to Note 45 for details.

Toppan

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Current assets	53,716	51,661	44,538
Non-current assets	17,205	22,554	28,789
Current liabilities	(2,246)	(2,062)	(311)
Non-current liabilities	—	—	—
Net assets	68,675	72,153	73,016
	Year ended	Year ended	Year ended
	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Total revenue	20,711	20,782	23,498
Profit for the year	1,178	3,267	5,493
Other comprehensive income for the year	—	—	—
Total comprehensive income for the year	1,178	3,267	5,493
Dividends received from the associate during the year	—	—	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Net assets of the associate	68,675	72,153	73,016
Proportion of the Group's ownership interest in Toppan	30%	30%	30%
Carrying amount of the Group's interest in Toppan	20,603	21,646	21,905



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

20. Investments in associates (*continued*)

Changjiang Xinke and its subsidiaries

	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Current assets	509,827	445,709
Non-current assets	1,753,411	1,837,445
Current liabilities	(572,489)	(581,838)
Non-current liabilities	(1,210,124)	(1,093,368)
Net assets	<u>480,625</u>	<u>607,948</u>
Equity attributable to owners of the associate	370,224	455,862
Non-controlling interests	<u>110,401</u>	<u>152,086</u>
	Year ended	Year ended
	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Total revenue	1,148,462	519,582
Loss for the year	(100,606)	(67,135)
Loss attributable to owners of the associate	(78,260)	(65,589)
Loss attributable to the non-controlling interests	(22,346)	(1,546)
Loss for the year	<u>(100,606)</u>	<u>(67,135)</u>
Other comprehensive income for the year	30,582	16,224
Total comprehensive loss for the year	<u>(70,024)</u>	<u>(50,911)</u>
Total comprehensive loss attributable to owners of the associate	(54,629)	(51,473)
Total comprehensive (loss) income attributable to the non-controlling interests	(15,395)	562
Total comprehensive loss for the year	<u>(70,024)</u>	<u>(50,911)</u>
Dividends received from the associate during the year	<u>—</u>	<u>—</u>

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Equity attributable to owners of the associate	370,224	455,862
Proportion of the Group's ownership interest in Changjiang Xinke	19.6%	19.6%
Carrying amount of the Group's interest in Changjiang Xinke	<u>72,601</u>	<u>89,395</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

20. Investments in associates (*continued*)

Fortune-Tech Zaixing

	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Current assets	12,720	15,513
Non-current assets	8,520	7,581
Current liabilities	(1)	(3)
Non-current liabilities	—	—
Net assets	<u>21,239</u>	<u>23,091</u>
	<u>Year ended</u>	<u>Year ended</u>
	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Total revenue	—	—
Loss for the year	(329)	(178)
Other comprehensive income for the year	—	—
Total comprehensive loss for the year	<u>(329)</u>	<u>(178)</u>
Dividends received from the associate during the year	<u>—</u>	<u>—</u>

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Net assets of the associate	21,239	23,091
Proportion of the Group's ownership interest in Fortune-Tech Zaixing	66.2%	66.2%
Carrying amount of the Group's interest in Fortune-Tech Zaixing	<u>14,087</u>	<u>15,292</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

20. Investments in associates (*continued*)

Sino IC Leasing and its subsidiaries

	12/31/16	12/31/15
	USD'000	USD'000
Current assets	702,570	502,454
Non-current assets	1,859,267	21,374
Current liabilities	(117,287)	(8,679)
Non-current liabilities	(1,653,206)	(190,021)
Net assets	791,344	325,128
Equity attributable to owners of the associate	776,959	325,128
Non-controlling interests	14,385	—
	Year ended	Year ended
	12/31/16	12/31/15
	USD'000	USD'000
Total revenue	36,085	2,437
Profit for the year	12,986	3,761
Profit attributable to owners of the associate	12,938	3,761
Profit attributable to the non-controlling interests	48	—
Profit for the year	12,986	3,761
Other comprehensive income for the year	3,594	—
Total comprehensive income for the year	16,580	3,761
Total comprehensive income attributable to owners of the associate	16,532	3,761
Total comprehensive income attributable to the non-controlling interests	48	—
Total comprehensive income for the year	16,580	3,761
Dividends received from the associate during the year	—	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	12/31/16	12/31/15
	USD'000	USD'000
Equity attributable to owners of the associate	776,959	325,128
Proportion of the Group's ownership interest in Sino IC Leasing	11.4%	8.8%
Carrying amount of the Group's interest in Sino IC Leasing	88,651	28,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

20. Investments in associates (*continued*)

Juyuan Juxin

	<u>12/31/16</u>
	<u>USD'000</u>
Current assets	47,494
Current liabilities	(7)
Net assets	<u>47,487</u>
	Year ended
	<u>12/31/16</u>
	<u>USD'000</u>
Total revenue	—
Loss for the year	(1,893)
Other comprehensive income for the year	—
Total comprehensive loss for the year	<u>(1,893)</u>
Dividends received from the associate during the year	<u>—</u>

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	<u>12/31/16</u>
	<u>USD'000</u>
Net assets of the associate	47,487
Proportion of the Group's ownership interest in Juyuan Juxin	40.9%
Carrying amount of the Group's interest in Juyuan Juxin	<u>19,408</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

21. Investments in joint ventures

Details of the Group's joint ventures, which are all unlisted companies invested indirectly through China IC Capital Co., Ltd, at the end of the reporting period are as follows:

Name of company	Place of establishment and operation	Class of share held	Proportion of ownership interest and voting power held by the Group		
			12/31/16	12/31/15	12/31/14
Shanghai Xinxin Investment Centre (Limited Partnership) ("Shanghai Xinxin")	Shanghai, PRC	Ordinary	49.0%	49.0%	NA
Shanghai Chengxin Investment Center (Limited Partnership) ("Shanghai Chengxin")	Shanghai, PRC	Ordinary	42.0%	42.0%	NA

Summarized financial information in respect of the Group's material joint venture is set out below.

Shanghai Xinxin

	12/31/16	12/31/15
	USD'000	USD'000
Current assets	10,679	4,917
Non-current assets	13,283	28,631
Current liabilities	(7)	(3,287)
Non-current liabilities	—	—
Net assets	23,955	30,261
	Year ended	Year ended
	12/31/16	12/31/15
	USD'000	USD'000
Total revenue	—	—
Profit (loss) for the year	4,540	(609)
Other comprehensive income for the year	—	—
Total comprehensive income (loss) for the year	4,540	(609)
Dividends received from the joint venture during the year	2,027	—

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	<u>12/31/16</u>	<u>12/31/15</u>
	<u>USD'000</u>	<u>USD'000</u>
Net assets of the joint venture	23,955	30,261
Proportion of the Group's ownership interest in Shanghai Xinxin	49.0%	49.0%
Carrying amount of the Group's interest in Shanghai Xinxin	<u>11,740</u>	<u>14,829</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

22. Derivative financial instrument

As of December 31, 2016, the amount of the derivative financial instrument was US\$32.9 million (2015: US\$30.2 and 2014: nil), which is a put option granted by JCET to sell the shares of Changjiang Xinke to JCET, pursuant to an investment exit agreement entered into by SilTech Shanghai (a subsidiary of the Company), JCET and Jiangsu Xinchao Technology Group Co., Ltd (a substantial shareholder of JCET). The fair value change of the derivative financial instrument was US\$2.7 million for the year ended 2016 (2015: US\$30.2 million and 2014: nil). Please refer to Note 20 for more details of the put option, refer to Note 40 for valuation techniques of the put option and refer to Note 45 for the latest status of the put option.

23. Other assets

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Available-for-sale investments	21,966	19,750	15,081
MPS Bonds	4,634	—	—
Others	16,270	12,328	15,786
Non-current	<u>42,870</u>	<u>32,078</u>	<u>30,867</u>

Available-for-sale investments are primarily fund companies and investment projects invested indirectly through China IC Capital Co., Ltd in the integrated circuits industry.

As of December 31, 2016, other assets also included an amount of US\$4.6 million (EUR4.4 million), relating to the bonds investment (“MPS Bonds”) which were pledged against long-term borrowings from Cassa Deposite Prestiti and MPS Capital Services S.p.A..

24. Other financial assets

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Derivatives			
Foreign currency forward contracts	—	172	—
Short-term investments			
Financial products sold by banks	24,931	257,583	616,862
Bank deposits will mature over 3 months	6,612	25,125	27,209
	<u>31,543</u>	<u>282,880</u>	<u>644,071</u>

25. Inventories

<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
-----------------	-----------------	-----------------

	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Raw materials	126,526	88,134	65,598
Work in progress	280,216	225,475	179,047
Finished goods	57,474	73,717	71,396
	<u>464,216</u>	<u>387,326</u>	<u>316,041</u>

The cost of inventories recognized as an expense (income) during the year in respect of inventory provision (reversal) was US\$3.7 million (2015: US\$(13.3) million and 2014: US\$29.6 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

26. Trade and other receivables

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Trade receivables	491,018	399,200	424,661
Allowance for doubtful debts	(1,491)	(41,976)	(42,014)
	<u>489,527</u>	<u>357,224</u>	<u>382,647</u>
Other receivables and refundable deposits	156,295	142,622	73,741
	<u><u>645,822</u></u>	<u><u>499,846</u></u>	<u><u>456,388</u></u>

The Group determines credit terms mostly ranging from 30 to 60 days for each customer on a case-by-case basis, based on its assessment of such customer's financial standing and business potential with the Group.

The Group determines its allowance for doubtful debts based on the Group's historical experience and the relative aging of receivables as well as individual assessment of certain debtors. The Group provides allowance for doubtful debts based on recoverable amount by making reference to the age category of the remaining receivables and subsequent settlement. The Group's allowance for doubtful debts excludes receivables from a limited number of customers due to their high credit worthiness. The Group recognized US\$0.2 million, US\$0.5 million and US\$1.6 million of allowance for doubtful debts respectively during the year ended December 31, 2016, 2015 and 2014 respectively. The Group reviews, analyzes and adjusts allowance for doubtful debts on a monthly basis.

In evaluating the customers' credit quality, the Group used an internal system based on each customer's operation size, financial performance, listing status, payment history and other qualitative criteria. These criteria are reviewed and updated annually. Based on such evaluation, the Group believes the recoverability of those receivables that are not impaired is reasonably assured.

Trade receivables

Of the trade receivables balance at the end of the year of 2016, 2015 and 2014, US\$289.7 million, US\$207.1 million and US\$199.0 million respectively are due from the Group's four largest customers.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

Age of receivables

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Within 30 days	274,087	177,542	167,137
31–60 days	179,453	151,377	122,387
Over 60 days	37,478	70,281	135,137
Total	<u><u>491,018</u></u>	<u><u>399,200</u></u>	<u><u>424,661</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

26. Trade and other receivables *(continued)*

Trade receivables *(continued)*

Age of receivables (continued)

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Current	444,145	312,479	270,220
Past due but not impaired			
Within 30 days	34,872	39,737	55,412
31–60 days	8,875	3,534	20,915
Over 60 days	1,635	1,474	36,100
Total	<u>489,527</u>	<u>357,224</u>	<u>382,647</u>
Average overdue days	<u>27</u>	<u>23</u>	<u>74</u>

Movement in the allowance for doubtful debts

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Balance at beginning of the year	41,976	42,014	44,643
Addition in allowance for doubtful debts	201	528	1,616
Amounts written off during the year as uncollectible	(39,083)	(25)	(4,186)
Reversal of allowance for doubtful debts	(1,603)	(541)	(59)
Balance at end of the year	<u>1,491</u>	<u>41,976</u>	<u>42,014</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

In 2016, the Group wrote off the exempted receivables and reversed collected part of trade receivables from customers.

Age of impaired trade receivables

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>

Within 30 days	283	315	306
31–60 days	463	122	338
Over 60 days	745	41,539	41,370
Total	<u>1,491</u>	<u>41,976</u>	<u>42,014</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

27. Restricted cash

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Restricted cash			
Non-current	20,080	—	—
Current	337,699	302,416	238,051
	<u>357,779</u>	<u>302,416</u>	<u>238,051</u>

1) **Restricted cash — non current**

As of December 31, 2016, the non-current restricted cash consisted of US\$20.1 million (EUR19.1 million) of bank time deposits pledged against long-term borrowing from MPS Capital Services S.p.A. of US\$1.9 million (EUR1.8 million) and from Cassa Depositie Prestiti of US\$17.1 million (EUR16.3 million). In addition, a bank time deposit of US\$1.1 million (EUR1.0 million) relating to a security deposit made with the Abruzzo Regional Government for the Integrated Environmental Authorization associated with the treatment plant for some special waste.

2) **Restricted cash — current**

As of December 31, 2016, 2015 and 2014, the current restricted cash consisted of US\$2.9 million, US\$1.1 million and US\$0.6 million, respectively of bank time deposits pledged against letters of credit and short-term borrowings, and US\$191.9 million, US\$74.0 million and US\$135.4 million, respectively of government funding received mainly for the reimbursement of research and development expenses to be incurred.

As of December 31, 2016 and 2015 the current restricted cash of US\$142.9 million and US\$227.3 million were from low interest cost entrusted loans granted by CDB Development Fund through China Development Bank, which is designated to be used for future capacity expansion. The Group expects to spend the restricted cash within the next 12 months.

As of December 31, 2014 the current restricted cash of US\$102 million was for the co-investment in the proposed acquisition of STATS ChipPAC through Changjiang Xinke, a company established in the PRC. On June 18, 2015, the amount of US\$102 million was applied as a capital contribution for 19.6% equity interest in Changjiang Xinke, which was accounted as an associate of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

28. Shares and issued capital

Fully paid ordinary shares

	Number of shares	Share capital USD'000	Share Premium USD'000
Balance at December 31, 2013	32,112,307,101	12,845	4,089,846
Issuance of shares under the Company's employee share option plan (see Note 39)	215,677,649	86	18,422
Ordinary shares issued at June 12, 2014	2,590,000,000	1,036	196,161
Ordinary shares issued at November 21, 2014	669,468,952	268	51,523
Ordinary shares issued at November 27, 2014	268,642,465	107	20,678
Balance at December 31, 2014	35,856,096,167	14,342	4,376,630
Issuance of shares under the Company's employee share option plan (see Note 39)	232,284,137	93	20,819
Ordinary shares issued at June 8, 2015	4,700,000,000	1,880	397,580
Ordinary shares issued at September 25, 2015	323,518,848	130	27,392
Ordinary shares issued at October 9, 2015	961,849,809	385	81,440
Balance at December 31, 2015	42,073,748,961	16,830	4,903,861
Issuance of shares under the Company's employee share option plan (see Note 39)	329,531,926	132	35,367
Conversion of convertible bonds during the year	105,128,132	42	11,023
Adjustment arising from the Share Consolidation	(38,257,568,118)	—	—
Issuance of shares under the Company's employee share option plan after the Share Consolidation (see Note 39)	2,081,358	8	697
Balance at December 31, 2016	<u>4,252,922,259</u>	<u>17,012</u>	<u>4,950,948</u>

The Company proposed to implement the Share Consolidation on the basis that every ten issued and unissued shares of US\$0.0004 each of the Company will be consolidated into one ordinary share of US\$0.004 each. The proposed share consolidation was approved by the Company's shareholders at the Extraordinary General Meeting held on December 6, 2016 and the Share Consolidation became effective on December 7, 2016.

On February 12, 2015, the Company entered into a share purchase agreement with China Integrated Circuit Industry Investment Fund Co., Ltd., (the "China IC Fund"). Pursuant to the share purchase agreement, the Company proposed to issue 4,700,000,000 new ordinary shares (the "Placing of New Shares") to the China IC Fund at a consideration of approximately HK\$3,098.71 million. On June 8, 2015, the Placing of New Shares was completed and the Company issued 4,700,000,000 new ordinary shares to Xinxin (Hongkong) Capital Co., Limited, a wholly-owned subsidiary of the China IC Fund, at the issue price of HK\$0.6593 per ordinary share. The net proceeds were recorded as share capital of approximately US\$1.9 million and share premium of approximately US\$397.6 million in the statements of financial position. Net proceeds of issue were measured after deducting directly attributable transaction costs of the share issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

28. Shares and issued capital *(continued)*

Fully paid ordinary shares *(continued)*

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

Fully paid ordinary shares, which have a par value of US\$0.004 (after the Share Consolidation), carry one vote per share and carry a right to dividends.

Stock incentive plans

The Company has adopted the stock incentive plans under which options to subscribe for the Company’s shares have been granted to certain employees, officers and other service providers (Note 39).

29. Reserves

Equity-settled employee benefits reserve

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD’000	USD’000	USD’000
Balance at beginning of year	70,459	64,540	55,177
Arising on share-based payments	13,838	18,088	18,388
Transfer to share premium	(18,594)	(12,169)	(9,025)
Balance at end of year	<u>65,703</u>	<u>70,459</u>	<u>64,540</u>

The above equity-settled employee benefits reserve related to share options and RSUs granted by the Company to the Group’s employees and service providers under stock incentive plans. Items included in equity-settled employee benefits reserve will not be reclassified subsequently to profit or loss. Further information about share-based payments to employees and service providers is set out in Note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

29. Reserves *(continued)*

Foreign currency translation reserve

Items that may be reclassified subsequently to profit or loss

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Balance at beginning of year	(3,956)	4,229	4,553
Exchange differences arising on translating the foreign operations	(18,131)	(8,185)	(324)
Balance at end of year	<u>(22,087)</u>	<u>(3,956)</u>	<u>4,229</u>

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. United States dollars) are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss on the disposal/deconsolidation of the foreign operation.

Change in value of available-for-sale financial assets

	<u>12/31/16</u>	<u>12/31/15</u>
	USD'000	USD'000
Balance at beginning of year	447	—
Change in value of available-for-sale financial assets during this year	798	447
Balance at end of year	<u>1,245</u>	<u>447</u>

The changes in the carrying amount of available-for-sale financial assets, which were initially recognized at fair value plus transaction costs and subsequently carried at fair value, recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

29. Reserves *(continued)*

Convertible bonds equity reserve

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Balance at beginning of year	29,564	29,564	15,210
Recognition of the equity component of convertible bonds	52,935	—	14,354
Conversion options exercised during the year	(821)	—	—
Balance at end of year	<u>81,678</u>	<u>29,564</u>	<u>29,564</u>

The conversion option from the issuance of convertible bonds classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument (i.e. convertible bond) as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Defined benefit plan reserve

	<u>12/31/16</u>
	USD'000
Balance at beginning of year	—
Actuarial gains on defined benefit plan	1,520
Balance at end of year	<u>1,520</u>

The new addition of the defined benefit obligation was due to the business combination of LFoundry. LFoundry's employees are entitled to a defined benefit plan. Actuarial gains and losses can result from increases or decreases in the present value of a defined benefit obligation due to experience adjustments or changes in actuarial assumptions. Please refer to Note 35 for details.

Cash flow hedges

	<u>12/31/16</u>
	USD'000
Balance at beginning of year	—
Loss recognized during this year	(34,627)
Balance at end of year	<u>(34,627)</u>

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognized in other comprehensive income, as described in note 40. Amounts will be reclassified to profit or loss when the associated hedged transaction affects profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

30. Accumulated deficit

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprise, the Company's PRC subsidiaries are required or allowed to make appropriations to non-distributable reserves. The general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end), after offsetting accumulated losses from prior years, until the accumulative amount of such reserve fund reaches 50% of registered capital of the relevant subsidiaries. The general reserve fund can only be used to increase the registered capital and eliminate future losses of the relevant subsidiaries under PRC regulations. The staff welfare and bonus reserve is determined by the board of directors of the respective PRC subsidiaries and used for the collective welfare of the employee of the subsidiaries. The enterprise expansion reserve is for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with Chinese law. In 2016 the Company did not make any appropriation to non-distributable reserves. As of December 31, 2016, 2015 and 2014, the accumulated non-distributable reserve was US\$30 million, US\$30 million and US\$30 million respectively.

In addition, due to restrictions on the distribution of paid-in capital from the Company's PRC subsidiaries, the PRC subsidiaries' paid-in capital of US\$6,560 million at December 31, 2016 is considered restricted.

As a result of these PRC laws and regulations, as of December 31, 2016, reserve and capital of approximately US\$6,590 million was not available for distribution to the Company by its PRC subsidiaries in the form of dividends, loans or advances.

In 2016, 2015 and 2014 the Company did not declare or pay any cash dividends on the ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

31. Borrowings

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
At amortized cost			
Short-term commercial bank loans (i)	176,957	62,872	115,084
	<u>176,957</u>	<u>62,872</u>	<u>115,084</u>
Long-term debt by contracts			
2013 USD Loan (SMIC Shanghai) (ii)	10,760	10,760	221,520
2015 USD Loan (SMIC Shanghai) (iii)	39,641	52,854	—
2015 RMB Loan I (SMIC Shanghai) (iv)	144,155	154,095	—
2015 RMB Loan II (SMIC Shanghai) (v)	68,473	73,195	—
2015 EXIM RMB Loan (SMIC Shanghai) (vi)	72,077	73,966	—
2013 EXIM USD Loan (SMIC Beijing) (vii)	—	—	40,000
2013 CIDC RMB Entrust loan (SMIC Beijing) (viii)	—	—	2,450
2014 EXIM RMB Loan (SMIC Beijing) (ix)	—	36,983	39,200
2015 CDB RMB Loan (SMIC Beijing) (x)	28,110	30,048	—
2016 CDB RMB Loan (SMIC Beijing) (xi)	210,466	—	—
2016 EXIM RMB Loan I (SMIC Beijing) (xii)	34,597	—	—
2016 EXIM RMB Loan II (SMIC Beijing) (xiii)	57,662	—	—
2016 EXIM RMB Loan (SMIC) (xiv)	72,077	—	—
2015 RMB Entrust Loan (SJ Jiangyin) (xv)	—	14,331	—
2015 CDB USD Loan (SJ Jiangyin) (xvi)	2,000	20,000	—
2014 Cassa Depositie Prestiti loan (LFoundry) (xvii)	26,026	—	—
2014 MPS Capital Service loan (LFoundry) (xviii)	4,578	—	—
2014 Citizen Finetech Miyota Loan (LFoundry) (xix)	3,926	—	—
Finance Lease Payables (xx)	7,057	—	—
Loans from non-controlling interests shareholders (xxi)	1,627	—	—
Others (xxii)	482,579	—	—
	<u>1,265,811</u>	<u>466,232</u>	<u>303,170</u>
Less: current maturities of long-term debt	32,217	50,196	46,970
Non-current maturities of long-term debt	<u>1,233,594</u>	<u>416,036</u>	<u>256,200</u>
Borrowing by repayment schedule:			
Within 1 year	209,174	113,068	162,054
Within 1–2 years	171,900	15,830	125,200
Within 2–5 years	698,070	172,916	131,000
Over 5 years	363,624	227,290	—
	<u>1,442,768</u>	<u>529,104</u>	<u>418,254</u>

31. Borrowings (*continued*)

Summary of borrowing arrangements

- (i) As of December 31, 2016, the Group had 34 short-term credit agreements that provided total credit facilities up to US\$2,050.8 million on a revolving credit basis. As of December 31, 2016, the Group had drawn down US\$177.0 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate on this loan facility ranged from 0.98% to 3.48% in 2016.
- (ii) In August 2013, SMIS entered into a loan facility in the aggregate principal amount of US\$470 million with a syndicate of financial institutions based in the PRC. This seven-year bank facility was used to finance the planned expansion for SMIS' 300mm fab. The facility is secured by the manufacturing equipment located in the SMIS' 300mm fab. As of December 31, 2016, 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 5.03% to 5.71% in 2016. SMIS was in compliance with the related financial covenants as of December 31, 2016.
- (iii) 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' 300mm fab. The facility is secured by the manufacturing equipment located in the SMIS' 300mm fab. As of December 31, 2016, SMIS had drawn down US\$66.1 million and repaid US\$26.5 million on this loan facility. The outstanding balance of US\$39.6 million is repayable from June 2017 to December 2019. The interest rate on this loan facility ranged from 1.21% to 2.3% in 2016. SMIS was in compliance with the related financial covenants as of December 31, 2016.
- (iv) 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' 300mm fab. As of December 31, 2016, SMIS had drawn down RMB1,000 million (approximately US\$144.2 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 2016.
- (v) In December 2015, SMIS entered into a loan facility in the aggregate principal amount of RMB475 million with China Development Bank, which is guaranteed by SMIC. This ten-year bank facility was used to expand the capacity of SMIS' 300mm fab. As of December 31, 2016, SMIS had drawn down RMB475 million (approximately US\$68.5 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 2016.
- (vi) 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, 2016, SMIS had drawn down RMB500 million (approximately US\$72.1 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2016.

31. Borrowings *(continued)*

Summary of borrowing arrangements *(continued)*

- (vii) In June 2013, SMIB entered into a USD loan, a twenty-six-month working capital loan facility in the principal amount of US\$60 million with The Export-Import Bank of China, which was unsecured. This twenty-six-month bank facility was used for working capital purposes. The principal amount was repaid in August 2015.
- (viii) In June 2013, SMIB entered into an RMB loan, a two-year working capital entrust loan facility in the principal amount of RMB70 million with China Investment Development Corporation through China CITIC Bank, which was unsecured. This two-year entrust loan facility was used for working capital purposes. The principal amount was repaid in May 2015.
- (ix) In December 2014, SMIB entered into an RMB loan, a two-year working capital loan facility in the principal amount of RMB240 million with The Export-Import Bank of China, which was unsecured. This two-year bank facility was used for working capital purposes. As of December 31, 2016, SMIB had drawn down RMB240 million (approximately US\$34.6 million) on this loan facility. The principal amount was repaid in December 2016. The interest rate on this loan facilities was 2.65% in 2016.
- (x) In December 2015, SMIB entered into an 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, 2016, SMIB had drawn down RMB195 million (approximately US\$28.1 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 2016.
- (xi) In May 2016, SMIB entered into the new RMB loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460 million with China Development Bank, which is guaranteed by SMIC. As of December 31, 2016, SMIB had drawn down RMB1,460 million (approximately US\$210.5 million) on this loan facility. The principal amount is repayable from May 2018 to May 2031. The interest rate on this loan facility was 1.20% in 2016.
- (xii) In December 2016, SMIB entered into the new 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, 2016, SMIB had drawn down RMB240 million (approximately US\$34.6 million) on this loan facility. The principal amount is repayable in December 2018. The interest rate on this loan facility was 2.65% in 2016.
- (xiii) In January 2016, SMIB entered into the new RMB loan, a three-year working capital loan facility in the principal amount of RMB400 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, 2016, SMIB had drawn down RMB400 million (approximately US\$57.7 million) on this loan facility. The principal amount is repayable in January 2019. The interest rate on this loan facility was 2.65% in 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

31. Borrowings *(continued)*

Summary of borrowing arrangements *(continued)*

- (xiv) In May 2016, SMIC entered into a loan facility in the aggregate principal amount of RMB500 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, 2016, SMIC had drawn down RMB500 million (approximately US\$72.1 million) on this loan facility. The outstanding balance is repayable in May 2019. The interest rate on this loan facility was 2.75% in 2016.
- (xv) In July 2015, SJ Jiangyin entered into an 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 was unsecured. As of December 31, 2016, SJ Jiangyin had drawn down RMB93 million (approximately US\$13.4 million) on this loan facility and repaid the outstanding balance in advance in July 2016.
- (xvi) In September 2015, SJ Jiangyin entered into a 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's 300mm bumping fab. The facility is guaranteed by SMIB. As of December 31, 2016, SJ Jiangyin had drawn down US\$20 million and repaid US\$18 million on this loan facility. The outstanding balance of US\$2.0 million is repayable from September 2017 to September 2022. The interest rate on this loan facility ranged from 4.20% to 4.23% in 2016.
- (xvii) In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR35.8 million with Cassa Depositie Prestiti. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR16.3 million the MPS bonds of EUR4.0 million and the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2016, LFoundry had drawn down EUR35.8 million and repaid EUR7.9 million on this loan facility. The outstanding balance of EUR28.4 million (its present value is EUR24.7 million, approximately US\$26.0 million) including principal amount of EUR27.9 million and interest cash flow of EUR0.5 million is repayable from June 2017 to December 2023. The interest rate on this loan facility was 0.5% in 2016. LFoundry was in compliance with the related financial covenants as of December 31, 2016.
- (xviii) In January 2014, LFoundry entered into a loan facility in the aggregate principal amount of EUR4.0 million with MPS Capital Service. This ten-year bank facility was in relation to the admission of LFoundry to the benefits of the technology innovation fund. The facility is secured by bank deposits of EUR1.8 million, the MPS bonds of EUR0.4 million and the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2016, LFoundry had drawn down EUR4.0 million on this loan facility. The outstanding balance of EUR5.2 million (its present value is EUR4.3 million, approximately US\$4.6 million) including principal amount of EUR4.0 million and interest cash flow of EUR1.2 million is repayable from June 2020 to December 2023. The interest rate on this loan facility was approximately 6% in 2016. LFoundry was in compliance with the related financial covenants as of December 31, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

31. Borrowings (continued)

Summary of borrowing arrangements (continued)

- (xix) In June 2014, LFoundry entered into a loan facility in the aggregate principal amount of JPY480 million with Citizen Finetech Miyota Co. Ltd. This five-year facility was used to finance the planned expansion of LFoundry's 200mm fab. The facility is secured by the manufacturing equipment located in LFoundry's 200mm fab. As of December 31, 2016, LFoundry had drawn down JPY480 million on this loan facility. The outstanding balance of JPY499.4 million (approximately US\$3.9 million) including principal amount of JPY480 million and interest cash flow of JPY19.4 million is repayable from June 2017 to December 2019. The interest rate on this loan facility was 4.04% in 2016. LFoundry was in compliance with the related financial covenants as of December 31, 2016.
- (xx) In 2016, a leasing contract entered into by the Group with one of its suppliers for the construction and installation of gas generation equipment. This transaction was accounted for a finance leasing with remaining lease term of 5 years. As at December 31, 2016, the total net future minimum lease payments was US\$7.1 million.

As of December 31, 2016, the total future minimum lease payments under finance leases and their present values (Effective interest rate was 3.68%) were as follows:

	Minimum lease payments	Present value
	USD'000	USD'000
Amounts payable:		
Within one year	1,529	1,363
In the second year	1,529	1,349
In the third to fifth years	4,589	4,345
Total minimum finance lease payments	7,647	7,057
Less: future finance cost charges	(590)	
Total net finance lease payables	7,057	
Less: current portion of finance lease payables	(1,363)	
Non-current portion of finance lease payables	5,694	

- (xxi) During 2016, LFoundry entered into a loan facility in the aggregate principal amount of EUR15.0 million from non-controlling interests shareholders of LFoundry. This seven-year facility was in relation to the construction of the new co-generation. LFoundry had drawn down EUR1.5 million on this loan facility. The outstanding balance of EUR1.5 million (approximately US\$1.6 million) is repayable from September 2018 to December 2023. The interest rate on this loan facility was 3.5% in 2016.
- (xxii) Other borrowings represented US\$482.6 million (2015 and 2014: nil) of borrowings under three financing arrangements entered into by the Group with third-

party financing companies in the form of a sale and leaseback transaction with a repurchase option. A batch of production equipment of the Group was sold and leased back under the financing arrangements. As the repurchase prices are set at below US\$1.00 which are minimal compared to the expected fair value and the Group is certain that it will exercise the repurchase options, the above financing arrangements have been accounted for as collateralized borrowings of the Group.

As of December 31, 2016, property, plant and equipment and land use right with carrying amount of approximately US\$631 million (2015: US\$324 million and 2014: US\$308 million) have been pledged to secure borrowings of the Group.

32. Convertible bonds

(i) **Issue of US\$200 million zero coupon convertible bonds due 2018**

The Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$200,000,000 on November 7, 2013 (the “Original Bonds”).

The principal terms of the Original Bonds are as follows:

- (1) Denomination of the Original Bonds — The Original Bonds are denominated in USD.
- (2) Maturity date — Five years from the date of issuance, which is November 7, 2018 (“Maturity Date”).
- (3) Interest — The Original Bonds do not bear any cash interest.
- (4) Conversion —
 - a) Conversion price — The price is HK\$0.7965 per each new share to be issued upon conversion of the Original Bonds (“Conversion Share”), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including subdivision, reclassification or consolidation of shares of the Company, capitalization of profits or reserves, capital distribution, issuance of options or rights, and certain other events. With the Share Consolidation effective on December 7, 2016, the conversion price was adjusted to HK\$7.965 per share.
 - b) Conversion period — The Bondholder has the right to convert the Original Bonds into shares at any time on or after December 18, 2013 up to the close of business on the date falling seven days prior to the Maturity Date or if such bonds shall have been called or put for redemption at any time before the Maturity Date, then up to the close of business on a date no later than seven days prior to the date fixed for redemption, which is discussed below.
 - c) Number of Conversion Shares issuable — 1,946,817,325 Conversion Shares will be issued upon full conversion of the Original Bonds based on the initial conversion price of HK\$0.7965 (translated at the fixed exchange rate of HK\$7.7532 = US\$1.0 as pre-determined). With the Share Consolidation effective on December 7, 2016, the number of Conversion Shares were adjusted to 194,681,732 Conversion Shares.

32. Convertible bonds (*continued*)

(i) **Issue of US\$200 million zero coupon convertible bonds due 2018** (*continued*)

(5) Redemption —

a) At the option of the Company:

- (I) Redemption at maturity — The Company will redeem the outstanding Original Bonds at principal amount on the Maturity Date.
- (II) Redemption for tax reasons — The Company will redeem all and not only some of the Original Bonds at their principal amount, at its option, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders on the date specified in the Tax Redemption Notice.
- (III) Redemption at the Option — The Company may redeem all and not only some of the Original Bonds on the date specified in the Option Redemption Notice at their principal amount at any time after November 7, 2015, provided that the Closing Price of a Share at least 120 percent of the Conversion Price then in effect immediately prior to the date upon which notice of such redemption is given. If at any time the aggregate principal amount of the outstanding Original Bonds is less than 10% of the aggregate principal amount originally issued, the Issuer may redeem all and not only some of such outstanding Original Bonds at their principal amount.

b) At the option of the Bondholder:

- (I) Redemption on change of control — Upon the occurrence of a Change of Control, the Bondholder will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the Change of Control put date at their principal amount of the Original Bonds.
- (II) Redemption at the option — The holders of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of the Original Bonds of such holder on the Optional Put Date (on November 7, 2016) at their principal amount.

- (6) Purchase — The Issuer or any of their respective Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase the Original Bonds at any price in the open market or otherwise.
- (7) Cancellation — All the Original Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all the Original Bonds cancelled will be forwarded to or to the order of the Registrar and such Original Bonds may not be reissued or resold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

32. Convertible bonds (*continued*)

(i) **Issue of US\$200 million zero coupon convertible bonds due 2018** (*continued*)

The Original Bonds issued at November 7, 2013 is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Bonds was approximately US\$179.4 million and the equity component was approximately US\$15.2 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD'000
Principal amount	200,000
Transaction cost	(5,400)
Liability component at the date of issue	(179,390)
Equity component	15,210

Subsequent to the initial recognition, the liability component of the Original Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Bonds was 3.69% per annum. The movement of the liability component and equity component of the Original Bonds for the year ended December 31, 2016 is set out below:

	Liability Component	Equity Component	Total
	USD'000	USD'000	USD'000
As at December 31, 2013	180,563	15,210	195,773
Interest charged during 2014	6,593	—	6,593
As at December 31, 2014	187,156	15,210	202,366
Interest charged during 2015	6,910	—	6,910
As at December 31, 2015	194,066	15,210	209,276
Interest charged during 2016	4,525	—	4,525
Conversion options exercised during 2016	(10,244)	(821)	(11,065)
As at December 31, 2016	188,347	14,389	202,736

In 2016, the convertible bonds with the principal amount of US\$10.8 million converted into 105,128,132 ordinary shares (adjusted to 10,512,813 ordinary shares upon the effect of the Share Consolidation).

The rest of the equity component will remain in the convertible bond equity reserve until the embedded conversion option is exercised or the Original Bonds mature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

32. Convertible bonds (*continued*)

(ii) **Issue of US\$86.8 million zero coupon convertible bonds due 2018**

On May 29, 2014, the Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$54,600,000 to Datang and an aggregate principal amount of US\$32,200,000 to Country Hill (collectively, the “Original Pre-emptive Bonds”). The issue price was 100% of the aggregate principal amount of the Original Pre-emptive Bonds and the terms and conditions of the Original Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 32(i)). The Original Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Original Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Original Pre-emptive Bonds was approximately US\$81.2 million and the equity component was approximately US\$5.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD'000
Principal amount	86,800
Liability component at the date of issue	(81,235)
Equity component	5,565

Subsequent to the initial recognition, the liability component of the Original Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Original Pre-emptive Bonds was 2.78% per annum. The movement of the liability component and equity component of the Original Pre-emptive Bonds for the year ended December 31, 2016 is set out below:

	Liability Component	Equity Component	Total
	USD'000	USD'000	USD'000
As at May 29, 2014	81,235	5,565	86,800
Interest charged during 2014	1,315	—	1,315
As at December 31, 2014	82,550	5,565	88,115
Interest charged during 2015	2,292	—	2,292
As at December 31, 2015	84,842	5,565	90,407
Interest charged during 2016	1,562	—	1,562
As at December 31, 2016	86,404	5,565	91,969

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Original Pre-emptive Bonds mature.

The Original Pre-emptive Bonds have been consolidated and have formed a single series with the Original Bonds from the date of their issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

32. Convertible bonds (*continued*)

(iii) **Issue of US\$95 million zero coupon convertible bonds due 2018**

On June 24, 2014, the Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$95,000,000 (the “Further Bonds”). The issue price was 101.5% of the aggregate principal amount of the Further Bonds and the terms and conditions of the Further Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 32(i)). The Further Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Bonds was approximately US\$87.1 million and the equity component was approximately US\$7.1 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD’000
Principal amount	95,000
Premium of convertible bonds	1,425
Transaction cost	(2,187)
Liability component at the date of issue	(87,090)
Equity component	7,148

Subsequent to the initial recognition, the liability component of the Further Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Bonds was 3.79% per annum. The liability component and equity component of the Further Bonds for the year ended December 31, 2016 is set out below:

	Liability Component	Equity Component	Total
	USD’000	USD’000	USD’000
As at June 24, 2014	87,090	7,148	94,238
Interest charged during 2014	1,650	—	1,650
As at December 31, 2014	88,740	7,148	95,888
Interest charged during 2015	3,362	—	3,362
As at December 31, 2015	92,102	7,148	99,250
Interest charged during 2016	2,465	—	2,465
As at December 31, 2016	94,567	7,148	101,715

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Further Bonds mature.

The Further Bonds have been consolidated and have formed a single series with the Original Bonds from the date of their issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

32. Convertible bonds (*continued*)

(iv) **Issue of US\$22.2 million zero coupon convertible bonds due 2018**

On December 4, 2014, the Company issued convertible bonds at a par value of US\$200,000 each with an aggregate principal amount of US\$22,200,000 to Datang (the “Further Pre-emptive Bonds”). The issue price was 101.5% of the aggregate principal amount of the Further Pre-emptive Bonds and the terms and conditions of the Further Pre-emptive Bonds are the same in all respects as those for the Original Bonds except for the issue date (details have been set out in Note 32(i)). The Further Pre-emptive Bonds is a compound instrument that included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the Further Pre-emptive Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the Further Pre-emptive Bonds was approximately US\$20.9 million and the equity component was approximately US\$1.6 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD’000
Principal amount	22,200
Premium of convertible bonds	333
Liability component at the date of issue	(20,892)
Equity component	1,641

Subsequent to the initial recognition, the liability component of the Further Pre-emptive Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the Further Pre-emptive Bonds was 3.22% per annum. The liability component and equity component of the Further Pre-emptive Bonds for the year ended December 31, 2016 is set out below:

	Liability Component	Equity Component	Total
	USD’000	USD’000	USD’000
As at December 4, 2014	20,892	1,641	22,533
Interest charged during 2014	56	—	56
As at December 31, 2014	20,948	1,641	22,589
Interest charged during 2015	674	—	674
As at December 31, 2015	21,622	1,641	23,263
Interest charged during 2016	461	—	461
As at December 31, 2016	22,083	1,641	23,724

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the Further Pre-emptive Bonds mature.

The Further Pre-emptive Bonds have been consolidated and have formed a single series with the Original Bonds from the date of their issue.

32. Convertible bonds (*continued*)

(v) **Issue of US\$450 million zero coupon convertible bonds due 2022**

The Company issued convertible bonds at a par value of US\$250,000 each with an aggregate principal amount of US\$450,000,000 on July 7, 2016 (the “2016 Bonds”).

The principal terms of the 2016 Bonds are as follows:

- (1) Denomination of the 2016 Bonds — The 2016 Bonds are denominated in USD.
- (2) Maturity date — Six years from the date of issuance, which is July 7, 2022 (“Maturity Date”).
- (3) Interest — The 2016 Bonds do not bear interest unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. In such event, such unpaid amount shall bear interest at the rate of 2.0 per cent. per annum.
- (4) Conversion —
 - a) Conversion price — The price is HK\$0.9250 per each new share to be issued upon conversion of the 2016 Bonds (“Conversion Share”), subject to anti-dilutive adjustment in accordance with the terms of the bonds, including subdivision, reclassification or consolidation of shares of the Company, capitalization of profits or reserves, capital distribution, issuance of options or rights, and certain other events. With the Share Consolidation effective on December 7, 2016, the conversion price was adjusted to HK\$9.250 per share.
 - b) Conversion period — The Bondholder has the right to convert the 2016 Bonds into shares at any time on or after August 17, 2016 up to the close of business on the date falling seven days prior to the Maturity Date or if such bonds shall have been called for redemption before the Maturity Date, the conversion period will end at the close of business on the seventh day before the date fixed for redemption, which is discussed below.
 - c) Number of Conversion Shares issuable -3,778,881,081 Conversion Shares will be issued upon full conversion of the 2016 Bonds based on the initial conversion price of HK\$0.9250 (translated at the fixed exchange rate of HK\$7.7677 = US\$1.0 as pre-determined). With the Share Consolidation effective on December 7, 2016, the number of Conversion Shares were adjusted to 377,888,108 Conversion Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

32. Convertible bonds *(continued)*

(v) **Issue of US\$450 million zero coupon convertible bonds due 2022** *(continued)*

(5) Redemption —

a) At the option of the Company:

- (I) Redemption at maturity — The Company will redeem the outstanding 2016 Bonds at principal amount on the Maturity Date.
- (II) Redemption for tax reasons — The Company will redeem all and not only some of the 2016 Bonds at their principal amount, at its option, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders on the date specified in the Tax Redemption Notice.
- (III) Redemption at the Option — The Company may, having given not less than 45 nor more than 60 days' notice, redeem all and not some only of the Bonds at any time after July 7, 2020 at their principal amount if the Closing Price of a share for any 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date upon which notice of such redemption is given, was at least 130% of the Conversion Price then in effect immediately prior to the date upon which notice of such redemption is given. If at any time the aggregate principal amount of the outstanding 2016 Bonds is less than 10% of the aggregate principal amount originally issued, the Issuer may redeem all and not only some of such outstanding 2016 Bonds at their principal amount.

b) At the option of the Bondholder:

- (I) Redemption on change of control — Upon the occurrence of a Change of Control, the Bondholder will have the right, at such holder's option, to require the Company to redeem all or some only of such holder's bonds on the Change of Control put date at their principal amount of the 2016 Bonds.
 - (II) Redemption at the option — The holders of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of the 2016 Bonds of such holder on July 7, 2020 at their principal amount.
- (6) Purchase — The Issuer or any of their respective Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase the 2016 Bonds at any price in the open market or otherwise.
- (7) Cancellation — All the 2016 Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all the 2016 Bonds cancelled will be forwarded to or to the order of the Registrar and such 2016 Bonds may not be reissued or resold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

32. Convertible bonds *(continued)*

(v) **Issue of US\$450 million zero coupon convertible bonds due 2022** *(continued)*

The 2016 Original Bonds issued at July 7, 2016 is a compound instrument included a liability component and an equity component. There are embedded derivatives in respect of the early redemption features of the 2016 Original Bonds, which are deemed to be clearly and closely related to the host contract and therefore, do not need to be separately accounted for. The fair value of the liability component of the 2016 Original Bonds was approximately US\$387.9 million and the equity component was approximately US\$52.9 million, determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole.

	USD'000
Principal amount	450,000
Transaction cost	(9,194)
Liability component at the date of issue	(387,871)
Equity component	52,935

Subsequent to the initial recognition, the liability component of the 2016 Bonds was carried at amortized cost using the effective interest method. The effective interest rate of the liability component of the 2016 Bonds was 3.78% per annum. The liability component and equity component of the Further Pre-emptive Bonds for the year ended December 31, 2016 is set out below:

	Liability Component	Equity Component	Total
	USD'000	USD'000	USD'000
As at July 7, 2016	387,871	52,935	440,806
Interest charged during 2016	7,339	—	7,339
As at December 31, 2016	395,210	52,935	448,145

The equity component will remain in convertible bond equity reserve until the embedded conversion option is exercised or the 2016 Bonds mature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

33. Short-term and medium-term notes

On June 7 and June 8, 2016, the Company issued the one-year short-term notes of RMB600 million (approximately US\$90.5 million) and the three-year medium-term notes of RMB1,500 million (approximately US\$226.2 million) through National Association of Financial Market Institutional Investors (“NAFMII”). The short-term notes carry a coupon interest rate of 2.99% per annum with note interest payable annually on June 7, 2017 and the medium-term notes carry a coupon interest rate of 3.35% per annum with interest due annually on June 8, 2017, June 8, 2018 and June 10, 2019. As at the issue date, the net book value of the liabilities of short-term notes amounted to RMB600 million (approximately US\$90.5 million) and the net book value of the liabilities of medium-term notes amounted to RMB1,485.2 million (approximately US\$223.9 million).

	Short-term Notes	Medium- term notes
	<u>USD'000</u>	<u>USD'000</u>
Principal amount	90,465	226,162
Transaction cost	—	(2,226)
Notes payable as at the issue date	<u>90,465</u>	<u>223,936</u>

The movement of the short-term and medium-term notes for the period ended December 31, 2016 is set out below:

	Short-term Notes	Medium- term notes
	<u>USD'000</u>	<u>USD'000</u>
As at the date of issue	90,465	223,936
Interest charged during 2016	1,509	4,625
Interest payable recognized in 2016	(1,509)	(4,225)
Foreign exchange gain	(3,972)	(9,834)
As at December 31, 2016	<u>86,493</u>	<u>214,502</u>

Based on the issuance quota approved by NAFMII on April 11, 2016, the Company plans to issue the rest quota of the medium-term notes and short-term notes within 2 years.

34. Bonds payable

On October 7, 2014, the Company issued 5-year unsecured corporate bonds for a total amount of US\$500 million. The corporate bonds carry a coupon interest rate of 4.125% with bond interest payable semi-annually on March 31 and September 30. As at the issue date, the net book value of the liabilities amounted to US\$491.2 million after the deduction of (1) a discount of US\$5.2 million and (2) issue expenses of US\$3.6 million.

Principal amount	<u>USD'000</u> 500,000
------------------	---------------------------

Discount of bonds payable	(5,185)
Transaction cost	(3,634)
Bonds payable	<u>491,181</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

34. Bonds payable (*continued*)

The movement of the corporate bonds for the year ended December 31, 2016 is set out below:

	USD'000
As at October 7, 2014	491,181
Interest charged during 2014	5,554
Interest payable recognized during 2014	(5,156)
As at December 31, 2014	491,579
Interest charged during 2015	22,253
Interest payable recognized during 2015	(20,625)
As at December 31, 2015	493,207
Interest charged during 2016	22,327
Interest payable recognized during 2016	(20,625)
As at December 31, 2016	<u>494,909</u>

35. Other liabilities

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Bonus accrued	—	48,000	—
Defined benefit obligation	24,213	—	—
Others	13,284	17,761	—
	<u>37,497</u>	<u>65,761</u>	<u>—</u>

Defined Benefit Plan

Trattamento di Fine Rapporto (“TFR”) relates to the amounts that employees in Italy are entitled to receive when they leave the Group and is calculated based on the period of employment and the taxable earnings of each employee. Under certain conditions, the entitlement may be partially advanced to an employee during the employee’s working life.

Under the amendments of the Italian legislation in the first half of 2007, companies with at least 50 employees are obliged to transfer the TFR to the “Treasury Fund” managed by the Italian state-owned social security body (“INPS”) or to supplementary pension funds. Prior to the amendments, accruing TFR for employees of all Italian companies could be managed by the Group itself.

Consequently, the Italian companies’ obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19 revised, of “Defined contribution plans” whereas the amounts recorded in the TFR liability retain the nature of “Defined benefit plans”. Accordingly, TFR liability consists of the residual obligation for TFR until December 31, 2006. This is an unfunded defined benefit plan as the benefits have already been almost entirely earned, with the sole exception

of future revaluations. Since 2007 the scheme has been classified as a defined contribution plan, and the companies under IFRS recognize the associated cost, being the required contributions to the pension funds, over the period in which the employee renders service.

The Group operates defined benefit plans in Italy under broadly similar regulatory frameworks, which is an unfunded plan where the Group meets the benefit payment obligation as it falls due. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The TFR in payment is generally updated in line with the retail price index.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

35. Other liabilities (*continued*)

Defined Benefit Plan (*continued*)

The amounts recognized in the statement of financial position and the movements in the net defined benefit obligation over the year are as follows:

	For the 5 months ended 12/31/16 USD'000
August 1, 2016	27,569
Current service cost	—
Past service cost	—
Interest expense/(income)	87
Total amount recognized in profit or loss	87
Actuarial (gains)/losses:	
Gain from change in financial assumptions	(1,520)
Total amount recognized in other comprehensive income	(1,520)
Exchange differences	(1,875)
Contribution to employees	(48)
December 31, 2016	24,213

The significant actuarial assumptions were as follows:

	12/31/16
Discount rate (%)	1.37%
Inflation rate (%)	1.50%
Salary growth rate (%)	1.50%
Labor turnover rate (%)	2.65%
Probability of request of advances of TFR (%)	1.50%
Percentage required in case of advance (%)	70.00%

	12/31/16
Number of employees with TFR	1,421
Average age (years)	46
Average seniority (years)	20
Weighted average duration of defined benefit obligation (years)	13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

35. Other liabilities (*continued*)

Defined Benefit Plan (*continued*)

The sensitivity analysis of the defined benefit obligation was as follows:

	Var. (%)
Discount rate (+0.5%)	-6.05%
Discount rate (-0.5%)	6.61%
Rate of payments increases (+20%)	-0.57%
Rate of payments decreases (-20%)	0.63%
Rate of price inflation increases (+0.5%)	3.94%
Rate of price inflation decreases (-0.5%)	-3.86%
Rate of salary increases (+0.5%)	0.00%
Rate of salary decreases (-0.5%)	0.00%
Increase the retirement age (+1 year)	0.38%
Decrease the retirement age (-1 year)	-0.40%
Increase longevity (+1 year)	0.00%
Decrease longevity (-1 year)	0.00%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized in the statement of financial position.

36. Trade and other payables

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Trade payables	781,161	885,438	645,414
Advance receipts from customers	60,157	72,865	54,724
Deposit received	41,324	47,468	77,296
Other payable	57,911	41,995	16,927
	940,553	1,047,766	794,361

Trade payables are non-interest bearing and are normally settled on 30-day to 60-day terms.

As of December 31, 2016, 2015 and 2014, trade payables were US\$781.2 million, US\$885.4 million and US\$645.4 million, within which the payables for property, plant and equipment were US\$483.0 million, US\$660.7 million and US\$425.1 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

36. Trade and other payables (*continued*)

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period.

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Within 30 days	630,896	788,936	555,556
Between 31 to 60 days	43,984	36,596	25,729
Over 60 days	106,281	59,906	64,129
	<u>781,161</u>	<u>885,438</u>	<u>645,414</u>

An aged analysis of the accounts payable is as follows:

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Current	659,094	814,553	599,584
Overdue:			
Within 30 days	55,394	24,554	12,520
Between 31 to 60 days	7,658	10,458	4,954
Over 60 days	59,015	35,873	28,356
	<u>781,161</u>	<u>885,438</u>	<u>645,414</u>

37. Accrued liabilities

The amounts of accrued liabilities as of December 31, 2016, 2015 and 2014 were US\$230.5 million, US\$132.5 million and US\$131.1 million, within which the amounts of accrued payroll expenses were US\$163.6 million, US\$71.5 million and US\$62.5 million, respectively.

38. Other financial liabilities

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Derivatives carried at fair value through profit or loss (FVTPL)			
Cross currency swap contracts — cash flow hedges:			
Non-current	74,170	—	—
Current	6,348	—	—
Cross currency swap contracts:			
Current	—	1,459	—

80,518

1,459

—

Please refer to Note 40 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

39. Share-based payments

Stock incentive plans

The Company's stock incentive plans allow the Company to offer a variety of incentive awards to employees, consultants or external service advisors of the Group.

Stock option plan

The options are granted at the fair market value of the Company's ordinary shares and expire 10 years from the date of grant and vest over a requisite service period of four years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

Restricted share units ("RSUs")

The Company adopted the Equity Incentive Plan ("EIP") whereby the Company provided additional incentives to the Group's employees, directors and external consultants through the issuance of restricted shares, RSUs and stock appreciation rights to the participants at the discretion of the Board of Directors. The RSUs vest over a requisite service period of 4 years and expire 10 years from the date of grant.

The fair value of each RSU granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the instruments were granted.

Share option plan for subsidiaries ("Subsidiary Plan")

The options granted under the Subsidiary Plan shall entitle a participant of the Subsidiary Plan to purchase a specified number of subsidiary shares during a specified period at the price fixed by the relevant subsidiary committee at the time of grant or by a method specified by the relevant subsidiary committee at the time of grant and expire 10 years from the date of grant. The options vest over a requisite service period of four years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

The expense recognized for employee services received during the year is shown in the following table:

	Year ended 12/31/16	Year ended 12/31/15	Year ended 12/31/14
	USD'000	USD'000	USD'000
Expense arising from equity-settled share-based payment transactions	14,210	18,329	18,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

39. Share-based payments (*continued*)

Movements during the year

- (i) The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options during the year (excluding RSUs and Subsidiary Plan):

	2016		2015		2014	
	Number	WAEP	Number	WAEP	Number	WAEP
Outstanding at January 1	1,002,955,779	US\$ 0.08	1,163,627,269	US\$0.08	1,320,383,853	US\$ 0.09
Granted during the period	20,766,519	US\$ 0.09	56,565,258	US\$0.10	153,998,051	US\$ 0.10
Forfeited and expired during the period	(64,230,833)	US\$ 0.12	(87,928,903)	US\$0.14	(161,539,854)	US\$ 0.15
Exercised during the period	(213,776,770)	US\$ 0.07	(129,307,845)	US\$0.07	(149,214,781)	US\$ 0.06
Adjustment arising from the Share Consolidation	(671,143,936)	NA	NA	NA	NA	NA
After the Share Consolidation:						
Forfeited and expired during the period	(6,637)	US\$ 1.08	NA	NA	NA	NA
Exercised during the period	(2,081,358)	US\$ 0.77	NA	NA	NA	NA
Outstanding at December 31	72,482,764	US\$ 0.82	1,002,955,779	US\$ 0.08	1,163,627,269	US\$ 0.08
Exercisable at December 31	50,708,535	US\$ 0.77	513,197,994	US\$ 0.08	489,477,234	US\$ 0.09

As at December 31, 2016, the number of outstanding share options granted have been adjusted for the effect of the Share Consolidation and 50,708,535 share options were exercisable (December 31 2015: 513,197,994 and December 31, 2014: 489,477,234 before the Share Consolidation adjustment being effective).

The weighted average remaining contractual life for the share options outstanding as at December 31, 2016 was 5.29 years (2015: 6.04 years and 2014: 6.59 years).

The range of exercise prices for options outstanding at the end of the year was from US\$0.23 to US\$1.48 upon the effect of the Share Consolidation (2015: from US\$0.02 to US\$0.15 and 2014: from US\$0.02 to US\$0.22 before the Share Consolidation adjustment being effective).

The weighted average closing price of the Company’s shares immediately before the dates while the share options were exercised was US\$0.12, adjusted to US\$1.24 upon the effect of the Share Consolidation (2015: US\$0.11 and 2014: US\$0.10 before the Share Consolidation adjustment being effective).

During the year ended December 31, 2016, share options were granted on May 25, 2016, September 12, 2016 and November 18, 2016. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04, US\$0.04 and US\$0.05, respectively (adjusted to US\$0.36, US\$0.42 and US\$0.52 respectively upon the effect of the Share Consolidation).

During the year ended December 31, 2015, share options were granted on February 24, 2015, May 20, 2015 and September 11, 2015. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04, US\$0.04 and US\$0.05, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

39. Share-based payments *(continued)*

Movements during the year *(continued)*

(i) (continued)

During the year ended December 31, 2014, share options were granted on June 12, 2014 and November 17, 2014. The fair values of the options determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.04 and US\$0.05, respectively.

The following table list the inputs to the Black Scholes Pricing models used for the option granted during the years ended 31 December 2016, 2015 and 2014 respectively:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Dividend yield (%)	—	—	—
Expected volatility	44.80%	46.13%	50.93%
Risk-free interest rate	1.39%	1.61%	1.67%
Expected life of share options	6 years	6 years	5 years

The risk-free rate for periods within the contractual life of the option is based on the yield of the US Treasury Bond. The expected term of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on the average volatility of the Company's stock prices with the time period commensurate with the expected term of the options. The dividend yield is based on the Company's intended future dividend plan.

The valuation of the options are based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

(ii) The following table illustrates the number and weighted average fair value ("WAFV") of, and movements in, RSUs during the year (excluding stock option plan and Subsidiary Plan):

	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
	Number	WAFV	Number	WAFV	Number	WAFV
Outstanding at January 1	304,512,677	US\$ 0.10	274,057,667	US\$ 0.09	233,158,731	US\$ 0.07
Granted during the period	87,382,469	US\$ 0.09	146,852,985	US\$ 0.11	114,726,892	US\$ 0.11
Forfeited during the period	(11,104,112)	US\$ 0.10	(13,421,683)	US\$ 0.10	(7,365,088)	US\$ 0.09
Exercised during the period	(115,755,156)	US\$ 0.09	(102,976,292)	US\$ 0.08	(66,462,868)	US\$ 0.07
Adjustment arising from the Share Consolidation	(238,532,301)	NA	NA	NA	NA	NA
After share consolidation:						
Forfeited during the period	(14,425)	US\$ 1.03	NA	NA	NA	NA
Outstanding at December 31	<u>26,489,152</u>	<u>US\$ 0.98</u>	<u>304,512,677</u>	<u>US\$ 0.10</u>	<u>274,057,667</u>	<u>US\$ 0.09</u>

As at December 31, 2016, the number of outstanding RSUs granted adjusted to 26,489,152 upon the effect of the Share Consolidation (December 31 2015: 304,512,677 and December 31, 2014: 274,057,667 before the Share Consolidation adjustment being effective).

The weighted average remaining contractual life for the RSUs outstanding as at December 31, 2016 was 8.37 years (2015: 8.69 years and 2014: 8.75 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

39. Share-based payments (*continued*)

Movements during the year (*continued*)

(ii) (continued)

The weighted average closing price of the Company's shares immediately before the dates on which the RSUs were exercised was US\$0.08, adjusted to US\$0.83 upon the effect of the Share Consolidation (2015: US\$0.09 and 2014: US\$0.08 before the Share Consolidation adjustment being effective).

During the year ended December 31, 2016, RSUs were granted on May 25, 2016, September 12, 2016 and November 18, 2016. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.08, US\$0.11 and US\$0.14 respectively (adjusted to US\$0.82, US\$1.11 and US\$1.39 respectively upon the effect of the Share Consolidation).

During the year ended December 31, 2015, RSUs were granted on May 20, 2015, September 11, 2015 and November 23, 2015. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.11, US\$0.09 and US\$0.11.

During the year ended December 31, 2014, RSUs were granted on November 17, 2014. The fair values of the RSUs determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.11.

The following table list the inputs to the models used for the plans for the years ended December 31, 2016, 2015 and 2014, respectively:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Dividend yield (%)	—	—	—
Expected volatility	39.66%	37.07%	38.49%
Risk-free interest rate	0.91%	0.60%	0.54%
Expected life of share options	<u>2 years</u>	<u>2 years</u>	<u>2 years</u>

The risk-free rate for periods within the contractual life of the RSUs is based on the yield of the US Treasury Bond. The expected term of RSUs granted represents the period of time that RSUs granted are expected to be outstanding. Expected volatilities are based on the average volatility of the Company's stock prices with the time period commensurate with the expected term of the RSUs. The dividend yield is based on the Company's intended future dividend plan.

The valuation of the RSUs is based on the best estimates from Company by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these RSUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

39. Share-based payments (*continued*)

Movements during the year (*continued*)

(iii) The following table illustrates the number and weighted average exercise prices (“WAEP”) of, and movements in, share options of the Subsidiary Plan during the year (excluding stock option plan and RSUs):

	2016		2016		2015		2015	
	Number	US\$	WAEP		Number	US\$	WAEP	
Outstanding at January 1	7,000,000		US\$ 0.06		—		—	
Granted during the year	7,698,750	US\$	0.31		8,330,000	US\$	0.06	
Forfeited and expired during the year	(100,000)	US\$	0.05		(1,192,500)	US\$	0.06	
Exercised during the year	—		—		(137,500)	US\$	0.05	
Outstanding at December 31	14,598,750	US\$	0.19		7,000,000	US\$	0.06	
Exercisable at December 31	3,297,135	US\$	0.07		689,479	US\$	0.05	

The weighted average remaining contractual life for the share options outstanding as at December 31, 2016 was 9.2 years (2015: 9.1 years).

The range of exercise prices for options outstanding at the end of the year was from US\$0.05 to US\$0.31 (2015: from US\$0.05 to US\$0.08).

During the year ended December 31, 2016, share options of the Subsidiary Plan were granted on December 27, 2016. The fair values of the options of the Subsidiary Plan determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.14.

During the year ended December 31, 2015, share options of the Subsidiary Plan were granted on January 1, 2015, May 4, 2015 and September 15, 2015. The fair values of the options of the Subsidiary Plan determined at the dates of grant using the Black-Scholes Option Pricing model were US\$0.069, US\$0.069 and US\$0.099, respectively.

The following table list the inputs to the Black Scholes Pricing models used for the option of the Subsidiary Plan granted during the years ended 31 December 2016:

	2016	2015
Dividend yield (%)	—	—
Expected volatility	41.5%	36.0%
Risk-free interest rate	2.10%	1.01%
Expected life of share options	6 years	3 years

The risk-free rate for periods within the contractual life of the option of the Subsidiary Plan is based on the yield of the US Treasury Bond. The expected term of options of the Subsidiary Plan granted represents the period of time that options of the Subsidiary Plan granted are expected to be outstanding. Expected

volatilities are based on the average volatility of the relevant subsidiary's set of public comparables with the time period commensurate with the expected term of the options. The dividend yield is based on the relevant subsidiary's intended future dividend plan.

The valuation of the options of the Subsidiary Plan are based on the best estimates from the relevant subsidiary by taking into account a number of assumptions and is subject to limitation of the valuation model. Changes in variables and assumptions may affect the fair value of these options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. Financial instruments

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the capital structure.

The capital structure of the Group consists of net debt (debt as detailed in Note 31, Note 32, Note 33 and Note 34 offset by cash and cash equivalent) and equity of the Group.

Where the entity manages its capital through issuing/repurchasing shares and raising/repayment of debts. The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Gearing ratio

The gearing ratio at end of the reporting period was as follows.

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Debt(i)	3,025,283	1,414,943	1,289,227
Cash and cash equivalent	(2,126,011)	(1,005,201)	(603,036)
Other financial assets	(31,543)	(282,880)	(644,071)
Net debt	867,729	126,862	42,120
Equity	5,403,227	4,190,255	3,307,722
Net debt to equity ratio	<u>16.1%</u>	<u>3.0%</u>	<u>1.3%</u>

(i) Debt is defined as long-term and short-term borrowings (excluding derivatives), convertible bonds, short-term and medium-term note, and bonds payables as described in Note 31, Note 32, Note 33 and Note 34.

Financial risk management objectives

The Group's corporate treasury function co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk including currency risk, interest rate risk and other price risk, credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial

derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. Financial instruments (*continued*)

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the import from suppliers;
- interest rate swaps to mitigate the risk of rising interest rates; and
- cross-currency interest rate swap contracts to protect against volatility of future cash flows caused by the changes in both interest rates and exchange rates associated with outstanding long-term debt denominated in a currency other than the US dollar.

Market risk exposures are measured using the sensitivity analysis and the analysis in the following sections relate to the position as at December 31, 2016, 2015 and 2014.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities			Assets		
	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
EUR	112,827	76,462	2,488	39,619	33,968	480
JPY	41,976	5,553	7,560	35,237	2,986	606
RMB	2,714,492	586,931	221,336	1,633,433	909,497	1,148,146
Others	27,083	14,127	4,684	3,860	2,529	1,100

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of RMB, Japanese Yen ("JPY") and Euros ("EUR").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. Financial instruments (*continued*)

Foreign currency risk management (*continued*)

Foreign currency sensitivity analysis (*continued*)

The following table details the Group's sensitivity to a 5% increase in the foreign currencies against USD. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. For a 5% decrease of the foreign currency against USD, there would be an equal and opposite impact on the profit or equity below predicted.

	EUR			JPY			RMB			Others		
	2016 USD'000	2015 USD'000	2014 USD'000	2016 USD'000	2015 USD'000	2014 USD'000	2016 USD'000	2015 USD'000	2014 USD'000	2016 USD'000	2015 USD'000	2014 USD'000
Profit or loss	(3,660)	(2,125)	(100)	(355)	(128)	(366)	(6,611)	16,128	48,780	(1,222)	(580)	(190)
Equity	(3,660)	(2,125)	(100)	(355)	(128)	(366)	(6,611)	16,128	48,780	(1,222)	(580)	(190)

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within the exposure generated. The Group also enters into forward foreign exchange contracts to manage the foreign currency exposure from purchases/sales and financing activities.

The following table details the forward foreign currency (FC) contracts outstanding at the end of the reporting period:

Outstanding contracts

	Average exchange rate			Foreign currency			Notional value			Fair value assets/(liabilities)		
	12/31/16	12/31/15	12/31/14	12/31/16 FC'000	12/31/15 FC'000	12/31/14 FC'000	12/31/16 USD'000	12/31/15 USD'000	12/31/14 USD'000	12/31/16 USD'000	12/31/15 USD'000	12/31/14 USD'000
Buy EUR												
Less than 3 months	—	1.0895	—	—	39,192	—	—	42,872	—	—	172	—

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

Cross currency swap contracts

It is the policy of the Group to enter into cross currency swap contracts to protect against volatility of future cash flows caused by the changes in exchange rates associated with outstanding debt denominated in a currency other than the US dollar.

In 2016, 2015 and 2014, the Group entered into or issued several RMB denominated loan facility agreements, short-term notes and medium-term notes (the "RMB Debts") in the aggregate principal amount of RMB5,447 million (approximately US\$785.2 million), RMB480 million (approximately US\$74.0 million) and nil,

respectively. The Group was primarily exposed to changes in the exchange rate for the RMB. To minimize the currency risk, the Group entered into cross currency swap contracts with a contract term fully matching the repayment schedule of the whole part of these RMB Debts to protect against the adverse effect of exchange rate fluctuations arising from the RMB Debts. As of December 31, 2016, the Group had outstanding cross currency swap contracts with notional amounts of RMB5,927 million (approximately US\$854.4 million) (as of December 31, 2015: US\$74.0 million and 2014: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

40. Financial instruments *(continued)*

Foreign currency risk management *(continued)*

Cross currency swap contracts *(continued)*

The cross currency swap contracts were designated as hedging instrument of cash flow hedges since October 2016. Any gains or losses arising from changes in fair value of cross currency swap contracts are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

During the year, US\$15.0 million loss of fair value change of cross currency swap was recognized in other gains or losses, net (2015: US\$1.3 million loss and 2014: nil). The following foreign-exchange related amounts of cash flow hedges were recognized in profit or loss and other comprehensive income or loss:

	Year ended 12/31/16 USD'000
Total fair value losses included in other comprehensive loss	(66,861)
Reclassified from other comprehensive loss to offset foreign exchange gains	32,234
Other comprehensive loss on cash flow hedges recognized during the year	(34,627)

The following table details the cross currency swap contracts outstanding at the end of the reporting period:

Outstanding contracts

	Average exchange rate			Foreign currency			Notional value			Fair value assets/(liabilities)		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
				FC'000	FC'000	FC'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Buy RMB												
3 months to 1 year	6.6592	—	—	787,000	—	—	113,450	—	—	(6,348)	—	—
1 year to 5 years	6.5830	6.4360	—	5,140,000	480,000	—	740,954	73,966	—	(74,170)	(1,459)	—

The Group does not enter into cross currency swap contracts for speculative purposes.

Interest rate risk management

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

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. Financial instruments (*continued*)

Interest rate risk management (*continued*)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

A 10 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 10 basis points higher and all other variables were held constant, the Group's profit for the year ended December 31, 2016 would decrease by US\$0.5 million (2015: profit decrease by US\$0.4 million and 2014: profit decrease by US\$0.2 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is mainly exposed to credit risk from trade and other receivables and deposits with banks and financial institutions.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and is offered credit terms only with the approval from Finance and Sales Division. Credit quality of a customer is assessed using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and credit ratings of its counterparties are continuously monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Apart from Customers A, B, C and D, four largest customers of the Group, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Customers A, B, C and D did not exceed 5%, 3%, 3% and 2% respectively of gross monetary assets at the end of current year. Concentration of credit risk to any other counterparty did not exceed 1% of gross monetary assets at the end of current year.

Net revenue and accounts receivable for customers which accounted for 10% or more of the Group's net sales and gross accounts receivable is disclosed in Note 6.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings.

December 31, 2014							
Interest-bearing bank and other borrowings	Fixed	2.54%	39,075	77,099	—	—	116,174
	Floating	6.13%	—	48,408	287,596	—	336,004
Convertible bonds		2.78%–3.79%	—	—	404,000	—	404,000
Bonds payable		4.52%	—	—	500,000	—	500,000
Trade and other payables			<u>727,589</u>	<u>744</u>	<u>3,492</u>	<u>62,536</u>	<u>794,361</u>
			<u>766,664</u>	<u>126,251</u>	<u>1,195,088</u>	<u>62,536</u>	<u>2,150,539</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

40. Financial instruments *(continued)*

Liquidity risk management *(continued)*

Liquidity and interest risk tables *(continued)*

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate <u> </u> %	Less than 3 months <u> </u> USD'000	3 months to 1 year <u> </u> USD'000	1-5 years <u> </u> USD'000	5+ years <u> </u> USD'000	Total <u> </u> USD'000
December 31, 2016						
Trade and other receivables		645,822	—	—	—	645,822
Cash and cash equivalent, restricted cash & short-term investments	1.19%	2,000,717	480,379	21,125	—	2,502,221
Available for sale financial assets		—	—	—	21,966	21,966
		<u>2,646,539</u>	<u>480,379</u>	<u>21,125</u>	<u>21,966</u>	<u>3,170,009</u>

	Weighted average effective interest rate <u> </u> %	Less than 3 months <u> </u> USD'000	3 months to 1 year <u> </u> USD'000	1-5 years <u> </u> USD'000	5+ years <u> </u> USD'000	Total <u> </u> USD'000
December 31, 2015						
Trade and other receivables		499,846	—	—	—	499,846
Cash and cash equivalent, restricted cash & short-term investments	2.12%	1,549,692	45,038	—	—	1,594,730
Available for sale financial assets		—	—	—	19,750	19,750
		<u>2,049,538</u>	<u>45,038</u>	<u>—</u>	<u>19,750</u>	<u>2,114,326</u>

	Weighted average effective interest rate <u> </u>	Less than 3 months <u> </u>	3 months to 1 year <u> </u>	1-5 years <u> </u>	5+ years <u> </u>	Total <u> </u>
--	--	--	--	--------------------------------	-------------------------------	----------------------------

	%	USD'000	USD'000	USD'000	USD'000	USD'000
December 31, 2014						
Trade and other receivables		456,388	—	—	—	456,388
Cash and cash equivalent, restricted cash & short-term investments	2.60%	1,309,979	45,484	—	—	1,355,463
Available for sale financial assets		—	—	—	15,081	15,081
		<u>1,766,367</u>	<u>45,484</u>	<u>—</u>	<u>15,081</u>	<u>1,826,932</u>

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. Financial instruments *(continued)*

Liquidity risk management *(continued)*

Liquidity and interest risk tables *(continued)*

The Group has access to short-term financing facilities as described in below section, of which US\$1,873.8 million were unused at the end of the reporting period (2015: US\$1,351.7 million and 2014: US\$767.4 million). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	<u>Less than 1 month USD'000</u>	<u>1-3 months USD'000</u>	<u>3 months to 1 year USD'000</u>	<u>1-5 years USD'000</u>	<u>5+ years USD'000</u>
December 31, 2016					
Net settled:					
Cross currency swap contracts					
— cash flow hedges	—	—	113,450	740,954	—
	<u>Less than 1 month USD'000</u>	<u>1-3 months USD'000</u>	<u>3 months to 1 year USD'000</u>	<u>1-5 years USD'000</u>	<u>5+ years USD'000</u>
December 31, 2015					
Net settled:					
Foreign exchange forward contracts	42,872	—	—	—	—
Cross currency swap contracts	—	—	—	73,966	—
	<u>42,872</u>	<u>—</u>	<u>—</u>	<u>73,966</u>	<u>—</u>

Fair value of financial instruments

Fair value of financial instruments carried at amortized cost

The Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information that the Group obtains from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, the Group generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and the Group's evaluation of those factors changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

40. Financial instruments (continued)

Fair value of financial instruments (continued)

Fair value measurements recognized in the consolidated statement of financial position

The following tables provide an analysis of financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. There is no transfer within different levels of the fair value hierarchy in the year ended December 31, 2016, 2015 and 2014:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		12/31/16			
		Level 1	Level 2	Level 3	Total
<u>Valuation technique(s) and key input</u>		<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>	<u>USD'000</u>
Financial assets at FVTPL					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates and discounted.	—	24,931	—	24,931
Available-for-sale investment	Quoted prices in active markets	4,713	—	—	4,713
Available-for-sale investment	Recent transaction price	—	—	16,067	16,067
Derivative financial instrument	Measured by Binomial Model with key assumptions including exercise multiple (75%), risk free rate of interest (0.51%), expected volatility (24.5%) and rate of return (10%).	—	—	32,894	32,894
Total		4,713	24,931	48,961	78,605
Financial liabilities at FVTPL					
Cross currency swap contracts classified as other financial liabilities in the statement of financial position — cash flow hedges	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted.	—	80,518	—	80,518

Finance lease payables	Discounted cash flow. Future cash flows are estimated based on forward exchange rates	—	7,057	—	7,057
Total		<u>—</u>	<u>87,575</u>	<u>—</u>	<u>87,575</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

40. Financial instruments (continued)

Fair value of financial instruments (continued)

Fair value measurements recognized in the consolidated statement of financial position(continued)

		12/31/15			
Valuation technique(s) and key input		Level 1	Level 2	Level 3	Total
		USD'000	USD'000	USD'000	USD'000
Financial assets at FVTPL					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates and discounted.	—	257,583	—	257,583
Foreign currency forward contracts classified as other financial assets in the statement of financial position	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted.	—	172	—	172
Available-for-sale investment	Quoted prices in active markets	3,300	—	—	3,300
Available-for-sale investment	Recent transaction price	—	—	15,173	15,173
Derivative financial instrument	Measured by Binomial Model with key assumptions including exercise multiple (75%), risk free rate of interest (1.2%), expected volatility (46.8%) and rate of return (10%).	—	—	30,173	30,173
Total		<u>3,300</u>	<u>257,755</u>	<u>45,346</u>	<u>306,401</u>
Financial liabilities at FVTPL					
Cross currency swap contracts classified as other financial liabilities in the statement of financial position	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates and discounted.	—	1,459	—	1,459
Total		<u>—</u>	<u>1,459</u>	<u>—</u>	<u>1,459</u>
		12/31/14			
Valuation technique(s) and key input		Level 1	Level 2	Level 3	Total
		USD'000	USD'000	USD'000	USD'000
Financial assets at FVTPL					
Short-term investment carried at fair value through profit or loss	Discounted cash flow. Future cash flows are estimated based on contracted interest rates and discounted.	—	616,862	—	616,862

Available-for-sale investment	Recent transaction price	—	—	13,803	13,803
Total		<u>—</u>	<u>616,862</u>	<u>13,803</u>	<u>630,665</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. Business combination

On June 24, 2016, the Company, LFoundry Europe GmbH (“LFoundry Europe”) and Marsica Innovation S.p.A (“Marsica”) entered into a sale and purchase agreement pursuant to which LFoundry Europe and Marsica agreed to sell and the Company agreed to purchase 70% of the corporate capital of LFoundry for an aggregate cash consideration of EUR49 million subject to adjustment. The acquisition was completed on July 29, 2016.

The assets and liabilities recognized as of July 29, 2016 as a result of the acquisition were as follows:

	Fair value USD'000
Property, plant and equipment	113,119
Intangible assets	8,088
Restrict cash	26,042
Other assets	5,590
Total non-current assets	152,839
Inventories	29,252
Prepayment and prepaid operating expenses	2,864
Trade and other receivables	34,186
Other financial assets	111
Cash and cash equivalent	18,987
Total current assets	85,400
Total Assets	238,239
Borrowings	71,654
Deferred tax liability	15,639
Other long-term liabilities	35,354
Total non-current liabilities	122,647
Trade and other payables	37,005
Borrowings	4,904
Accrued liabilities	1,635
Total current liabilities	43,544
Total Liabilities	166,191
Total identifiable net assets at fair value	72,048
Less: non-controlling interests	(21,615)
Goodwill on acquisition	3,933
Satisfied by cash	54,366

The goodwill is attributable to the workforce and the high profitability of the acquired business. It will not be deductible for tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	USD'000
Cash paid for acquisition	(54,366)
Other cash consideration	(37,837)
Cash and cash equivalent acquired	18,987
Net cash outflow	<u>(73,216)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

41. Business combination *(continued)*

For the purpose of business combination, the Company offered LFoundry a long-term loans, amounted to US\$37.8 million, for the repayment of LFoundry's debts.

Since the acquisition, LFoundry contributed US\$87.4 million to the Group's revenue and US\$3.0 million to the consolidated profit for the year ended December 31, 2016.

Had LFoundry been consolidated from January 1, 2016, the consolidated statement of profit or loss would show pro-forma revenue of US\$213.2 million and profit of US\$0.9 million.

42. Related party transactions

The names of the related parties which had transactions with the Group for the year ended December 31, 2016 and the relationships with the Group are disclosed below:

Related party name	Relationship with the Group
China Academy of Telecommunication Technology	A member of Datang Telecom Technology & Industry Group ("Datang Group"), which owns Datang Holdings
Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang Holdings")	A substantial shareholder of the Company
Datang Microelectronics Technology Co., Ltd	A member of Datang Group
Datang Semiconductor Co., Ltd.	A member of Datang Group
Leadcore Technology Co., Ltd and Leadcore Technology (Hong Kong) Co., Ltd ("Leadcore")	A member of Datang Group
Datang Telecom Group Finance Co., Ltd ("Datang Finance")	A member of Datang Group
China IC Fund	A substantial shareholder of the Company
China Investment Corporation ("CIC")	A substantial shareholder of the Company in the middle of 2015, which was interested in less than 5% of the share capital of the Company as at December 31, 2015
Country Hill	A wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by CIC
Toppan	An associate of the Group
Brite Semiconductor Corporation and its subsidiaries ("Brite")	An associate of the Group
China Fortune-Tech	An associate of the Group
Zhongxin Xiecheng	An associate of the Group
Sino IC Leasing (Tianjin) Co., Ltd	An associate of the Group

Trading transactions

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sale of goods			Sale of services		
	Year ended			Year ended		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Datang Microelectronics Technology Co., Ltd	14,146	12,885	12,340	—	—	—
Datang Semiconductor Co., Ltd	464	865	—	—	—	—
Leadcore	3,267	8,881	2,173	—	—	—
Toppan	—	—	—	3,481	3,699	4,486
Brite	31,506	31,379	31,444	—	—	—
China Fortune-Tech	—	—	—	65	60	41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

42. Related party transactions *(continued)*

Trading transactions *(continued)*

	Purchase of goods			Purchase of services		
	Year ended			Year ended		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
China Academy of Telecommunication Technology	—	—	—	—	—	1,163
Toppan	8,869	7,996	1,345	856	3,516	22,726
Zhongxin Xiecheng	—	—	—	4	1,199	2,673
Brite	25	—	—	2,887	2,582	3,201
China Fortune-Tech	—	—	—	313	938	116
Datang Finance	—	—	—	15	—	—

The following balances were outstanding at the end of the reporting period:

	Amounts due from related parties			Amounts due to related parties		
	12/31/16	12/31/15	12/31/14	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
China Academy of Telecommunication Technology	—	—	360	—	—	—
Datang Semiconductor Co., Ltd	—	61	—	—	—	—
Datang Microelectronics Technology Co., Ltd	6,354	5,338	5,642	—	—	—
Leadcore	—	1,948	619	—	3,667	7
Toppan	615	317	387	2,414	1,148	2,739
Brite	6,507	5,661	3,772	279	141	700
China Fortune-Tech	38	40	41	—	—	—

On February 18, 2014, the Company entered into a framework agreement with Datang Holdings (the “Framework Agreement”). Pursuant to the agreement, the Group and Datang Holdings (including its associates) will engage in business collaboration including but not limited to foundry service. The effective period of the Framework Agreement was two years. The pricing for the transactions contemplated under the agreement was determined by reference to reasonable market price.

On June 8, 2015, the Company issued 4,700,000,000 new ordinary shares to Xinxin (Hongkong) Capital Co., Limited, a wholly-owned subsidiary of the China IC Fund. Please refer to Note 28 for details.

On September 25, 2015, Country Hill subscribed 323,518,848 ordinary shares of the Company. Please refer to Note 28 for details.

On October 9, 2015, Datang subscribed 961,849,809 ordinary shares of the Company. Please refer to Note 28 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

42. Related party transactions *(continued)*

Trading transactions *(continued)*

On December 18, 2015, the Company and Datang Finance entered into a financial services agreement with a three year term commencing on January 1, 2016 and ending on December 31, 2018, pursuant to which Datang Finance has agreed to provide the Company and its subsidiaries, including its associated companies and companies under its management with a range of financial services (including deposit services, loan services, foreign exchange services and other financial services).

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.

In December 2016, there were two financing arrangements in consideration of US\$249.2 million entered into by the Group with Sino IC Leasing (Tianjin) Co., Ltd. (a wholly-owned subsidiary of Sino IC Leasing Co., Ltd, an associate of the Group) in the form of a sale and leaseback transaction with a repurchase option. A batch of production equipment of the Group was sold and leased back under the financing arrangements. As the repurchase prices are set at the expected fair value and the Group is not reasonably certain that it will exercise the repurchase options, the above transaction have been accounted for disposal of property, plant and equipment followed with an operating lease.

Capital contribution

In June 2016, China IC Fund made a capital contribution of US\$636 million into the registered capital of SMNC. Please refer to Note 19 for details.

In September 2016, China IC Fund made another capital contribution of US\$50 million into the registered capital of SJ Jiangyin. Please refer to Note 19 for details.

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company.

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

	year ended 12/31/16	year ended 12/31/15	year ended 12/31/14
	USD'000	USD'000	USD'000
Short-term benefit	4,921	4,731	4,593
Share-based payments	2,762	2,618	2,535
	7,683	7,349	7,128

The remuneration of key management personnel is determined by the Compensation Committee having regard to the Group's profitability, business achievement, individual performance and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

42. Related party transactions *(continued)*

Arrangements/contracts for sale of self-developed living quarter unit

In 2016, the Group entered into arrangement/contracts with one of directors of the Company for sale of self-developed living quarter unit and the amount of the consideration is approximately US\$1.0 million. The transaction was not completed as of the date of this annual report.

In 2015, the Group entered into arrangement/contracts with 4 of the Company's directors and key management for sale of self-developed living quarter units and the amount of the considerations was approximately US\$3.6 million. Within which two transactions amounted to US\$1.6 million were completed and other two transactions were not completed as of the date of this annual report.

43. Commitments for expenditure

Purchase commitments

As of December 31, 2016, 2015 and 2014, the Group had the following commitments to purchase machinery, equipment and construction obligations. The machinery and equipment is scheduled to be delivered to the Group's facility by December 31, 2017.

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Commitments for the facility construction	239,759	165,274	211,696
Commitments for the acquisition of property, plant and equipment	800,597	1,146,275	292,867
Commitments for the acquisition of intangible assets	5,491	29,392	14,109
	<u>1,045,847</u>	<u>1,340,941</u>	<u>518,672</u>

44. Financial information of parent company

(i) **Statement of profit or loss**

	Year ended		
	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>
	USD'000	USD'000	USD'000
Revenue	-	-	-
General and administration expenses	(50,739)	(51,682)	(54,544)
Loss from operations	(50,739)	(51,682)	(54,544)
Interest income	1,154	474	1,077
Finance costs	(24,194)	(12,477)	(12,405)
Foreign exchange gains or losses	(15,269)	(2,848)	(21,791)

Share of profits of subsidiaries	477,510	321,199	237,886
Share of profits of associates	1,455	322	1,894
Other gains or losses, net	(13,287)	(1,577)	852
Profit before tax	376,630	253,411	152,969
Income tax expense	-	-	-
Profit for the year	376,630	253,411	152,969
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations	(18,131)	(8,185)	(324)
Change in value of available-for-sale financial assets	798	447	-
Cash flow hedges	(34,627)	-	-
Other	1	130	-
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gains and losses on defined benefit plans	1,520	130	-
Total comprehensive income for the year	326,191	245,803	152,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

44. Financial information of parent company (continued)

(ii) Statement of financial position

	12/31/16	12/31/15	12/31/14
	USD'000	USD'000	USD'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	89,404	30,123	10,244
Intangible assets	91,225	108,897	133,117
Investment in subsidiaries	4,333,604	3,312,113	2,732,011
Investments in associates	114,966	56,080	28,692
Other assets	530,566	575,489	623,000
Total non-current assets	<u>5,159,765</u>	<u>4,082,702</u>	<u>3,527,064</u>
<i>Current assets</i>			
Prepayment and prepaid operating expenses	671	633	641
Trade and other receivables	933,465	450,224	312,760
Other financial assets	3,000	15,000	12,000
Cash and cash equivalent	317,873	115,726	55,600
Total current assets	<u>1,255,009</u>	<u>581,583</u>	<u>381,001</u>
Total assets	<u><u>6,414,774</u></u>	<u><u>4,664,285</u></u>	<u><u>3,908,065</u></u>
Equity and liabilities			
<i>Capital and reserves</i>			
Ordinary shares, \$0.004 par value, 5,000,000,000 shares authorized, 4,252,922,259, 4,207,374,896 and 3,585,609,617 shares issued and outstanding at December 31, 2016, 2015 and 2014	17,012	16,830	14,342
Share premium	4,950,948	4,903,861	4,376,630
Reserves	93,563	96,644	98,333
Accumulated deficit	(910,849)	(1,287,479)	(1,540,890)
Total equity	<u>4,150,674</u>	<u>3,729,856</u>	<u>2,948,415</u>
<i>Non-current liabilities</i>			
Borrowings	72,077	—	—
Convertible bonds	395,210	—	379,394
Bonds payable	494,909	493,207	491,579
Medium-term notes	214,502	—	—
Other financial liabilities	60,610	—	—
Other liabilities	2,560	2,080	—
Total non-current liabilities	<u>1,239,868</u>	<u>495,287</u>	<u>870,973</u>

<i>Current liabilities</i>			
Trade and other payables	523,849	33,445	18,391
Borrowings	—	—	61,221
Convertible bonds	391,401	392,632	—
Short-term notes	86,493	—	—
Accrued liabilities	19,570	11,606	9,065
Other financial liabilities	2,919	1,459	—
Total current liabilities	<u>1,024,232</u>	<u>439,142</u>	<u>88,677</u>
Total liabilities	<u>2,264,100</u>	<u>934,429</u>	<u>959,650</u>
Total equity and liabilities	<u>6,414,774</u>	<u>4,664,285</u>	<u>3,908,065</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

44. Financial information of parent company (*continued*)

(iii) Statement of changes in equity

	Ordinary shares	Share premium	Equity-settle employee benefits reserve	Foreign currency translation reserve	Change in value of available- for-sale financial assets	Convertible bonds equity reserve	Defined benefit plan reserve	Cash flow hedges	Others	Accumulated deficit	Total equity
	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000	USD*000
Balance at December 31, 2013	12,845	4,089,846	55,177	4,553	—	15,210	—	—	—	(1,693,859)	2,483,772
Profit for the year	—	—	—	—	—	—	—	—	—	152,969	152,969
Other comprehensive loss for the year	—	—	—	(324)	—	—	—	—	—	—	(324)
Total comprehensive loss for the year	—	—	—	(324)	—	—	—	—	—	152,969	152,645
Issuance of ordinary shares	1,411	268,362	—	—	—	—	—	—	—	—	269,773
Exercise of stock options	86	18,422	(9,025)	—	—	—	—	—	—	—	9,483
Share-based compensation	—	—	18,388	—	—	—	—	—	—	—	18,388
Recognition of equity component of convertible bonds	—	—	—	—	—	14,354	—	—	—	—	14,354
Subtotal	1,497	286,784	9,363	—	—	14,354	—	—	—	—	311,998
Balance at December 31, 2014	14,342	4,376,630	64,540	4,229	—	29,564	—	—	—	(1,540,890)	2,948,415
Profit for the year	—	—	—	—	—	—	—	—	—	253,411	253,411
Other comprehensive income (losses) for the year	—	—	—	(8,185)	447	—	—	—	130	—	(7,608)
Total comprehensive income (losses) for the year	—	—	—	(8,185)	447	—	—	—	130	253,411	245,803
Issuance of ordinary shares	2,395	506,412	—	—	—	—	—	—	—	—	508,807
Exercise of stock options	93	20,819	(12,169)	—	—	—	—	—	—	—	8,743
Share-based compensation	—	—	18,088	—	—	—	—	—	—	—	18,088
Subtotal	2,488	527,231	5,919	—	—	—	—	—	—	—	535,638
Balance at December 31, 2015	16,830	4,903,861	70,459	(3,956)	447	29,564	—	—	130	(1,287,479)	3,729,856
Profit for the year	—	—	—	—	—	—	—	—	—	376,630	376,630
Other comprehensive income (losses) for the year	—	—	—	(18,131)	798	—	1,520	(34,627)	1	—	(50,439)
Total comprehensive income (losses) for the year	—	—	—	(18,131)	798	—	1,520	(34,627)	1	376,630	326,191
Exercise of stock options	140	36,064	(18,594)	—	—	—	—	—	—	—	17,610
Share-based compensation	—	—	13,838	—	—	—	—	—	—	—	13,838
Conversion options of convertible bonds exercised during the year	42	11,023	—	—	—	(821)	—	—	—	—	10,244
Recognition of equity component of convertible bonds	—	—	—	—	—	52,935	—	—	—	—	52,935
Subtotal	182	47,087	(4,756)	—	—	52,114	—	—	—	—	94,627
Balance at December 31, 2016	<u>17,012</u>	<u>4,950,948</u>	<u>65,703</u>	<u>(22,087)</u>	<u>1,245</u>	<u>81,678</u>	<u>1,520</u>	<u>(34,627)</u>	<u>131</u>	<u>(910,849)</u>	<u>4,150,674</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

44. Financial information of parent company *(continued)*

(iv) Statement of cash flow

	Year ended 12/31/16 USD'000	Year ended 12/31/15 USD'000	Year ended 12/31/14 USD'000
Operating activities			
Profit for the year	376,630	253,411	152,969
Adjustments for:			
Amortization of intangible assets and land use right	30,678	30,780	29,566
Depreciation of property, plant and equipment	8,062	4,046	2,225
Expense recognized in respect of equity-settled share-based payments	1,940	5,169	18,388
Finance costs	24,194	12,477	12,405
Interest income recognized in profit or loss	(1,154)	(474)	(1,077)
Net loss arising on financial liabilities at fair value through profit or loss	13,182	1,459	—
Net loss (gain) on foreign exchange	5,982	184	(746)
Share of profit of investment using equity method	(478,965)	(321,521)	(239,780)
	(19,451)	(14,469)	(26,050)
Operating cash flows before movements in working capital:			
(Increase) decrease in trade and other receivables	(1,727)	465	(111)
(Increase) decrease in prepaid operating expenses	(57)	8	(2,514)
Decrease in other assets	777	—	—
Increase (decrease) in trade and other payables	1,354	7,550	(11,356)
Increase (decrease) in accrued liabilities and other liabilities	2,818	2,541	(5,416)
Cash used in operations	(16,286)	(3,905)	(45,447)
Interest paid	(16,149)	(21,536)	(2,406)
Interest received	1,135	474	1,077
Net cash used in operating activities	(31,300)	(24,967)	(46,776)
Investing activities			
Payments to acquire financial assets	(6,000)	(12,000)	(12,000)
Proceeds on sale of financial assets	18,000	9,000	—
Investment in subsidiaries	(550,426)	(280,658)	(204,103)
Investment in associates	(63,796)	—	—
Cash from disposal of investment	—	—	2,699
Payments for property, plant and equipment	(52,445)	—	—
Payments for intangible assets	(11,526)	(4,480)	(10,000)
Proceeds from disposal of available-for-sale investment	146	—	—
Change in restricted cash relating to investing activities	—	—	29,130

Cash paid for subsidiaries	(437,437)	(137,929)	(274,327)
Net cash used in investing activities	<u>(1,103,484)</u>	<u>(426,067)</u>	<u>(468,601)</u>
Financing activities			
Proceeds from borrowings	76,006	21,912	103,684
Repayment of borrowings	—	(83,133)	(176,266)
Proceeds from issuance of new shares	—	508,807	270,180
Proceeds from issuance of convertible bonds	441,155	—	203,763
Proceeds from issuance of corporate bonds	—	—	492,315
Proceeds from issuance of short-term and medium-term notes	314,422	—	—
Proceeds from exercise of employee stock options	17,610	8,743	9,483
Cash received (paid for) from subsidiaries	487,050	55,015	(495,288)
Net cash from financing activities	<u>1,336,243</u>	<u>511,344</u>	<u>407,871</u>
Net increase (decrease) in cash and cash equivalent	201,459	60,310	(107,506)
Cash and cash equivalent at the beginning of the year	115,726	55,600	162,360
Effects of exchange rate changes on the balance of cash held in foreign currencies	688	(184)	746
Cash and cash equivalent at the end of the year	<u>317,873</u>	<u>115,726</u>	<u>55,600</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2016

44. Financial information of parent company (*continued*)

(v) **Retrospective adjustment**

As a result of adoption of the Amendment to IAS 27, the Company made retrospective adjustment on Investments in subsidiary and reserves in separate financial statements (Note 2(a))

A reconciliation of the reserve in preceding year's audited separate financial statements and the retrospective one in the comparative information of current year's separate financial statements is as follows:

	Before retrospective adjustment	Adoption of the Amendment to IAS 27	After retrospective adjustment
	USD'000	USD'000	USD'000
Balance at December 31, 2013	2,408,888	74,884	2,483,772
Profit (loss) for the year	(86,811)	239,780	152,969
Other comprehensive loss for the year	—	(324)	(324)
Total comprehensive income (loss) for the year	(86,811)	239,456	152,645
Issuance of ordinary shares	269,773	—	269,773
Exercise of stock options	9,483	—	9,483
Share-based compensation	18,388	—	18,388
Recognition of equity component of convertible bonds	14,354	—	14,354
Subtotal	311,998	—	311,998
Balance at December 31, 2014	2,634,075	314,340	2,948,415
Profit (loss) for the year	(68,110)	321,521	253,411
Other comprehensive loss for the year	—	(7,608)	(7,608)
Total comprehensive income (loss) for the year	(68,110)	313,913	245,803
Issuance of ordinary shares	508,807	—	508,807
Exercise of stock options	8,743	—	8,743
Share-based compensation	18,088	—	18,088
Subtotal	535,638	—	535,638
Balance at December 31, 2015	3,101,603	628,253	3,729,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

45. Subsequent events

(i) Redemption of Zero Coupon Convertible Bonds

The Company exercised its right to redeem the US\$200 million zero coupon convertible bonds due 2018, the US\$86.8 million zero coupon convertible bonds due 2018, the US\$95 million zero coupon convertible bonds due 2018 and the US\$22.2 million zero coupon convertible bonds due 2018 (the “Bonds”) on March 10, 2017 being the option redemption date when all of the Bonds would be redeemed in cash at 100% of the Bonds’ principal amount. The conversion price is HK\$7.965, approximately US\$1.027. On March 3, 2017, the Company received notices from all holders of the Bonds for the full conversion of the outstanding Bonds. As all outstanding Bonds have been fully converted and no Bonds remain outstanding, no redemption of the Bonds will be carried out. The Company has arranged for the delisting of the Bonds from the Singapore Exchange Securities Trading Limited.

(ii) Approval for the Disposal Agreement and the Subscription Agreement between Siltech Shanghai and JCET

On March 1, 2017, the Company was notified by JCET that CSRC has granted conditional approval for the Disposal Agreement and the Subscription Agreement (the “Conditional Approval”). Completion of the Disposal Agreement and the Subscription Agreement is subject to the satisfaction of conditions in the Conditional Approval. As of the date of this report, the related conditions have not been satisfied.

46. Approval of financial statements

The financial statements were approved and authorized for issue by the board of directors of the Company on March 27, 2017.

Annex A
GLOSSARY OF TECHNICAL TERMS

ASIC/ASSP	Application Specific Integrated Circuit/Application Specific Standard Parts. ASICs/ASSPs are designed to provide a very specific function for a specific application in any one of the six application markets: computing, communications, consumer, automotive and industrial. ASICs include both standard catalogue products, standard and customized/application-specific logic ICs.
Analog PDs	Analog PhotoDiodes. Using PN junction in a silicon device stack as light detector, transforming light into electrical signals. Analog PDs do not have CMOS circuitry included, thus the main functionality is the transformation of the light into electrical signal. Post processing of the signal is done in a separate semiconductor device.
BCD	Bipolar-CMOS-DMOS. CMOS technology with embedded high voltage devices - LDMOS (laterally diffused metal oxide semiconductor) - for high output power with a corresponding drain to source breakdown voltage up to 40 volts and above, applicable for power management products.
Cell	A primary unit that normally repeats many times in an integrated circuit. Cells represent individual functional design units or circuits that may be reused as blocks in designs. For example, a memory cell represents a storage unit in a memory array.
CIS	CMOS Image Sensor. CIS can be used in applications such as still and video cameras and embedded cameras in mobile telephones. It is a fast growing imaging sensor technology. The fabrication of CIS is fully compatible with the mainstream CMOS process, which enables system-on-chip capability, low power consumption and low cost of fabrication.
Clean room	Area within a fab in which the wafer fabrication takes place. The classification of a clean room relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 clean room contains less than 100 particles of contaminants per cubic foot.
CMOS	Complementary Metal Oxide Silicon. A fabrication process that incorporates n-channel and p-channel CMOS transistors within the same silicon substrate. Currently, this is the most commonly used integrated circuit fabrication process technology and is one of the latest fabrication techniques to use metal oxide semiconductor transistors.
CVD	Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated wafer surface to form solid film.
Die	One individual chip cut from a wafer before being packaged.
DRAM	Dynamic Random Access Memory. A device that temporarily stores digital information but requires regular refreshing to ensure data is not lost.
DSP	Digital Signal Processor. A type of integrated circuit that processes and manipulates digital information after it has been converted from an analog source.
eEEPROM	Embedded Electrically Erasable Programmable Read-Only Memory is a type of embedded Non-Volatile Memory that has similar function as an EEPROM, but in generally is embedded in a system or in a controller IC or SoC
EEPROM	Electrically Erasable Programmable Read-Only Memory. An integrated circuit that can be electrically erased and electrically programmed with user-defined information.

EPROM

Erasable Programmable Read-Only Memory. A form of PROM that is programmable electrically yet erasable using ultraviolet light.

FinFet	Fin Field Effect Transistors (FinFET) are self-aligned multi-gate devices with a conventional CMOS process. It allows extending the gate scaling beyond the planar transistor limits with 3d shape above the substrate. FinFET's conducting channel is wrapped by a thin silicon "fin", which forms the body of the device. The thickness of the "fin" will determine the effective channel length of the device. FinFET greatly reduces the leakage currents and enables the use of lower threshold voltages and results better performance and power savings.
Flash memory	A type of non-volatile memory where data is erased in blocks. The name "flash" is derived from the rapid block erase operation. Flash memory requires only one transistor per memory cell versus two transistors per memory cell for EEPROMs, making flash memory less expensive to produce. Flash memory is the most popular form of non-volatile semiconductor memory currently available.
Gold Bumping	The fabrication process of forming gold bump termination electrodes on a finished wafer.
High-K Metal Gate (HKMG)	High-k Metal Gate (HKMG) is referring to High-k dielectrics, used in semiconductor manufacturing process with metallic gate, generally replaces a silicon dioxide gate dielectric or another dielectric layers of a device. HKMG allows the increase of gate capacitance without the associated leakage effects.
High voltage semiconductor	High voltage semiconductors are semiconductor devices that can drive relatively high voltage potential to systems that require higher voltage of between five volts to several hundred volts.
HybridBonding	Wafer-to wafer bonding with electrical interconnect. The wafer surfaces are planarized, then aligned and bonded together at room temperature on their top surface directly connecting the metal interconnects during low temperature anneal step.
IDM	Integrated Device Manufacturer.
Integrated circuit	An electronic circuit where all the elements of the circuit are integrated together on a single semiconductor substrate.
Interconnect	Conductive materials such as aluminum doped polysilicon or copper that form the wiring circuitry to carry electrical signals to different parts of the chip.
IPD	Integrated Passive Devices. IPDs are generally fabricated using standard wafer fab technologies such as thin film and photolithography processing. IPDs can be designed as flip chip mountable or wire bondable components and the substrates for IPDs usually are thin film substrates like silicon, alumina or glass.
I/O	Inputs/Outputs.
Logic device	A device that contains digital integrated circuits that perform a function rather than store information.
Mask	A glass plate with a pattern of transparent and opaque areas used to create patterns on wafers. "Mask" is commonly used to refer to a plate that has a pattern large enough to pattern a whole wafer at one time, as compared to a reticle, where a glass plate can contain the pattern for one or more dies but is not large enough to transfer a wafer-sized pattern all at once.
MCU	Microcontroller Unit. Includes a central processing unit, program memory, read/write data memory and some I/O capability. May include EEPROM, Flash and/or other types of memory embedded inside.

Memory	A device that can store information for later retrieval.
MEMS	Micro-Electro-Mechanical Systems.
Micro-display	A small display that is of such high resolution that it is only practically viewed or projected with lenses or mirrors. A micro-display is typically magnified by optics to enlarge the image viewed by the user. For example, a miniature display smaller than one inch in size may be magnified to provide a 12-inch to 60-inch viewing area.
Micron	A term for micrometer, which is a unit of linear measure that equals one one-millionth (1/1,000,000) of a meter. There are 25.4 microns in one one-thousandth of an inch.
Mixed-signal	The combination of analog and digital circuitry in a single semiconductor.
MPU	Microprocessors (MPUs). MPU includes an instruction decoder, ALU, registers and additional logic for fetching instructions, executing instructions and manipulating data. Computer MPU; Embedded MPU; General Purpose MPUs.
MPW	Multi-Project Wafer integrates numbers of different integrated circuit designs from various parties onto one single wafer in order for these parties to share mask and wafer resources to reduce cost and to produce in low quantities.
Nanometer	A term for micrometer, which is a unit of linear measure that equals one thousandth (1/1,000) of a micron.
NFC	Near-field communication, a set of communication protocols that enable two electronic devices to establish communication by bringing them within a short distance of each other.
Non-volatile memory	Memory products that maintain their content when the power supply is switched off.
PolySiON	Polycrystalline silicon oxygen nitride (PolySiON) is referring to semiconductor manufacturing process with CMOS technology using conventional poly gate and silicon oxygen nitride gate dielectrics.
PROM	Programmable Read-Only Memory. Memory that can be reprogrammed once after manufacturing.
RAM	Random Access Memory. Memory devices where any memory cell in a large memory array may be accessed in any order at random.
Reticle	See "Mask" above.
RF	Radio Frequency. Radio frequency semiconductors are primarily used in communications devices such as cell phones.
RFID	Radio Frequency Identification. Radio-frequency identification (RFID) is the use of a wireless non-contact system that uses radio-frequency electromagnetic fields to transfer data from a tag attached to an object. RFID's frequency bands ranges from (125kHz~135kHz) (13.56MHz), and (860MHz~960MHz).

RF-FEM	Radio Frequency Front End Module. RF-Front End Module, a generic term for all the circuitry between the antenna and the first intermediate frequency (IF) stage. It consists of all the components in the receiver that process the signal at the original incoming radio frequency (RF), before it is converted to a lower intermediate frequency (IF). RF-FEM can consist of the combination of Tuner, Switch, PA, Filter, Transceivers related devices.
RF PA	Radio Frequency Power Amplifier. Primarily referring to CMOS-based Power Amplifier which increases radio signal frequencies in radio communications.
RF Tx/Rx	Radio Frequency Transceiver. Referring to Transmitter, Receiver, or both functions in one common circuitry as a Transceiver.
ROM	Read-Only Memory. See “Mask ROM” above.
Scanner	An aligner that scans light through a slit across a mask to produce an image on a wafer.
Semiconductor	An element with an electrical resistivity within the range of an insulator and a conductor. A semiconductor can conduct or block the flow of electric current depending on the direction and magnitude of applied electrical biases.
SoC	System on Chip. A system on a chip or system on chip (SoC or SOC) is an integrated circuit (IC) that integrates all components of a computer, communication or other electronic system into a single chip. It may contain digital, analog, mixed-signal, and often radio-frequency functions—all on a single chip substrate.
Solder bumping	The fabrication processes of forming solder bump termination electrodes, which are elevated metal structures, or lead free bump termination electrodes.
SPAD	Single Photon Avalanche Diode. technology processes between 110 to 150nm specifically setup for SPAD device designs. SPAD devices produces on silicon wafers are solid-state photodetectors in which a photon-generated carrier can trigger an avalanche current due to the impact ionization mechanism. Such device is able to detect low-intensity signals (down to the single photon) and to signal the arrival times of the photons within a few tens of picoseconds
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
System-on-chip	A chip that incorporates functions usually performed by several different devices and therefore generally offers better performance and lower cost.
Systems companies	Companies that design and manufacture complete end market products or systems for sale to the market.
Transistor	An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.
Volatile memory	Memory products that lose their content when the power supply is switched off. Wafer A thin, round, flat piece of silicon that is the base of most integrated circuits.

Summary of Disposal Agreement between Siltech Shanghai and JCET, Subscription Agreement between Siltech Shanghai and JCET, and Supplemental Agreement relating to Disposal Agreement between SilTech Shanghai and JCET

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

On April 27, 2016, SilTech Shanghai and JCET entered into a subscription agreement. Pursuant to the Subscription Agreement, SilTech Shanghai agreed to subscribe for and JCET agreed to issue 150,681,044 A Shares at RMB17.62 per A Share in consideration of an aggregate subscription price of RMB2,655 million in cash by way of private placement.

Immediately upon completion of both the Disposal and the Subscription, the Company (through SilTech Shanghai) would hold 193,910,210 A Shares in total (subject to any necessary adjustment) representing 14.26% shareholding interest in JCET and 14.26% attributable ownership interest in Holdco A assuming that completion of a separate agreement between China IC Fund and JCET involving the disposal of China IC Fund of its ownership interest in certain companies to JCET in consideration of 129,622,395 A Shares in JCET has taken place. The Company is expected to become the single largest shareholder of JCET after completion of the Disposal and the Subscription. The Disposal and the Subscription constitute a strategic investment which reflects the current industry trend and customers’ requests for greater integration between front-end and back-end IC manufacturing. Holdco A is the indirect holding company of STATS ChipPAC Ltd., a leading provider of advanced semiconductor packaging and test services in the world.

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

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

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

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

On March 1, 2017, the Company was notified by JCET that CSRC has granted conditional approval for the Disposal and the Subscription (the "Conditional Approval"). Completion of the Disposal and agreed sum, SilTech Shanghai will complete the Subscription is subject to the satisfaction of conditions in the Conditional Approval, which have been disclosed on the website of the CSRC.

Dated 7 June 2016

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

and

J.P. MORGAN SECURITIES PLC

SUBSCRIPTION AGREEMENT

relating to

US\$450,000,000 Zero Coupon Convertible Bonds due 2022
convertible into ordinary shares of Semiconductor Manufacturing International Corporation

Linklaters

10th Floor, Alexandra House
Chater Road
Hong Kong

Telephone (852) 2842 4888
Facsimile (852) 2810 8133/2810 1695

Ref L-248682

Table of Contents

Clause	Heading	Page
1	Issue of the Bonds and Publicity	1
2	Agreements by the Manager	2
3	Listing	2
4	Representations, Warranties and Indemnity	3
5	Undertakings of the Issuer	14
6	Conditions Precedent	17
7	Closing	18
8	Commissions and Concession	19
9	Expenses	19
10	Termination	20
11	Survival of Representations and Obligations	21
12	Communications	21
13	Currency Indemnity	22
14	Contracts (Rights of Third Parties) Act 1999	22
15	Governing Law and Jurisdiction	22
16	Counterparts	23
	SCHEDULE 1 TERMS AND CONDITIONS	26
	SCHEDULE 2 SELLING RESTRICTIONS	62
	SCHEDULE 3 FORM OF CERTIFICATE CONFIRMING NO MATERIAL ADVERSE CHANGE	64

THIS SUBSCRIPTION AGREEMENT is made on 7 June 2016, **BETWEEN:**

- 1 SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION** (the “**Issuer**” or the “**Company**”); and
- 2 J.P. MORGAN SECURITIES PLC** (the “**Manager**”).

WHEREAS:

- (A) The Issuer and the Manager wish to record the arrangements agreed between them in relation to an issue of US\$450,000,000 Zero Coupon Convertible Bonds due 2022 (the “**Bonds**”, which expression shall, where the context so admits, include Bonds evidenced by a global certificate (the “**Global Certificate**”) representing the Bonds). Definitive Certificates, if required to be issued, will be in registered form in amounts of US\$250,000.
- (B) The Bonds will be convertible at the option of the holder thereof into fully paid ordinary shares of par value US\$0.0004 each of the Issuer (the “**Shares**”) at an initial conversion price of HK\$0.9250 per Share.
- (C) The Bonds are being offered and sold in an institutional offering (the “**Offering**”) outside the United States in reliance on Regulation S (“**Regulation S**”) under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”).

1 Issue of the Bonds and Publicity

- 1.1 Agreement to Issue Bonds:** The Issuer agrees to issue the Bonds on 7 July 2016, or such later date, not being later than 21 July 2016, as the Issuer and the Manager may agree (the “**Closing Date**”) to the Manager or as it may direct. The Bonds will be subscribed at a price equal to 100 per cent. of the principal amount of the Bonds (the “**Issue Price**”) subject to the adjustments referred to in Clause 8 and Clause 9.
- 1.2 The Bonds:** The Issuer will, not later than the Closing Date, enter into (and provide the Manager with a copy of) (1) a trust deed (the “**Trust Deed**”) with The Bank of New York Mellon, London Branch as Trustee (the “**Trustee**”) and (2) a paying, conversion and transfer agency agreement (the “**Agency Agreement**”) with The Bank of New York Mellon, London Branch (the “**Principal Paying Agent**”), the Trustee and the agents named in it, each substantially in the form of the draft signed for identification by Linklaters, with such changes as may be approved by the Manager. The Bonds will be issued in accordance with the terms of the Trust Deed and will be in the respective forms set out in its Schedules 1 and 2. This Agreement, the Trust Deed and the Agency Agreement are together referred to as the “**Contracts**”.
- 1.3 Offering Circular:** The Issuer undertakes to prepare an offering circular (the “**Offering Circular**”) to be dated not later than three business days prior to the Closing Date or such other date as may be agreed between the Issuer and the Manager (the “**Publication Date**”) for use in connection with the offering of the Bonds and the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the “**Singapore Stock Exchange**”) and hereby authorises the Manager and its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act (“**Regulation D**”)) to distribute copies thereof in connection with the offering and sale of the Bonds.
- 1.4 Publicity:** The Issuer confirms the arrangements made on its behalf by the Manager for announcements in respect of the Bonds to be published on such dates and in such newspapers or other publications as the Issuer may agree with the Manager.

1.5 Conditions: The terms and conditions of the Bonds (the “**Terms and Conditions**”) will be summarised in the Offering Circular and will be substantially in the form set out in Schedule 1 to this Agreement, with such changes as may be agreed between the Issuer and the Manager. The Terms and Conditions shall be consistent with a term sheet dated 7 June 2016 which shall also be set out in Schedule 1.

1.6 Stabilisation: The Manager may, to the extent permitted by applicable laws and directives, over-allot and effect transactions in connection with the distribution of the Bonds with a view to supporting the market price of the Bonds and/or the Shares at a level higher than that which might otherwise prevail, but in doing so the Manager shall act as principal and not as agent of the Issuer and any loss resulting from over-allotment and stabilisation shall be borne, and any profit arising therefrom shall be beneficially retained, by the Manager. Nothing contained in this Clause 1.6 shall be construed so as to require the Issuer to issue in excess of U.S.\$450,000,000 aggregate principal amount of Bonds.

1.7 Definitions: In this Agreement (including the recitals), the following expressions shall, unless the context requires otherwise, have the following meanings:

“**2013 Bonds**” means the US\$200,000,000 Zero Coupon Convertible Bonds due 2018 issued on 7 November 2013;

“**2014 Bonds**” means the US\$95,000,000 Zero Coupon Convertible Bonds due 2018 issued on 24 June 2014, to be consolidated and form a single series with the 2013 Bonds;

“**business day**” means a day on which banks are open for business in London, New York City, Singapore and Hong Kong;

“**Company Information**” has the meaning given to it in Clause 4.1.9;

“**Launch Announcement**” means the announcement in relation to the offering of the Bonds in the agreed form to be issued by the Company as soon as possible following the execution of this Agreement pursuant to the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**HK Listing Rules**”); and

“**Material Adverse Effect**” has the meaning given to it in Clause 4.1.18.

2 Agreements by the Manager

2.1 Subscription: The Manager agrees to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds, in each case at the Issue Price less the deductions referred to in Clause 8 and Clause 9 on the Closing Date on the terms of this Agreement.

2.2 Restrictions: The Manager represents, warrants and agrees that it has complied and will comply with the terms set forth in Schedule 2.

3 Listing

3.1 Application for Listing: The Issuer confirms that it has made or cause to be made an application for the Bonds to be listed on the Singapore Stock Exchange and that it will, in accordance with the terms of this Agreement, make or cause to be made an application for the Shares to be issued on conversion of the Bonds (the “**New Shares**”) to be listed on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”).

- 3.2 Supply of Information:** The Issuer agrees to deliver to the Singapore Stock Exchange copies of the Offering Circular and to take such other steps as may be required for the purpose of obtaining such listing, provided that if such listing has not been obtained by the Closing Date, the Issuer agrees that it shall use reasonable endeavours to obtain a listing of the Bonds on the Singapore Stock Exchange or such other stock exchange mutually acceptable to the Manager and the Issuer as soon as practicable following the Closing Date, which shall include the preparation of listing particulars based on the Offering Circular and containing the relevant information required by the relevant stock exchange to obtain such listing.
- 3.3 Maintenance of Bond Listing:** The Issuer will use reasonable endeavours to obtain and maintain such listing for as long as any Bond is outstanding and pay all fees and supply any and all documents, information and undertakings and publish all announcements as required by the Singapore Stock Exchange for such purpose. If, however, they are unable to maintain such listing, having used such endeavours, or if the maintenance of such listing is unduly onerous, the Issuer will instead use reasonable endeavours as soon as reasonably practicable to obtain and thereafter to maintain a listing for the Bonds on such other stock exchange, as is commonly used for the quotation or listing of debt securities, prior to the Closing Date as it may (with the approval of the Manager) decide or, failing such decision, as the Manager may reasonably determine and after the Closing Date in accordance with the terms of the Trust Deed.
- 3.4 Share Listing:** The Issuer will use reasonable endeavours to maintain the listing of the Shares on the Hong Kong Stock Exchange, and to pay all fees and supply any and all documents, information and undertakings and publish all announcements as required by the Hong Kong Stock Exchange for such purpose. If, however, it is unable to maintain such listing, having used such endeavours, the Issuer will instead use reasonable endeavours to obtain and thereafter to maintain a listing for the New Shares on such other stock exchange as it may decide.

4 Representations, Warranties and Indemnity

- 4.1** The Issuer represents and warrants to and (where applicable) agree with, the Manager that:
- 4.1.1 Validity of Bonds:** the Bonds have been duly authorised by the Issuer and, when duly executed, authenticated, issued and delivered in accordance with the other Contracts, the Bonds will constitute valid and legally binding obligations of the Issuer;
- 4.1.2 Status:** the Bonds (when issued) will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and with all other present and future direct, unconditional, unsecured and unsubordinated obligations of the Issuer other than those preferred by statute or applicable law and subject to the Terms and Conditions;
- 4.1.3 Authorised Share Capital:** the Issuer has or, prior to the Closing Date will have, sufficient authorised but unissued share capital to satisfy the issue of such number of New Shares as would be required to be issued on conversion of all the Bonds at the initial conversion price and shall maintain at all times sufficient authorised but unissued share capital to satisfy the issue of sufficient New Shares at the prevailing conversion price of the Bonds;

- 4.1.4 New Shares:** the New Shares, when issued and delivered in the manner contemplated by the Bonds and the Trust Deed:
- (i) will be duly and validly issued, fully-paid and non-assessable;
 - (ii) will conform in all material respects to the description thereof to be contained in the Offering Circular;
 - (iii) will rank *pari passu* and carry the same rights and privileges in all respects as any other class of ordinary share capital of the Issuer and shall be entitled to all dividends and other distributions declared, paid or made thereon save as provided for in the Terms and Conditions; and
 - (iv) will be freely transferable, free and clear of all liens, charges, encumbrances, security interests or claims of third parties; and will not be subject to calls for further funds;
- 4.1.5 Restrictions:** there are no restrictions on transfers of the Bonds or the voting or transfer of any of the Shares or payments of dividends with respect to the Shares under laws or regulations of the Cayman Islands or Hong Kong, or pursuant to the Issuer's constitutional documents, or pursuant to any agreement or other instrument to which the Issuer is a party or by which it may be bound;
- 4.1.6 Capitalisation:** the Issuer has an authorised capitalisation as will be set forth in the Offering Circular under the heading "Capitalisation"; and all the outstanding shares of capital stock or other equity interests of each subsidiary of the Issuer have been duly and validly authorised and issued, are fully paid and non-assessable, and all such equity interests are owned directly or indirectly by the Issuer, free and clear of all liens, charges, encumbrances, security interests, restrictions on voting or transfer or claims of any third party;
- 4.1.7 Listing:** all of the currently issued Shares have been duly listed on the Hong Kong Stock Exchange;
- 4.1.8 Announcement:** all statements of fact contained in the Launch Announcement (including but not limited to the disclosure on the use of proceeds) are true and accurate in all material respects as at the dates of its publication and all statements of opinion, intention, expectation or estimates of the Directors in relation to the Company and/or any of the Company's subsidiaries (together with the Company, the "**Group**") contained therein (if any) are truly and honestly held and have been made on reasonable grounds after due and careful consideration, and the Launch Announcement does not include an untrue statement of a material fact or omit to state a fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect;

- 4.1.9 No non-public information:** save for the matters set out in the Launch Announcement, the Company is not in possession of any non-public information relating to the Company, any other member of the Group or their respective businesses the release of which could materially affect the trading price of the Shares and there is not in existence any material or information relating to the Company which will be required to be but has not been disclosed by the Company under the HK Listing Rules or the Securities Exchange Act of 1934. Without prejudice to the generality of the foregoing, there is no material information (including, without limitation, any information regarding any material adverse change or prospective material adverse change in the condition of, or any actual, pending or threatened litigation, arbitration or similar proceeding involving, the Group) that is not described in the Company’s most recent annual report or subsequent public information releases (the “**Company Information**”) which information is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Group; the Company Information does not include any untrue statement of a material fact or omit to state any fact necessary in order to make the statements therein not misleading in any material respect;
- 4.1.10 Information:** all information (whether oral, written, electronic or in any other form) supplied by or on behalf of the Company, any other member of the Group or any of their respective officers, directors, employees or advisers, for the purpose of or in connection with the Offering or the Company and all publicly available information and records of the Company since 1 January 2015 (including information contained in annual reports, statutory filings and registrations) is and was, when supplied or published, true and accurate in all material respects and not misleading in any material respect;
- 4.1.11 Litigation:** save as disclosed in the Company Information, there is no claim, litigation, arbitration, prosecution or other legal proceedings or police, legal or regulatory investigation or enquiry in progress or pending or threatened against any member of the Group or any of its properties or (as far as the Company is aware) the Company’s executive directors, officers, properties or employees nor, so far as the Company is aware, is there any claim or any facts or circumstances of a material nature which would give rise to a claim against any member of the Group or any of its properties or the Company’s executive directors, which in any such case would result in a Material Adverse Effect;
- 4.1.12 No Material Adverse Change:** save as disclosed in the Company Information, there has been no material adverse change, or any development involving or reasonably likely to involve a prospective material adverse change, in the condition, financial or otherwise, or the earnings, net assets, business affairs or business prospects (whether or not arising in the ordinary course of business) of the Company or the Group as a whole since 31 December 2015;
- 4.1.13 Incorporation:** each member of the Group is duly incorporated and validly existing under the laws of the place of its incorporation and each member of the Group has power to own its assets and to conduct its business in the manner presently conducted and there has been no petition filed, order made or effective resolution passed for the liquidation or winding up of any member of the Group;
- 4.1.14 Approvals:**
- (i) each member of the Group has obtained such certificates, authorisations, licences, orders, consents, approvals or permits (“**Approvals**”) issued by, and has made all declarations and filings with, all appropriate national, state, local and other governmental agencies or bodies, all exchanges and all courts and other tribunals, domestic or foreign, as are required under the provisions of any applicable law in connection with the operation of its business;

- (ii) there is no breach by any member of the Group of the Approvals or provisions of any ordinance, statute or regulation governing such authorisations or licences which would result in a Material Adverse Effect nor is there any reason why any such Approvals should be withdrawn, revoked, modified or cancelled;

4.1.15 Laws and HK Listing Rules: the Company is not in breach of any rules, regulations or requirements of the Hong Kong Stock Exchange or any applicable laws and, in particular, the Company has complied at all times with the applicable rules and requirements under the HK Listing Rules and all applicable laws, save for any breach or non-compliance which is not material in the context of the issue and offering of the Bonds;

4.1.16 No order or judgment: save as disclosed in the Company Information, there is no order, decree or judgement of any court or governmental agency or regulatory body outstanding or anticipated against any member of the Group which would result in a Material Adverse Effect;

4.1.17 Contingent Liabilities: no material outstanding indebtedness of any member of the Group has become payable or repayable by reason of any default of any member of the Group and no event has occurred or is impending which may result in such indebtedness becoming payable or repayable prior to its maturity date, in a demand being made for such indebtedness to be paid or repaid or in any step being taken to enforce any security for any such indebtedness of any member of the Group which would result in a Material Adverse Effect;

4.1.18 No default: save as disclosed in the Company Information, no member of the Group is a party to or under any obligation which is material and which is of an unusual or unduly onerous nature; no member of the Group is in breach of or in default (nor has any event occurred which, with the giving of notice and/or lapse of time and/or fulfillment of any other requirement would result in a default by the Issuer or any member of the Group) of its constitutional documents or any contract or agreement which, individually or in the aggregate, may have or has had a material adverse effect upon the condition, financial or otherwise or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) or properties of the Company or of the Group (taken as a whole) or would adversely affect the ability of the Issuer to perform its obligations under the Contracts or which is material in the context of the issue and offering of the Bonds (“**Material Adverse Effect**”);

4.1.19 Offering Circular: on the Publication Date:

- (i) the Offering Circular will contain all information with respect to the Issuer, the Group, the New Shares and the Bonds which is material in the context of the issue and offering of the Bonds (including the information which, is required by applicable laws of Cayman Islands and according to the particular nature of the Issuer, the Shares and the Bonds, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attaching to the Shares and the Bonds);

- (ii) the statements contained in the Offering Circular relating to the Issuer and to the Group, will be true and accurate in all material respects and not misleading;
- (iii) the opinions and intentions expressed in the Offering Circular with regard to the Issuer and to the Group will be honestly held, have been reached after considering all relevant circumstances and will be based on reasonable assumptions;
- (iv) there will be no other facts in relation to the Issuer, the Group, the New Shares or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in the Offering Circular misleading in any material respect;
- (v) all reasonable enquiries will have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements; and
- (vi) the Offering Circular will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

4.1.20 Financial Statements: the consolidated audited financial statements of the Issuer and its consolidated subsidiaries taken as a whole (the “**Consolidated Group**”) as at and for the two years ended 31 December 2014 and 2015 and the consolidated financial statements of the Consolidated Group as at and for the three months ended 31 March 2016 provided to the Manager and to be included in the Offering Circular were prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and pursuant to the relevant laws of Hong Kong consistently applied and present a true and fair view of the financial position of the Issuer and of the Consolidated Group as at the dates, and the results of operations and changes in financial position of the Issuer and of the Consolidated Group for the periods, in respect of which they have been prepared;

4.1.21 Title:

- (i) the Issuer and each member of the Group has good and marketable title to all real property, personal property and any other assets owned by it (including such property or assets as will be described in the Offering Circular) or any rights or interests thereto, in each case as is necessary to conduct the business now operated by it (“**Assets**”);
- (ii) the Issuer and each member of the Group has received all necessary approvals in order to have good and marketable title to its Assets, including without limitation approvals relating to the evaluation, acquisition and perfection of such title; and
- (iii) there are no charges, liens, encumbrances or other security interests or third party rights or interests, conditions, planning consents, orders, regulations, defects or other restrictions affecting any of such Assets which could have a material adverse effect on the value of such Assets, or limit, restrict or otherwise have a material adverse effect on the ability of the relevant member of the Group to utilise or develop any such Assets and, where any such Assets are held under lease, each lease is a legal, valid, subsisting and enforceable lease,

in each case except for such defects in title, lack of approvals or lack of leases which would, individually or in the aggregate, have a Material Adverse Effect;

- 4.1.22 Validity of Contracts:** (i) the Company has power under its constitutional documents to permit its entry into, and perform its obligations under, this Agreement in the manner set out herein and the other Contracts, and (ii) this Agreement (and its performance) has been duly authorised (such authorisation remaining in full force and effect) and executed by and constitutes, and the other Contracts (and their performance) will be duly authorised by the Company prior to the Closing Date and upon execution and delivery prior to or on the Closing Date will constitute, legally binding and enforceable obligations of the Company in accordance with their respective terms, subject to the laws relating to bankruptcy, insolvency, liquidation, possessory liens, rights of set off, reorganisation, amalgamation, merger, consolidation, moratorium or any other laws or legal procedures, whether of a similar nature or otherwise, generally affecting the rights of creditors, and general principles of equity;
- 4.1.23 Consents:** there is no authorisation, consent, approval, licence or notification required for the purposes of or as a consequence of the issue of the Bonds, the issue of the New Shares on conversion of the Bonds, the carrying out of the other transactions contemplated by the Contracts and the Bonds, or the compliance by the Issuer with the terms of the Bonds or the Contracts, either from governmental, regulatory or other public bodies or authorities or courts or from any third party pursuant to any contractual or other arrangement to which the Company or any other member of the Group is a party, except for those which have been, or will on or prior to the Closing Date be, obtained (including but not limited to the approval for the listing of the Bonds on the Singapore Stock Exchange and the approval for the listing of and permission to deal in the New Shares by the Hong Kong Stock Exchange);
- 4.1.24 Compliance:** the execution and delivery of the Contracts, the issue and offering of the Bonds, the compliance by the Company with all of the provisions of the Contracts, the issue of the New Shares on conversion of the Bonds as well as the consummation of the transactions contemplated in the Contracts do not and will not:
- (i) conflict with or result in a breach of any of the provisions of or under the documents constituting the Issuer or its subsidiaries;
 - (ii) conflict with or result in a breach or violation of, or result in any third party consent being required under, or constitute a default (nor has any event occurred which, with the giving of notice and/or the lapse of time and/or the fulfillment of any other requirement would result in a default) by the Issuer or any member of the Group under any of the terms or provisions of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant, instrument, to which any member of the Group is a party or by which any of the property or assets of any member of the Group is subject; or

- (iii) infringe any existing applicable law, order, rule or regulation, including, without limitation, to the extent applicable, the Companies Ordinance, the HK Listing Rules, the Takeovers Code or any judgment, authorisation, decree or order of any court or governmental agency or body or court, domestic or foreign, having jurisdiction over any member of the Group or the property or assets of any member of the Group;

4.1.25 Pre-emptive Rights and Options: except for (i) the issue of any Bonds or New Shares to be issued upon conversion of Bonds pursuant to any pre-emptive rights arising from the share subscription agreement entered into between the Issuer and Datang Telecom Technology & Industry Holdings Limited (“**Datang**”) dated 6 November 2008, the share subscription agreement entered into between the Issuer and China Integrated Circuit Industry Investment Fund Co., Ltd (“**China IC Fund**”) dated 12 February 2015 or the share subscription agreement entered into between the Issuer and Country Hill Limited (“**CHL**”) dated 18 April 2011, (ii) the issue of any Shares to be issued upon conversion of the 2013 Bonds or the 2014 Bonds, and (iii) the issue of any share options and restricted share units pursuant to any share option schemes adopted in compliance with the HK Listing Rules and any publicly disclosed equity incentive plans of the Issuer:

- (i) there are no outstanding securities issued by the Issuer or its subsidiaries convertible into or exchangeable for, or warrants, rights or options, or agreements to grant warrants, rights or options, to purchase or to subscribe for Shares from the Issuer or its subsidiaries; and
- (ii) there are no other or similar arrangements approved by the Board of Directors of the Issuer or a general meeting of shareholders of the Issuer providing for the issue or purchase of Shares or the subscription for Shares;

4.1.26 No Repurchases: the Issuer has not made any repurchases of shares (as defined in Rule 10.06(6)(c)) of the HK Listing Rules in the 30 day period prior to the date of this Agreement;

4.1.27 No Fiduciary Relationship: the Issuer acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Agreement, including the determination of the issue of the Bonds and any related discounts and commissions, is an arm’s-length commercial transaction between the Issuer, on the one hand, and the Manager, on the other hand; (ii) in connection with the Offering, the Manager is and has been acting solely as principal and is not the agent or fiduciary of the Issuer or any of its stockholders, creditors, employees or any other party; (iii) the Manager has not assumed nor will it assume an advisory or fiduciary responsibility in favour of the Issuer with respect to the Offering or the process leading thereto (irrespective of whether the Manager has advised or is currently advising the Issuer on other matters) and the Manager has no obligation to the Issuer with respect to the Offering except the obligations expressly set forth in this Agreement; (iv) the Manager and its affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Issuer; and (v) the Manager has not provided any legal, accounting, regulatory or tax advice with respect to the Offering and the Issuer has consulted its own legal, accounting, regulatory and tax advisors to the extent they deemed appropriate. This Agreement supersedes any prior agreement or understanding (whether written or oral) between the Issuer and the Manager with respect to the subject matter of this Clause 4.1.27;

- 4.1.28 Anti-Money Laundering:** the operations of the Issuer and each member of the Group and, to the best of the knowledge of the Issuer (after due and careful enquiry), any of the Issuer's jointly controlled entities are and have been conducted at all times in compliance with all applicable anti-money laundering laws, regulations, rules and guidelines in its jurisdiction and in each other jurisdiction in which such entity, as the case may be, conducts business (collectively, the "Anti-Money Laundering Laws") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Issuer or any member of the Group and any of their jointly controlled entities with respect to the Anti-Money Laundering Laws is pending or, to the best knowledge of the Issuer (after due and careful enquiry), threatened;
- 4.1.29 No Unlawful Payments:** neither the Issuer nor any member of the Group nor any director, officer or employee of, nor, to the best of the knowledge of the Issuer (after due and careful enquiry), any agent, affiliate of or other person acting on behalf of the Issuer or any member of the Group, (i) has used any funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA"), any applicable law or regulation implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or any other applicable anti-bribery or anti-corruption law or regulation similar to the FCPA (including but not limited to the UK Bribery Act of 2010), in any other jurisdiction in which the Issuer or any member of the Group operates including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly or taking any act in furtherance of an offer, payment, promise to pay or authorisation of the payment of any money, or other property, gift, promise to give, or authorisation of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA or any other similar applicable anti-bribery or anti-corruption law or regulation of any such other jurisdiction; or (iii) has made, offered, agreed, requested or taken an act in furtherance of any unlawful bribe or other unlawful benefit, including, without limitation, any rebate payoff, influence payment, kickback or other unlawful or improper payment or benefit; and the Issuer and every member of the Group has conducted their businesses in compliance with the FCPA and any other similar applicable anti-bribery or anti-corruption law or regulation of any such other jurisdiction and have instituted and maintain policies and procedures designed to ensure continued compliance with, and prevent violation of, such laws, rules and regulations;

4.1.30 Sanctions: neither the Issuer nor any member of the Group nor any director, officer or employee of, nor, to the best of the knowledge of the Issuer (after due and careful enquiry), any agent, affiliate of or other person acting on behalf of the Issuer or any member of the Group:

- (i) is an individual or entity (a “**Person**”) currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“**OFAC**”) or the U.S. Government (including but not limited to the designation as a “specially designated national” or “blocked person” thereunder) or any sanctions or requirements imposed by, or based upon the obligations or authorisations set forth in, the U.S. Trading With The Enemy Act, the U.S. International Emergency Economic Powers Act, the U.S. United Nations Participation Act, the Iran Sanctions Act, the Comprehensive Iran Sanctions Accountability and Divestment Act and Section 1245 of the National Defense Authorization Act for Fiscal Year 2012, the U.S. Syria Accountability and Lebanese Sovereignty Act, or the Iran Threat Reduction and Syria Human Rights Act of 2012, all as amended, or any Executive Orders issued in relation to the imposition of sanctions, or any sanctions or measures imposed by the United Nations Security Council, the European Union, Her Majesty’s Treasury (“**HMT**”) or other relevant sanctions authority (collectively, the “**Sanctions**”);
- (ii) is located, organised or operating in a country or territory that is the subject or target of Sanctions, including, without limitation, the Crimea region, Cuba, Iran, North Korea, Sudan and Syria (each, a “**Sanctioned Country**”);
- (iii) has for the past five years engaged in, and is now engaged in any dealings or transactions with any government, person, entity or project targeted by, or located in any country or territory, that at the time of the dealing or transaction is or was the subject of Sanctions;
- (iv) is or has been in violation of or subject to an investigation relating to any Sanctions; and neither the Issuer nor any member of the Group will directly or indirectly use the proceeds of the offering of the Bonds hereunder, or lend, contribute or otherwise make available all or part of such proceeds to any subsidiary, joint venture partner or other Person, for the purpose of financing the activities of or business with any Person currently subject to any Sanctions or funding or facilitating any activities of or business in any Sanctioned Country where such operations are in violation of such Sanctions or in any other manner that would result in a violation by any Person (including any Person participating in the offering, whether as underwriter, adviser, investor or otherwise) of Sanctions;

4.1.31 Stabilisation: the Issuer has not issued and will not issue, without the prior consent of the Manager, any press or other public announcement referring to the proposed issue of Bonds unless the announcement adequately discloses the fact that the stabilising action may take place in relation to the Bonds to be issued and neither the Issuer nor any of its affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on behalf of any of them has taken or will take, directly or indirectly, any action designed to cause or to result in, or that has constituted or which might reasonably be expected to cause or result in, the stabilisation in violation of applicable laws or manipulation of the price of any security to facilitate the sale or resale of the Bonds;

- 4.1.32 Foreign Issuer and U.S. Market Interest:** the Issuer is a “foreign issuer” (as such term is defined in Regulation S) which reasonably believes that there is no “substantial U.S. market interest” (as defined in Regulation S) in the Issuer’s debt securities or in the Shares or any securities of the same class or series as the Shares;
- 4.1.33 Directed Selling Efforts:** neither the Issuer nor any of its affiliates (as defined in Rule 405 under the Securities Act) nor any persons acting on behalf of any of them (other than the Manager, its affiliates or any person acting on its behalf, as to which no representation is being made) has engaged in any “directed selling efforts” (as defined in Regulation S) with respect to the Bonds or the Shares to be issued upon conversion of the Bonds;
- 4.1.34 No Registration:** assuming the compliance by the Manager with the terms set forth in Schedule 2 under the caption “United States” no registration of the Bonds or the Shares under the Securities Act will be required for the offer, sale and delivery of the Bonds by the Manager in the manner contemplated by this Agreement;
- 4.1.35 Environmental Laws:** each member of the Group has complied in all respects with all applicable Environmental Laws, save where any non-compliance would not have a Material Adverse Effect. For the purpose of this Clause 4.1.35, “**Environmental Laws**” means any and all supra-national, national, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licences, agreements or other governmental restrictions relating to the protection of the environment (including, without limitation, human, animal and plant life, ambient air, surface water, ground water, or land), the protection of property and proprietary rights or for the compensation of harm to the environment whether by clean-up, remediation, containment or other treatment or the payment of monies to any competent authority;
- 4.1.36 Insurance:** the Issuer and each member of the Group has in place all insurance policies necessary and customary for the conduct of their businesses as currently operated and for compliance with all requirements of law, such policies are in full force and effect, and all premiums with respect thereto have been paid, and no notice of cancellation or termination has been received with respect to any such policy, and each member of the Group has complied in all material respects with the terms and conditions of such policies, except where breach of this provision would not have a Material Adverse Effect;
- 4.1.37 Intellectual Property:** the Issuer and each member of the Group owns or possesses, or can acquire on reasonable terms, adequate patents, patent rights, licences, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, “**Intellectual Property**”) necessary to carry on the business now operated by it in each country in which it operates as described in the Offering Circular, and neither the Issuer nor any member of the Group has received any notice or is otherwise aware of any infringement of or conflict in any jurisdiction with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Issuer or any member of the Group therein, and which infringement or conflict (if the subject of any unfavourable decision, ruling or finding) or invalidity or inadequacy, individually or in the aggregate, would have a Material Adverse Effect; and

4.1.38 Events of Default or Relevant Event: no event has occurred or circumstance arisen which, had the Bonds already been issued, could reasonably be expected to (whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement): (i) constitute an event described under “Events of Default” in the Terms and Conditions; (ii) a Relevant Event (as defined in the Terms and Conditions) resulting in the entitlement of the Bondholders to exercise the put option under the Bonds; or (iii) require an adjustment of the initial conversion price of the Bonds.

4.2 Repetition: Subject to Clause 10, the representations and warranties contained in, or given pursuant to, Clause 4.1 shall be deemed to have been repeated at the Publication Date and the Closing Date taking into account facts and circumstances subsisting at such date, and on the Closing Date references to the “Publication Date” shall be deemed to be the Closing Date.

4.3 Indemnity:

4.3.1 The commitment of the Manager under this Agreement being made on the basis of the foregoing representations and warranties and agreements of the Issuer with the intention that such representations and warranties shall remain true and accurate in all respects up to and including the Closing Date and that the agreements shall have been performed on or before the Closing Date and the Issuer undertakes to pay the Manager on demand an amount which on an after tax basis is equal to any liability, damages, cost, claim, loss or expense (including, without limitation, legal fees, costs and expenses) (a “**Loss**”) incurred by it, its subsidiaries, affiliates or any person who controls any of them or any of their respective directors, officers, employees or agents (each an “**Indemnified Person**”) in respect of or in connection with:

- (i) any breach or alleged breach of any of the representations, warranties, undertakings or agreements contained in, or deemed to be made pursuant to, this Agreement or any certificate issued by the Issuer, including (without limitation) the failure by the Issuer to issue the Bonds;
- (ii) any untrue statement or alleged untrue statement of a material fact contained in the Offering Circular (or any supplement to it), or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading;
- (iii) the issue and publication of the Offering Circular and any supplementary offering circular and/or any other documentation relating to the offering and sale of the Bonds;
- (iv) the performance by the Manager of its obligations under this Agreement in relation to the Offering and which do not in any such case arise primarily from the Manager’s own gross negligence, fraud or wilful default as determined by final judgment of a court of competent jurisdiction; or

- (v) the failure or alleged failure by the Issuer or any member of the Group or any of their respective directors or officers to comply with any requirements of statute or regulation in relation to the offering and sale of the Bonds.

Loss shall include (without limitation) all Losses which an Indemnified Person may incur in investigating, preparing, disputing or defending, or providing evidence in connection with, any litigation, claim, action, proceeding, investigation, demand, judgment or award (each a “**Claim**”) (whether or not the Indemnified Person is an actual or potential party to such Claim) or in establishing any Claim or mitigating any Loss on its part or otherwise enforcing its rights under this Clause 4.3, which shall be additional and without prejudice to any rights which the Indemnified Person may have at common law or otherwise.

4.3.2 The Manager shall not have any duty or obligation, whether as fiduciary or trustee for any Indemnified Person or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 4.3 and save to the extent notified in writing to an Indemnified Person by the Manager, the Manager (without obligation) will have the sole conduct of any action to enforce such rights on behalf of the Indemnified Person. This Agreement may be terminated, amended or varied in any way and at any time by the parties hereto without the consent of any Indemnified Person.

4.3.3 For the avoidance of doubt, the amount of any claim by the Manager against the Issuer pursuant to Clause 4.3.1 shall be reduced by any amount recovered by an Indemnified Person pursuant to Clause 4.3.2 and vice versa, in respect of the same Loss where it has recovered such Loss from the Issuer under any such Clause.

5 Undertakings of the Issuer

The Issuer undertakes with the Manager that:

5.1 Taxes: the Issuer will pay:

- (i) any stamp, issue, registration, documentary or other taxes and duties, including interest and penalties in the Cayman Islands, the United Kingdom, Singapore, Hong Kong, the Grand Duchy of Luxembourg or Belgium and all other relevant jurisdictions payable on or in connection with the creation, issue and offering of the Bonds or the execution or delivery of the Contracts; and
- (ii) in addition to any amount payable by it under this Agreement, any value added, service, turnover or similar tax payable in respect thereof (and references in this Agreement to such amount shall be deemed to include any such taxes so payable in addition to it);

5.2 Offering Circular: in connection with the offering and sale of the Bonds, the Issuer will use reasonable endeavours to co-operate with and participate in the due diligence procedures required to prepare the Offering Circular and prepare an Offering Circular which will enable the Issuer to make the representation in Clause 4.1.19;

5.3 Delivery of Offering Circular: the Issuer will deliver to the Manager, without charge, on the Publication Date and thereafter from time to time as reasonably requested, such number of copies of the Offering Circular and all amendments and supplements thereto as the Manager may reasonably request;

- 5.4 Amendment:** if at any time prior to the date falling the later of (i) 40 days after the Closing Date or (ii) the completion of the distribution of the Bonds in the view of the Manager, any event shall have occurred as a result of which the Offering Circular, as then amended or supplemented, would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they are made when such Offering Circular is delivered, not misleading, or if for any other reason it shall be necessary to amend or supplement the Offering Circular, the Issuer will notify the Manager, and, upon reasonable request from the Manager, will prepare and furnish without charge to the Manager as many copies as the Manager may from time to time reasonably request of such amendment or a supplement to the Offering Circular which will correct such statement or omission and the representations and warranties contained in, or given pursuant to, Clause 4.1 will be true and accurate with respect to such amendment or supplement to the Offering Circular as if repeated as at its date;
- 5.5 Warranties:** the Issuer will as soon as reasonably practicable, notify the Manager if at any time prior to payment of the net subscription moneys to the Issuer on the Closing Date anything occurs which renders or may render untrue or incorrect in any respect any of its representations, warranties, agreements and indemnities herein and will as soon as reasonably practicable, take such steps as the Manager may reasonably require to remedy and/or publicise the fact;
- 5.6 Lock-up:** neither the Issuer nor any person acting on its or their behalf will (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Manager between the date hereof and the date which is 90 days after the date hereof (both dates inclusive); except for (i) the issue of any Bonds or New Shares to be issued upon conversion of Bonds (including any potential exercise of any pre-emptive rights arising from the share subscription agreement entered into between the Issuer and Datang dated 6 November 2008, the share subscription agreement entered into between the Issuer and China IC Fund dated 12 February 2015 or the share subscription agreement entered into between the Issuer and CHL dated 18 April 2011), (ii) the issue of any Shares to be issued upon conversion of the 2013 Bonds or the 2014 Bonds, (iii) the issue of any share options and restricted share units pursuant to any share option schemes adopted in compliance with the HK Listing Rules and any publicly disclosed equity incentive plans of the Issuer, and (iv) the issue of any Shares which are issued as consideration for any merger or acquisition provided that (1) the aggregate value of the Shares issued (as calculated by the Current Market Price (as defined in the Terms and Conditions of the Bonds as set out in Schedule 1 to this Agreement) is less than US\$100,000,000 and (2) the Issuer procures that the person receiving such Shares executes a shareholder lock-up undertaking on substantially the same terms as provided in this Clause prior to any such issue;

- 5.7 Conversion:** the Issuer will issue, in accordance with the Terms and Conditions, New Shares (which rank *pari passu* with the other Shares then outstanding) free and clear of all liens, claims, charges, security, encumbrances or like interests upon conversion of Bonds pursuant to the Terms and Conditions;
- 5.8 Conversion Price:** Except for the issue of any Bonds or New Shares to be issued upon conversion of the Bonds as described in the Launch Announcement (including any potential exercise of pre-emptive rights by Datang, China IC Fund and CHL), the issue of any Shares to be issued upon conversion of the 2013 Bonds or the 2014 Bonds or the issue of share options and restricted share units issued pursuant to any share option schemes adopted in compliance with the HK Listing Rules and any publicly disclosed equity incentive plans of the Issuer, (i) between the date hereof and the Closing Date (both dates inclusive), neither the Issuer nor any person acting on its or their behalf will take, directly or indirectly, any action designed to or which constitutes or which might reasonably be expected to cause or result in an adjustment of the initial conversion price of the Bonds and (ii) the Issuer will not take any action that would reduce the conversion price of the Bonds below a level that may be prescribed by applicable laws and regulations from time to time (if any);
- 5.9 Approvals and Filing:** the Issuer will use reasonable endeavours to obtain all approvals and consents and as soon as reasonably practicable make all notifications, registrations and filings as may from time to time be required in relation to the Bonds and/or the New Shares;
- 5.10 Clearing Systems:** the Issuer shall co-operate with the Manager and use reasonable endeavours to permit the Bonds to be eligible for clearance and settlement through the facilities of Euroclear Bank S.A./N.V. and Clearstream Banking S.A.;
- 5.11 Use of Proceeds:** the Issuer shall use the net proceeds from the issue of the Bonds in the manner as will be specified in the Offering Circular under “Use of Proceeds”;
- 5.12 Sanctions:** Neither the Issuer nor any member of the Group will directly or indirectly use the proceeds of the offering of the Bonds hereunder, or lend, contribute or otherwise make available all or part of such proceeds to any subsidiary, joint venture partner or other Person, for the purpose of financing the activities of or business with any Person currently subject to any Sanctions or operating in any country or territory that is the subject of Sanctions where such operations are in violation of such Sanctions or in any other manner that would result in a violation by any Person (including any Person participating in the offering, whether as underwriter, adviser, investor or otherwise) of Sanctions;
- 5.13 Announcements:** between the date hereof and a period of 40 days after the Closing Date (both dates inclusive), the Issuer will, and will cause its subsidiaries and affiliates and all other parties acting on its or their behalf to, without the prior consent of the Manager (unless prevented by applicable law or regulations), not issue any announcement concerning, or which could be material in the context of, the offering and distribution of the Bonds except as required by applicable law, regulations or rules (including the HK Listing Rules and Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong));

- 5.14 Financial Information:** so long as any of the Bonds remains outstanding the Issuer will furnish to the Manager, copies of financial statements and other periodic reports that the Issuer may furnish generally to holders of its debt securities;
- 5.15 Directed Selling Efforts:** neither the Issuer nor any of its affiliates (as defined in Rule 405 under the Securities Act), nor any person acting on behalf of any of them (other than the Manager, as to which no representation is being made) will engage in any “directed selling efforts” (as defined in Regulation S) with respect to the Bonds or the Shares to be issued upon the conversion of the Bonds; and
- 5.16 Section 3(a)(9) Compliance:** in connection with the conversion of the Bonds into the New Shares, neither the Issuer nor any person acting on its behalf will take any action which would result in the New Shares being exchanged by the Issuer other than with the Issuer’s existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange.

6 Conditions Precedent

6.1 The obligations of the Manager to subscribe and pay for the Bonds are conditional on:

- 6.1.1 Due Diligence:** the Manager being satisfied with the results of its due diligence investigations with respect to the Issuer and the Group and the Offering Circular shall have been prepared in form and content satisfactory to the Manager;
- 6.1.2 Other Contracts:** the execution and delivery (on or before the Closing Date) of the other Contracts, each in a form reasonably satisfactory to the Manager, by the respective parties;
- 6.1.3 Lock-up:** Datang Holdings (Hongkong) Investment Company Limited and Xinxin (Hongkong) Capital Co., Ltd. shall have executed shareholder lock-up undertakings in the form set out in Schedule 4 as agreed by the Manager;
- 6.1.4 Auditors’ Letters:** upon the Publication Date and on the Closing Date, there having been delivered to the Manager letters, in form and substance reasonably satisfactory to the Manager, dated the Publication Date in the case of the first letter and dated the Closing Date in the case of the subsequent letters, and addressed to the Manager from PricewaterhouseCoopers, Certified Public Accountants to the Issuer;
- 6.1.5 Compliance:** at the Closing Date:
- (i) the representations and warranties of the Issuer in this Agreement being true, accurate and correct at, and as if made on such date;
 - (ii) the Issuer having performed all of its obligations under this Agreement to be performed on or before such date; and
 - (iii) there having been delivered to the Manager a certificate in the form attached as Schedule 3, dated as of such date, of a duly authorised officer of the Issuer to such effect;
- 6.1.6 Material adverse change:** after the date hereof or, if earlier, the dates as of which information is given in the Offering Circular up to and at the Closing Date, there not having occurred any change (nor any development or event reasonably likely to involve a prospective change), in the condition (financial or other), prospects, results of operations or general affairs of the Issuer or of the Group, which, in the opinion of the Manager, is material and adverse in the context of the issue and Offering of the Bonds;

6.1.7 Other consents: on or prior to the Closing Date there shall have been delivered to the Manager copies of all resolutions, consents, authorities and approvals required in relation to the issue of the Bonds and the performance of its obligations under the Trust Deed, the Agency Agreement and the Bonds (including the consents and approvals required from all lenders);

6.1.8 Listing: the Hong Kong Stock Exchange having agreed to list the New Shares upon conversion of the Bonds and the Singapore Stock Exchange having agreed, subject to any conditions reasonably satisfactory to the Manager, to list the Bonds (or, in each case, the Manager being reasonably satisfied that such listing will be granted); and

6.1.9 Legal Opinions: on or before the Closing Date, there having been delivered and addressed to the Manager opinions, in form and substance reasonably satisfactory to the Manager, dated the Closing Date, of:

- (i) Slaughter and May, legal advisers to the Issuer as to English law;
- (ii) Conyers Dill & Pearman (Cayman) Limited, legal advisers to the Issuer as to Cayman Islands law;
- (iii) Linklaters, legal advisers to the Manager as to English law; and
- (iv) Links Law Offices, legal advisers to the Issuer as to PRC law.

6.2 Waiver: The Manager may, at its discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of this Clause 6 (other than Clause 6.1.2).

7 Closing

7.1 Issue of the Bonds: At 3:00 p.m. (Hong Kong time) (or such other time as may be agreed by the Manager and the Issuer) on the Closing Date, the Issuer will issue the Bonds and procure the entry in the register of Bondholders of the names of the persons designated by the Manager to be the holders of the Bonds and will deliver to the Manager or its order in such place as the Manager may require the Global Certificate duly executed and authenticated representing the aggregate principal amount of the Bonds. Delivery of the Global Certificate and completion of the register of Bondholders shall constitute the issue and delivery of the Bonds; and

7.2 Payment: Against such delivery the Manager will pay or cause to be paid to the Issuer the net subscription moneys for the Bonds (being the aggregate amount payable for the Bonds calculated at the Issue Price less the commission and concession referred to in Clause 8 and the amount payable to the Manager under Clause 9). Such payment shall be made by a depositary (the “**Common Depositary**”) common to Euroclear Bank S.A./N.V. and Clearstream Banking S.A., on behalf of the Manager in U.S. dollars in same day settlement funds for value on the Closing Date to such US dollar account in New York City as shall be notified by the Issuer to the Manager not later than five days prior to the Closing Date, evidence of such payment taking the form of a confirmation by the Common Depositary that it has made such payment.

8 Commissions and Concession

The Issuer agrees to pay to the Manager a combined management and underwriting commission and selling concession of 1.75 per cent. of the aggregate principal amount of the Bonds (the “**Underwriting Commission**”). An additional incentive fee of up to 0.20 per cent. of the aggregate principal amount of the Bonds may be payable at the sole discretion of the Issuer to the Manager to be agreed in a separate fee letter prior to the Closing Date (the “**Incentive Fee**” and together with the Underwriting Commission, the “**Commissions**”). Such Commissions shall be deducted from the subscription moneys for the Bonds as provided in Clause 7.2.

9 Expenses

9.1 General Expenses: The Issuer agrees to pay:

- (i) all reasonable costs and expenses in connection with (a) the preparation and production of the Offering Circular (in proof and definitive form and any supplement or amendment thereto) and the listing particulars (if any), the Contracts and all other documents relating to the issue of the Bonds, (b) the initial delivery and distribution of the Bonds, (c) the listing of the Bonds on the Stock Exchange and the listing of the New Shares and (d) all advertising in relation to the issue of the Bonds approved by the Issuer and the Manager; and
- (ii) the documented fees and expenses of the Principal Paying Agent, the Trustee and the other agents appointed under the Agency Agreement in relation to the preparation and execution of the Contracts (including, without limitation, the fees and expenses of the Trustee’s legal advisers), the issue and authentication of the Bonds and the performance of their duties under the Contracts.

9.2 Manager’s Expenses: In addition, the Issuer will reimburse the costs and expenses of the Manager in connection with the issue of the Bonds, including the reasonable fees and expenses of their legal advisers and all travelling, telecommunications, postage and other out-of-pocket expenses, which the Issuer authorises the Manager to deduct from the subscription moneys for the Bonds as provided in Clause 7.2 on the basis that the Manager accounts to the Issuer for any amount by which such costs and expenses fall short of the sum deducted and the Issuer pays subsequently for any amount by which such costs and expenses exceed the sum deducted.

9.3 Payment: All payments due under this Agreement are to be made in U.S. dollars and are stated exclusive of any applicable tax whether income taxes, withholding taxes, value added taxes, goods and services taxes, business or services taxes or similar taxes other than taxes imposed in respect of net income by a taxing jurisdiction wherein the recipient is incorporated or resident for tax purposes (“**Taxes**”). If any deduction or withholding for or on account of Taxes is required to be made from any payment to the Manager, then the Issuer shall pay an additional amount so that the Manager receives, free from any such withholding, deduction, assessment or levy, the full amount of the payments set out herein (other than any profits tax that may arise on the commission payable to the Manager under this Clause 9). The Issuer shall make appropriate payments and returns in respect of such Taxes and provide the Manager with an original or authenticated copy of the tax receipt.

10 Termination

10.1 Ability to Terminate: Notwithstanding anything contained in this Agreement, the Manager may, by written notice to the Issuer given at any time prior to payment of the net subscription monies for the Bonds to the Issuer, terminate this Agreement in any of the following circumstances:

10.1.1 if there shall have come to the notice of the Manager any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in this Agreement or any failure to perform any of the Issuer's undertakings or agreements in this Agreement;

10.1.2 if any of the conditions specified in Clause 6 have not been satisfied or waived by the Manager on or prior to the Closing Date;

10.1.3 if there shall have been, since the date of this Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Issuer on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls such as would in the opinion of the Manager, be likely to prejudice materially the success of the Offering and distribution of the Bonds or dealings in the Bonds in the secondary market;

10.1.4 if, in the opinion of the Manager, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, the Singapore Stock Exchange and/or the Hong Kong Stock Exchange and/or any other stock exchange on which the Issuer's securities are traded; (ii) a suspension in trading in the Issuer's securities on the Hong Kong Stock Exchange or the Issuer's American Depositary Receipts on the New York Stock Exchange and/or any other stock exchange on which any of the Issuer's securities are traded (other than any suspension in connection with the issue of the Bonds, or in respect of the transactions described in the Launch Announcement (including any exercise by Datang, China IC Fund or CHL of their pre-emptive rights)); (iii) a general moratorium on commercial banking activities in the United States, Singapore, Hong Kong and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, Hong Kong, Singapore or the United Kingdom; or (iv) a change or development involving a prospective change in taxation affecting the Issuer, the Bonds and the Shares to be issued upon conversion of the Bonds or the transfer thereof;

10.1.5 if there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in the opinion of the Manager, be likely to prejudice materially the success of the Offering and distribution of the Bonds or dealings in the Bonds in the secondary market.

10.2 Consequences of Termination: Upon such written notice being given this Agreement shall terminate and be of no further effect and no party shall be under any liability to any other in respect of this Agreement, except for any antecedent breach and that the Issuer shall remain liable under Clause 4.3 and remain liable for the payment of all costs and expenses referred to in Clause 9 and already incurred or incurred in consequence of such termination, the Manager shall remain liable under Clause 2.2 and the respective obligations of the parties under Clause 11 which would have continued had the arrangements for the subscription and issue of the Bonds been completed, shall continue.

11 Survival of Representations and Obligations

The representations, warranties, agreements, undertakings and indemnities in this Agreement shall continue in full force and effect despite completion of the arrangements for the subscription and issue of the Bonds or any investigation made by or on behalf of the Manager.

12 Communications

Addresses: Any communication shall be given by letter or fax:

in the case of notices to the Issuer, to it at:

No. 18 Zhangjiang Road
Pudong New Area
Shanghai 201203
The People's Republic of China

Fax: +86 21 3861 0000 (ext. 16688)
Attention: Gareth Kung

and in the case of notices from the Issuer, to the Manager at:

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Fax: +44 20 3493 0682
Attention: Head of Debt Syndicate and Head of EMEA Debt Capital Markets Group

with a copy to:

J.P. Morgan Securities plc
28/F, Chater House
8 Connaught Road Central
Hong Kong

Fax: +852 2810 8819
Attention: Equity Capital and Derivative Markets

- 12.1 Effectiveness:** Any such communication shall take effect, in the case of a letter, at the time of delivery or, in the case of fax, at the time of despatch.
- 12.2 Confirmations:** Any communication not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

13 Currency Indemnity

- 13.1 Currency of Account and Payment:** U.S. dollars (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by a party under or in connection with this Agreement, including damages.
- 13.2 Extent of discharge:** An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise), by a party hereto in respect of any sum expressed to be due to it from another party will only discharge that party to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).
- 13.3 Indemnity:** If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Agreement, the relevant party will indemnify the recipient against any loss sustained by it as a result. In any event, the relevant party will indemnify the recipient against the cost of making any such purchase.
- 13.4 Indemnity separate:** The indemnities in this Clause 13 and in Clause 4.3 constitute separate and independent obligations from the other obligations in this Agreement, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by either party hereto and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Agreement or any other judgment or order.

14 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

15 Governing Law and Jurisdiction

- 15.1 Governing law:** This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.
- 15.2 Jurisdiction:**
- 15.2.1** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and accordingly any legal action or proceedings arising out of or in connection with this Agreement (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Manager and shall not limit the right of the Manager to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- 15.2.2** The Issuer irrevocably appoints Trusec Limited, 2 Lambs Passage, London EC1Y 8BB as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall forthwith, on request of the Manager, appoint a new agent for service of process in England and deliver to the Manager a copy of the new agent’s acceptance of that appointment within 30 days. Nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

16 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

This Agreement has been entered into on the date stated at the beginning.

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

By:

Signature Page – Subscription Agreement

J.P. MORGAN SECURITIES PLC

By:

Signature Page – Subscription Agreement

SCHEDULE 1 TERMS AND CONDITIONS

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the US\$450,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2022 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 17 and consolidated and forming a single series therewith) of Semiconductor Manufacturing International Corporation (the “**Issuer**”) and the right of conversion into Shares (as defined in Condition 6(A)(iv)) was authorised by the Board of Directors of the Issuer on 12 May 2016. The Bonds are constituted by the trust deed (as amended or supplemented from time to time, the “**Trust Deed**”) to be dated on or about 7 July 2016 (the “**Issue Date**”) between the Issuer and The Bank of New York Mellon, London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all of the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the agency agreement dated on or about 7 July 2016 (as amended or supplemented from time to time, the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Trustee, The Bank of New York Mellon, London Branch, as principal paying agent and principal conversion agent (collectively, the “**Principal Agent**”), The Bank of New York Mellon (Luxembourg) S.A., as registrar (the “**Registrar**”) and as transfer agent (the “**Transfer Agent**”) and the other paying agents, conversion agents and transfer agents appointed under it (each a “**Paying Agent**”, a “**Conversion Agent**”, a “**Transfer Agent**” and, together with the Registrar, the Transfer Agent and the Principal Agent, the “**Agents**” and which shall, where applicable, include the Singapore Agent (as defined in Condition 7)) relating to the Bonds. References to the “**Principal Agent**”, the “**Registrar**”, the “**Transfer Agent**” and “**Agents**” below are references to the principal agent, the registrar, the transfer agent and the agents for the time being for the Bonds.

Copies of the Trust Deed and of the Agency Agreement are available for inspection by Bondholders upon prior written request and on proof of holding during usual business hours (being between 9.00 a.m. and 3.00 p.m.) at the principal office for the time being of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices for the time being of each of the Agents.

Unless otherwise defined, terms used in these Conditions have the meanings specified in the Trust Deed. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” mean the person in whose name a Bond is registered.

1 Form, Denomination and Title

(A) Form and Denomination

The Bonds are in registered form in the denomination of US\$250,000 (an “**Authorised Denomination**”). A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

Upon issue, the Bonds will be represented by a Global Certificate registered in the name of a nominee of, and deposited with a common depositary for Euroclear Bank S.A./N.V. and Clearstream Banking S.A.. The Conditions are modified by certain provisions contained in the Global Certificate. See "The Global Certificate".

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

(B) Title

Title to the Bonds will pass only by transfer and registration in the Register as described in Condition 3. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

2 Status

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable legislation and subject to Condition 4, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

3 Transfers of Bonds; Issue of Certificates

(A) Register

The Issuer will cause the Register to be kept at the specified office of the Registrar outside the United Kingdom and Hong Kong and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(B) Transfer

Bonds may, subject to Conditions 3(E) and 3(F) and the terms of the Agency Agreement, be transferred in whole or in part in an Authorised Denomination by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of either the Registrar or any of the Transfer Agents, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transfer and the authority of the individuals who have executed the form of transfer. In the case of a transfer of part only of a holding of Bonds (being that of one or more Bonds) represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems. No transfer of title to a Bond will be valid unless and until entered on the Register.

(C) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within three business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Issuer's expense) to the address specified in the form of transfer.

Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, converted, redeemed or repurchased, a new Certificate in respect of the Bonds not so transferred, converted, redeemed or repurchased will, within five business days of delivery of the original Certificate to the Registrar or, as the case may be, any other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted, redeemed or repurchased (but free of charge to the holder and at the Issuer's expense) to the address of such holder appearing on the Register.

For the purposes of this Condition 3 and Condition 6, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the relevant Transfer Agent, with whom a Certificate is deposited in connection with a transfer or conversion, is located.

(D) Formalities Free of Charge

Subject to Conditions 3(E) and 3(F), registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Transfer Agent may require).

(E) Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (a) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to the Conditions; (b) after a Conversion Notice (as defined in Condition 6(B)(i)) has been delivered with respect to a Bond; or (c) after a Relevant Event Put Exercise Notice (as defined in Condition 8(D)) has been deposited in respect of such Bond pursuant to Condition 8(D). Each such period is a “**Restricted Transfer Period**”.

(F) Regulations

All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed with agreement between the Issuer, the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

4 Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Principal Subsidiaries, will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a “**Charge**”) (other than a security interest arising by operation of law or a Permitted Charge) upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, unless at the same time or prior thereto according to the Bonds:

- (a) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity; or
- (b) such other security as either (x) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (y) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions:

“**Excluded Listed Subsidiary**” means a Subsidiary (a) which is listed on any stock exchange, and (b) in which the Issuer or any of its Subsidiaries holds less than 50 per cent. of the issued share capital of such entity;

“**Permitted Charge**” means:

- (i) any Charge over any assets (or related documents of title) purchased by the Issuer or any of its Subsidiaries as security for all or part of the purchase price of such assets and any substitute security created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets; or
- (ii) any Charge over any assets (or related documents of title) purchased by the Issuer or any of its Subsidiaries subject to such Charge and any substitute security created on those assets in connection with the refinancing (together with the interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets;

“**Principal Subsidiary**” means any Subsidiary of the Issuer (excluding any Excluded Listed Subsidiary):

- (a) whose gross revenues (consolidated in the case of a Subsidiary which has Subsidiaries) attributable to the Issuer, as shown by its latest audited profit and loss account are at least 10 per cent. of the consolidated gross revenues as shown by the latest published audited profit and loss account of the Issuer and its consolidated Subsidiaries, including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of revenues of Subsidiaries not consolidated and of associated entities and after adjustments for minority interests; or
- (b) whose gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Issuer, as shown by its latest audited balance sheet, are at least 10 per cent. of the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries, including the investment of the Issuer and its consolidated Subsidiaries in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and of associated companies and after adjustment for minority interests;

provided that, in relation to paragraphs (a) and (b) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Subsidiaries adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, gross revenue or gross assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Trustee;
- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its gross revenue or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer for the purposes of preparing a certificate thereon to the Trustee; and
- (iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer; or

- (c) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Principal Subsidiary, whereupon (A) in the case of a transfer by a Principal Subsidiary, the transferor Principal Subsidiary shall immediately cease to be a Principal Subsidiary and (B) the transferee Subsidiary shall immediately become a Principal Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined pursuant to the provisions of the sub-paragraphs above.

A certificate prepared by a director or an authorised representative of the Issuer, stating that in his or her opinion, a Subsidiary is or is not, or was or was not, a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“**Relevant Indebtedness**” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market but shall not include any financing of the acquisition of assets if (i) by the terms of such financing it is expressly provided that the holders of the resulting indebtedness shall look to the assets financed and the revenues to be generated by the operation of, or loss of or damage to, such assets as the sole source of repayment for the moneys advanced and payment of interest thereon and (ii) such financing is not guaranteed by the Issuer or any of its Subsidiaries. For the avoidance of doubt, any loans raised by the Issuer or any of its Subsidiaries under a bilateral or syndicated loan agreement are not included in this definition of “Relevant Indebtedness”; and

a “**Subsidiary**” of any person means either (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person.

5 Interest

The Bonds do not bear interest unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. In such event, such unpaid amount shall bear interest at the rate of 2.0 per cent. per annum (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the day seven days after the Trustee or the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

6 Conversion

(A) Conversion Right

- (i) **Conversion Period:** Subject as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into Shares (as defined in Condition 6(A)(iv)) credited as fully paid at any time during the Conversion Period referred to below (the “**Conversion Right**”).

Subject to and upon compliance with the Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) on or after 17 August 2016 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date falling seven days prior to the Maturity Date (as defined in Condition 8(A)) (both days inclusive) (but, except as provided in Condition 6(A)(iii), in no event thereafter) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof, or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(D) or Condition 8(E) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice (the “**Conversion Period**”).

The price at which Shares will be issued upon exercise of a Conversion Right (the “**Conversion Price**”) will initially be HK\$0.9250 per Share, but will be subject to adjustment in the manner described in Condition 6(C).

The number of Shares to be issued on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be converted (translated into Hong Kong dollars at the fixed rate of HKD7.7677 = US\$1.00) (the “**Fixed Exchange Rate**”) by the Conversion Price in effect on the relevant Conversion Date (as defined in Condition 6(B)(i)). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

- (ii) **Fractions of Shares:** Fractions of Shares will not be issued on conversion and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 7 June 2016 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash (in US dollars) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i), as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds US\$10. Any such sum shall be paid not later than five Stock Exchange Business Days (as defined in Condition 6(B)(i)) after the relevant Conversion Date by a US dollar denominated cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iii) **Revival and/or survival after Default:** Notwithstanding the provisions of Condition 6(A)(i), if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof; (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10; or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders in accordance with Condition 11 and notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice (as defined in Condition 6(B)(i)) are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined in Condition 6(B)(i)) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- (iv) **Meaning of “Shares”:** As used in these Conditions, the expression “Shares” means ordinary shares of par value US\$0.0004 each of the Issuer or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Issuer.

(B) Conversion Procedure

- (i) **Conversion Notice:** To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during the Conversion Period at the specified office of any Conversion Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and confirmation that any amounts required to be paid by the Bondholder under Condition 6(B)(ii) have been so paid. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If such deposit is made after the end of normal business hours (being after 3:00 p.m.) or on a day which is not a business day in the place of the specified office of the relevant Conversion Agent, such deposit shall be deemed for all purposes of these Conditions to have been made on the next following such business day. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents in writing to such withdrawal.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee, the Conversion Agents and the relevant Bondholder.

Conversion Rights may only be exercised in respect of an Authorised Denomination.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice to the Conversion Agent and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right.

“**Stock Exchange Business Day**” means any day (other than a Saturday or Sunday) on which Relevant Stock Exchange (as defined in Condition 6(F) below), as the case may be, is open for the business of dealing in securities.

- (ii) **Stamp Duty etc.:** A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any taxes or capital, stamp, issue and registration and transfer taxes and duties (“**Duties**”) arising on such exercise (other than any Duties payable in Cayman Islands and Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on the Relevant Stock Exchange on conversion) (the “**Taxes**”). The Issuer will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if different, the person to whom the Shares are to be issued) must declare in the relevant Conversion Notice that any amounts payable to the relevant tax authorities in settlement of Taxes payable pursuant to this Condition 6(B)(ii) have been paid.

If the Issuer shall fail to pay any Duties and/or Taxes payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with the exercise of Conversion Rights by it.

Neither the Trustee nor any of the Agents shall be responsible to Bondholders or any other person or paying any Duties, Taxes, expenses or other amounts referred to in this Condition 6(B)(ii) or for determining whether such Duties are payable or the amount thereof, and neither the Trustee nor any of the Agents shall be responsible or liable for any failure by the Issuer or any Bondholder to pay such Duties, Taxes, expenses or other amounts.

- (iii) **Registration:** Upon exercise by a Bondholder of its Conversion Right and compliance with Conditions 6(B)(i) and 6(B)(ii), the Issuer will, as soon as practicable, and in any event not later than five days after the Conversion Date, register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Issuer's share register in Hong Kong and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under applicable law and the rules and procedures of the Central Clearing and Settlement System of Hong Kong ("CCASS") effective from time to time, take all necessary action to procure that Shares are delivered through CCASS for so long as the Shares are listed on the HKSE; or will make such certificate or certificates available for collection at the office of the Issuer's share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) notified to Bondholders in accordance with Condition 11 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion of the Bonds and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single share certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

The crediting of the Shares to the relevant securities account of the converting Bondholder will be deemed to satisfy the Issuer's obligation to pay the principal on such converted Bonds.

If the Conversion Date in relation to the conversion of any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C), but before the relevant adjustment becomes effective under the relevant Condition (a "**Retroactive Adjustment**"), upon the relevant adjustment becoming effective the Issuer shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares ("**Additional Shares**") as is, together with Shares to be issued on conversion of the Bond(s), equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date and in such event and in respect of such Additional Shares references in this Condition 6(B)(iii) to the Conversion Date shall be deemed to refer to the date upon which the Retroactive Adjustment becomes effective (notwithstanding that the date upon which it becomes effective falls after the end of the Conversion Period).

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Issuer's register of members (the "**Registration Date**").

The Shares issued upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any Retroactive Adjustment of the Conversion Price referred to in this Condition 6(B)(iii) prior to the time such Retroactive Adjustment shall have become effective), the Issuer will calculate and pay to the converting Bondholder or his designee an amount in US dollars (the "**Equivalent Amount**") converted at the Prevailing Rate (as defined below) equal to the Fair Market Value (as defined below) of such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by a US dollar denominated cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City, in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iv) **No Issue of Shares if in breach of the rules of a Relevant Stock Exchange:** The Issuer is not obliged to issue Shares in satisfaction of the Conversion Right if by doing so it will be in breach of its obligations under any rules of a Relevant Stock Exchange.

(C) Adjustments to Conversion Price

The Conversion Price will be subject to adjustment as follows:

(1) Consolidation, Reclassification or Subdivision:

Adjustment: If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, reclassification or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share in issue immediately before such alteration.

Effective Date of Adjustment: Such adjustment shall become effective on the date the alteration takes effect.

(2) Capitalisation of Profits or Reserves:

- (i) **Adjustment:** If and whenever the Issuer shall issue any Shares credited as fully paid to the holders of Shares (the “**Shareholders**”) by way of capitalisation of profits or reserves (including, Shares paid up out of distributable profits or reserves and/or share premium account) (except any Scrip Dividend) and which would not have constituted a Distribution (as defined in Condition 6(F)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares, or if a record date is fixed therefor, immediately after such record date.

- (ii) **Adjustment:** In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price (as defined in Condition 6(F)) on the date of announcement of the terms of the issue of such Shares multiplied by the number of such Shares issued exceeds the amount of the Relevant Cash Dividend (as defined in Condition 6(F)) or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate number of Shares in issue immediately before such Scrip Dividend;

B is the aggregate number of Shares which the Relevant Cash Dividend would purchase at such Current Market Price; and

C is the aggregate number of Shares issued pursuant to such Scrip Dividend;

or by making such other adjustment to the Conversion Price to give effect to the foregoing as an Independent Investment Bank shall certify to the Bondholders is fair and reasonable.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) Distributions:

Adjustment: If and whenever the Issuer shall pay or make any Distribution to Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution in Hong Kong dollars attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

(4) Rights Issues of Shares or Options over Shares:

Adjustment: If and whenever the Issuer shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing securities so issued), in each case at less than 90 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of the issue or grant of such Shares, options, warrants or other rights (and notwithstanding that the relevant issue may be or be expressed to be subject to Shareholder or other approvals or consents or other contingency or event occurring or not occurring), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the aggregate number of Shares in issue immediately before such announcement;

- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Shares deliverable on the exercise thereof would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares to be issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be on the Relevant Stock Exchange.

(5) Rights Issues of Other Securities:

Adjustment: If and whenever the Issuer shall issue securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of the securities, or issue or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be on the Relevant Stock Exchange.

(6) Issues at less than Current Market Price:

Adjustment: If and whenever the Issuer shall issue (otherwise than as mentioned in Condition 6(C)(4)) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, or purchase of Shares) or issue or grant (otherwise than as mentioned in Condition 6(C)(4)) any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares (other than the Bonds), in each case at less than 90 per cent. of the Current Market Price on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or, as the case may be, for the Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and
- C is the number of Shares to be issued pursuant to such issue of Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

References to additional Shares in the above formula shall, in the case of an issue by the Issuer of options, warrants or other rights to subscribe for or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

(7) Other Issues at less than Current Market Price:

Adjustment: If and whenever the Issuer or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries), any other company, person or entity shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any other further bonds issued pursuant to Condition 17) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Shares (or shall grant any such rights in respect of existing securities so issued) or securities which by their terms might be re-designated as Shares, and the consideration per Share receivable upon conversion, exchange, subscription or re-designation is less than 90 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of issue of such securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such issue or grant;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or up on exercise of the right of subscription attached to such securities or, as the case may be, for the Shares to be issued or to arise from any such re-designation would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued or otherwise made available on conversion or exchange of such securities up or on the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Shares which may be issued or arise from any such re-designation.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue of such securities or, as the case may be, the grant of such rights.

(8) Modification of Rights of Conversion etc.:

Adjustment: If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such securities (other than the Bonds) as are mentioned in Condition 6(C)(7) (other than in accordance with the terms (including terms as to adjustment) applicable to such securities upon issue) so that following such modification the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 90 per cent. of the Current Market Price per Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Shares which have been issued, purchased or acquired by the Issuer or any of its Subsidiaries (or at the direction or request or pursuant to any arrangements with the Issuer or any of its Subsidiaries) for the purposes of or in connection with such Securities, less the number of such Shares so issued, purchased or acquired);

- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Shares which may be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Investment Bank shall consider appropriate (if at all) for any previous adjustment under this Condition 6(C)(8) or Condition 6(C)(7).

Effective Date of Adjustment: Such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such securities.

(9) Other Offers to Shareholders:

Adjustment: If and whenever the Issuer or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity shall offer any securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Conditions 6(C)(2), 6(C)(3), 6(C)(4), 6(C)(5), 6(C)(6) or 6(C)(7)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which such issue is first publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Effective Date of Adjustment: Such adjustment shall become effective on the date of issue, sale or delivery of the securities.

(10) Other Events:

Adjustment: If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to in this Condition 6(C) (even if the relevant circumstance is specifically excluded from the operation of Conditions 6(C)(1) to 6(C)(9) (both inclusive)), the Issuer shall, at its own expense and acting reasonably, request an Independent Investment Bank to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 6(C)(10) if such Independent Investment Bank is so requested to make such a determination.

(11) Exclusion:

No adjustment shall be made to the Conversion Price if (a) any Bonds are offered, issued or granted to Datang Telecom Technology & Industry Holdings Co., Ltd., Xinxin (Hongkong) Capital Co., Ltd. 國家集成電路產業投資基金股份有限公司 (China Integrated Circuit Industry Investment Fund Co., Ltd.), Country Hill Limited, Shanghai Industrial Investment (Holdings) Corporation or any of their respective affiliates or any other connected persons (as defined in under the Rules Governing the Listing of Securities of the HKSE) of the Issuer and (b) such offer, issue or grant is made on substantially the same terms and conditions as the issue of the Bonds.

(D) Undertakings

The Issuer has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

- (i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the HKSE, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the HKSE, and (c) if the Issuer is unable to obtain or maintain such listing, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as the Issuer may from time to time determine (and notify in writing to the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Shares (as a class) by any of such stock exchange;
- (ii) it will use its best endeavours to maintain the listing of the Bonds on the SGX-ST and if the Issuer is unable to maintain such listing or such listing is unduly onerous, to use its best endeavours to obtain and maintain a listing on another internationally recognised stock exchange as the Issuer may from time to time determine (with the prior written consent of the Trustee) and will forthwith give notice to the Bondholders in accordance with Condition 11 of the listing or delisting of the Bonds by any such stock exchange;
- (iii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds (save for any Taxes specified in Condition 6(B)(ii));
- (iv) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof except:
 - (a) in the event of a reduction in the share premium account, capital redemption reserve fund or any other part of its share capital for the purposes of offsetting any accumulated loss or any deficit in retained earnings, where such reduction is permitted by applicable law so long as there is no change to the number of Shares in issue as a result of such reduction; or

- (b) in all other capital reductions, where the reduction is permitted by applicable law and results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made.

In the Trust Deed, the Issuer has also undertaken with the Trustee that so long as any Bond remains outstanding:

- (i) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid; and
- (ii) it will not make any offer, issue, grant or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares, provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law.

The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

(E) Provisions Relating to Changes in Conversion Price

- (i) **Minor adjustments:** On any adjustment, the resultant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price if such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made. Notice of any adjustment shall be given by the Issuer to Bondholders in accordance with Condition 11 and to the Trustee in writing promptly after the determination thereof.
- (ii) **Decision of an Independent Investment Bank:** If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Investment Bank, a written opinion of such Independent Investment Bank in respect thereof shall be conclusive and binding on the Issuer, the Bondholders and the Trustee, save in the case of manifest error.

- (iii) **Minimum Conversion Price:** Notwithstanding the provisions of this Condition 6 the Conversion Price shall not in any event be reduced to below the nominal or par value of the Shares as a result of any adjustment hereunder unless under applicable law then in effect the Bonds may be converted at such reduced Conversion Price into legally issued, fully paid and non assessable Shares.
- (iv) **Reference to “fixed”:** Any references herein to the date on which a consideration is “fixed” shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in its opinion appropriate in order to give such intended result.

- (v) **Share Option Schemes:** No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees (including directors) of the Issuer or any of its Subsidiaries pursuant to any employee share scheme or plan (and which employee share scheme or plan is in compliance with the listing rules of the Relevant Stock Exchange).
- (vi) **Upward/downward adjustment:** No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation or reclassification of the Shares as referred to in Condition 6(C)(1) above. The Issuer may at any time and for a specified period of time only, following notice being given to the Trustee and the Bondholders in accordance with Condition 11, reduce the Conversion Price, subject to Condition 6(E)(iii).
- (vii) **Trustee not obliged to Monitor:** Neither the Trustee nor any Agent shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or to make any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so or for any delay by the Issuer in making a determination or any erroneous determination in connection with the Conversion Price, without prejudice to its duties owed to the Issuer.
- (viii) **Notice of Change in Conversion Price:** The Issuer shall give notice to the Bondholders in accordance with Condition 11 and, for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall also give notice to the SGX-ST of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

(F) Definitions

For the purposes of these Conditions:

“**Alternative Stock Exchange**” means at any time, in the case of the Shares, if they are not at that time listed and traded on the HKSE, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

“**Closing Price**” for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the HKSE or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

“**Current Market Price**” means, in respect of a Share on a particular date, the average of the daily Closing Prices of one Share on each of the 10 consecutive Trading Days ending on and including (i) the Trading Day immediately preceding such date or (ii) if the relevant announcement was made after the close of trading on such date (being a Trading Date), such date of announcement; provided that if at any time during such 10 Trading Day period the Shares shall have been quoted ex-dividend (or ex-any other entitlement) and during some other part of that period the Shares shall have been quoted cum-dividend (or cum- any other entitlement) then:

- (a) if the Shares to be issued or transferred and delivered do not rank for the dividend (or entitlement) in question, the Closing Price on the dates on which the Shares shall have been based on a price cum-dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share; or
- (b) if the Shares to be issued or transferred and delivered rank for the dividend or entitlement in question, the Closing Price on the dates on which the Shares shall have been based on a price ex dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by the Fair Market Value of any such dividend or entitlement per Share;

and provided that:

- (i) if on each of the said 10 Trading Days the Shares have been quoted a price cum-dividend (or cum- any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that dividend (or other entitlement), the Closing Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share in any such case determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;
- (ii) if the Closing Price of a Share is not available on one or more of the said 10 Trading Days (disregarding for this purpose the proviso to the definition of Closing Price), then the average of such Closing Prices which are available in that 10 Trading Day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Closing Price is available in the relevant period the Current Market Price shall be determined by an Independent Investment Bank; and

- (iii) in making any calculation or determination of Current Market Price in relation to an issue of Shares, other securities or options, rights or warrants for shares or other securities which are issued offered, allotted, appropriated, modified or granted in connection (partly or fully) with any merger or acquisition, each reference above to 10 consecutive Trading Days shall be to 30 consecutive Trading Days.

In making any calculation or determination of Current Market Price, such adjustments (if any) shall be made as an Independent Investment Bank considers appropriate to reflect any consolidation or sub-division of the Shares or any issue of Shares by way of capitalisation of profits or reserves, or any like or similar event.

“**Determination Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong and in New York City.

“**Determination Date**” means the day which is two Determination Business Days before the relevant date of announcement of dividends or other distribution by the Issuer.

“**Distribution**” means (i) any distribution of assets in specie by the Issuer for any financial period whenever paid or made and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalisation of reserves, but excludes a Scrip Dividend adjusted for under Condition 6(C)(2)(ii)); and (ii) any cash dividend or distribution (including, without limitation, the relevant cash amount of a Scrip Dividend) of any kind by the Issuer for any financial period (whenever paid and however described) translated into Hong Kong dollars at the Prevailing Rate as at the date such distribution under (i) and/or (ii) of this definition is announced. In making any such calculation, such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (c) the modification of any rights to dividends of Shares.

“**Fair Market Value**” means, with respect to any asset, security, option, warrant or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the Fair Market Value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend (in which case no determination by an Independent Investment Bank would be required); (ii) the Fair Market Value of any other cash amount shall be equal to such cash amount (in which case no determination by an Independent Investment Bank would be required); and (iii) where Securities are publicly traded in a market of adequate liquidity (as determined by such Independent Investment Bank) the Fair Market Value of such Securities shall equal the arithmetic mean of the daily Closing Prices of such Securities during the period of ten Trading Days commencing on the first such Trading Day (or, if later, the first such Trading Day such Securities are publicly traded) or such shorter period as such Securities are publicly traded.

“**HKSE**” means The Stock Exchange of Hong Kong Limited.

“**Independent Investment Bank**” means an independent investment bank of international repute (acting as an expert) selected by the Issuer and notified in writing to the Trustee. If the Issuer fails to select an Independent Investment Bank when required by the Conditions, the Trustee may in its absolute discretion (but shall not be obliged to) select the Independent Investment Bank.

“**Prevailing Rate**” means, in respect of any currency on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon (Hong Kong time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon (Hong Kong time) on the immediately preceding day on which such rate can be so determined.

“**Relevant Cash Dividend**” means the aggregate cash dividend or distribution declared by the Issuer, including any cash dividend in respect of which there is any Scrip Dividend (which, for the avoidance of doubt, shall exclude a purchase or redemption of Shares, but include the Relevant Cash Dividend component of a Scrip Dividend).

“**Relevant Currency**” means Hong Kong dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, Hong Kong dollars is not the Relevant Currency of the Relevant Stock Exchange, the currency in which the Shares are quoted or dealt in on the Relevant Stock Exchange at such time.

“**Relevant Page**” means the relevant page on Bloomberg or, if there is no such page, on Reuters or such other information service provider that displays the relevant information.

“**Relevant Stock Exchange**” means at any time, in respect of the Shares, the HKSE or the Alternative Stock Exchange.

“**Securities**” means any securities including, without limitation, shares, options, warrants or other rights to subscribe for or purchase or acquire securities.

“**Scrip Dividend**” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt, no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or the relevant part thereof) but without prejudice to any adjustment required in such circumstances to be made under Condition 6(C)(2)(ii).

“**SGX-ST**” means the Singapore Exchange Securities Trading Limited.

“**Trading Day**” means a day on which the Relevant Stock Exchange is open for business and on which Shares or other securities may be dealt in (other than a day on which the Relevant Stock Exchange is scheduled to or does close prior to its regular weekday closing time).

References to any issue or offer or grant to Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

7 Payments

(A) Method of Payment

Payment of principal, premium and default interest (if any) will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in Hong Kong or New York City mailed to the registered address of the Bondholder if it does not have a registered account. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, such payments will be made to the holder appearing in the register of holders of the Bonds maintained by the Registrar at the close of the business day (being for this purpose a day on which Euroclear Bank S.A./N.V. and Clearstream Banking S.A. are open for business) before the relevant due date.

(B) Registered Accounts

For the purposes of this Condition 7, a Bondholder's registered account means the US dollar account maintained by or on behalf of it with a bank in Hong Kong or New York City, details of which appear on the Register at the close of business on the second business day (as defined below in Condition 7(F)) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

(C) Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(D) Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined below in Condition 7(F)), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

(E) Delay In Payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 7(E) arrives after the due date for payment.

(F) Business Day

In this Condition 7, “**business day**” means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong, New York City and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

(G) Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and appoint additional or replacement Agents provided that they will maintain (i) a Principal Agent, (ii) an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption, so long as the Bonds are listed on the SGX-ST and the rules of that exchange so require (and such agent in Singapore shall be a Paying, Transfer and Conversion Agent and shall be referred to in these terms and conditions as the “**Singapore Agent**”) and (iii) a Registrar with a specified office outside Hong Kong and the United Kingdom. Notice of any changes in any Agent or their specified offices will promptly be given by the Issuer to the Bondholders.

So long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

8 Redemption, Purchase and Cancellation

(A) Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at its principal amount on 7 July 2022 (the “**Maturity Date**”). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Conditions 8(B) or 8(C) (but without prejudice to Condition 10).

(B) Redemption for Taxation Reasons

- (i) The Issuer may redeem all and not some only of the Bonds, at its option, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Bondholders in accordance with Condition 11 (which notice shall be irrevocable), on the date specified in the Tax Redemption Notice for redemption (the “**Tax Redemption Date**”) at their principal amount, if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7 June 2016, and (b) such obligation cannot be avoided by the Issuer taking commercially reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the publication of any Tax Redemption Notice pursuant to this Condition 8(B)(i), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the obligation referred to in (a) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence

of the satisfaction of the condition precedent set out in (b) above of this Condition 8(B)(i), in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date, the Issuer (subject to Condition 8(B)(ii)) shall redeem the Bonds at their principal amount.

- (ii) If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(B)(i), each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal, premium or default interest (if any) to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable by the Issuer in respect thereof pursuant to Condition 9 and payment of all amounts by the Issuer to such holder in respect of such Bond(s) shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(B)(ii), the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the relevant Bond(s) on or before the day falling 10 days prior to the Tax Redemption Date.

(C) Redemption at the Option of the Issuer

On giving not less than 45 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and the Bondholders in accordance with Condition 11, the Issuer shall redeem all and not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount:

- (i) at any time after 7 July 2020, provided that the Closing Price of a Share (translated into US dollars at the Prevailing Rate), for each of 20 consecutive Trading Days, the last of which occurs not more than 10 days prior to the date of the Optional Redemption Notice was at least 130 per cent. of the Conversion Price (translated into US dollars at the Fixed Exchange Rate) then in effect immediately prior to the date upon which notice of such redemption is given; or
- (ii) at any time if, prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any further Bonds issued pursuant to Condition 17).

If there shall occur an event giving rise to a change in the Conversion Price during any such 20 consecutive Trading Day period as mentioned in Condition 8(C)(i) above, appropriate adjustments for the relevant days shall be made, as determined by an Independent Investment Bank, for the purpose of calculating the Closing Price for such days.

(D) Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Bonds on the Relevant Event Redemption Date at their principal amount. To exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Relevant Event Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 11. The "**Relevant Event Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer's consent. The Issuer shall redeem the Bonds the subject of the Relevant Event Put Exercise Notice (subject to delivery of the relevant Certificate as aforesaid) on the Relevant Event Put Date.

Within 14 days after it becomes aware of the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 11. The notice regarding the Relevant Event shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to this Condition 8(D). Such Notice shall also specify: (a) the date of such Relevant Event and, all information material to Bondholders concerning the Relevant Event; (b) the Relevant Event Put Date; (c) the last date by which a Relevant Event Put Exercise Notice must be given; (d) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Relevant Event Put Right or Conversion Right; and (e) the information required by Condition 8(H).

Neither the Agents nor the Trustee shall be required to monitor or to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur.

For the purposes of this Condition 8(D):

"**Control**" means (a) the beneficial ownership or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Issuer, or (b) the right to appoint and/or remove all or the majority of the members of the Issuer's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise.

a “**Change of Control**” occurs when:

- (i) any person or persons acting together acquires Control of the Issuer provided that such person or persons does not or do not have, and would not be deemed to have, Control of the Issuer on the Issue Date; or
- (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the assets of the Issuer to any other person or persons acting together unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Issuer or successor entity.

For the avoidance of doubt, any person Controlled (as defined by this Condition 8(D)) by the State-Owned Assets Supervision and Administration Commission (“**SASAC**”), the State Council of the PRC and/or the PRC Government shall not be deemed to be acting together with any other person so Controlled by virtue of that fact alone (and absent any other factors which may result in such persons being treated as acting together under this definition).

“**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer’s Board of Directors or any other governing board and does not include the Issuer’s wholly-owned direct or indirect Subsidiaries.

“**PRC**” means the People’s Republic of China.

“**PRC Government**” means the government of the PRC, including all governmental subdivisions and its organs or, as the context requires, any of them.

“**Relevant Event**” occurs:

- (i) when the Shares cease to be listed or admitted to trading or is suspended for a period equal to or exceeding 45 consecutive Trading Days; or
- (ii) when there is a Change of Control.

“**Voting Rights**” means the right generally to vote at a general meeting of shareholders of the Issuer (including, at the time, stock of any other class or classes which shall have, or might have, voting power by reason of the happening of any contingency).

(E) Redemption at the option of the Bondholders

On 7 July 2020 (the “**Optional Put Date**”), the holder of each Bond will have the right at such holder’s option, to require the Issuer to redeem all or some only of the Bonds of such holder on the Optional Put Date at their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent during its usual business hours (being between 9.00 a.m. and 3.00 p.m.) a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent (“**Optional Put Exercise Notice**”) together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Optional Put Date.

An Optional Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of Optional Put Exercise Notices delivered as aforesaid on the Optional Put Date.

(F) Purchase

The Issuer or any of its Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase Bonds at any price in the open market or otherwise.

(G) Cancellation

All Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

(H) Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition 8(H) will be irrevocable and will be given in accordance with Condition 11 specifying: (a) the Conversion Price as at the date of the relevant notice; (b) the last day on which Conversion Rights may be exercised; (c) the Closing Price of the Shares on the latest practicable date prior to the publication of the notice; (d) the date for redemption; (e) the manner in which redemption will be effected; (f) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice; and (g) such other information as the Trustee may require.

No notice of redemption given under Condition 8(B) or Condition 8(C) shall be effective if it specifies a date for redemption which falls during a Restricted Transfer Period or within 15 days following the last day of a Restricted Transfer Period.

If more than one notice of redemption is given (being a notice given by either the Issuer or a Bondholder pursuant to this Condition 8(H)), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

9 Taxation

All payments made by or on behalf of the Issuer in respect of the Bonds shall be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Cayman Islands, Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.

In such event, the Issuer shall pay such additional amounts (“**Additional Tax Amounts**”) as will result in the receipt by the Bondholders of such amounts as would have been received by them had no such deduction or withholding been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

- (i) **Other connection:** to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Cayman Islands or Hong Kong, other than the mere holding of the Bond or by the receipt of amounts in respect of the Bond;

- (ii) **Presentation more than 30 days after the relevant date:** (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or
- (iii) **Payment by another Paying and Conversion Agent:** presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

“**Relevant Date**” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal, premium and default interest shall be deemed also to refer to any additional amounts which may be payable under this Condition 9 or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10 Events of Default

If any of the following events (each an “**Event of Default**”) occurs the Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in either case to being indemnified and/or secured and/or prefunded by the holders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and repayable at their principal amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

- (i) **Non-Payment:** the Issuer fails to pay the principal, premium or default interest (if any) on any of the Bonds when due and the default continues for a period of 10 days; or
- (ii) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or
- (iii) **Failure to deliver Shares:** any failure by the Issuer to deliver any Shares as and when the Shares are required to be delivered following Conversion of Bonds; or
- (iv) **Cross-Default:** (a) any other present or future indebtedness of the Issuer or any of its Subsidiaries (excluding any Excluded Listed Subsidiary) for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Issuer or any of its Subsidiaries (excluding any Excluded Listed Subsidiary) fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(iv) have occurred equals or exceeds US\$50,000,000 or its equivalent (as determined on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity); or

- (v) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any of its Principal Subsidiaries and is not discharged or stayed within 30 days; or
- (vi) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Principal Subsidiaries on material property or assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 30 days, except where any such event will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bonds; or
- (vii) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or any of its Principal Subsidiaries (except for a members' voluntary solvent winding up of a Subsidiary), or the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by the Trustee in its discretion or by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Principal Subsidiary, whereby the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Principal Subsidiaries, or (c) where such event will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bonds; or
- (viii) **Insolvency:** the Issuer or any of its Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Principal Subsidiaries; an administrator or liquidator of the Issuer or any of its Principal Subsidiaries of the whole or any material part of the assets and turnover of the Issuer or any of its Principal Subsidiaries is appointed (or application for any such appointment is made), except where any such events will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bond; or
- (ix) **Nationalisation:** any step is taken by a competent governmental authority with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Principal Subsidiaries, except where any such events will not have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Bond; or

- (x) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with its obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations are legally binding and enforceable, and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of the Cayman Islands or Hong Kong is not taken, fulfilled or done; or
- (xi) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed, except where such event will not have a material effect on the ability of the Issuer to fulfil its obligations under the Bond; or
- (xii) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(i) to 10(xi) (both inclusive).

11 Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register or published in a leading newspaper having general circulation in Hong Kong or, if such publication is not practicable, in an English language newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*) and so long as the Bonds are listed on SGX-ST and if the rules of the SGX-ST so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the form of the Global Certificate), notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

12 Prescription

Claims in respect of amounts due in respect of the Bonds shall be prescribed and become void unless made as required by Condition 7 within 10 years (in the case of principal) and five years (in the case of default interest) from the appropriate Relevant Date.

13 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or any Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity and/or security as the Issuer and the Registrar or such Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 Meetings of Bondholders, Modification, Waiver and Substitution

(A) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if it receives a written request from Bondholders holding not less than 10 per cent in the aggregate principal amount of the Bonds for the time being outstanding and is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (a) to modify the maturity of the Bonds, the Optional Redemption Date or the Optional Put Date, (b) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Conditions 8(B), 8(C), 8(D) or 8(E), (c) to reduce or cancel the principal amount, any premium payable, any default interest payable or Equivalent Amount payable in respect of the Bonds or changing the method of calculation of interest, (d) to change the currency of denomination or payment of the Bonds, (e) to modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights, or (f) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 33 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds for the time being outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(B) Modification and Waiver

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (a) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (together the “**Documentation**”) which in the Trustee’s opinion is of a formal, minor or technical nature, or is made to correct a manifest error, or to comply with mandatory provisions of law, and (b) any other modification to the Documentation (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Documentation which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee agrees otherwise, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders promptly in accordance with Condition 11.

(C) Substitution

The Trustee may (but shall not be obliged to), without the consent of the Bondholders, agree to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition 14(C)) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Issuer subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer, and (b) the Bonds continuing to be convertible or exchangeable into Shares as provided in these Conditions *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate subject to in any such case, (x) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified by the Issuer to the Bondholders promptly in accordance with Condition 11.

(D) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 14(D)) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim from the Issuer, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 14(A), a modification, waiver or authorisation in accordance with Condition 14(B) or a substitution in accordance with Condition 14(C), the Issuer will procure that the Bondholders be notified in accordance with Condition 11.

15 Enforcement

At any time after the Bonds become due and repayable, the Trustee may, at its discretion and without further notice to the Issuer, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it needs not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

16 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including from taking proceedings unless indemnified and/or secured and/or pre-funded of its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any opinion or advice of any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, opinion or advice and such report, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Trustee and the Bondholders.

17 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 17 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law and Submission to Jurisdiction

(A) Governing Law

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(B) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds (“**Proceedings**”) may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts.

(C) Agent for Service of Process

Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds.

SCHEDULE 2 SELLING RESTRICTIONS

No action has been taken or will be taken in any jurisdiction by the Manager that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of the Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. The Manager will comply with all applicable securities laws and regulations in each jurisdiction in which it acquires, purchases, offers or sells Bonds or has in its possession or distributes the Offering Circular or any amendment or supplement thereto or any other offering material, in all cases at its own expense. The Issuer will not have any responsibility for, and each of the Manager and the subscribers will obtain any covenant, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Manager is not authorised to, and will not, make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in the Offering Circular or any amendment or supplement thereto.

- 1 United States:** The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Manager represents and warrants that it has not offered or sold, and agrees that it will not offer or sell, any Bonds constituting part of its allotment within the United States in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds or the Shares to be issued upon conversion of the Shares. Terms used in this paragraph have the meaning given to them by Regulation S.
- 2 United Kingdom:** The Manager represents, warrants and agrees that:

 - 2.1** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
 - 2.2** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.
- 3 Hong Kong:** The Manager represents and agrees that:

 - (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong (who will not, in contravention of, *inter alia*, the CO, sell, offer or market the Bonds to persons who are public in Hong Kong, or who are not within the definition of “professional investors”) or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

4 Singapore: The Manager acknowledges that the Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Manager represents, warrants and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

5 Japan: The Manager represents and agrees that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”) and that the Bonds which it subscribes will be subscribed by it as principal and that, in connection with the offering of the Bonds, it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

6 Cayman Islands: No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Bonds unless the Issuer is listed on The Cayman Islands Stock Exchange.

SCHEDULE 3
FORM OF CERTIFICATE CONFIRMING NO MATERIAL ADVERSE CHANGE

[ON THE LETTERHEAD OF THE ISSUER]

To:

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

with a copy to:

J.P. Morgan Securities plc
28/F, Chater House
8 Connaught Road Central
Hong Kong

(as the Manager)

[Date]

Dear Sirs

SUBSCRIPTION AGREEMENT RELATING TO SUBSCRIPTION OF US\$450,000,000 ZERO COUPON CONVERTIBLE BONDS DUE 2022

Pursuant to the Subscription Agreement dated 7 June 2016 (the “**Agreement**”) made between *inter alios*, (1) Semiconductor Manufacturing International Corporation (the “**Issuer**”) and (2) yourself as Manager, I hereby confirm, on behalf of the Issuer, that as at today’s date (i) the representations and warranties of the Issuer set forth in the Agreement are true, accurate and correct in all material respects at, and as if made on, today’s date; (ii) the Issuer has performed all of its obligations under the Agreement to be performed on or before today’s date and (iii) there has been no material adverse change nor any development or event involving a prospective material adverse change in the assets and liabilities, financial position and performance, profits and losses and prospects of the Issuer or the Group since the audited consolidated financial statements of the Group dated 31 December 2015.

Yours faithfully

For and on behalf of
SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

[Name]

Director/[Title of authorised officer]

SCHEDULE 4
SHAREHOLDERS LOCK-UP UNDERTAKING

This Undertaking is made on [●] 2016 by [●], holding [●] ordinary shares of Semiconductor Manufacturing International Corporation (the “**Issuer**”), or approximately [●] per cent. of the outstanding share capital of the Issuer, being [an indirect/a direct] shareholder (the “**Shareholder**”) of the Issuer, in favour of J.P. Morgan Securities plc (the “**Convertible Bond Manager**”), pursuant to the Subscription Agreement to be entered into between the Issuer and the Convertible Bond Manager (the “**Subscription Agreement**”) relating to the issue of the Bonds (as defined below) by the Issuer.

Whereas

- (A) As of the date of this Undertaking, the Shareholder holds an aggregate of [●] Shares, representing approximately [●] per cent. of the Shares of the Issuer.
- (B) The Issuer proposes to issue US\$450,000,000 Zero Coupon Convertible Bonds due 2022 (the “**Bonds**”), which will be convertible into the Shares of the Issuer.
- (C) The Shareholder has entered into this Undertaking in relation to the Shares held by it [directly (or through nominees)] in order to facilitate an orderly marketing, distribution and trading of the Bonds.

Now This Deed Witnesses And It Is Hereby Declared As Follows:

Terms defined and references construed in the Subscription Agreement shall, except where the context otherwise requires, have the same meaning and construction when used in this Undertaking.

- 1** The Shareholder undertakes that, for a period of 90 days from the date of this Undertaking (the “**Pricing Date**”), neither it nor its nominee nor any person acting on its behalf will (except with the prior written approval of the Convertible Bond Manager) (i) issue, offer, sell, contract to sell, pledge, encumber or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) any of the Shares held by it (directly or indirectly), or issue, offer, sell, contract to sell, pledge or otherwise dispose of any securities exchangeable for or convertible into or exercisable for the Shares, warrants or other rights to purchase the Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares; (ii) enter into any other arrangement that transfers to others, in whole or in part, any of the economic consequences of ownership of the Shares; or (iii) publicly announce any such offer, issue, sale or disposal of any Shares.

“**Shares**” mean fully paid ordinary shares in the share capital of the Issuer.

- 2** The Shareholder may apply to the Convertible Bond Manager to waive the Shareholder’s obligation in Clause 1 above and the Convertible Bond Manager shall give due consideration to such request.
- 3** The Shareholder represents and warrants that it has full power and authority to enter into this Undertaking and that this Undertaking shall constitute the valid, legal and binding obligations of the Shareholder, and all authority herein conferred or agreed to be conferred and any obligations of the Shareholder shall be binding upon the successors, assigns, heirs or personal representatives of the Shareholder.

- 4 The Convertible Bond Manager is entering into the Subscription Agreement and proceeding with the offering of the Bonds in reliance upon this Undertaking.
- 5 The Shareholder undertakes to the Convertible Bond Manager that it will hold the Convertible Bond Manager fully and effectively indemnified against all losses, costs, claims, expenses and liabilities which the Convertible Bond Manager may reasonably suffer or incur or which may be made against the Convertible Bond Manager arising as a result of a breach by it of this Undertaking and which does not arise from any fraud or wilful misconduct of the Convertible Bond Manager.
- 6 If the Subscription Agreement is terminated in accordance with its terms, this Undertaking shall terminate and no rights will accrue or survive for any company or person in respect of this Undertaking upon such termination.

This Undertaking, and any non-contractual obligations arising out of or in connection with it, shall be governed by and construed in accordance with English law and it is irrevocably agreed for the benefit of the Convertible Bond Manager that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Undertaking and that accordingly any suit, action or proceeding arising out of or in connection with this Undertaking may be brought in such courts.

In Witness whereof this Undertaking has been executed and delivered as a deed on the date stated above.

[●]

By:

Summary of Sale and Purchase Agreement to Acquire 70% of the Corporate Capital of LFoundry S.r.l.

On June 24, 2016, the Company, LFoundry Europe and Marsica entered into the Sale and Purchase Agreement pursuant to which LFoundry Europe and Marsica agreed to sell and the Company agreed to purchase the Quota (representing 70% of the corporate capital of LFoundry S.r.l.) for an aggregate cash consideration of EUR49 million (subject to adjustment) on the terms of and subject to the conditions set out in the Sale and Purchase Agreement. The amount of total consideration has been paid off on 29 July 2016 (“Closing Date”). Upon Closing, the Company, LFoundry Europe and Marsica entered into the Quotaholders’ Agreement to regulate the rights and obligations of the quotaholders of LFoundry S.r.l.

List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation	Names Under Which Subsidiary Does Business
Semiconductor Manufacturing International (Shanghai) Corporation	PRC Shanghai	Semiconductor Manufacturing International (Shanghai) Corporation
Semiconductor Manufacturing International (Beijing) Corporation	PRC Beijing	Semiconductor Manufacturing International (Beijing) Corporation
Semiconductor Manufacturing North China (Beijing) Corporation	PRC Beijing	Semiconductor Manufacturing North China (Beijing) Corporation

CERTIFICATIONS

I, Tzu-Yin Chiu, certify that:

1. I have reviewed this annual report on Form 20-F of Semiconductor Manufacturing International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2017

/s/Dr. Tzu-Yin Chiu

Name: Dr. Tzu-Yin Chiu
Title: Chief Executive Officer and Executive Director

CERTIFICATION

I, Gao Yonggang, certify that:

1. I have reviewed this annual report on Form 20-F of Semiconductor Manufacturing International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2017

/s/ Dr. Gao Yonggang

Name: Dr. Gao Yonggang

Title: Chief Financial Officer

Exhibit 13.1

Pursuant to 18 United States Code §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned hereby certify that, to the best of our knowledge, the annual report on Form 20-F for the fiscal year ended December 31, 2016 of Semiconductor Manufacturing International Corporation (the “Company”) filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2017

/s/ Dr. Tzu-Yin Chiu

Name: Dr. Tzu-Yin Chiu

Title: Chief Executive Officer and Executive Director

/s/ Dr. Gao Yonggang

Name: Dr. Gao Yonggang

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 United States Code §1350 and is not being filed as part of the Report.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S 8 (Nos. 333-193189, 333-170770 and 333-113797) of Semiconductor Manufacturing International Corporation of our report dated April 27, 2017 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20 F.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Certified Public Accountants
Shanghai, the People's Republic of China
April 27, 2017
