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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)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO FRAMEWORK AGREEMENT

FRAMEWORK AGREEMENT

The Company announces that on 30 September 2016, the Company and SMNC entered into the Framework Agreement in relation to the supply of goods and services, leasing of assets, transfer of equipment and provision of technical authorisation or licensing with a term commencing on the date of the Framework Agreement and ending on 31 December 2017 and subject to the terms and conditions provided therein.

LISTING RULES IMPLICATIONS

As China IC Fund holds approximately 17.51% 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. As China IC Fund holds 26.5% equity interest in the registered capital of SMNC, SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps exceeds 5%, the transactions contemplated under the Framework Agreement will constitute non-exempt continuing connected transactions subject to the reporting, announcement and Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, the Independent Board Committee has been established to advise and provide recommendation to the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder and to advise the Independent Shareholders on how to vote.

Messis Capital Ltd. has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder.

GENERAL

At the EGM, ordinary resolutions will be proposed to the Independent Shareholders to approve the Framework Agreement and any transactions contemplated thereunder.

As China IC Fund is a connected person of the Company, its wholly-owned subsidiary Xinxin (Hong Kong) Capital Co., Limited and its other associates (as defined in the Listing Rules) will abstain from voting on the ordinary resolution to approve the Framework Agreement and any transactions contemplated thereunder. Apart from Xinxin (Hong Kong) Capital Co., Limited and other associates of China IC Fund, no other Shareholder will be required to abstain from voting on this resolution at the EGM.

The Company expects to dispatch a circular on or before 2 November 2016 as time is needed to finalise the contents therein to the Shareholders. The circular contains, among other things, (i) further details on the Framework Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders together with (iv) a notice convening the EGM.

FRAMEWORK AGREEMENT

Reference is made to the Company's announcement dated 3 June 2013 in relation to the establishment of SMNC in the PRC pursuant to a joint venture agreement dated 3 June 2013 entered into among the Company and its wholly-owned subsidiary SMIC Beijing, IDIMC and ZDG, and to the announcement dated 10 May 2016, the circular dated 7 June 2016 and the EGM poll results announcement dated 24 June 2016 of the Company in relation to the proposed capital contribution and deemed disposal of equity interest in SMNC (the "**Capital Contribution**"), which was completed on 30 June 2016. Reference is also made to the Company's announcement dated 15 July 2016 regarding the arrangement between the Company and SMNC in relation to the supply of goods and services, leasing of assets, transfer of equipment and provision of technical authorisation or licensing, as well as the expectation that the Company and SMNC will enter into a framework agreement in relation to the aforementioned transactions.

The Company announces that on 30 September 2016, the Company and SMNC entered into the Framework Agreement in relation to the supply of goods and services, leasing of assets, transfer of equipment and provision of technical authorisation or licensing with a term commencing on the date of the Framework Agreement and ending on 31 December 2017 and subject to the terms and conditions provided therein.

Summary of Principal Terms of the Framework Agreement

Execution date: 30 September 2016

Effective period: Commencing on the date of the Framework Agreement and ending on 31 December 2017. Two months before the expiry date of the Framework Agreement, the parties will negotiate whether to renew the Framework Agreement.

- Parties:
- (i) the Company on behalf of itself and its subsidiaries (other than SMNC); and
 - (ii) SMNC on behalf of itself and its subsidiaries, if any.

Continuing Connected Transactions

Types of transactions

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

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

Pricing of the Continuing Connected Transactions

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

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

- (5) where general pricing principles (1) to (4) are not applicable, the price determined by other reasonable means as agreed upon by both parties on the condition that the relevant costs are identifiable and are allocated to each party involved on a fair and equitable basis.

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

As to the price prescribed by the state or local price control department, state-prescribed fees apply to water and electricity, which are relevant to the cost of such services and are determined by prices published from time by time by the relevant PRC government authority. Under the Pricing Law of the PRC, the PRC government may implement a state-prescribed or guidance price for specific goods and services if necessary, and such price will be promulgated in accordance with the requirements of relevant laws, regulations or administrative rules from time to time. If any state-prescribed price or guidance price becomes available to the Continuing Connected Transactions in the future, the parties will execute such price first in accordance with pricing principle (1) above.

Based on the above general principles and the actual circumstances when entering into the Framework Agreement, the parties further agree to the following specific pricing policies for the Continuing Connected Transactions. If any particular Continuing Connected Transaction is not covered by the following policies, or any of the following policies is no longer applicable, the parties will use the above general principles to determine the price for the relevant transaction.

Type of transaction

Pricing policy

I. Purchase and sale of goods

- | | |
|----------------------|--|
| 1. Spare parts | The market purchase price of spare parts, with the relevant transportation fees borne by the purchaser, with reference to market price (see general pricing principle (3) above) |
| 2. Raw materials | The market purchase price of raw materials, with the relevant transportation fees borne by the purchaser, with reference to market price (see general pricing principle (3) above) |
| 3. Photomasks | With reference to market price (see general pricing principle (3) above) |
| 4. Finished products | With reference to market price (see general pricing principle (3) above) |

Type of transaction	Pricing policy
II. Rendering of or receiving services	
1. Processing and testing service	With reference to market price (see general pricing principle (3) above)
2. Sales service	Cost plus a fair and reasonable profit rate in line with the industry (see general pricing principle (4) above), based on allocation of the sales expenses according to the revenue from the sales plus a subsequent profit rate of 8%
3. Overseas market promotion and customer service	Cost plus a fair and reasonable profit rate in line with the industry (see general pricing principle (4) above), based on allocation of the sales expenses according to the revenue from the sales plus a subsequent profit rate of 8%
4. Procurement service	Cost plus a fair and reasonable profit rate in line with the industry (see general pricing principle (4) above), based on allocation of procurement department expenses according to working hours or workload plus a subsequent profit rate of 5%
5. Research, development and experiment support service	With reference to market price (see general pricing principle (3) above)
6. Comprehensive administration, logistics, production management and IT service	Cost plus a fair and reasonable profit rate in line with the industry (see general pricing principle (4) above), based on allocation of labour cost and relevant resources consumption according to the proportion of working hours or workload plus a subsequent profit rate of 5%, or with reference to market price provided by independent third parties
7. Water, electricity, gas and heat provision service	The price prescribed or approved by state or local price control department (if any) (see general pricing principle (1) above) or with reference to market price (see general pricing principle (3) above)

Type of transaction	Pricing policy
III. Leasing of assets	
1. Leasing of plant and office premises	With reference to market price (see general pricing principle (3) above)
2. Leasing of equipment	With reference to market price (see general pricing principle (3) above)
IV. Transfer of equipment	
1. Transfer of equipment	With reference to market price (see general pricing principle (3) above)
V. Provision of technical authorisation or licensing	
1. Provision of technical authorisation or licensing by the Company to SMNC	With reference to market price (see general pricing principle (3) above)
2. Sharing of research and development costs in relation to 28-nanometer technologies	The price determined by other reasonable means as agreed upon by both parties (see general pricing principle (5) above)

The Continuing Connected Transactions will be settled in accordance with the relevant agreement for each transaction. The Company will monitor closely as an ongoing process to ensure the proposed annual caps are not exceeded.

Considering the general principles and the detailed pricing policies, the Directors (excluding the independent non-executive Directors) are of the view that the methods and procedures are sufficient to ensure that the Continuing Connected Transactions will be conducted on normal commercial terms or better and not prejudicial to the interests of the Company and its minority Shareholders.

Payment

The consideration of the Continuing Connected Transactions will be paid in accordance with the separate agreement for each specific transaction contemplated under the Framework Agreement.

Other Terms

The terms of the Framework Agreement are subject to applicable laws and regulations including the requirements of any regulatory authorities (including but not limited to the Stock Exchange and the New York Stock Exchange, Inc.).

THE ANNUAL CAPS AND BASIS OF DETERMINATION

Historical Transaction Amounts

The historical transaction amounts between the Company and SMNC are as follows:

	Total transaction amount <i>(US\$ million)</i>
For the year/period ended 31 December (or otherwise stated)	
2014	187.15
2015	13.51
*2016 (1 January to 29 June)	113.94
*2016 (30 June to the Latest Practicable Date)	85.64

* *Not audited*

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

Annual Caps	For the year ending 31 December	
	2016 <i>US\$ million</i>	2017 <i>US\$ million</i>
Purchase and sale of goods	400	650
Rendering of or receiving services	200	200
Leasing of assets	200	200
Transfer of equipment	200	200
Provision of technical authorisation or licensing (including the sharing of research and development costs)	200	200
Total:	1.2 billion	1.45 billion

In arriving at the proposed annual caps, the Company has considered the fact that SMNC has only been established recently in June 2013 and has yet to establish full operations. Following the Capital Contribution, whereby China IC Fund made a substantial direct cash contribution into the registered capital of SMNC, SMNC expects to build up and expand its manufacturing capacity. It is expected that such expansion will progress at a faster pace given the partnership with China IC Fund as both parties operate within the integrated circuit industry. The Company has also considered the historical transaction amounts between the Company and SMNC, which relate to the provision of technical authorisation or licensing (including the sharing of research and development costs), and reasonable factors such as the expected occurrences of Continuing Connected Transactions in light of current market conditions of the semiconductor industry and the technological capability and future business plans of the Company.

REASONS FOR AND BENEFITS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Company believes that technology is one of the key drivers for its growth. By way of example, the Company recorded a growth of more than 70% in its advanced nodes revenue of 28/40/45nm during the first half of 2016 as compared to the corresponding period in 2015. As the Company has sustained full utilization across its wafer fabs recently, it intends to work with SMNC to meet the strong demand from its customers, especially for the advanced nodes.

SMNC is a 12-inch fab with advanced process capability. SMNC has only been established recently in June 2013 and has yet to establish full operations. With the surging demand for advanced process, a significant portion of the Company's advanced node manufacturing will be allocated to SMNC to ensure future wafer production needs of the Company are met.

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

The Directors (excluding the independent non-executive Directors whose view will be given after taking into account the advice from the Independent Financial Adviser) are of the view that the terms of the Framework Agreement including the proposed annual caps are fair and reasonable, and the entering into of the Framework Agreement and the Continuing Connected 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 OF THE CONTINUING CONNECTED TRANSACTIONS UNDER THE LISTING RULES

As China IC Fund holds approximately 17.51% 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. As China IC Fund holds 26.5% equity interest in the registered capital of SMNC, SMNC is therefore a connected subsidiary of the Company as defined under Rule 14A.16 of the Listing Rules and thus a connected person of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Annual Caps exceeds 5%, the transactions contemplated under the Framework Agreement will constitute non-exempt continuing connected transactions subject to the reporting, announcement and Independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, the Independent Board Committee has been established to advise and provide recommendation to the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder and to advise the Independent Shareholders on how to vote.

Messis Capital Ltd. has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Framework Agreement (including the Annual Caps) and the transactions contemplated thereunder.

GENERAL

At the EGM, ordinary resolutions will be proposed to the Independent Shareholders to approve the Framework Agreement and any transactions contemplated thereunder.

As China IC Fund is a connected person of the Company, its wholly-owned subsidiary Xinxin (Hong Kong) Capital Co., Limited and its other associates (as defined in the Listing Rules) will abstain from voting on the ordinary resolution to approve the Framework Agreement and any transactions contemplated thereunder. Apart from Xinxin (Hong Kong) Capital Co., Limited and other associates of China IC Fund, no other Shareholder will be required to abstain from voting on this resolution at the EGM.

The Company expects to dispatch a circular on or before 2 November 2016 as time is needed to finalise the contents therein to the Shareholders. The circular contains, among other things, (i) further details on the Framework Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders together with (iv) a notice convening the EGM.

No Director was considered to have a material interest in the Framework Agreement on the date of the Board meeting authorising the Framework Agreement which would have required the Director to abstain from voting at the relevant Board meeting.

INFORMATION ABOUT THE PARTIES

Information on the Company

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

Information on SMNC

Semiconductor Manufacturing North China (Beijing) Corporation (中芯北方集成电路製造(北京)有限公司) (“SMNC”) was duly established on 12 July 2013 in the PRC pursuant to a joint venture agreement entered into among the Company and its wholly-owned subsidiary SMIC Beijing, IDIMC and ZDG. SMNC is developing and establishing a 300mm fab for advance nodes.

DEFINITIONS

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

“Annual Caps”	the annual caps in relation to (i) the purchase and sale of goods; (ii) the rendering of or receiving services; (iii) the leasing of assets; (iv) the transfer of equipment and (v) the provision of technical authorisation or licensing (including the sharing of research and development costs);
“Board”	the board of Directors;
“China IC Fund”	國家集成電路產業投資基金股份有限公司 (China Integrated Circuit Industry Investment Fund Co., Ltd.*), 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 depository shares of which are listed on the New York Stock Exchange, Inc.;
“Continuing Connected Transactions”	the transactions contemplated under the Framework Agreement;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company proposed to be held to approve, among other things, the Framework Agreement and any transactions contemplated thereunder;
“Framework Agreement”	the framework agreement entered into between the Company and SMNC on 30 September 2016 in relation to the supply of goods and services, leasing of assets, transfer of equipment and provision of technical authorisation or licensing and subject to the terms and conditions provided therein;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IDIMC”	Beijing Industrial Developing Investment Management Co., Ltd. (北京工業發展投資管理有限公司), a company incorporated in the PRC;
“Independent Board Committee”	the independent committee of the Board that consists of all independent non-executive Directors who have no direct or indirect interest in the Framework Agreement other than, where applicable, being a Shareholder;
“Independent Financial Adviser”	the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement;

“Independent Shareholders”	in relation to the Framework Agreement, Shareholders other than Xinxin (Hong Kong) Capital Co., Limited and other associates of China IC Fund (as defined in the Listing Rules);
“Latest Practicable Date”	29 September 2016, being the latest practicable date for ascertaining certain information contained in this announcement;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	the People’s Republic of China (for the purposes of this announcement excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan);
“Shareholder(s)”	the holder(s) of the Share(s);
“Shares”	ordinary shares of par value US\$0.0004 each in the capital of the Company listed on the Stock Exchange;
“SMIC Beijing”	Semiconductor Manufacturing International (Beijing) Corporation (中芯國際集成電路製造(北京)有限公司), a wholly foreign-owned enterprise established in the PRC and a wholly-owned subsidiary of the Company;
“SMNC”	Semiconductor Manufacturing North China (Beijing) Corporation (中芯北方集成電路製造(北京)有限公司), a company in the PRC established pursuant to the joint venture agreement dated 3 June 2013;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“U.S.” or “United States”	the United States of America;
“US\$”	United States dollar, the lawful currency of the United States;
“ZDG”	Zhongguancun Development Group (中關村發展集團股份有限公司), a company incorporated in the PRC; and
“%”	per cent.

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

Shanghai, PRC

30 September 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 purpose only*