SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPORATION

中 芯 國 際 集 成 電 路 製 造 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 981)

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

SALE AND PURCHASE AGREEMENT

On 24 June 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 the Target Company) 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.

IMPLICATIONS UNDER THE LISTING RULES

As certain percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Sale and Purchase Agreement exceed 5% but are less than 25%, the Sale and Purchase Agreement constitutes a discloseable transaction under Chapter 14 of the Listing Rules subject to reporting and announcement requirements but is exempt from shareholders' approval requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

On 24 June 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 the Target Company) 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.

As at 24 June 2016, LFoundry Europe and Marsica each owns a quota with a nominal value of EUR1 million (representing 50% of the corporate capital of the Target Company) respectively. LFoundry Europe and Marsica each agreed to sell to the Company 35% of the corporate capital of the Target Company free from all encumbrances at the Closing. The Company, LFoundry Europe and Marsica will each own 70%, 15% and 15% of the corporate capital of the Target Company respectively at the Closing.

SALE AND PURCHASE AGREEMENT

The key terms of the Sale and Purchase Agreement are set out below:

Date

24 June 2016

Parties

1. the Company;

2. LFoundry Europe; and

3. Marsica.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, LFoundry Europe and Marsica and their respective ultimate beneficial owners are third parties independent of the Company and of the connected persons of the Company.

Consideration

The total consideration of EUR49 million (subject to adjustment as set out below) is payable to LFoundry Europe and Marsica in equal parts in the following manner on the Closing Date:

1. warranties escrow amount of EUR9.8 million deposited with a warranties escrow account to secure LFoundry Europe and Marsica's indemnity and warranty obligations, which will be released in accordance with the Sale and Purchase Agreement and the warranty escrow agreement which agreed form is attached to the Sale and Purchase Agreement; and

2. the Company will pay the remaining amount of total consideration in cash to LFoundry Europe and Marsica in equal parts at the Closing.

The amount of total consideration has been determined at EUR49 million on the basis that the ratio between the current assets and the current liabilities as defined in the Sale and Purchase Agreement is not lower than 1; and the Net Debt as at 30 June 2016 does not exceed EUR80 million, and will be adjusted at the Closing as follows:

1. if the Net Debt exceeds EUR80 million, the total consideration will be reduced by 70% of the amount of the Net Debt in excess of EUR80 million.

The total consideration was arrived at based on normal commercial terms after arm's length negotiations between the parties with reference to, among others, the historical financial performance of the Target Company, the net asset value of the Target Company as at 31 March 2016, the adjustment mechanism of the consideration as disclosed above and the prospects of the business of the Target Company after the merger with the Group.

The Board considers that the total consideration is based on normal commercial terms, and is fair and reasonable for the Company and the Shareholders as a whole.

Conditions precedent

The obligation of the parties to proceed with the Closing is subject to and conditional upon the following events:

1. each of the counterparties of the Target Company under certain material agreements containing change of control clauses ("**Relevant Counterparties**") having irrevocably consented to the transfer of the Quota to the Company;

2. each of the Relevant Counterparties having irrevocably consented to the transfer of the Quota to the Company, provided that this condition will be met when the consent is given by (1) a number of clients representing at least 50% of the turnover made by the Target Company and (2) a number of suppliers representing at least 40% of the costs borne by the Target Company under such agreements containing change of control clauses;

3. certain third-party creditors of the Target Company having irrevocably consented to the transfer of the Quota to the Company;

4. all pre-closing activities as specified in the Sale and Purchase Agreement having been duly carried out and completed;

5. the audited report of the Target Company as of 31 March 2016 being unqualified;

6. the ratio between Current Assets and Current Liabilities being not lower than 1;

7. the key employees of the Target Company having not ceased their employment relationships;

8. no petition, claim, injunction having been filed against the Target Company, LFoundry Europe, Marsica and/or the Company as at the Closing Date which actually prevents or reasonably may be expected to prevent the execution of any of the transactions contemplated in the Sale and Purchase Agreement; and

9. anything which has or reasonably may be expected to have a material adverse effect on the Target Company or its wholly-owned subsidiary LFoundry Japan not having occurred as at the Closing Date.

LFoundry Europe and Marsica agree to use all reasonable endeavour to procure that the aforementioned conditions are satisfied at the Closing Date. The conditions precedent can be waived only by written notice from the Company.

Closing

Closing will take place on 29 July 2016 (or such later date as the parties to the Sale and Purchase Agreement will possibly agree in writing) provided that all conditions precedent under the Sale and Purchase Agreement have been fulfilled or waived.

QUOTAHOLDERS' AGREEMENT

It is expected that LFoundry Europe's merger into ISAR will become effective on or before the Closing Date, therefore ISAR is expected to succeed the Sale and Purchase Agreement and assume any rights or obligations with reference to LFoundry Europe thereunder (including but not limited to the obligation to enter into the Quotaholders' Agreement) subject to the terms and conditions thereof. The Company, ISAR and Marsica will enter into the Quotaholders'

Agreement upon Closing to regulate the rights and obligations of the quotaholders of the Target Company. Key terms of the Quotaholders' Agreement as at the date of this announcement are set out below.

Composition of board and management

The Company will have the right to (among others) designate three members to the Target Company's board and one of its designated directors as the chairman of the Target Company's board, who will also be the legal representative of the Target Company. ISAR and Marsica will have the right to appoint the managing directors as the chief executive officer and the vice chairman of the Target Company.

Lock-up period and call option of the Company

ISAR, Marsica and the Company will not be entitled to transfer their respective quota in the Target Company from the date of the Quotaholders' Agreement until the second anniversary of such date, except to the permitted transferees as specified in the Quotaholders' Agreement. At the Closing Date, the Company will also enter into side letters with certain shareholders of ISAR and Marsica under which each of those shareholders has undertaken not to transfer its shareholding in ISAR or Marsica (as applicable) during the aforementioned lock-up period. LFoundry Europe or ISAR (as applicable) and Marsica will also sign the side letters to acknowledge such undertakings:

Upon expiry of the lock-up period, if a shareholder of ISAR or Marsica intends to transfer its shareholding in ISAR or Marsica to a person who is not an aforementioned permitted transferee, the Company has the pre-emption right to purchase from ISAR or Marsica (as applicable) a quota of the Target Company equivalent to the quota indirectly owned by such transferring shareholder at the price:

(A) on the assumption that the only asset owned by ISAR or Marsica at that time will be the equity stake owned in the Target Company (the "**Neutrality Assumption**"), the lower of: (i) the price offered by the third party purchaser to the relevant transferring shareholder of ISAR or Marsica, as the case may be; and (ii) the fair market value of the Target Company's quota that is the subject-matter of the pro-quota call option; and

(B) should the Neutrality Assumption not be satisfied, the lower of: (i) the price offered by the third party purchaser for the relevant ISAR or Marsica stake decreased pro-rata so as to represent only the value of the Target Company's quota that is the subject-matter of the pro-quota call Option; and (ii) the fair market value of the Target Company's quota that is the subject-matter of the pro-quota call option.

In the event that in one or more transactions, more than 50% of ISAR or Marsica is transferred to one or more third party purchaser(s), the Company will have the option right to purchase from ISAR or Marsica (as applicable) its entire quota in the Target Company. In such event, the purchase price will be 90% of the fair market value.

The parties to the Quotaholders' Agreement acknowledge and agree that the Company will be entitled to transfer from time to time its entire quota in the Target Company's corporate capital or a portion thereof to any affiliate of the Company as defined in the Quotaholders' Agreement, provided that such affiliate enters into a deed of adherence in accordance with the Quotaholders' Agreement.

Pre-emption right

Upon expiry of the lock-up period mentioned above, any transfer in full or in part of the quota of the Target Company owned by the parties will be subject to the pre-emption right of the other parties to the Quotaholders' Agreement. For the purpose of clarification, there will be no premium for the grant of such pre-emption right.

In case only one quotaholder exercises the pre-emption right, it will purchase the entire quota for sale. In the event more than one quotaholder exercise the pre-emption right, the quota for sale will be sold to them proportionally to their existing holding in the Target Company.

Tag-along right of ISAR and Marsica

In the event the Company intends to sell its entire quota in the Target Company to a third-party purchaser and provided that such quota represents at least 50% of the corporate capital of the Target Company, each of ISAR and Marsica will be granted a tag-along right on the same terms and conditions offered to the Company by the third-party purchaser for their entire quota in the Target Company. However, if the drag-along right set out below is exercised by the Company, this tag-along right will not be applicable.

Drag-along right of the Company

If the Company intends to transfer all of its quota to a third party, it will have a drag-along right against each of ISAR and Marsica and therefore will have the right to oblige ISAR and Marsica to sell simultaneously with, and on the same terms and conditions (including price and representations and warranties) as the Company, the entire quota owned by each of them to the third-party purchaser. In the event that the Company transfers its entire quota to more than one third party purchasers, it will have the right to oblige ISAR and Marsica to sell simultaneously with, and on the same terms and conditions as those for the Company, the quota owned by them in the Target Company to each of such third party purchasers in proportion to the Company's quota being sold to such third party purchasers. The pre-emption right exercised by any of the other parties will prevail over the drag-along right of the Company.

Default and call option

If any of the following events occur in relation to ISAR or Marsica as a minority quotaholder of the Target Company: failure to remedy any material breach on its part of the Quotaholders' Agreement, entering into any arrangement or composition with or for the benefit of its creditors, voluntary or compulsory liquidation or extraordinary administration or similar procedures, general suspension of payment of its debts or cessation or threatening of cessation to carry on its business or substantially the whole of its business, or bankruptcy petition or documents filed with a court for an administration in relation to thereto, the Company will have a call option right to purchase the entire quota of ISAR or Marsica (as the case may be). The call option shall be exercised at a price equal to 70% of the fair market value of the quota of ISAR or Marsica (as the case may be).

Non-compete and non-solicitation undertakings

As long as ISAR or Marsica owns a quota of the Target Company and until two years following the date when they cease to be a quotaholder of the Target Company, each of ISAR and Marsica agrees to give non-compete and non-solicitation undertakings as specified in the Quotaholders' Agreement to the Target Company. At the Closing Date, the Company will also enter into side letters with certain shareholders of ISAR and Marsica under which each of those shareholders has assumed the same non-compete and non-solicitation undertakings on the terms and conditions specified in the Quotaholders' Agreement. LFoundry Europe or ISAR (as applicable) and Marsica will also sign the side letters to acknowledge such undertakings.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company and its wholly-owned subsidiary LFoundry Japan operate in the pure play foundry business of manufacturing wafers based on customer-specific analogue, mixed-signal and specialised technology, image sensors and complementary metal-oxide-semiconductors (CMOS).

According to the Target Company's audited accounts prepared under the Italian generally accepted accounting principles, the net profits (before tax and extraordinary items) of the Target Company for the financial years ended 31 March 2016 and 2015 were approximately EUR5,422,356 and EUR13,214,195 respectively, and the net profits (after tax and extraordinary items) of the Target Company for the financial years ended 31 March 2016 and 2015 were approximately EUR3,678,933 and EUR7,810,121 respectively. The total assets of the Target Company as at 31 March 2016 is approximately EUR176,132,475.

REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE AGREEMENT

The strategic acquisition as contemplated under the Sale and Purchase Agreement will be beneficial to the Group in the following ways: (1) the combined capacities translate into increased scale to better serve the Group's customers, (2) the complementary technology combines to strengthen our technology portfolio, and (3) accretive market opportunities allow both parties to gain footing in the new market sectors.

Increased Scale of Production

The Group's total production capacity was 302,600 8-inch equivalent wafers per month at the end of the first quarter of 2016, whereas the Target Company has a production capacity of around 40,000 wafers per month. Thereafter, the Group's overall combined capacity will increase by around 13%, and the 8-inch capacity will increase by around 25%. Given the Group's high utilisation rate over the last five quarters of around 99% or above, the increased capacity will improve the flexibility to support our customers.

Complementary Technology

The Group has a diversified technology portfolio. The 8-inch production line manufactures 0.35um to 0.11um for applications such as radio frequency (RF), connectivity, power management IC's (PMIC), CMOS image sensors (CIS), embedded memory, MEMS, and others. Complimentarily, the Target Company is a 8-inch foundry manufacturing automotive and industrial certified 0.18um to 90nm addressing application such as CIS, smart power, touch display driver IC's ("**TDDI**"), and embedded memory. Such consolidation of technologies will broaden our technology portfolio to better serve our customers' needs.

Market Opportunities

The Group's exposure is mainly to the communications and consumer market segments; however, it targets to expand its presence into the automotive and industrial segments. The Target Company's key focus will be primarily on the automotive and industrial applications. This consolidated entity, with the Group's market presence in the PRC and the Target Company's market presence in Europe will mutually expand our business.

The Directors (including the independent non-executive Directors) consider that it is in the best interests of the Company and the Shareholders as a whole to enter into the Sale and Purchase Agreement, the Quotaholders' Agreement and the transactions contemplated thereunder; the terms of the Sale and Purchase Agreement and the Quotaholders' Agreement are fair and reasonable; and the entering into of the Sale and Purchase Agreement, the Quotaholders' Agreement and transactions contemplated thereunder are 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.

IMPLICATIONS UNDER THE LISTING RULES

As certain percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Sale and Purchase Agreement exceed 5% but are less than 25%, the Sale and Purchase Agreement constitutes a discloseable transaction under Chapter 14 of the Listing Rules subject to reporting and announcement requirements but is exempt from shareholders' approval requirement under Chapter 14 of the Listing Rules.

INFORMATION ABOUT THE PARTIES

The Company

The Company is one of the leading semiconductor foundries in the world and the largest and most advanced foundry in the PRC. The Company provides integrated circuit foundry and technology services at 0.35-micron to 28-nanometer. Headquartered in Shanghai, the PRC, the Company has a 300mm wafer fabrication facility (fab) and a 200mm mega-fab in Shanghai; a 300mm mega-fab and a majority owned 300mm fab for advance nodes in Beijing; and 200mm fabs in Tianjin and Shenzhen. The Company also has marketing and customer service offices in the United States, Europe, Japan, and Taiwan, and a representative office in Hong Kong.

LFoundry Europe and Marsica

Each of LFoundry Europe and Marsica is an investment holding company whose purpose is to hold the respective 50% equity interest in the Target Company.

DEFINITIONS

"Board"	means the board of Directors of the Company;
"Closing"	the completion of, and the carrying out of, the activities necessary for the sale and purchase of the Quota in accordance with the Sale and Purchase Agreement and in general the execution and exchange of all documents and the performance and consummation of all obligations respectively required to be executed, exchanged, performed and consummated pursuant to the Sale and Purchase Agreement;

"Closing Date"	29 July 2016 (or such later date as the parties to the Sale and Purchase Agreement will possibly agree in writing);
"Company"	Semiconductor Manufacturing International Corporation (中芯國際集成電路製造有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange and the ADSs of which are listed on the New York Stock Exchange, Inc.;
"Director(s)"	the director(s) of the Company;
"EUR"	the lawful currency of the EUR Zone;
"Group"	the Company and subsidiaries;
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China;
"ISAR"	ISAR Valley Capital Holding GmbH, a company incorporated under the laws of Germany;
"LFoundry Europe"	LFoundry Europe GmbH, a company incorporated under the laws of Germany;
"LFoundry Japan"	LFoundry Japan KK, a limited liability company incorporated under the laws of Japan;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange;
"Marsica"	Marsica Innovation S.p.A, a company incorporated under the laws of Italy;
"Net Debt"	the algebraic sum of the following items: (a) financials debts (bank loan and other long term financial debts excluding the loan related to IRAP reimbursement); and (b) employees' leaving indemnity (TFR); and (c) accrued employee vacation liability minus (a) cash and cash equivalents; and (b) restricted cash related to financial debts;
"PRC"	the People's Republic of China, but for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan;
"Quota"	a participation representing 70% of the corporate capital of the Target Company;
"Quotaholders' Agreement"	the quotaholders agreement that will be entered into by the Company, ISAR and Marsica upon Closing;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale and Purchase Agreement"	the agreement for the sale and purchase of the quotas representing 70% of the corporate capital of LFoundry S.r.l. dated 24 June 2016 entered into by the Company, LFoundry Europe and Marsica;

"Share(s)"	share(s) of US$0.0004 each in the share capital of the Company listed on the Stock Exchange;
"Shareholders"	holder(s) of Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Target Company"	LFoundry S.r.l., a limited company incorporated under the laws of Italy;
"US$"	United States dollar, the lawful currency of the United States of America; and
"%"	per cent.

Semiconductor Manufacturing International Corporation
Dr. Tzu-Yin Chiu
Chief Executive Officer and Executive Director

Shanghai, 24 June 2016

As at the date of this announcement, the directors of the Company are:

Executive Directors
Zhou Zixue *(Chairman)*
Tzu-Yin Chiu *(Chief Executive Officer)*
Gao Yonggang *(Chief Financial Officer)*

Non-executive Directors
Chen Shanzhi *(Li Yonghua as his Alternate)*
Zhou Jie
Ren Kai
Lu Jun

Independent Non-executive Directors
William Tudor Brown
Sean Maloney
Lip-Bu Tan
Carmen I-Hua Chang

* *For identification purposes only*