

SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORP

Form 6-K

September 22, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 6-K

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

For the month of September, 2016

Commission File Number: 001-31994

**Semiconductor Manufacturing International
Corporation**

(Translation of registrant's name into English)

18 Zhangjiang Road

Pudong New Area, Shanghai 201203

People's Republic of China

(Address of principal executive office)

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

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☒ Form 20-F ☐ Form 40-F

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

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

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

☐ Yes ☒ No

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

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

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

In addition to the information contained in this interim report, you should also consider the information contained in our other filings with the SEC, including our annual report on Form 20-F filed with the SEC on April 25, 2016, especially in the "Risk Factors" section and such other documents that we may file with the SEC or SEHK from time to time, including on Form 6-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this interim report may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated or, if no date is stated, as of the date of this interim report.

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

ABOUT NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“NON-GAAP”) FINANCIAL MEASURE

This report includes EBITDA margin, which is a non-GAAP financial measure. Such non-GAAP financial measure is not calculated or presented in accordance with, and are not alternatives or substitutes for financial measures prepared in accordance with IFRS, and should be read only in conjunction with the Group’s financial measures prepared in accordance with IFRS. The Group’s non-GAAP financial measures may be different from similarly-titled non-GAAP financial measures used by other companies. The presentation of non-GAAP financial measure is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS.

SMIC believes that use of these non-GAAP financial measures facilitates investors’ and management’s comparisons to SMIC’s historical performance. The Group’s management regularly uses these non-GAAP financial measures to understand, manage and evaluate the Group’s business and make financial and operational decisions.

For more information and reconciliations of the non-GAAP financial measure to its most directly comparable GAAP financial measure, please see the disclosure on pages 14 to 15.

ADDITIONAL INFORMATION

References in this interim report to:

•“2016 AGM” are to the Company’s annual general meeting held on June 24, 2016;

•“Board” are to the board of directors of the Company;

•“China” or the “PRC” are to the People’s Republic of China, excluding for the purpose of this interim report, Hong Kong, Macau and Taiwan;

•“Company” or “SMIC” are to Semiconductor Manufacturing International Corporation;

•“EUR” are to Euros;

•“Group” are to the Company and its subsidiaries;

•“HK\$” are to Hong Kong dollars;

•“Hong Kong Stock Exchange Listing Rules” are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time;

•“IFRS” are to International Financial Reporting Standards as issued by the International Accounting Standards Board;

•“JPY” are to Japanese Yen;

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

•“Ordinary Share(s)” are to the ordinary share(s) of US\$0.0004 each in the share capital of the Company;

•“RMB” are to Renminbi;

•“SEC” are to the U.S. Securities and Exchange Commission;

•“SEHK”, “HKSE” or “Hong Kong Stock Exchange” are to The Stock Exchange of Hong Kong Limited;

•“US\$” or “USD” are to U.S. dollars; and

•“U.S. GAAP” are to the generally accepted accounting principles in the United States.

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

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CORPORATE INFORMATION

Registered name	Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”)
Chinese name	*
Registered office	PO Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Head office and place of business in PRC	18 Zhangjiang Road Pudong New Area Shanghai 201203 PRC
Place of business in Hong Kong	Suite 3003 30th Floor No. 9 Queen’s Road Central Hong Kong
Website	http://www.smics.com
Company secretary	Gareth Kung
Authorized representatives	Zhou Zixue Gareth Kung
Places of listing	The Stock Exchange of Hong Kong Limited (“HKSE”) New York Stock Exchange (“NYSE”)
Stock code	981 (HKSE) SMI (NYSE)

* For identification purposes only

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

We are pleased to announce that SMIC recorded historical highs in both revenue and net profit attributable to owners of the Company for the first half of this year. The Company recorded total revenue of approximately US\$1.32 billion for the first half of this year, representing an increase of 25.4% YOY. We target that the growth rate of our revenues this year will reach over 25%, substantially higher than the forecast industry average single-digit 2016 annual growth rate. As of the end of the second quarter of this year, we achieved our sixth quarter of consecutive revenue growth and expect that our revenues will continue to grow by 8–11% for the third quarter of the year. We recorded net profit attributable to owners of the Company of over US\$159 million for the first half of this year, representing an increase of approximately 20.3% as compared to the corresponding period of last year. Revenue from PRC-based customers continued to experience significant growth for the first half of this year, achieving an increase of 26.9% as compared to the corresponding period last year and representing 49.7% of total revenue. Revenue from our Eurasia region also experienced phenomenal growth of 93.5% and its contribution to total revenue increased from 14.5% for the first half of last year to 22.4%. We maintained significant growth in our revenue from 40/45nm process during the first half of the year, recording a growth of 72.3% as compared to the corresponding period last year. As we have sustained full utilizations, we plan to expand the capacity of our two 12-inch fabs in Beijing, the 12-inch fab in Shanghai and our 8-inch fab in Shenzhen to meet the strong demand from our customers. With the expansion of our capacity and continuous innovation, we are confident that we are able to further increase our market share, enhance our position in the industry and benefit from continuous increase in our economies of scale.

With regard to advanced process technology, SMIC announced in February this year that a 28nm high-k/metal gate (HKMG) product had been successfully taped out, verified, and was ready for mass production. The 28nm SoC chips designed by Leadcore Technology were manufactured based on our platform and have been successfully used in smartphones. We shall also continue to develop and improve the 28nm technology platform so as to provide customers with more selections of enhanced manufacturing processes.

With the evolution of technology, customers are insisting on a one-stop service for manufacturing and packaging. Therefore, the cooperation between manufacturing and packaging is becoming increasingly important. Siltech Shanghai has announced its intention to acquire JCET's new shares for approximately US\$400 million, along with the previous ownership of Changjiang Xinke (which acquired STATS ChipPAC Limited), purchased for US\$100 million and converted to JCET's shares. Upon relevant government's approval, we (through Siltech Shanghai) will own 14.26% shares of JCET, becoming their largest shareholder. SMIC and JCET's further cooperation is expected to complement each other's strengths and create a more comprehensive industry ecosystem. Together, we can shorten time-to-market for customers' products. This joint effort holds significance to the many PRC domestic fabless companies and overseas customers who target China as their prime market.

We made a great stride forward in globalizing our operation through the Company's June announcement of our proposed acquisition of 70% equity interest in LFoundry, an Italian speciality IC foundry, for a consideration of EUR49 million. This transaction closed in July. This also represented the first time a PRC IC foundry has successfully acquired a production base outside China. As LFoundry is a leading foundry for auto CMOS image sensors globally, SMIC expects to, by virtue of this acquisition, successfully gain a foothold in the global automotive electronics market and occupy certain market shares. The acquisition is expected to improve the Company's 8-inch fab capacity and expand the overall technology portfolio, and may also achieve synergies in terms of technology, products, talents and market penetration.

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The Company is also actively diversifying its financing channels this year. In June, SMIC successfully completed the issuance of its first tranche of Panda Bonds in the PRC domestic interbank market and raised proceeds of RMB2.1 billion, making SMIC the first non-financial institution to complete the issuance of short-term commercial paper and medium-term notes of Panda Bonds in the inter-bank market concurrently. SMIC also completed the issuance of zero coupon and zero yield six-year convertible bonds at a 34% premium conversion price (including the right to redemption by the issuer in the fourth year), which successfully raised proceeds of US\$450 million.

It is the third year in which we have sponsored the “SMIC Liver Transplant Program for Children”. The Company announced in May that it had donated RMB2.55 million to China Soong Ching Ling Foundation for the project. Up to this date, the Company has donated over RMB10 million to this program and 137 afflicted children have successfully received treatment and are able to enjoy their new lives.

In the future, SMIC will continue to focus on enhancing its competitive strength and expanding its corporate scale in order to further enhance the Company’s position in the global semiconductor industry chain. We are excited and encouraged by the results that SMIC has achieved for the first half of 2016 and continue to target high growth rate going forward. We continue to be committed to diligently and carefully execute our business plan for the best interests of our shareholders. We would like to again express our sincere gratitude to all of our shareholders, customers, suppliers, and employees for their continued care and support of SMIC’s development.

Zhou Zixue

Chairman of the Board and Executive Director

Tzu-Yin Chiu

Chief Executive Officer and Executive Director

Shanghai, China

August 31, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Board of Directors (the “Board”) of Semiconductor Manufacturing International Corporation (the “Company” or “SMIC”) would like to announce the unaudited interim results of operations of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended June 30, 2016, and would like to express its gratitude to the shareholders and its staff for their support for the Group.

SALES

Sales increased by 25.4% from US\$1,056.4 million for the six months ended June 30, 2015 to US\$1,324.5 million for the six months ended June 30, 2016, primarily due to an increase in wafer shipments during this period. The number of wafer shipments increased by 26.6% from 1,423,861 8-inch wafer equivalents for the six months ended June 30, 2015 to 1,803,170 8-inch wafer equivalents for the six months ended June 30, 2016.

COST OF SALES AND GROSS PROFIT

Cost of sales increased by 30.5% from US\$730.1 million for the six months ended June 30, 2015 to US\$953.0 million for the six months ended June 30, 2016, primarily due to an increase in wafer shipment during this period and increased manufacturing costs as the majority-owned fab in Beijing entered into mass production in December 2015.

The Group had a gross profit of US\$371.6 million for the six months ended June 30, 2016 compared to a gross profit of US\$326.3 million for the six months ended June 30, 2015, representing an increase of 13.9%. Gross margin decreased to 28.1% for the six months ended June 30, 2016 from 30.9% for the six months ended June 30, 2015. The decrease in gross margin was primarily due to increased manufacturing costs from the majority-owned fab in Beijing which entered into mass production in December 2015.

PROFIT FOR THE PERIOD FROM OPERATIONS

Profit from operations increased from US\$106.2 million for the six months ended June 30, 2015 to US\$181.6 million for the six months ended June 30, 2016 primarily due to the combined effect of 1) an increase in wafer shipment, 2) a

decrease in accrued employee bonus and 3) higher gain realized from the partial disposal of the living quarters in Beijing in the first half of 2016 partially offset by an increase in R&D activities.

Research and development expenses increased by 8.6% from US\$108.7 million for the six months ended June 30, 2015 to US\$118.0 million for the six months ended June 30, 2016. The increase was mainly due to an increase in R&D activities.

General and administrative expenses decreased by 35.5% from US\$94.5 million for the six months ended June 30, 2015 to US\$61.0 million for the six months ended June 30, 2016. The decrease was primarily due to 1) a decrease in accrued employee bonus and 2) a decrease in the pre-operating related expenses in the first half of 2016, as compared to the first half of 2015, after the majority-owned fab in Beijing entered into mass production in December 2015.

Sales and marketing expenses decreased by 2.3% from US\$18.4 million for the six months ended June 30, 2015 to US\$17.9 million for the six months ended June 30, 2016.

Other operating income were US\$1.4 million and US\$6.9 million for the six months ended June 30, 2015 and 2016, respectively, and the increase was due to the gains arising from the partial disposal of the Group's living quarters recorded in the first half of 2016.

As a result, the Group's profit from operations increased to US\$181.6 million for the six months ended June 30, 2016 from US\$106.2 million for the six months ended June 30, 2015.

PROFIT FOR THE PERIOD

Due to the factors described above, the Group had a profit of US\$146.3 million for the six months ended June 30, 2016 compared to US\$123.3 million for the six months ended June 30, 2015.

FUNDING SOURCES FOR MATERIAL CAPITAL EXPENDITURE IN THE COMING YEAR

In 2016, the Group plans to spend approximately US\$2.5 billion in capital expenditures for foundry operations, which are subject to adjustment based on market conditions. The capital expenditures are mainly for 1) the expansion of capacity in our majority-owned 12-inch fab in Beijing, 12-inch fab in Shanghai, 8-inch fab in Shenzhen and a new majority-owned 12-inch joint venture fab for bumping services in Jiangyin, 2) a new majority-owned joint venture company, which will focus on research and development on 14nm logic technology, and 3) research and development equipment, mask shops and intellectual property acquisition.

In addition, the Group budgeted approximately US\$50 million in 2016 as capital expenditures for non-foundry operations. This is mainly for the construction of living quarters for employees as part of the Group's employee retention program.

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

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

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2016, the Group incurred capital expenditures of US\$1,543.2 million compared to US\$513.0 million for the six months ended June 30, 2015. The Group financed its capital expenditures primarily from cash flows generated from operating and financing activities.

The Group had US\$1,586.7 million in cash and cash equivalents as of June 30, 2016. These cash and cash equivalents are held in the form of United States Dollars, Japanese Yen, Euro, and Chinese Renminbi. The net cash from operating activities increased by 28.8% from US\$288.9 million for the six months ended June 30, 2015 to US\$372.2 million for the six months ended June 30, 2016.

Net cash used in investing activities was US\$1,627.3 million for the six months ended June 30, 2016, primarily attributable to 1) purchases of plant and equipment for the fabs in Shanghai, Beijing, Shenzhen and Jiangyin, 2) the net result of proceeds from selling and payments for acquiring financial assets and 3) payments for acquiring long-term investments. Net cash used in investing activities was US\$319.3 million for the six months ended June 30, 2015, primarily attributable to 1) purchases of plant and equipment for the fabs in Shanghai and Beijing, 2) the net result of proceeds from selling and payments for acquiring financial assets and 3) payments for acquiring long-term investment.

Net cash generated from financing activities was US\$1,844.6 million for the six months ended June 30, 2016, which was primarily 1) the net result of proceeds from new financing and repayments of bank borrowings, 2) net proceeds from the issuance of medium-term and short-term notes and 3) capital contribution from China Integrated Circuit Industry Investment Fund Co., Ltd. (“China IC Fund”) into the registered capital of Semiconductor Manufacturing North China (Beijing) Corporation (“SMNC”) in the first half of 2016. Net cash generated from financing activities was US\$193.6 million for the six months ended June 30, 2015, which was primarily 1) the net result of proceeds from new bank borrowings and repayments of bank borrowings and

2) net proceeds from the issuance of new Ordinary Shares in the first half of 2015.

As of June 30, 2016, the Group’s outstanding long-term liabilities primarily consisted of US\$558.6 million in secured bank loans, US\$765.2 million in unsecured bank loans, US\$399.4 million in convertible bonds, US\$494.0 million in USD bond, US\$224.0 million in medium-term notes and US\$90.5 million in short-term notes. Of which, US\$61.3 million was classified as the current portion of long-term loans.

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’ 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS’ 12-inch fab. As of June 30, 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 ranges from 5.03% to 5.37% in 2016. SMIS was in compliance with the related financial covenants as of June 30, 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’ 12-inch fab. The facility is secured by the manufacturing equipment located in the SMIS’ 12-inch fab. As of June 30, 2016, SMIS had drawn down US\$66.1 million and repaid US\$19.9 million on this loan facility. The outstanding balance of US\$46.2 million is repayable from June 2016 to December 2019. The interest rate on this loan facility ranges from 1.21% to 1.75% in 2016. SMIS was in compliance with the related financial covenants as of June 30, 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 is used for future capacity

expansion. As of June 30, 2016, SMIS had drawn down RMB1,000 million (approximately US\$150.8 million) on this loan facility. The outstanding balance is repayable from November 2021 to November 2030. The interest rate on this loan facility is 1.20% in 2016.

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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 is used to expand the capacity of SMIS' 12-inch fab. As of June 30, 2016, SMIS had drawn down RMB475 million (approximately US\$71.6 million) on this loan facility. The outstanding balance is repayable from December 2018 to December 2025. The interest rate on this loan facility is 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 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 June 30, 2016, SMIS had drawn down RMB500 million (approximately US\$75.4 million) on this loan facility. The outstanding balance is repayable in December 2018. The interest rate on this loan facility is 2.65% in 2016.

2014 EXIM RMB Loan (SMIC Beijing)

In December 2014, Semiconductor Manufacturing International (Beijing) Corporation ("SMIB" or "SMIC Beijing") 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 is unsecured. This two-year bank facility was used for working capital purposes. As of June 30, 2016, SMIB had drawn down RMB240 million (approximately US\$36.2 million) on this loan facility. The principal amount is repayable in December 2016. The interest rate on this loan facility is 2.65% in 2016.

2016 EXIM RMB Loan (SMIC Beijing)

In January 2016, SMIB entered into a new loan facility in the aggregate 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 June 30, 2016, SMIB had drawn down RMB400 million (approximately US\$60.3 million) on this loan facility. The outstanding balance is repayable in January 2019. The interest rate on this loan facility is 2.65% in 2016.

2016 EXIM RMB Loan (SMIC)

In May 2016, SMIC entered into a new 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 June 30, 2016, SMIC had drawn down RMB500 million (approximately US\$75.4 million) on this loan facility. The outstanding balance is repayable in May 2019. The interest rate on this loan facility is 2.75% in

2016.

2015 CDB RMB Loan I (SMIC Beijing)

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 June 30, 2016, SMIB had drawn down RMB195 million (approximately US\$29.4 million) on this loan facility. The principal amount is repayable from December 2017 to December 2030. The interest rate on this loan facility is 1.20% in 2016.

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2016 CDB RMB Loan II (SMIC Beijing)

In May 2016, SMIB entered into a new RMB Loan, a fifteen-year working capital loan facility in the principal amount of RMB1,460 million with China Development Bank, which is unsecured. As of June 30, 2016, SMIB had drawn down RMB1,460 million (approximately US\$220.1 million) on this loan facility. The principal amount is repayable from June 2018 to May 2031. The interest rate on this loan facility is 1.20% in 2016.

2015 RMB Entrust Loan (SJ Jiangyin)

In July 2015, SJ Semiconductor (Jiangyin) Corporation (“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 is unsecured. As of June 30, 2016, SJ Jiangyin had drawn down RMB93 million (approximately US\$14.0 million) on this loan facility. The principal amount is repayable in July 2020.

2015 CDB USD Loan (SJ Jiangyin)

In September 2015, SJ Jiangyin entered into 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 12-inch bumping fab. The facility is guaranteed by SMIB. As of June 30, 2016, SJ Jiangyin had drawn down US\$20 million and repaid US\$18 million on this loan facility. The outstanding amount of US\$2 million is repayable from September 2017 to September 2022. The interest rate on this loan facility ranges from 4.20% to 4.23% in 2016.

Sales and Leaseback Borrowings

The three financing arrangements of sales and leaseback borrowings amounted to US\$501.6 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. The subject sold and leased back under the financing arrangement is a batch of production equipment of the Group. 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 June 30, 2016, the Group had 32 short-term credit agreements that provided total credit facilities of up to US\$1,790.6 million on a revolving basis. As of June 30, 2016, the Group had drawn down US\$30.0 million under these credit agreements. The outstanding borrowings under these credit agreements are unsecured. The interest rate ranges from 0.98% to 2.92% in 2016.

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

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DISPOSAL OF 19.61% EQUITY INTEREST IN CHANGJIANG XINKE BY SILTECH SHANGHAI TO JCET AND ISSUE OF SHARES TO SILTECH SHANGHAI BY JCET AND PRIVATE PLACEMENT OF SHARES TO SILTECH SHANGHAI BY JCET

On April 27, 2016, SilTech Semiconductor (Shanghai) Corporation Limited (“SilTech Shanghai”) and Jiangsu Changjiang Electronics Technology Co., Ltd (“JCET”) entered into a disposal agreement, pursuant to which SilTech Shanghai agreed to sell its 19.61% equity interest in Suzhou Changjiang Electric Xinke Investment Co., Ltd. (“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. This transaction has not completed at the date of this report and is waiting for the approval from the China Securities Regulatory Commission.

ACQUISITION OF 70% OF THE CORPORATE CAPITAL OF LFOUNDRY S.R.L.

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 S.r.l. for an aggregate cash consideration of EUR49 million subject to adjustment. The acquisition was not completed as of June 30, 2016.

CAPITAL CONTRIBUTION FROM CHINA IC FUND INTO THE CAPITAL OF SMNC

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

COMMITMENTS

As of June 30, 2016, the Group had commitments of US\$192.7 million for facilities construction obligations in connection with the Group's Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin facilities, US\$773.0 million to purchase machinery and equipment mainly for the Shanghai, Beijing, Tianjin, Shenzhen and Jiangyin fabs and US\$7.3 million to purchase intellectual property.

DEBT TO EQUITY RATIO

As of June 30, 2016, the Group's debt to equity ratio was approximately 50.9%, which was calculated by dividing the sum of the short-term and long-term borrowings, short-term and medium-term notes, convertible bonds and corporate bonds by total shareholders' equity and the net debt to equity ratio was approximately 12.9%, which was calculated by dividing the total debt minus cash and cash equivalents and other financial assets by total shareholders' equity.

FOREIGN EXCHANGE RATE FLUCTUATION RISK

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

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

CROSS CURRENCY SWAP FLUCTUATION RISK

As of June 30, 2016, the Company had long-term loan facility agreements as well as medium-term and short-term notes in the aggregate principal amount of RMB4,300 million. The Company was primarily exposed to changes in the exchange rate for the RMB.

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

Outstanding Foreign Exchange Contracts

As of June 30, 2016, the Group had no outstanding foreign currency forward exchange contracts.

As of December 31, 2015, the Group had outstanding foreign currency forward exchange contract with notional amounts of US\$42.9 million, which matured in January 2016. As of December 31, 2015, the fair value of foreign currency forward exchange contracts was approximately US\$0.17 million, which was recorded in other current assets.

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

	As of June 30, 2016 (in US\$ thousands) Notional value		As of December 31, 2015 (in US\$ thousands) Notional Fair value Value	
Forward Exchange Agreement (Receive Eur/Pay US\$)				
Contract Amount	—	—	42,872	172
Total Contract Amount	—	—	42,872	172

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Outstanding Cross Currency Swap Contracts

As of June 30, 2016, the Company had outstanding cross currency swap contracts with notional amounts of US\$648.3 million. Notional amounts are stated in the U.S. dollar equivalents at spot exchange rates as of the respective dates. As of June 30, 2016, the fair value of cross currency swap contracts was approximately 0.1 million recorded as other financial assets and a liability of US\$18.2 million, which was recorded in other financial liabilities. The cross currency swap contracts will mature in the period from 2018 to 2021.

As of December 31, 2015, the Company had outstanding cross currency swap contracts with notional amounts of US\$74.0 million and the fair value of cross currency swap contracts was approximately a liability of US\$1.5 million. The cross currency swap contracts will mature in 2018.

	As of June 30, 2016 (in US\$ thousands)		As of December 31, 2015 (in US\$ thousands)	
	Notional value	Fair Value	Notional value	Fair Value
Cross Currency Swap Contracts (Receive RMB/Pay US\$)				
Contract Amount	648,332	(18,091)	73,966	(1,459)
Total Contract Amount	648,332	(18,091)	73,966	(1,459)

EMPLOYEES EQUITY INCENTIVE PLAN

Save as disclosed in this interim report, there is no material change to the information disclosed in the 2015 annual report of the Group in relation to the number and remuneration of employees, remuneration policies, bonus and share option schemes of employees.

ISSUANCE OF EQUITY SECURITIES UNDER GENERAL MANDATE

Issue of US\$450 million zero coupon zero yield convertible bonds due 2022

On June 7, 2016, the Company 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 bonds (the “2016 Convertible Bonds”) to be issued by the Company in an aggregate principal amount of

US\$450 million. The issue price of the 2016 Convertible Bonds was 100% of the aggregate principal amount. Assuming full conversion of the 2016 Convertible Bonds at the initial conversion price of HK\$0.9250 per Ordinary Share, the 2016 convertible bonds will be convertible into 3,778,881,081 Ordinary Shares which will be allotted and issued pursuant to the 2015 general mandate and will rank *pari passu* in all respects with the Ordinary Shares then in issue on the relevant conversion date. The issuance of the 2016 Convertible Bonds was completed on July 7, 2016.

ISSUANCE OF OTHER SECURITIES

Issue of short term and medium term notes

The Company issued medium-term notes of RMB1,500 million and short-term notes of RMB600 million through National Association of Financial Market Institutional Investors (“NAFMII”) during the first half of 2016. The medium-term notes carry a coupon interest rate of 3.35% with note interest payable annually on June 8, 2017, June 8, 2018 and June 10, 2019 and the short-term notes carry a coupon interest rate of 2.99% with note interest payable annually on June 7, 2017. As at the issue date, the net book value of the liabilities of medium-term notes amounted to RMB1,485 million and the book value of the liabilities of short-term notes amounted to RMB600 million.

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.

PROSPECTS AND FUTURE PLANS

In the first half of 2016, the Group achieved its historical high revenue of US\$1.32 billion, an increase of 25.4% compared to the first half of 2015. With high utilizations in Q1 and Q2 of 99% and 98%, the Group targets high utilizations in the second half given their current demand situation. The Group expects third quarter revenue to increase by 8% to 11% quarter over quarter and targets to grow mid to high 20's percent annually in 2016 compared to 2015, which includes the growth from acquiring LFoundry Europe. SMIC's EBITDA margin* was around 35% in 2015; the Group targets EBITDA margin to increase for the full year of 2016 compared to 2015.

With regard to SMIC's future plans for capacity, the Group continues to expand its 8-inch and 12-inch capacities to address the great demand. The Group's planned consolidated capital expenditures are around US\$2.5 billion for 2016. Shanghai 12-inch fab has already reached its target 20,000 12-inch wafers per month. The Beijing JV fab hit 15,000 12-inch wafers per month at the end of the first half of 2016 and is targeted to reach 18,000 by year-end. The Group's fully-owned Beijing 12-inch fab is targeted to grow to 45,000 12-inch wafers per month capacity by year-end from the reported 37,000 at the end of the first half of 2016. Meanwhile, Shenzhen had reached 26,000 8-inch wafers per month capacity in the first half of 2016 and is targeted to be 31,000 by year-end. SMIC completed the acquisition of majority ownership of LFoundry Europe in Q3 of 2016; subsequently, the Group will consolidate LFoundry's 40,000 8-inch wafers per month capacity.

The Group targets to grow at a 20% compound annual growth rate over the next 3–4 years and continues to focus on delivering sustainable profitable growth and building value for all stakeholders.

*EBITDA margin is defined as profit for the period excluding the impact of the finance cost, depreciation and amortization, and income tax expense divided by revenue. SMIC uses EBITDA margin as a measure of operating performance; for planning purposes, including the preparation of the Group's annual operating budget; to allocate resources to enhance the financial performance of the Group's business; to evaluate the effectiveness of the Group's business strategies; and in communications with SMIC's board of directors concerning the Group's financial performance. Although EBITDA is widely used by investors to measure a company's operating performance without regard to items, such as net finance cost, income tax benefit and expense and depreciation and amortization that can vary substantially from company to company depending upon their respective financing structures and accounting policies, the book values of their assets, their capital structures and the methods by which their assets were acquired, EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results of operations as reported under IFRS. Some of these limitations are: it does not reflect the Group's capital expenditures or future requirements for capital expenditures or other contractual commitments; it

does not reflect changes in, or cash requirements for, the Group's working capital needs; it does not reflect finance cost; it does not reflect cash requirements for income taxes; that, although depreciation and amortization are non-cash charges, the assets being depreciated or amortized will often have to be replaced in the future, and these measures do not reflect any cash requirements for these replacements; and that other companies in SMIC's industry may calculate these measures differently than SMIC does, limiting their usefulness as comparative measures.

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The following table sets forth the reconciliation of EBITDA and EBITDA margin to their most directly comparable financial measures presented in accordance with IFRS, for the periods indicated.

	For the six months ended	
	June 30, 2016	June 30, 2015
	USD'000	USD'000
Profit for the period	146,253	123,271
Finance costs	12,548	7,426
Depreciation and amortization	328,592	250,372
Income tax expense	1,035	978
EBITDA	488,428	382,047
EBITDA margin	36.9	% 36.2 %

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CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules contains code provisions (the “Code Provisions”) which an issuer, such as the Company, is expected to comply with or advise as to reasons for deviations from and recommends best practices which an issuer is encouraged to implement (the “Recommended Practices”). The Company has adopted a set of Corporate Governance Policy (the “CG Policy”) since January 25, 2005 as its own code of corporate governance, which is amended from time to time to comply with the CG Code. The CG Policy, a copy of which can be obtained on the Company’s website at www.smics.com under “Investor Relations > Corporate Governance > Policy and Procedures”, substantially incorporates the Code Provisions and the Recommended Practices of the CG Code. The Company will seek to comply with the Code Provisions of the CG Code whenever practicable. In addition, the Company has adopted or put in place various policies, procedures, and practices in compliance with the provisions of the CG Policy.

During the six months ended June 30, 2016, the Company was in compliance with all the Code Provisions set out in the CG Code except as explained below:

Code Provision A.6.7 of the CG Code requires that independent non-executive directors and other nonexecutive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Zhou Jie, a non-executive Director; Mr. Ren Kai, a non-executive director; Mr. Lu Jun, a non-executive Director; Mr. Sean Maloney, an independent non-executive Director and Ms. Carmen I-Hua Chang, an independent non-executive Director, were not able to attend the 2016 AGM and the extraordinary general meeting of the Company held on June 24, 2016 due to their other commitments.

Save as the aforesaid and in the opinion of the Directors, the Company has complied with all other Code Provisions set out in the CG Code during the six months ended June 30, 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted an Insider Trading Compliance Program (the “Insider Trading Policy”) which encompasses the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules (the “Model Code”). The Company, having made specific enquiry of all Directors, confirms that all Directors have complied with the Insider Trading Policy and the Model Code throughout the six months ended June 30, 2016. The senior management of the Company as well as all officers, directors, and employees of the Company and its subsidiaries are also required to comply with the provisions of the Insider Trading Policy.

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THE BOARD

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

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

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

Name of Director	Category of Director	Class of	Year of
		Director	Re-election
Zhou Zixue	Chairman, Executive Director	Class I	2017
Tzu-Yin Chiu	Chief Executive Officer, Executive Director	Class I	2017
Gao Yonggang	Chief Financial Officer, Executive Director	Class I	2017
William Tudor Brown	Independent Non-executive Director	Class I	2017
Chen Shanzhi (Alternative Director: Li Yonghua)	Non-executive Director	Class II	2018
Lip-Bu Tan	Independent Non-executive Director	Class II	2018
Carmen I-Hua Chang	Independent Non-executive Director	Class II	2018
Lu Jun	Non-executive Director	Class II	2018
Zhou Jie	Non-executive Director	Class III	2019
Sean Maloney	Independent Non-executive Director	Class III	2019
Ren Kai	Non-executive Director	Class III	2019

As of the date of this interim report, the roles of Chairman and Chief Executive Officer are segregated and such roles are performed by Dr. Zhou Zixue and Dr. Tzu-Yin Chiu, respectively.

On an annual basis, each independent non-executive Director confirms his/her independence to the Company, and the Company considers these Directors to be independent as such term is defined in the Hong Kong Stock Exchange Listing Rules. There are no relationships among members of the Board, including between the Chairman of the Board and the Chief Executive Officer.

The Board meets at least four times a year at approximately quarterly intervals and on such other occasions as may be required to discuss and vote upon significant issues affecting the Company. The schedule of Board meetings for a given year is planned in the preceding year. The Company Secretary assists the Chairman in preparing the agenda for the Board meetings and also assists the Board in complying with applicable laws, rules and regulations. The relevant papers for the Board meetings are dispatched to Board members in accordance with the CG Code. Directors may include matters for discussion in the agenda if the need arises. Upon the conclusion of the Board meeting, minutes are circulated to all Directors for their review and comments prior to their approval of the minutes at the following or subsequent Board meeting. Transactions in which any Directors are considered to have a conflict of interest which the Board has determined to be material are dealt with by physical Board meetings rather than written resolutions and the interested Directors are not counted in the quorum of such Board meetings and abstain from voting on the relevant matters.

All Directors have access to the Company Secretary, who is responsible for assisting the Board in complying with applicable procedures regarding compliance matters. Every Board member is entitled to have access to documents tabled at the Board meeting or filed into the Company's minutes book. Furthermore, the Board has established the procedures pursuant to which a Director, upon reasonable request, may seek independent professional advice at the Company's expense in order for such Director to discharge his/her duties. The Company Secretary continuously updates all Directors on the latest development of the Hong Kong Stock Exchange Listing Rules and other applicable regulatory requirements to ensure the Company's compliance with and maintenance of good corporate governance practices. Each new Director is provided with training with respect to his/her responsibilities under the Hong Kong Stock Exchange Listing Rules and other regulatory requirements and the Company's corporate governance policies and practices.

Board Diversity Policy

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

Procedure regarding the Appointment of Directors

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

BOARD COMMITTEES

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

Audit Committee

As of the date of this interim report, the Company's Audit Committee (the "Audit Committee") consisted of three members, namely Mr. Lip-Bu Tan (chairman of Audit Committee), Mr. Zhou Jie and Mr. William Tudor Brown. None of the members of the Audit Committee has been an executive officer or employee of the Company or any of its subsidiaries. In addition to acting as an Audit Committee member, Mr. William Tudor Brown currently also serves on the audit committee of Lenovo Group Limited, shares of which are listed on the Hong Kong Stock Exchange. In general and in accordance with section 303A.07(a) of the Listed Company Manual of the New York Stock Exchange, the Board considered and determined that such simultaneous service would not impair the ability of Mr. William Tudor Brown to effectively serve on the Company's Audit Committee.

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

- making recommendations to the Board concerning the appointment, reappointment, retention, evaluation, oversight and termination of the work of the Company's independent auditor;

- reviewing the experience, qualifications and performance of the senior members of the independent auditor team;

- pre-approving all non-audit services to be provided by the Company's independent auditor;

- approving the remuneration and terms of engagement of the Company's independent auditor;

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

- pre-approving the hiring of any employee or former employee of the Company's independent auditor who was a member of the audit team during the preceding three years and the hiring of any employee or former employee of the independent auditor 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 risk management and internal control systems (including financial, operational and compliances controls) and any significant deficiencies or material weaknesses in the design or operation of risk management and internal control systems;

- considering the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;

- reviewing the Company's risk assessment and management policies;

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

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

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

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The Audit Committee reports its work, findings and recommendations to the Board regularly.

The Audit Committee meets 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 a given year is planned in the preceding year. The Company Secretary assists the chairman of the Audit Committee in preparing the agenda for meetings and also assists the Audit Committee in complying with the relevant rules and regulations. The relevant papers for the Audit Committee meetings are 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 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 auditor 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

As of the date of this interim report, the members of the Company's Compensation Committee (the "Compensation Committee") were Mr. Lip-Bu Tan (chairman of Compensation Committee), Mr. Sean Maloney and Mr. Zhou Jie. None of these members of the Compensation Committee 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 Directors' compensation, including equity-based compensation;

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

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

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

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The Compensation Committee reports its work, findings and recommendations to the Board periodically but no fewer than four times per year.

The Compensation Committee meets 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 in complying with the relevant rules and regulations. The relevant papers for the Compensation Committee meeting are dispatched to Compensation 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. Within reasonable time after a Compensation Committee meeting is held, minutes are circulated to the members of the Compensation Committee for their comment and review prior to their approval of the minutes at the following or a subsequent Compensation Committee meeting.

Nomination Committee

As of the date of this interim report, the Company's Nomination Committee (the "Nomination Committee") comprised Dr. Zhou Zixue (chairman of Nomination Committee), Mr. Lip-Bu Tan, Mr. Lu Jun, 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;

monitoring the implementation of Board Diversity Policy (including any measurable objectives and the progress in achieving those objectives), and ensuring 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 also assists the Nomination Committee in complying with the relevant rules and regulations. The relevant papers for the Nomination Committee meetings were dispatched to Nomination 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. Within reasonable time after a Nomination Committee meeting is held, 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.

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Internal Audit Department

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

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

- reviewing management's control to ensure the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;

- reviewing the systems established or to be established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the Company is in compliance;

- reviewing the means of safeguarding assets and, when appropriate, verifying the existence of assets;

- appraising the economy and efficiency with which resources are employed;

- identifying significant risks, including fraud risks, to the ability of the Company to meet its business objectives, communicating them to management and ensuring that management has taken appropriate action to guard against those risks; and

- evaluating the effectiveness of controls supporting the operations of the Company and providing recommendations as to how those controls could be improved.

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

After completing an audit, the Internal Audit Department furnishes the Company's management team with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. Appropriate managers of

the Company are notified of any deficiencies cited by the Internal Audit Department, which will follow up with the implementation of audit recommendations. In addition, the Internal Audit Department reports their findings directly to the Audit Committee on at least a quarterly basis.

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

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CODE OF BUSINESS CONDUCT AND ETHICS

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

U.S. Corporate Governance Practices

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. Because the Company’s American Depositary Shares are registered with the SEC and are listed on the New York Stock Exchange, the Company is also subject to certain U.S. corporate governance requirements, including many of the provisions of the Sarbanes-Oxley Act of 2002. However, because the Company is a “foreign private issuer”, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to the Company. The Company is permitted to follow corporate governance practices in accordance with Cayman Islands law and the Hong Kong Stock Exchange Listing Rules in lieu of most of the corporate governance standards contained in the NYSE Standards.

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

The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not subject to this requirement, and we have not established a nominating/corporate governance committee. Instead, our Board has established the Nomination Committee to review the structure, size and composition (including the skills, knowledge and experience as well as diversity of perspectives of the Board) at least annually, monitor the implementation of Board Diversity Policy, make recommendations on any proposed changes to the Board to complement the Company’s 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 reappointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer. However, such nomination committee is not responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company and overseeing the evaluation of the Board and management.

The NYSE Standards provide detailed tests that U.S. domestic issuers must use for determining independence of directors. While we may not specifically apply the NYSE tests, our Board assesses independence in accordance with Hong Kong Stock Exchange Listing Rules, and in the case of Audit Committee members in accordance with Rule 10A-3 under the U.S. Securities Exchange Act of 1934, as amended, and considers whether there are any relationships or circumstances which are likely to affect such director's independence from management.

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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 Committee and Compensation Committee may not address all aspects of the NYSE Standards. For example, NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our Compensation Committee charter. We disclose the amounts of compensation of our Directors on a named basis and the five highest individuals on an aggregate basis in our 2014 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".

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OTHER INFORMATION

1.DIVIDENDS

The Board did not propose to declare an interim dividend for the six months ended June 30, 2016 (six months ended June 30, 2015: Nil).

2.SHARE CAPITAL

During the six months ended June 30, 2016, the Company issued 11,257,432 and 45,981,176 Ordinary Shares as a result of the exercise of equity awards granted pursuant to the Company's 2004 stock option plan (the "2004 Stock Option Plan") and the Company's 2004 equity incentive plan (the "2004 Equity Incentive Plan"), respectively. During this period, there were 774,333 and 58,555,554 Ordinary Shares issued as a result of the exercise of equity awards granted pursuant to the Company's 2014 stock option plan (the "2014 Stock Option Plan") and the Company's 2014 equity incentive plan (the "2014 Equity Incentive Plan") which have replaced the 2004 Stock Option Plan and the 2004 Equity Incentive Plan, respectively, upon their termination.

	Number of Shares Outstanding
Outstanding Share Capital as of June 30, 2016:	
Ordinary Shares	42,190,317,456

Under the terms of the Company's 2014 Equity Incentive Plan, the Compensation Committee may grant restricted share units ("RSU(s)") to eligible participants. Each RSU represents the right to receive one Ordinary Share. RSUs granted to new employees and existing employees generally vest at a rate of 25% upon the first, second, third, and fourth anniversaries of the vesting commencement date. Upon vesting of the RSUs and subject to the terms of the Insider Trading Policy and the payment by the participants of applicable taxes, the Company will issue the relevant participants the number of Ordinary Shares underlying the awards of RSUs.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below are the names of the parties (not being a director or chief executive of the Company) which were interested in five percent or more of the nominal value of the share capital of the Company and the respective numbers of shares in which they were interested as of June 30, 2016 as recorded in the register kept by the Company under section 336 of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO").

Name of Shareholder	Long/Short Position	Number of Ordinary Shares Held	Percentage of Ordinary Shares Held to Total Issued Share Capital of the Company (Note 1)		Derivative Interest	Percentage of Aggregate Interests to Total Issued Share Capital of the Company (Note 1)	
Datang Telecom Technology & Industry Holdings Co., Ltd.	Long Position	7,699,961,231 (Note 2)	18.25	%	—	7,699,961,231	18.25 %
China Integrated Circuit Industry Investment Fund Co., Ltd.	Long Position	7,400,000,000 (Note 3)	17.54	%	—	7,400,000,000	17.54 %

Notes:

(1) Based on 42,190,317,456 Ordinary Shares in issue as at June 30, 2016.

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

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

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4. SHAREHOLDING INTERESTS OF THE DIRECTORS

As of June 30, 2016, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO), which were notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code were as follows:

Name of Director	Long/Short	Nature of Interests	Number of			Total	Percentage of Aggregated Interests to Total Issued Shares Capital (Note 1)
			Ordinary Shares Held	Derivatives Options	Other		
Executive Director							
Zhou Zixue	Long Position	Beneficial Owner	—	25,211,633 (Note 2)	10,804,985 (Note 3)	36,016,618	0.085%
Tzu-Yin Chiu	Long Position	Beneficial Owner	40,860,038	94,018,596 (Note 4)	7,031,061 (Note 5)	141,909,695	0.336%
Gao Yonggang	Long Position	Beneficial Owner	—	19,640,054 (Note 6)	2,310,472 (Note 7)	21,950,526	0.052%
Non-executive Director							
Chen Shanzhi	Long Position	Beneficial Owner	—	4,134,902 (Note 8)	989,583 (Note 9)	5,124,485	0.012%
Zhou Jie	—	—	—	—	—	—	—
Ren Kai	—	—	—	—	—	—	—
Lu Jun	—	—	—	—	—	—	—