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**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)**

**CONNECTED TRANSACTION — ENTERING INTO PARTNERSHIP  
AGREEMENT FOR THE ESTABLISHMENT OF A FUND**

**PARTNERSHIP AGREEMENT**

The Company announced that on 23 June 2016, Shanghai Zhaoxin as the General Partner and China IC Fund and China IC Capital as the Initial Limited Partners entered into the Partnership Agreement in relation to the establishment and management of the Fund. The Fund will be established in the PRC as a limited partnership for the purpose of equity investment, investment management and investment consulting in specified sectors. Pursuant to the Partnership Agreement, the total capital commitment to the Fund is expected to be RMB2 billion, of which RMB997.75 million is to be contributed by China IC Fund, RMB700 million is to be contributed by China IC Capital, RMB15 million is to be contributed by the Shanghai Zhaoxin and RMB287.25 million is to be contributed subsequently by other investors. The Fund will be managed by CFT Capital.

**IMPLICATIONS UNDER THE LISTING RULES**

As China IC Fund holds approximately 17.54% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Capital is an indirect wholly-owned subsidiary of the Company. Accordingly, the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios exceeds 0.1% but is less than 5%, the transactions contemplated under the Partnership Agreement are subject to the reporting, announcement and annual review requirements but exempt from the circular and Shareholders' approval requirements of Chapter 14A of the Listing Rules.

## PARTNERSHIP AGREEMENT

The Company announces that on 23 June 2016, Shanghai Zhaoxin, China IC Fund and China IC Capital entered into the Partnership Agreement in relation to the establishment and management of the Fund. The principal terms of the Partnership Agreement are set out below.

**Execution date:** 23 June 2016

**Parties:**

- (i) Shanghai Zhaoxin (as General Partner);
- (ii) China IC Fund (as a Limited Partner); and
- (iii) China IC Capital (as a Limited Partner).

**Initial Capital Commitment:** The total capital commitment of the Fund is expected to be RMB2 billion. Pursuant to the terms of the Partnership Agreement, upon the establishment of the Fund, approximately RMB1.71 billion will be contributed by China IC Fund, China IC Capital and Shanghai Zhaoxin, as follows:

	<b>Capital Commitment (RMB)</b>	<b>Percentage of equity interest in the Fund upon its establishment</b>	<b>Status</b>
China IC Fund	997.75 million	58.25%	Limited Partner
China IC Capital	700 million	40.87%	Limited Partner
Shanghai Zhaoxin	<u>15 million</u>	<u>0.88%</u>	General Partner
Total:	<u>1,712.75 million</u>	<u>100%</u>	

The respective capital commitments to the Fund as set out above were determined after arm's length negotiations among the General Partner and the Initial Limited Partners with reference to the capital requirements of the Fund. The Group intends to fund its capital contribution to the Fund from its internal resources. All capital contributions will be paid in cash.

**Further capital commitment:**

The remaining balance of approximately RMB0.29 billion is expected to be subsequently contributed by other investors, who will be identified and confirmed by the General Partner and the Limited Partners. These other investors (the “**Subsequent Limited Partners**”) will become limited partners upon making their capital contribution to the Fund. After the capital contribution of the remaining balance by the Subsequent Limited Partners, the percentage split of equity interest in the Fund will be as follows:

	<b>Capital Commitment (RMB)</b>	<b>Percentage of equity interest in the Fund upon its establishment</b>	<b>Status</b>
China IC Fund	997.75 million	49.89%	Limited Partner
China IC Capital	700 million	35%	Limited Partner
Shanghai Zhaoxin	15 million	0.75%	General Partner
Subsequent Limited Partners	<u>287.25 million</u>	<u>14.36%</u>	Limited Partners
Total:	<u>2,000 million (2 billion)</u>	<u>100%</u>	

**Payment of capital commitment:**

The date on which China IC Fund, China IC Capital and Shanghai Zhaoxin undertake to cumulatively contribute RMB1,712.75 million to the Fund or 30 June 2016 (whichever date is earlier) will be deemed the initial settlement date (the “**Initial Settlement Date**”).

The additional funding from the Subsequent Limited Partners will be sought within 12 months of the Initial Settlement Date.

All capital contributions should be paid within four years from the Initial Settlement Date.

**Term of the Fund:**

The term of the Fund will be eight years from the date of its establishment.

The term of the Fund may be extended twice, by one year each time, upon such proposal being made by the General Partner and being approved by the Partnership at the Partners’ meeting within three to six months before the expiry of the term of the Fund.

<b>Investment focus of the Fund:</b>	The Fund will focus on investing in the semiconductor and integrated circuit industries. The Partnership Agreement specifies that the Fund is required to invest the majority of its capital in the semiconductor and integrated circuit industries and their related sectors, such as design, IP, materials and supporting equipment. The Fund is not permitted to invest the minority of its capital in facilitating the downstream use of integrated circuits and its related sectors.
<b>Partners' Meeting:</b>	The Partners' meeting is the highest authority of the Fund and is composed of all the Partners. The weight of the vote of each Partner is pro rata to its capital contribution to the Fund.
<b>Management of the Fund and management fees:</b>	The Partnership will appoint CFT Capital as the manager of the Fund, responsible for providing entrustment investment and investment management services to the Fund. The Manager will provide specific investment services to the Partnership in accordance with the resolutions of the Investment Decision Committee.  In consideration of the provision of services by the Manager to the Fund, during the term of the Fund, the Partnership will pay to the Manager an annual management fee. The management fee will be shared between all Partners in proportion to their capital contributions.
<b>Restrictive covenants provided by key persons:</b>	Certain members of the senior management of CFT Capital are regarded as key persons for the purposes of the Partnership Agreement, and are therefore subject to specified restrictive covenants regarding their employment with CFT Capital or the Fund during the term of the Fund. Dr. Gao Yonggang, an executive Director of the Company, is one of the key persons, and is required to remain a director of CFT Capital during the term of the Fund.
<b>Profit distribution:</b>	When each investment project is successfully exited, subject to the terms of the Partnership Agreement, the distributable investment return will be distributed by the Manager. The distributable investment return will be first used to repay the capital contributions made by each of the Partners and the remaining surplus will then be distributed as profit.
<b>Responsibility for debts and losses:</b>	The Limited Partners will be responsible for the debts of the Fund with limited liability capped at their respective capital commitments under the Partnership Agreement, whereas the General Partner will be jointly and several responsible with unlimited liability for the debts of the Fund.  In the event that the Fund is liquidated, the consequential losses of the Fund will be borne by all Partners using the assets of the Fund.

**Transfer of the interest of the Fund:**

(i) Limited Partners

The Limited Partners are permitted to transfer their interest in the Fund in accordance with the Partnership Agreement provided that the transfer of interest will not breach any laws and regulations and subject to certain notification and undertaking requirements, among others.

(ii) General Partner

The General Partner is not generally permitted to transfer its interest in the Fund unless authorised to do so unanimously by the Limited Partners in specific situations as set out in the Partnership Agreement.

**Dissolution of the Fund:**

The Fund will be dissolved upon the occurrence of specified events as set out below in the Partnership Agreement, such as (i) the expiry of the term of the Fund and all Partners resolving that the Fund will not continue to operate; (ii) all Partners resolving to dissolve the Fund; and (iii) the General Partner being dismissed and no replacement General Partner being appointed.

**REASONS FOR AND BENEFITS OF THE PARTNERSHIP AGREEMENT**

The Partnership will invest in selected companies operating in the semiconductor and integrated circuit industries. Such investments are intended to help accelerate the development of the integrated circuit industry eco-system in the PRC. As a result, the Company's customers and partners will benefit from such development, while the Company may also enjoy the financial benefits from such investments. Therefore, there are advantageous reasons from both strategic and financial perspectives for the Company to enter into the Partnership.

The Directors (excluding 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 Partnership Agreement and the transactions contemplated thereunder; the terms of the Partnership Agreement are fair and reasonable and in the interests of the Shareholders as a whole; and the transactions contemplated under the Partnership Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company.

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

**IMPLICATIONS UNDER THE LISTING RULES**

As China IC Fund holds approximately 17.54% equity interest in the Company through its wholly-owned subsidiary, Xinxin (Hongkong) Capital Co., Limited, it is a connected person of the Company at the issuer level under the Listing Rules. China IC Capital is an indirect

wholly-owned subsidiary of the Company. Accordingly, the entering into of the Partnership Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios exceeds 0.1% but is less than 5%, the transactions contemplated under the Partnership Agreement are subject to the reporting, announcement and annual review requirements but exempt from the circular and Shareholders' approval requirements of Chapter 14A of the Listing Rules.

## **INFORMATION ABOUT THE PARTIES**

### **Information of China IC Fund**

China Integrated Circuit Industry Investment Fund Co., Ltd. (China IC Fund) was established in September 2014 which is a professional investment company focused on the integrated circuit industry.

### **Information of CFT Capital**

China Fortune-Tech Capital Co., Ltd. (“**CFT Capital**”), founded in Feb, 2014, was incorporated in Shanghai by a leading integrated circuit manufacturer—SMIC and a senior investment team together with other shareholders.

CFT Capital focuses on related areas of integrated circuit industry chain, which cover material, design, equipment, IP and services. CFT Capital will explore and invest to high-quality companies while providing comprehensive add-value services. Meanwhile, CFT Capital takes its channel advantages to find qualified teams and advanced technologies globally for China's domestic platform enterprises and to provide cross-border M&A and business integration services.

### **Information of China IC Capital**

China IC Capital Co., Ltd. (China IC Capital), founded in Feb, 2014, is the investment fund company established under the laws of the PRC and a wholly-owned subsidiary of Semiconductor Manufacturing International (Shanghai) Corporation. It is operated as Fund-of-Funds and managed by CFT Capital.

## **DEFINITIONS**

In this announcement, the following words have the following meanings unless the context requires otherwise:

“Board”	the board of Directors
“CFT Capital”	China Fortune-Tech Capital Co., Ltd (中芯聚源股權投資管理(上海)有限公司), an equity investment management company established by Semiconductor Manufacturing International (Shanghai) Corporation, a wholly-owned subsidiary of the Company, and an independent third party

“China IC Capital”	China IC Capital Co., Ltd (中芯晶圓股權投資(上海)有限公司), an investment fund company established under the laws of the PRC and a wholly-owned subsidiary of Semiconductor Manufacturing International (Shanghai) Corporation, a wholly-owned subsidiary of the Company
“China IC Fund”	China Integrated Circuit Industry Investment Fund Co., Ltd. (國家集成電路產業投資基金股份有限公司), a company established under the laws of the PRC
“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 American depositary shares of which are listed on the New York Stock Exchange, Inc.
“Director(s)”	the director(s) of the Company
“Fund”	Shanghai Juxin IC Investment Fund, a limited partnership established in the PRC
“General Partner”	Shanghai Zhaoxin, a partner of the Fund with unlimited liability under the Partnership Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Initial Limited Partners”	China IC Fund and China IC Capital, the initial limited partners when the Fund is established with limited liability in proportion to their respective capital contributions under the Partnership Agreement
“Investment Period”	the investment period of the Fund, being the first four years from the date of the establishment of the Fund, unless otherwise shortened
“Limited Partner(s)”	the Initial Limited Partners and the Subsequent Limited Partners, each with limited liability in proportion to their respective capital contributions under the Partnership Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Manager”	CFT Capital, the manager of the Fund as appointed by the Partnership
“Partners/ Partnership”	All partners to the Fund existing at any one point in time, including the General Partner and the Limited Partners
“Partnership Agreement”	the agreement entered into among Shanghai Zhaoxin, China IC Capital and China IC Fund on 23 June 2016 in relation to the establishment and management of the Fund

“PRC”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Zhaoxin”	Shanghai Zhaoxin Investment Center (Limited Partnership) 上海肇芯投資管理中心(有限合夥)*, the General Partner of the fund
“Shareholders”	holder(s) of Shares
“Shares”	ordinary shares of par value US\$0.0004 each in the capital of the Company listed on the Stock Exchange
“Sino IC Capital”	Sino IC Capital Co., Ltd. (華芯投資管理有限責任公司*), the manager of China IC Fund, a limited liability company incorporated in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

**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*