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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)

**(1) PROPOSED ADOPTION OF THE 2021 RESTRICTED SHARE INCENTIVE
SCHEME**

**(2) PROPOSED ISSUE OF NEW RMB SHARES UNDER THE RESTRICTED
SHARE INCENTIVE SCHEME PURSUANT TO SPECIFIC MANDATE**

**(3) CONNECTED TRANSACTION – PROPOSED ISSUE OF NEW RMB
SHARES TO CONNECTED PERSONS UNDER THE RESTRICTED SHARE
INCENTIVE SCHEME PURSUANT TO SPECIFIC MANDATE**

AND

(4) INSIDE INFORMATION

This announcement is published pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and Rule 13.09(2)(a) of the Listing Rules.

PROPOSED ADOPTION OF THE SCHEME

On 19 May 2021, the Board approved the proposed adoption of the Scheme and the proposed grant and issue of new RMB Shares under the Scheme pursuant to the Specific Mandate. The Scheme is subject to Shareholders' approval by way of ordinary resolution at the EGM.

The source of all Restricted Shares under the Scheme will be new RMB Shares to be issued by the Company to the Awardees. The total number of the Restricted Shares that may be issued pursuant to the Scheme is 75,650,400 RMB Shares, representing approximately 0.96% of the total issued share capital of the Company as at the date of this announcement and approximately 0.95% of the enlarged total issued share capital of the Company.

PROPOSED ISSUE OF NEW RMB SHARES UNDER THE SCHEME

Subject to the approval of the Independent Shareholders at the EGM, the Board has resolved to grant not more than a total of 75,650,400 Restricted Shares, of which (i) 68,085,200 Restricted Shares will be granted to not more than 4,000 Awardees under the First Grant, representing approximately 0.86% of the total issued share capital of the Company as at the date of this announcement and approximately 0.85% of the enlarged total issued share capital of the Company, and (ii) 7,565,200 Restricted Shares will be granted under the Reserved Grant, representing approximately 0.10% of the total issued share capital of the Company as at the date of this announcement and approximately 0.10% of the enlarged total issued share capital of the Company, pursuant to the terms of the Scheme set out in this announcement. The Restricted Shares to be granted (including those under the First Grant and the Reserved Grant) will be allotted and issued pursuant to the Specific Mandate which may be granted at the EGM.

Among the Restricted Shares to be granted under the First Grant, 2,900,000 Restricted Shares will be granted to 9 Connected Awardees in total, and not more than 65,185,200 Restricted Shares will be granted to not more than 3,991 other Awardees who are not connected persons of the Company.

GRANT OF WAIVER FROM STRICT COMPLIANCE WITH CERTAIN PROVISIONS OF THE LISTING RULES

As the RMB Shares will be of the same class as the Hong Kong Shares but will not be listed on the Hong Kong Stock Exchange, the Company has applied for, and the Hong Kong Stock Exchange has granted, on 13 May 2021, a one-off waiver so that there is no need to seek listing of the RMB Shares to be issued under the Scheme on the Hong Kong Stock Exchange under Rules 8.20 and 13.26 of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

The Scheme is a discretionary scheme of the Company and does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules.

Each of the Connected Awardees is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the grant and issue of the Restricted Shares to the Connected Awardees under the Scheme constitutes non-exempt connected transactions of the Company, and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of the Directors who are Connected Awardees has declared his interests in the Scheme and has abstained from voting on the relevant Board resolutions in respect of the portion of the proposed grant and issue of the Restricted Shares relating to himself. Save as the abovementioned Directors, there is no other Director who is required to abstain from voting on the Board resolutions in relation to the Scheme.

The Company will establish an Independent Board Committee (consisting of all independent non-executive Directors who do not have material interest in the grant and issue of Restricted Shares by the Company to the Connected Awardees) to advise the Independent Shareholders of the Company in respect of the grant and issue of Restricted Shares by the Company to the Connected Awardees under the Scheme. The Company has appointed FDB Financial Group Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of the grant and issue of Restricted Shares by the Company to the Connected Awardees under the Scheme.

EGM

The EGM will be convened and held on 25 June 2021 for Independent Shareholders to consider and, if thought fit, to approve the resolutions in relation to, among others, the Scheme, the Assessment Management Measures, the Specific Mandate and the grant of Restricted Shares (including the grant to the Connected Awardees under the First Grant) under the Scheme. The details of the resolutions are published on the website of SSE (www.sse.com.cn) on 19 May 2021 and will also be set out in the notice of the EGM which will be published on the websites of the Company (www.smics.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) and despatched to the Shareholders on or before 9 June 2021.

A circular of the Company containing, among other things, further details of the terms of the Scheme, the proposed grant under the Scheme pursuant to the Specific Mandate, the recommendation from the Independent Financial Adviser and the letter from the Independent Board Committee on the grant and issue of Restricted Shares by the Company to the Connected Awardees is expected to be despatched to the Shareholders on or around 9 June 2021 as more time is required to ascertain the relevant information therein.

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PROPOSED ADOPTION OF THE SCHEME

On 19 May 2021, the Board approved the proposed adoption of the Scheme and the proposed grant and issue of new RMB Shares under the Scheme pursuant to the Specific Mandate. The Scheme is subject to Shareholders' approval by way of ordinary resolution at the EGM.

A summary of the principal terms of the Scheme is set out below.

(1) Purposes

The purposes of the Scheme are to improve the Company's long-term incentive mechanism, attract and retain outstanding personnel, fully mobilise the enthusiasm of the Company's employees, effectively bond the interests of Shareholders, the Company and core teams together, enable all parties to jointly pay attention to the long-term development of the Company.

(2) Form and source of the Restricted Shares to be granted

The form of incentive adopted under the Scheme is Type II Restricted Shares.

The source of all Restricted Shares under the Scheme will be new RMB Shares to be issued by the Company to the Awardees.

(3) Number of Restricted Shares to be granted

The total number of the Restricted Shares that may be issued pursuant to the Scheme is 75,650,400 RMB Shares, representing approximately 0.96% of the total issued share capital of the Company as at the date of this announcement and approximately 0.95% of the enlarged total issued share capital of the Company. 68,085,200 Restricted Shares, representing (a) approximately 0.86% of the total issued share capital of the Company and approximately 0.85% of the enlarged total issued share capital of the Company and (b) approximately 90.00% of the total number of Restricted Shares under the Scheme, will be granted as the First Grant and 7,565,200 Restricted Shares, representing (a) approximately 0.10% of the total issued share capital of the Company and approximately 0.10% of the enlarged total issued share capital of the Company and (b) approximately 10.00% of the total number of Restricted Shares under the Scheme, will be reserved for the Reserved Grant.

The cumulative total number of underlying Shares involved under the fully effective share incentive schemes of the Company shall not exceed 20.00% of the total share capital of the Company as at the date the Scheme is submitted for approval at the EGM. The total number of Shares to be granted to any Awardee under the Scheme shall not exceed 1.00% of the total share capital of the Company as at the date of the Scheme is submitted for approval at the EGM.

(4) Awardees of the Scheme

(A) *Basis for determining the Awardees*

(1) *Legal basis for determining the Awardees*

The Awardees are determined after taking into account the actual circumstances of the Company and in accordance with the PRC Company Law, the PRC Securities Law, the Administrative Measures, the Listing Rules, the STAR Market Listing Rules, the Business Guidelines for Information Disclosure of Companies Listed on the Science and Technology Innovation Board of Shanghai Stock Exchange No. 4 — Information Disclosure on Equity Incentives (《科創板上市公司信息披露業務指南第4號 — 股權激勵信息披露》) and other relevant laws, regulations and regulatory documents as well as the Articles of Association.

(2) Positions held by the Awardees in the Company

The Awardees include Directors, senior management, core technicians, middle and senior business management, and key technical and business staff of the Company (excluding independent non-executive directors, Shareholders who individually or collectively hold more than 5% of the Shares and their spouses, parents, and children).

(B) Scope of the Awardees

The total number of the Awardees for the First Grant proposed under the Scheme shall not exceed 4,000, accounting for approximately 23.05% of the Company's 17,354 employees as of 31 December 2020. The Awardees include Directors, senior management, core technicians, middle and senior business management and key technical and business staff of the Company.

All the Awardees must have an employment or labour relationship with the Company or its branches, subsidiaries when the Company grants the Restricted Shares and during the assessment period as specified in the Scheme.

Awardees for the Reserved Grant shall be determined within 12 months from the date on which the Scheme is considered and passed at the EGM. Following the proposals from the Board, and issue of professional opinions and legal opinions by the legal adviser of the Company, the Company will announce the relevant information on the designated website pursuant to the relevant requirements. The Reserved Grant shall become invalid where the Awardees for the Reserved Grant are not determined after 12 months from the aforesaid date. The Awardees for the Reserved Grant shall be determined by reference to the criteria for the First Grant.

The Awardees also include foreign employees. The Company has established subsidiaries or offices in the United States, Europe, Japan, Hong Kong, PRC and other countries and regions. Foreign Awardees play an important role in the Company's technology research and development, product iteration and updates, and domestic and foreign business development, which strongly guarantees the advanced position of the Company's research and development in the industry, and enables the Company to maintain and improve the international competitiveness of its products and its international market position. Therefore, to incentivise foreign employees is an effective measure for the Company to achieve sustainable development. Equity incentives are commonly used as incentives for overseas companies, the Scheme will further promote the construction and stability of the Company's core talent team, thereby contributing to the long-term development of the Company.

(C) Persons who are prohibited to participate in the Scheme

During the implementation process of the Scheme, if any of the following circumstances in relation to an Awardee arises, the Company shall terminate his/her right to participate in the Scheme, and any granted Restricted Shares which have not yet been attributed shall not be attributed and shall lapse:

- (1) the Awardee has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
- (2) the Awardee has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
- (3) the Awardee has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;
- (4) the Awardee has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or member of the senior management of a company;
- (5) laws and regulations stipulate that the Awardee shall not participate in the equity incentives of listed companies; or
- (6) other circumstances as determined by the CSRC.

(D) Allocation of Restricted Shares to be granted

The allocation of the Restricted Shares to be granted under the Scheme is set out in the table below.

Name	Position	Number of Restricted Shares to be granted (‘0,000 shares)	Percentage to the total number of Restricted Shares to be granted	Percentage to the total share capital as at the date of this announcement
I. Directors				
Zhou Zixue	Chairman and Executive Director	40	0.53%	0.005%
Chiang Shang-Yi	Vice Chairman and Executive Director	40	0.53%	0.005%
Zhao Haijun	Co-Chief Executive Officer and Executive Director, core technician	40	0.53%	0.005%
Liang Mong Song	Co-Chief Executive Officer and Executive Director, core technician	40	0.53%	0.005%
Gao Yonggang	Chief Financial Officer and Executive Director, Executive Vice President, Company Secretary	36	0.48%	0.005%
II. Senior management				
Zhou Meisheng	Executive vice president of technology, research and development, core technician, and director of subsidiaries of the Company	36	0.48%	0.005%
Guo Guangli	Board secretary, vice president	16	0.21%	0.002%

Name	Position	Number of Restricted Shares to be granted (‘0,000 shares)	Percentage to the total number of Restricted Shares to be granted	Percentage to the total share capital as at the date of this announcement
III. Core technicians				
Zhang Xin	Senior vice president of operations and engineering and director of subsidiaries of the Company	32	0.42%	0.004%
Wu Jingang	Vice president of technology, research and development	16	0.21%	0.002%
IV. Middle and senior business management				
Lin Hsin-Fa	Director of subsidiaries of the Company	16	0.21%	0.002%
Wang Yong	Director of subsidiaries of the Company	10	0.13%	0.001%
Other middle and senior business management		690.92	9.13%	0.087%
Sub-total		716.92	9.48%	0.091%
V. Key technical and business staff				
Key technical staff and business staff		5,795.60	76.61%	0.734%
Total number of Restricted Shares granted under the First Grant		6,808.52	90.00%	0.862%
Total number of Restricted Shares to be granted under the Reserved Grant		756.52	10.00%	0.096%
Total		7,565.04	100.00%	0.958%

The Connected Awardees for the First Grant under the Scheme are Dr. Zhou Zixue, Dr. Chiang Shang-Yi, Dr. Zhao Haijun, Dr. Liang Mong Song, Dr. Gao Yonggang, Dr. Zhou Meisheng, Mr. Zhang Xin, Mr. Lin Hsin Fa and Dr. Wang Yong. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, save for the Connected Awardees set out above, the other Awardees under the First Grant are independent of the Company and its connected persons.

(5) Restricted Share Price and basis for determination of the Restricted Share Price

(A) *Restricted Share Price*

The Restricted Share Price of the First Grant shall be RMB20.0 per RMB Share. An Awardee who has satisfied the conditions for grant and attribution may purchase new RMB Shares issued by the Company at such Restricted Share Price. The Restricted Share Price of the Reserved Grant shall be the same as the Restricted Share Price of the First Grant, i.e. RMB20.0 per RMB Share.

The basis for determining the Awardees for the Reserved Grant shall be the same as the basis for determining the Awardees for the First Grant.

(B) *Basis for determination of the Restricted Share Price*

(1) *Pricing methodology*

The Restricted Share Price was determined based on the average trading price of the RMB Shares listed on the STAR Market, being RMB54.86 per RMB Share on the trading day preceding the date of this announcement, being 19 May 2021. In accordance with the requirements of the Administrative Measures, the Restricted Share Price shall not be lower than the higher of (i) 50% of the average trading price of the RMB Shares for the last trading day immediately preceding the announcement of the Scheme; and (ii) 50% of the average trading price of the RMB Shares for either the last 20 trading days, 60 trading days or 120 trading days immediately preceding the announcement of the Scheme, unless an independent financial adviser, engaged by the Company to opine on the Scheme as required by the Administrative Measures, provides an opinion supporting a lower price.

The Restricted Share Price represents:

- (a) a premium of approximately 5.03% over the closing price of HK\$23.00 per Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 36.46% to the average trading price of RMB54.86 per RMB Share as quoted on the SSE on the trading day immediately preceding the date of this announcement;
- (b) a discount of approximately 1.87% to the average closing price of HK\$24.62 per Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 36.21% to the average trading price of RMB55.23 per RMB Share as quoted on the SSE on the 20 consecutive trading days immediately preceding the date of this announcement;

- (c) a discount of approximately 5.07% to the average closing price of HK\$25.45 per Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 35.37% to the average trading price of RMB56.55 per RMB Share as quoted on the SSE on the 60 consecutive trading days immediately preceding the date of this announcement; and
- (d) a discount of approximately 2.20% to the average closing price of HK\$24.70 per Share as quoted on the Hong Kong Stock Exchange and a discount of approximately 34.54% to the average trading price of RMB57.90 per RMB Share as quoted on the SSE on the 120 consecutive trading days immediately preceding the date of this announcement.

(2) *Pricing basis*

An independent pricing methodology is adopted for determining the Restricted Share Price. The Restricted Share Price and pricing methodology of the Company's Restricted Shares are with the fundamental aim of promoting the development the Company, and safeguarding the rights and interests of Shareholders, and based on the confidence in the future development prospects and the confidence in the intrinsic value of the Company, pursuant to the principle of equal incentives and restraints.

The IC wafer foundry industry in which the Company operates is a technology-intensive industry. IC wafer foundry involves the comprehensive application of dozens of disciplines in science, technology and engineering, and requires relevant talents to have solid professional knowledge and long-term technical precipitation. Besides, the extremely high requirements for process coordination and error control in each link require relevant talents to have strong comprehensive capabilities and experience accumulation. In recent years, the number of IC companies has been growing rapidly, resulting in a gap between the supply and demand of outstanding technical talents in the industry, and the competition for talents is becoming increasingly fierce. The Restricted Share Price under the Scheme is conducive to the Company to grasp the flexibility and effectiveness of talent incentives in different time periods and operating environments, so that the Company can take the initiative in the competition for outstanding talents in the industry. Besides, the performance of talents in this industry presents in long term, which requires mid- and long-term incentive policies. Therefore, this equity incentive enables the Company to grasp the initiative in the competition for outstanding talents in the industry and continuously enhance its core competitiveness.

Based on the principle of equal incentives and restraints, the Company has arrived at the price of the Restricted Shares upon taking into account factors including the effectiveness of the Scheme and the impact of the share payment costs of the Company, and has determined the scope of Awardees and the number of Restricted Shares to be granted on a reasonable basis. Such price will have no material impact on the Company's operations. It reflects the actual incentive needs of the Company. Besides, the future gains of Awardees depend on the performance development of the Company and secondary market stock prices in the future.

Given the above, on the basis of complying with relevant laws and regulations and regulatory documents, the Company has decided to set the Restricted Share Price of the Scheme for the First Grant and Reserved Grant at RMB20.0 per RMB Share. The implementation of the Scheme will further stabilise its core team and align the interests of employees and the Shareholders.

The PRC Independent Financial Adviser with securities qualifications engaged by the Company will express its opinion on the feasibility of the Scheme, the rationale of the relevant pricing basis and pricing method, whether it is conducive to the sustainable development of the Company, and whether it harms the interests of Shareholders. For details, please refer to the PRC Independent Financial Adviser's Report of Shanghai Realize Investment Consulting Co., Ltd. on the 2021 Restricted Share Incentive Scheme (Draft) of Semiconductor Manufacturing International Corporation (《上海榮正投資諮詢股份有限公司關於中芯國際集成電路製造有限公司2021年科創板限制性股票激勵計劃(草案)之獨立財務顧問報告》) to be published on the website of the SSE (www.sse.com.cn) on or around 19 May 2021.

(6) Validity period, Grant Date, attribution arrangements and black-out periods

(A) *Validity period of the Scheme*

The validity period of the Scheme will commence from the Grant Date of the First Grant, until the date on which all Restricted Shares granted to the Awardees have been attributed or lapsed, such period shall not exceed 72 months.

(B) *Grant Date of the Restricted Shares*

The Grant Date shall be determined by the Board after the Scheme has been adopted and approved at the EGM.

The Company shall grant the Restricted Shares for the First Grant to the Awardees and complete the relevant procedures including making relevant announcement(s) within 60 days after the Scheme having been adopted and approved at the EGM and the conditions for the grant having been satisfied. If the Company is unable to complete the procedures within the 60-day period, the Company will make a timely announcement to disclose the reason for being unable to complete the procedures and declare the termination of the Scheme. According to the Administrative Measures, such 60-day period does not include the period during which the Restricted Shares cannot be granted in accordance with the Administrative Measures and relevant laws and regulations.

The Restricted Shares for the Reserved Grant shall be granted within 12 months after the Scheme having been adopted and approved at the EGM. The Reserved Grant shall lapse if the Awardees for the Reserved Grant cannot be determined within the 12-month period.

(C) *Attribution arrangements under the Scheme*

The Restricted Shares granted under the Scheme may be attributed in tranches as per the agreed proportions upon the Awardees satisfying the corresponding attribution conditions. An attribution date must be a trading day within the validity period of the Scheme, and shall not fall within any of the following periods:

- (1) 30 days prior to the publication of the periodic reports of the Company or in the event that the publication of such reports is postponed due to special reasons, 30 days prior to the originally scheduled date of publication until the day prior to the date of publication;
- (2) within 10 days prior to the disclosure of results preview or preliminary financial results of the Company;
- (3) during the period from the date of occurrence of a material event which may have considerable impact on the trading price of the shares and their derivatives of the Company, or the date of entering the decision-making process, up to 2 trading days after relevant disclosure has been made in accordance with the laws;
- (4) any other period as stipulated by the CSRC and the SSE.

The aforementioned “material events” are the transactions or other major events that should be disclosed by the Company in accordance with the requirement of the STAR Market Listing Rules.

If relevant laws, administrative regulations, and departmental rules have otherwise provided the period during which attribution is prohibited, the relevant provisions shall prevail.

Attribution arrangements of the First Grant under the Scheme are as follows:

Tranche	Attribution period	Attribution percentage
First tranche	From the first trading day after the expiry of 12 months following the date of the First Grant until the last trading day within the 24 months following the date of First Grant	30%
Second tranche	From the first trading day after the expiry of 24 months following the date of the First Grant until the last trading day within the 36 months following the date of First Grant	25%
Third tranche	From the first trading day after the expiry of 36 months following the date of the First Grant until the last trading day within the 48 months following the date of First Grant	25%
Fourth tranche	From the first trading day after the expiry of 48 months following the date of the First Grant until the last trading day within the 60 months following the date of First Grant	20%

Attribution arrangements of the Reserved Grant under the Scheme are as follows:

Tranche	Attribution period	Attribution percentage
First tranche	From the first trading day after the expiry of 12 months following the date of the Reserved Grant until the last trading day within the 24 months following the date of the Reserved Grant	30%
Second tranche	From the first trading day after the expiry of 24 months following the date of the Reserved Grant until the last trading day within the 36 months following the date of the Reserved Grant	25%
Third tranche	From the first trading day after the expiry of 36 months following the date of the Reserved Grant until the last trading day within the 48 months following the date of the Reserved Grant	25%
Fourth tranche	From the first trading day after the expiry of 48 months following the date of the Reserved Grant until the last trading day within the 60 months following the date of the Reserved Grant	20%

(D) *Black-out periods*

The black-out requirements under the Scheme are implemented in accordance with the requirements of relevant laws, regulations and regulatory documents including the Several Provisions on Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Management of Listed Companies (《上市公司股東、董監高減持股份的若干規定》), the Detailed Implementing Rules of the Shanghai Stock Exchange for Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Executives of Listed Companies (《上海證券交易所上市公司股東及董事、監事、高級管理人員減持股份實施細則》), the Articles of Association, the PRC Company Law and the PRC Securities Law as follows:

- (1) where the Awardee is a Director and a member of the senior management of the Company, the number of shares which may be transferred each year during his/her term of office shall not exceed 25% of the total number of shares held by him/her in the Company. No shares held by him/her may be transferred within 6 months after his/her termination of office;
- (2) for the Awardees who are Directors and members of the senior management of the Company, if they have sold the Shares held by them within 6 months after purchasing such shares, or if they have purchased the Shares within 6 months after selling their shares, the gains obtained therefrom shall be attributed to the Company and the Board shall forfeit the gains; and
- (3) during the validity period of the Scheme, if the relevant requirements under the relevant laws, regulations, regulatory documents including the PRC Company Law, the PRC Securities Law, the Several Provisions on Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Management of Listed Companies, and the Detailed Implementing Rules of the Shanghai Stock Exchange for Shareholding Reduction by Shareholders, Directors, Supervisors and Senior Executives of Listed Companies as well as the Articles of Association regarding the transfer of shares held by the Directors and members of the senior management of the Company are changed, the transfer of the shares held by the Awardees shall comply with the requirements as amended at the time of transfer.

(7) *Conditions for grant and attribution of Restricted Shares*

(A) *Conditions for grant of Restricted Shares*

The Company shall grant the Restricted Shares to the Awardees upon satisfaction of all of the following granting conditions; or conversely, if any of the following granting conditions has not been satisfied, no Restricted Shares shall be granted to the Awardees.

(1) None of the following has occurred on the part of the Company:

- (a) an audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
- (b) an audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
- (c) in the most recent 36 months upon listing on the STAR Market, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public undertakings;
- (d) laws and regulations stipulate that equity incentives shall not be implemented; or
- (e) other circumstances as determined by the CSRC.

(2) None of the following has occurred on the part of the Awardees:

- (a) the Awardee has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
- (b) the Awardee has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
- (c) the Awardee has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;
- (d) the Awardee has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or member of the senior management of a company;
- (e) laws and regulations stipulate that the Awardee shall not participate in the equity incentives of listed companies; or
- (f) other circumstances as determined by the CSRC.

(B) Conditions for attribution of the Restricted Shares

Restricted Shares granted to the Awardees need to satisfy all of the following conditions before they are attributed in tranches:

(1) None of the following has occurred on the part of the Company:

- (a) an audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
- (b) an audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
- (c) in the most recent 36 months upon listing on the STAR Market, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public undertakings;
- (d) laws and regulations stipulate that equity incentives shall not be implemented;
or
- (e) other circumstances as determined by the CSRC.

In the event that any one of the circumstances specified above arises, the Restricted Shares that have been granted but have not yet been attributed to the Awardee under the Scheme shall not be attributed and shall lapse.

(2) None of the following has occurred on the part of the Awardees:

- (a) the Awardee has been determined as an inappropriate candidate by the SSE within the most recent 12 months;
- (b) the Awardee has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
- (c) the Awardee has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;
- (d) the Awardee has the circumstances stipulated in the PRC Company Law that he/she shall not act as a director or member of the senior management of a company;

- (e) laws and regulations stipulate that the Awardee shall not participate in the equity incentives of listed companies; or
- (f) other circumstances as determined by the CSRC.

In the event that any one of the circumstances specified above arises in relation to a certain Awardee, the Restricted Shares that have been granted but have not yet been attributed to such Awardee shall not be attributed and shall lapse.

(3) *Length of employment of the Awardees*

Before each tranche of Restricted Shares granted to the Awardees is attributed, the length of employment of the Awardee must be more than 12 months.

(4) *Performance assessment requirements at the Company level*

Under the Scheme, the assessment years of the First Grant are the four accounting years of 2021, 2022, 2023 and 2024, and the assessment shall be conducted once an accounting year. Taking the average operating income and the average EBITDA of 2018 to 2020 as the performance base, the performance assessment target for each year will be determined based on the growth rate of cumulative operating income (A) and the growth rate of cumulative EBITDA (B) deriving from the definite proportion of the cumulative value of the operating income and cumulative value of EBITDA of each assessment year to the performance base. The Company will assess the attribution ratio at the Company level in each year based on factors (X) and (Y) according to the level of completion of the above two indicators.

For the First Grant, the annual performance assessment target of each year is arranged as follows:

Attribution period	Corresponding assessment year	Growth rate of cumulative operating income (A)		Growth rate of cumulative EBITDA (B)	
		Target value (Am)	Trigger value (An)	Target value (Bm)	Trigger value (Bn)
First	2021	22%	19%	22%	19%
Second	2022	152%	145%	152%	145%
Third	2023	291%	276%	291%	276%
Fourth	2024	440%	415%	440%	415%

Performance appraisal indicators	Range of performance appraisal indicators	Corresponding factor of indicators
Growth rate of cumulative operating income (A)	$A \geq A_m$	$X = 100\%$
	$A_n \leq A < A_m$	$X = A/A_m$
	$A < A_n$	$X = 0$
Growth rate of cumulative EBITDA (B)	$B \geq B_m$	$Y = 100\%$
	$B_n \leq B < B_m$	$Y = B/B_m$
	$B < B_n$	$Y = 0$
Attribution ratio at the Company level	$X * 50\% + Y * 50\%$	

As referred to in the table above, “EBITDA” means earnings before interest, tax, depreciation and amortisation of the Company.

As referred to in the table above, “operating income” and “EBITDA” are calculated based on the data contained in the consolidated statements prepared and audited by the accounting firm engaged by the Company in accordance with the “Accounting Standards for Business Enterprises” promulgated by the Ministry of Finance in the PRC.

The cumulative operating income and EBITDA for each year is the respective sum of the operating income and EBITDA for each year since 2021. For example, the cumulative operating income in 2021 is the operating income of 2021, and the cumulative EBITDA in 2021 is the EBITDA of 2021; the cumulative operating income of 2022 is the sum of the operating income of 2021 and 2022, and the cumulative EBITDA of 2022 is the sum of the EBITDA of 2021 and 2022, so on and so forth.

For the Reserved Grant, the performance assessment years and performance assessment target of each assessment year shall be the same as the First Grant.

(5) *Performance assessment requirements at the Awardee’s individual level*

All assessments at the individual level for the Awardees are organised and implemented in accordance with the existing relevant regulations of the Company, and the actual number of Restricted Shares attributable to the Awardees shall be determined based on the assessment results of them. The assessment result of an Awardee consists of two parts: personal punishment verification and personal performance assessment. Then, the number of shares for the year actually attributed to the Awardee will be determined as per the corresponding individual attribution ratio in the following assessment rating table:

Punishment verification results	No punishment record of demerit or above	Punishment record of demerit or above
Individual attribution ratio	100%	0

Performance assessment results	A	B	C	C-	D/E
Individual attribution ratio	100%	100%	100%	80%	0

The number of Restricted Shares to be attributed to the Awardee in the current year equals to the number of Restricted Shares planned to be attributed to the individual Awardee in the current year×the attribution level at the Company level×the attribution ratio of the individual punishment verification results×the attribution ratio of the individual performance assessment results.

If the Restricted Shares to be attributed to the Awardee in the current period cannot be attributed or fully attributed due to assessment reasons, such Restricted Shares shall lapse and cannot be deferred to the subsequent year for attribution.

The assessment under the Scheme is implemented in accordance with the Assessment Management Measures.

If major changes, special and abnormal circumstances, or other force majeure factors occur during the validity period of the Scheme, the performance assessment indicators at the Company level can be adjusted after review by the Board.

(C) *Explanation on scientificness and reasonableness of the performance appraisal indicators of the Restricted Shares*

The cumulative operating income growth rate and the cumulative EBITDA growth rate are selected as the performance indicators of the Company. The operating income growth rate is an important indicator for the IC foundry industry in measuring the operating conditions market share and market position of the Company and predicting the business expansion trend, and is also an effective indicator to reflect the growth of the Company. Being a heavy-asset industry, the profits of the IC foundry industry is strongly associated with its corporate sizable effect, production expanded speed and equipment depreciation. EBITDA, taking into account the above characteristics of the IC foundry industry, reflects the actual business performance and the profitability of the Company.

The main source of the revenue of the Company's principal businesses is IC wafer foundry, which requires a relatively high technical content, early technical demonstration, continuous R&D practice in the later period, and consists of a long cycle. The rich terminal application scenarios of integrated circuits determine the differences in the mainstream technology nodes and processes of chip products in various subdivisions, and both the technological iteration and corresponding market demand changes rapidly. The Company faces a relatively complex internal and external operating environment, which is greatly affected by downstream market demand, industry competition and other factors, and the development of which as a whole shows certain cyclical characteristics. In this context, based on the industry development characteristics and actual conditions, with reasonable business predictions, and taking into account the incentive effect of the Scheme, the Company has selected the average operating income and the average EBITDA from 2018 to 2020 as the performance basis, and the growth rate of the definite proportion of the cumulative operating income and the cumulative EBITDA in 2021, 2022, 2023 and 2024 to the performance basis shall not be less than 22%, 152%, 291%, and 440% respectively. Assessment model of comprehensive weight and stepped attribution was set to achieve the dynamic adjustment between the level of performance growth and proportion of equity attribution, which reflects certain growth while ensuring the expected incentive effect.

Besides performance assessment of the Company, the Company has established a strict assessment system for all Awardees to accurately and comprehensively evaluate the performance of the Awardees. The Company will determine whether the Awardees fulfil the attribution conditions based on their individual assessment results of the previous year.

In summary, the assessment system of the Scheme is all-round, comprehensive and practicable, and the assessment indicators are scientific and reasonable, which are binding on the Awardees and can serve the assessment purpose of the Scheme.

(8) Implementation, grant and attribution procedures

(A) Procedures for the implementation of the Scheme

- (1) The Compensation Committee is responsible for drafting the Scheme.
- (2) The Board shall approve the Scheme in accordance with laws. When the Board considers the proposed grant of Restricted Shares under the Scheme, any Director who is also a Connected Awardee or is a related party to an Awardee shall abstain from voting. The Board shall, after reviewing and approving the Scheme and completing the publication, announcement and registration procedures, submit the Scheme to the general meeting of the Company for approval. The Board shall seek approval from the general meeting of the Company for the implementation of the grant and attribution of the Restricted Shares.

- (3) The Company will engage a PRC Independent Financial Adviser with securities qualifications to give its professional opinion on the feasibility of the Scheme, whether the Scheme is conducive to the sustainable development of the Company, and whether it harms the interests of the Company, and the impact on the interests of Shareholders. The legal adviser engaged by the Company will issue a legal opinion on the Scheme.
- (4) The Company shall carry out self-examination on the trading of the Shares of the Company by insiders within 6 months prior to the announcement of the Scheme.
- (5) The implementation of the Scheme is subject to consideration and approval at the general meeting of the Company. Before convening the general meeting, the Company shall publish the names and positions of the Awardees within the Company through the Company's website or other channels for a publication period of not less than 10 days. After such publication period and before reviewing and approving the Scheme at the general meeting of the Company, the Company will announce the results based on internal feedback.
- (6) At the general meeting of the Company, the Scheme and relevant resolutions shall be considered and, if thought fit, approved by the Shareholders by way of ordinary resolution. Except for the Directors and senior management of the Company, as well as the Shareholders individually or collectively holding more than 5% of the Shares, the voting by other Shareholders shall be separately counted and disclosed. When the Scheme is considered at the general meeting of the Company, Connected Awardees who are Shareholders or Shareholders who are related to the Awardees shall abstain from voting.
- (7) The Company shall grant the Restricted Shares to the Awardees within the prescribed period upon approval of the Scheme at the general meeting of the Company and the fulfillment of grant conditions stipulated under the Scheme. The Board shall be responsible for the grant and attribution of the Restricted Shares in accordance with the mandate granted at the general meeting.

(B) Procedures for the grant of the Restricted Shares

- (1) Before granting the Restricted Shares to the Awardees, the Board shall convene a meeting to consider whether the Awardees have satisfied the conditions for grant prescribed in the Scheme and make an announcement thereafter. The legal adviser engaged by the Company shall issue legal opinions on whether the Awardees have satisfied the conditions of the grant.
- (2) Where there is discrepancy between the Company's grant of Restricted Shares to the Awardees and the arrangements prescribed under the Scheme, the legal adviser engaged by the Company shall express clear opinions.

- (3) The Company shall enter into an “Agreement on the Grant of STAR Market Restricted Shares” with the Awardees setting out their respective rights and obligations.
- (4) The Company shall grant Restricted Shares to the Awardees under the First Grant and make an announcement within 60 days after the Scheme is considered and approved at the general meeting of the Company. If the Company fails to make the announcement in respect of the grant within such 60 days, the Scheme shall be terminated, and the Board shall disclose the reason for such failure timely and shall be prohibited from approving a share incentive scheme again within 3 months thereafter (the period in which listed companies are not allowed to grant Restricted Shares in accordance with the Administrative Measures and relevant laws and regulations is not included in such 60 days).
- (5) Awardees of the Reserved Grant shall be determined within 12 months after the Scheme is considered and approved at the general meeting of the Company. If Awardees are not determined within such 12 months, the Reserved Grant shall lapse.

(C) *Procedures for the attribution of the Restricted Shares*

- (1) Prior to attribution, the Board shall confirm whether the Awardees have satisfied the attribution conditions. The legal adviser engaged by the Company shall issue legal opinions as to whether the conditions for attributing the Restricted Shares have been satisfied.
- (2) For the Awardees who have fulfilled the attribution conditions, the Company shall handle the attribution in a unified manner, and for the Awardees who have not fulfilled the attribution conditions, the Restricted Shares in the relevant tranche shall not be attributed and shall lapse. The Company shall make timely disclosure in respect of the implementation of the Scheme.
- (3) The Company shall apply to the SSE for the attribution of the Restricted Shares to Awardees, and apply to the securities depository and clearing institution for the registration and settlement matters after confirmation by the SSE.

(9) Methods and procedure for amendments to the Scheme

(A) *Adjustment method of the number of the Restricted Shares*

In the event of any capitalisation issue, bonus issue, sub-division, rights issue or share consolidation of the Company in the period from the date of announcement of the Scheme to the completion of attribution and registration of the Restricted Shares by the Awardees, the number of Restricted Shares granted or attributed shall be adjusted accordingly. The adjustment method is as follows:

(1) *Capitalisation issue, bonus issue and sub-division of share capital*

$$Q=Q_0 \times (1+n)$$

Where: Q_0 represents the number of Restricted Shares granted or attributed before the adjustment; n represents the ratio of increase per share resulting from capitalisation of capital reserves, bonus issue or subdivision of shares (i.e. the number of increased share(s) per share upon capitalisation of capital reserves, bonus issue or subdivision of shares); Q represents the adjusted number of Restricted Shares granted or attributed.

(2) *Rights issue*

$$Q=Q_0 \times P_1 \times (1+n) \div (P_1 + P_2 \times n)$$

Where: Q_0 represents the number of Restricted Shares granted or attributed before the adjustment; P_1 represents the closing price as at the record date; P_2 represents the price of the rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue); Q represents the adjusted number of Restricted Shares granted or attributed.

(3) *Share consolidation*

$$Q=Q_0 \times n$$

Where: Q_0 represents the number of Restricted Shares granted or attributed before the adjustment; n represents the ratio of share consolidation; Q represents the adjusted number of Restricted Shares granted or attributed.

(4) *New issue*

In the event of issue of new shares, no adjustment shall be made to the number of Restricted Shares granted/attribution.

(B) *Adjustment method of the Restricted Share Price*

In the event of any capitalisation issue, bonus issue, sub-division, rights issue, share consolidation or dividend distribution of the Company in the period from the date of announcement of the Scheme to the completion of attribution and registration of Restricted Shares by the Awardees, an adjustment to the Restricted Share Price shall be made accordingly. The adjustment method is as follows:

(1) *Capitalisation issue, bonus issue and sub-division of share capital*

$$P=P_0 \div (1+n)$$

Where: P_0 represents the Restricted Share Price before the adjustment; n represents the ratio of increase per share resulting from the capitalisation issue, bonus issue and sub-division of share capital; P represents the adjusted Restricted Share Price.

(2) *Rights issue*

$$P=P_0 \times (P_1 + P_2 \times n) \div [P_1 \times (1+n)]$$

Where: P_0 represents the Restricted Share Price before the adjustment; P_1 represents the closing price as at the record date; P_2 represents the price of the rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue in proportion to the total share capital of the Company prior to the rights issue); P represents the adjusted Restricted Share Price.

(3) *Share consolidation*

$$P=P_0 \div n$$

Where: P_0 represents the Restricted Share Price before the adjustment; n represents the ratio of share consolidation; P represents the adjusted Restricted Share Price.

(4) *Dividend distribution*

$$P=P_0 - V$$

Where: P_0 represents the Restricted Share Price before the adjustment; V represents the dividend per share; P represents the adjusted Restricted Share Price. P shall be greater than 1 after the dividend distribution.

(5) *Additional issue of new shares*

In the event of issue of new shares, no adjustment will be made to the Restricted Share Price.

(C) Adjustment procedure

The Board shall adjust the number of Restricted Shares granted or attributed, and the relevant Restricted Share Price upon occurrence of any of the aforementioned circumstances. The Company shall engage a legal adviser to give professional opinion as to whether such adjustment is in compliance with the Administrative Measures, the Articles of Association and the Scheme. After the Board approves the adjustment, the Company shall make an announcement on the adjustment and the opinion of the legal adviser.

(10) Other rights and obligations of the Company and the Awardees and dispute settlement mechanism

(A) Rights and obligations of the Company

- (1) The Company is entitled to interpret and execute the Scheme and to conduct performance assessment of the Awardees. If an Awardee fails to fulfill the conditions required under the Scheme, the Restricted Shares that have been granted to the Awardee but not yet attributed shall not be attributed and shall lapse.
- (2) The Company undertakes not to provide loans and financial assistance in any other forms, including provision of guarantee for their loans, to the Awardees with respect to the acquisition of relevant Restricted Shares under the Scheme.
- (3) The Company shall timely, truthfully, accurately and completely disclose the information disclosure documents related to the Scheme in accordance with the relevant laws, regulations and normative documents.
- (4) The Company shall handle the attribution of the Restricted Shares for the Awardees who have fulfilled the attribution conditions in accordance with the Scheme and relevant regulations of the CSRC, the SSE and China Securities Depository and Clearing Corporation Limited. The Company shall not be liable for losses incurred by the Awardees who fail to complete the attribution of the Restricted Shares caused by the CSRC, the SSE and China Securities Depository and Clearing Corporation Limited.
- (5) If the Awardee violates the laws and professional ethics, leaks confidential information of the Company, and is negligent or gross misconduct in performance of duties, and, which has caused serious damages to the interests or reputation of the Company, the Restricted Shares of the Awardee that have been granted but have not attributed shall not be attributed and shall lapse upon the approval of the Board. In serious circumstances, the Company may also recover the losses suffered by the Company in accordance with relevant laws and regulations.

(B) Rights and obligations of the Awardees

- (1) The Awardees shall comply with the requirements of their positions within the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make due contributions to the development of the Company.
- (2) Source of funds of the Awardees shall be derived from funds owned or raised by them.
- (3) The Restricted Shares granted to the Awardees shall not be transferred, used for guarantee or repayment of debts before attribution.
- (4) The Awardees shall pay the individual income tax and other taxes and levies for their gains from the Scheme in accordance with the PRC tax laws and regulations.
- (5) The Awardees undertake that, in the event that the Awardees become unqualified to be granted with the relevant interest arrangement due to false statements, misleading statements or material omissions contained in the information disclosure documents of the Company, the Awardees shall return all interests received from the Scheme to the Company after the confirmation that there are such false statements, misleading statements or material omissions contained in the relevant information disclosure documents in accordance with their commitments.
- (6) Upon consideration and approval of the Scheme at the general meeting of the Company and Board's approval of the grant to the Awardees, the Company shall enter into an "Agreement on the Grant of STAR Market Restricted Shares" with the Awardees setting out their respective rights and obligations.
- (7) Other relevant rights and obligations as stipulated by laws, administrative regulations, normative documents and the Scheme.

(C) Dispute settlement mechanism between the Company and the Awardees

The disputes between the Company and the Awardees arising from the execution of the Scheme, or the "Agreement on Grant of the STAR Market Restricted Shares" signed by the parties or in relation to the Scheme or the "Agreement on Grant of the STAR Market Restricted Shares" shall be resolved through negotiation and communication by both parties, or mediation by the Compensation Committee. If the relevant disputes are not resolved through the abovementioned methods within 60 days from the date of occurrence of the disputes, either party is entitled to file a lawsuit with the People's Court with jurisdiction in the place where the Company is domiciled.

(11) Amendment and termination of the Scheme

(A) *Amendments of the Scheme*

In the event that the Company intends to amend the Scheme prior to its consideration and approval at the general meeting of the Company, such amendment shall be considered and approved by the Board. If the Company intends to amend the Scheme after its approval at the general meeting of the Company, such amendment (other than matters related to the implementation of the Scheme authorised by the general meeting of the Company to be handled by the Board) shall be considered and approved at the general meeting of the Company provided that such amendment shall not result in accelerating attribution and lowering the Restricted Share Price (other than under circumstances where the Restricted Share Price is lowered due to capitalisation issue, bonus issue, sub-division, rights issue or share consolidation).

The legal adviser engaged by the Company shall issue professional opinions as to whether the amendments to the Scheme are in compliance with the requirements of the Administrative Measures and relevant laws and regulations, and are significantly detrimental to the interests of the Company and the Shareholders as a whole.

(B) *Termination of the Scheme*

If the Company intends to terminate the Scheme prior to its consideration and approval at the general meeting of the Company, such termination shall be considered and approved by the Board. If the Company intends to terminate the Scheme after its approval at the general meeting of the Company, such termination shall be considered and approved at the general meeting of the Company.

The legal adviser engaged by the Company shall issue professional opinions as to whether the termination is in compliance with the requirements of the Administrative Measures and relevant laws and regulations, and are significantly detrimental to the interests of the Company and the Shareholders as a whole.

(C) In the event of any changes occurred at the Company

- (1) If any of the circumstances below occurs, the Scheme shall be terminated and the Restricted Shares that have been granted to the Awardees under the Scheme but have not yet been attributed shall not be attributed:
 - (a) an audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 - (b) an audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 - (c) in the most recent 36 months upon listing on the STAR Market, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public undertakings;
 - (d) laws and regulations stipulate that equity incentives shall not be implemented;
or
 - (e) other circumstances where the Scheme should be terminated as determined by the CSRC.
- (2) If any of the circumstances below occurs, the Scheme shall remain unchanged:
 - (a) a change of control of the Company without reorganisation of major assets; or
 - (b) a merger or division of the Company, where the Company continues to exist.
- (3) If any of the circumstances below occurs, the general meeting of the Company shall decide whether to amend or adjust the Scheme:
 - (a) a change of control of the Company involving reorganisation of major assets;
or
 - (b) a merger or division of the Company, where the Company no longer exists.
- (4) If the Company fails to meet the conditions for granting or attributing the Restricted Shares due to false records, misleading statements or material omissions in the information disclosure documents, the Restricted Shares that have been granted to the Awardees under the Scheme but have not yet been attributed shall not be attributed.

If the Restricted Shares that have been granted to the Awardees have already been attributed, all the Awardees shall return the granted rights and interests. The Board shall recover the proceeds from the Awardees in accordance with the preceding paragraph and the relevant arrangements under the Scheme. If an Awardee who is not responsible for the above matters suffers from losses due to the return of rights and interests, such Awardee can recover such losses from the Company or the responsible targets in accordance with the relevant arrangements under the Scheme.

- (5) If major changes, special and abnormal circumstances, or other force majeure factors occur during the validity period of the Scheme, the performance assessment indicators at the Company level can be adjusted after review by the Board.

(D) In the event of changes in the personal circumstances of the Awardees

(1) Change in position of the Awardees

- (a) If the position of an Awardee changes but he/she still works in the Company or its branches or subsidiaries, the Restricted Shares granted to him/her shall still be carried out in accordance with the procedures stipulated in the Scheme.
- (b) If the position of an Awardee changes because he/she is not qualified for his/her job, violates laws, disobeys professional ethics, leaks confidential information of the Company, fails to discharge his duties or has willful misconduct, seriously breaches the Company's policies, causing damage to the interests or reputation of the Company, the Restricted Shares which have been granted to the Awardee that have not yet been attributed shall not be attributed and shall lapse.

(2) Resignation of the Awardees

- (a) If an Awardee resigns, including voluntary resignation, resignation due to layoffs by the Company, expiration and non-renewal of employment agreement, dismissal by the Company due to personal fault, negotiated termination of employment agreement, Restricted Shares that have been granted to the Awardee that have not yet been attributed since the date of resignation shall not be attributed and shall lapse. The Awardee shall pay the Company the individual income tax involved in the attributed Restricted Shares before resignation.
- (b) Personal faults include, but are not limited to, the following behaviors, and the Company has the right to recover the losses incurred from the incentives in accordance with the provisions of relevant laws, depending on the seriousness of the circumstances:

- (i) violation of the employment contract, confidentiality agreement, non-competition agreement or any other similar agreements signed with the Company or its affiliates;
- (ii) violation of the laws of the country of residence resulting in criminal offenses or other negative conditions that affect the performance of the job;
- (iii) collection of remuneration from companies other than the Company or individuals, which has not been disclosed to the Company in advance.

(3) *Retirement of the Awardees*

- (a) If an Awardee retires and has not been re-employed by the Company or has not continued his/her services to the Company in other forms, Restricted Shares that have been granted to the Awardee that have not yet attributed shall not be attributed and shall lapse.
- (b) If an Awardee who has retired is re-employed by the Company or provides continued services to the Company in other forms after he/she retires, the Restricted Shares granted to him/her shall continue to be valid and shall still be attributed in accordance with the procedures stipulated in the Scheme.
- (c) Upon the occurrence of the circumstances described in this paragraph, where no individual performance assessment is required for the Awardee, the individual performance assessment shall no longer be included as attribution conditions; otherwise, the individual performance assessment shall remain as one of the attribution conditions.

(4) *Death or incapacity of the Awardees*

- (a) In the event of work-related death or civil incapacitation of an Awardee, the Restricted Shares which have been granted to him/her will still be valid and shall be attributed according to the procedures specified in the Scheme prior to the occurrence of the relevant circumstances. The Board should decide that his/her individual performance assessment should no longer be included as conditions for attribution.
- (b) In the event of non-work-related death or civil incapacitation of an Awardee, Restricted Shares that have been granted to the Awardee that have not yet attributed shall not be attributed and shall lapse as of the date of the occurrence of the relevant circumstances.

(5) *Others*

The Board shall be responsible for making decisions on other unspecified situations and the methods of handling them.

(12) Accounting treatment and impact on the operating performance

(A) Accounting treatment

In accordance with the Application Case of Share-Based Payments Criteria – Grant of Restricted Shares issued by the Accounting Department of the Ministry of Finance, PRC, the share-based payments fees for the second category of Restricted Shares shall be calculated with reference to the shares options. In accordance with requirements of the Accounting Standards for Business Enterprises No.11–Share-Based Payments (《企業會計準則第11號－股份支付》), on each balance sheet date during the vesting period, the Company shall, on the basis of its best estimate of the number of exercisable share options, calculate the expenses to be recognized for share-based payments in the current period according to the fair value of the share options on the Grant Date, and such expenses shall be included in relevant costs or expenses and capital reserves.

In accordance with requirements of the Accounting Standards for Business Enterprises No.11 – Share-Based Payments (《企業會計準則第 11 號－股份支付》) and the Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments (《企業會計準則第 22 號－金融工具確認和計量》), fair value of the Restricted Shares is calculated using the Black-Scholes model. A forecast for the Restricted Shares granted under the First Grant is calculated using such model on 19 May 2021 (with formal calculations to be done on the Grant Date). The specific parameters are as follows:

- (1) the closing price of RMB Share (assuming the closing price on the Grant date is the same as the closing price on 19 May 2021): RMB54.79 per share;
- (2) validity periods (being the period starting from the Grant Date to the date of attribution) of 12 months, 24 months, 36 months and 48 months;
- (3) historical volatility (adopting the historical volatility of the STAR 50 Index in the past 12 months): 32.13%;
- (4) risk-free rate (adopting the respective RMB benchmark interest rates for deposits of financial institutions adopted by the People’s Bank of China for 1-year, 2-year, and 3-year periods): 1.50%, 2.10%, 2.75%; and
- (5) dividend rate (adopting the Company’s dividend rate for the most recent year): 0%

(B) *Estimated impact on the operating performance in each accounting period due to the grant of the Restricted Shares*

The fair value of the Restricted Shares on the Grant Date will be determined by the Company in accordance with the requirements of the accounting standards and relevant valuation tools, and the cost of the Scheme will be further determined accordingly. The cost of the Scheme will be recognised according to the percentage of attribution during the implementation of the Scheme and will be charged to the recurring profit and loss.

According to the requirement of the accounting standards, assuming that the Company grants the Restricted Shares in August 2021, the amortised costs of Restricted Shares cost for each period are as follows (assuming the closing price of RMB54.79 per RMB Share and the Restricted Share Price of RMB20.0 per RMB Share):

Number of Restricted Shares under the First Grant	Total costs to be amortised	2021	2022	2023	2024	2025
<i>(‘0,000 shares)</i>	<i>(RMB‘0,000)</i>	<i>(RMB‘0,000)</i>	<i>(RMB‘0,000)</i>	<i>(RMB‘0,000)</i>	<i>(RMB‘0,000)</i>	<i>(RMB‘0,000)</i>
6,808.52	245,208.85	56,422.77	105,550.78	51,095.96	24,754.08	7,385.26

The calculations above do not represent the final accounting costs. The actual accounting costs are related to the Grant Date, the Restricted Share Price and the number of Restricted Shares attributed. If an Awardee resigns before attribution, or fails to meet the corresponding standards of the performance assessment of the Company or personal performance assessment, the actual number of RMB Shares attributed and the payment for the RMB Shares will be reduced accordingly. The possible dilutive effects are also brought to the attention of the Shareholders.

The impact on the Company’s operating results will be subject to the annual audit report to be issued by the accounting firm.

The calculations above do not include the 7.5652 million reserved Restricted Shares, and additional share payment fees will be incurred when the reserved shares are granted.

According to the preliminary evaluation by the Company based on the information available, the amortisation of the cost of the Scheme will have an impact on the net profit each year within the validity period. At the same time, the implementation of the Scheme will further enhance the cohesion of employees and team stability, and effectively motivate the management team, thereby improving operating efficiency and operating performance, bringing intrinsic value to the Company.

PROPOSED FIRST GRANT AND ISSUE OF NEW RMB SHARES UNDER THE SCHEME PURSUANT TO SPECIFIC MANDATE

Subject to the approval of the Independent Shareholders at the EGM, the Board has resolved to grant not more than a total of 75,650,400 Restricted Shares, of which (i) 68,085,200 Restricted Shares will be granted to not more than 4,000 Awardees under the First Grant, representing approximately 0.86% of the total issued share capital of the Company as at the date of this announcement and approximately 0.85% of the enlarged total issued share capital of the Company, and (ii) 7,565,200 Restricted Shares will be granted under the Reserved Grant, representing approximately 0.10% of the total issued share capital of the Company as at the date of this announcement and approximately 0.10% of the enlarged total issued share capital of the Company, pursuant to the terms of the Scheme set out in this announcement. The Restricted Shares to be granted (including those under the First Grant and the Reserved Grant) will be allotted and issued pursuant to the Specific Mandate which may be granted at the EGM.

Among the Restricted Shares to be granted under the First Grant, 2,900,000 Restricted Shares will be granted to 9 Connected Awardees in total, and not more than 65,185,200 Restricted Shares will be granted to not more than 3,991 other Awardees who are not connected persons of the Company as set out in the paragraph “(4)(D). Allocation of Restricted Shares to be granted” above.

In addition to the principal terms of the Scheme summarised in the section “Proposed Adoption of the Scheme” above, further information in relation to the allotment and issue of the Restricted Shares under the Scheme (including the First Grant and the Reserved Grant) are set out below:

The total funds to be raised: Not more than RMB1,513,008,000, being the aggregated Restricted Share Price, will be paid by the Awardees to subscribe for not more than 75,650,400 Restricted Shares under the Scheme.

Restricted Share Price: The Restricted Share Price under both the First Grant and the Reserved Grant shall be RMB20.0 per RMB Share which was determined with reference to the basis set out in the paragraph “(5)(B) Basis for determination of the Restricted Share Price” above. An Awardee who has satisfied the conditions for grant and attribution of the Restricted Shares may purchase new RMB Shares issued by the Company at such Restricted Share Price.

Aggregate nominal value: The nominal value of the RMB Shares of the Company is US\$0.004 per RMB Share. The aggregate nominal value of the Restricted Shares to be granted under the Scheme (including the First Grant and the Reserved Grant) is not more than US\$302,602.

Based on the closing price of RMB54.79 per RMB Share as quoted on the STAR Market on 19 May 2021, the market value of the Restricted Shares under the Scheme amounts to approximately RMB4,144,885,416.

REASONS FOR AND BENEFITS OF THE ADOPTION OF THE SCHEME

The purposes of the Scheme are to improve the Company's long-term incentive mechanism, attract and retain outstanding personnel, fully mobilise the enthusiasm of the Company's employees, effectively bond the interests of Shareholders, the Company and core teams together, enable all parties to jointly focus on to the long-term development of the Company.

The Company is of the view that the adoption and implementation of the Scheme is beneficial to the Company and its Shareholders as whole. The Board is also of the view that the terms and conditions of the Scheme are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

GRANT OF WAIVER FROM STRICT COMPLIANCE WITH CERTAIN PROVISIONS OF THE LISTING RULES

As the RMB Shares will be of the same class as the Hong Kong Shares but will not be listed on the Hong Kong Stock Exchange, the Company has applied for, and the Hong Kong Stock Exchange has granted, on 13 May 2021, a one-off waiver so that there is no need to seek listing of the RMB Shares to be issued under the Scheme on the Hong Kong Stock Exchange under Rules 8.20 and 13.26 of the Listing Rules, on the basis that the Company will continue to comply with the conditions for the Hong Kong Stock Exchange's granting of a similar waiver for the issue of the Company's RMB Shares as announced on 5 May 2020.

INFORMATION OF THE COMPANY AND THE CONNECTED AWARDEES

The Company and its subsidiaries collectively constitute one of the leading foundries in the world, is Mainland China's most advanced and largest foundry, broadest in technology coverage, and most comprehensive in semiconductor manufacturing services. The Group provides integrated circuit (IC) foundry and technology services on process nodes from 0.35 micron to 14 nanometer. Headquartered in Shanghai, China, the Group has an international manufacturing and service base. In China, the Company has a 300mm wafer fabrication facility (fab), a 200mm fab and an effectively-controlled-joint-venture 300mm fab for advanced nodes in Shanghai; a 300mm fab and a majority-owned 300mm fab in Beijing; two 200mm fabs in Tianjin and Shenzhen. The Group also has marketing and customer service offices in the United States, Europe, Japan, and Taiwan China, and a representative office in Hong Kong.

The Connected Awardees as at the date of this announcement are Dr. Zhou Zixue, Dr. Chiang Shang-Yi, Dr. Zhao Haijun, Dr. Liang Mong Song, Dr. Gao Yonggang, Dr. Zhou Meisheng, Mr. Zhang Xin, Mr. Lin Hsin Fa and Dr. Wang Yong.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for the Connected Awardees set out above, the other Awardees under the First Grant are independent of the Company and its connected persons.

IMPLICATIONS UNDER THE LISTING RULES

The Scheme is a discretionary scheme of the Company and does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules.

Each of the Connected Awardees is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the grant and issue of the Restricted Shares to the Connected Awardees under the Scheme constitutes non-exempt connected transactions of the Company, and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of the Directors who are Connected Awardees has declared his interests in the Scheme and has abstained from voting on the relevant Board resolutions in respect of the portion of the proposed grant and issue of the Restricted Shares relating to himself. Save as the abovementioned Directors, there is no other Director who is required to abstain from voting on the Board resolutions in relation to the Scheme.

The Company will establish an Independent Board Committee (consisting of all independent non-executive Directors who do not have material interest in the grant and issue of Restricted Shares by the Company to the Connected Awardees) to advise the Independent Shareholders of the Company in respect of the grant and issue of Restricted Shares by the Company to the Connected Awardees under the Scheme. The Company has appointed FDB Financial Group Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of the grant and issue of Restricted Shares by the Company to the Connected Awardees under the Scheme.

In the event that any grantee under the Reserved Grant is a connected person of the Company, it will constitute a connected transaction of the Company. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including reporting, announcement and Independent Shareholders' approval requirements, for such subsequent grant that constitutes a connected transaction.

The Company will seek a Specific Mandate from the Shareholders at the EGM for the allotment and issue of Restricted Shares under the Scheme (including the grant to the Connected Awardees under the First Grant).

EGM

The EGM will be convened and held on 25 June 2021 for Independent Shareholders to consider and, if thought fit, to approve the resolutions in relation to, among others, the Scheme, the Assessment Management Measures, the Specific Mandate and the grant of Restricted Shares (including the grant to the Connected Awardees under the First Grant) under the Scheme. The details of the resolutions are published on the website of SSE (www.sse.com.cn) on 19 May 2021 and will also be set out in the notice of the EGM which will be published on the websites of the Company (www.smics.com) and the Hong Kong Stock Exchange (www.hkexnews.hk) and despatched to the Shareholders on or before 9 June 2021.

A circular of the Company containing, among other things, further details of the terms of the Scheme, the proposed grant under the Scheme pursuant to the Specific Mandate, the recommendation from the Independent Financial Adviser and the letter from the Independent Board Committee on the grant and issue of Restricted Shares by the Company to the Connected Awardees is expected to be despatched to the Shareholders on or around 9 June 2021 as more time is required to ascertain the relevant information therein.

The Company will hold a Board meeting in due course (if applicable) to determine the Grant Date and the amount of Restricted Shares to be granted to Directors, management, other related parties and employees of the Group. The Company will publish an announcement on the websites of the Hong Kong Stock Exchange and the STAR Market in this respect.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the meanings set out below:

“Administrative Measures”	the Administrative Measures on Incentive Scheme of Listed Companies (《上市公司股權激勵管理辦法》)
“Articles of Association”	the Articles of Association of the Company
“Assessment Management Measures”	the assessment management measures adopted for the implementation of the Scheme
“Awardee(s)”	the awardee(s) of the Scheme
“Board”	the board of Directors
“Company”	Semiconductor Manufacturing International Corporation (中芯國際集成電路製造有限公司*), a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the STAR Market

“Compensation Committee”	the compensation committee of the Board
“Connected Awardees”	Awardees who are connected persons of the Company
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 25 June 2021
“First Grant”	the proposed grant of not more than 68,085,200 Restricted Shares, representing approximately 90% of the total number of Restricted Shares under the Scheme
“Grant Date”	the date on which the Company grants the Restricted Shares to the Awardees
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region
“Hong Kong Shares”	the existing common Shares which are listed on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent board committee of the Board comprising all independent non-executive Directors who do not have material interest in the grant and issue of Restricted Shares by the Company to the Connected Awardees

“Independent Financial Adviser”	FDB Financial Group Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), and the independent financial adviser of the Company appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the grant and issue of the Restricted Shares by the Company to the Connected Awardees
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolutions in relation to the Scheme and the grant and issue of the Restricted Shares by the Company to the Connected Awardees to be considered and, if thought fit, approved at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Ordinary Share(s)”	the ordinary Share(s) of US\$0.004 each in the share capital of the Company
“PRC”	the People’s Republic of China, and for the purposes of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan China
“PRC Company Law”	the Company Law of the PRC
“PRC Independent Financial Adviser”	the independent financial adviser engaged by the Company to opine on the Scheme as required by the Administrative Measures
“PRC Securities Law”	the Securities Law of the PRC
“Preferred Share(s)”	the preferred Share(s) of US\$0.004 each in the share capital of the Company
“Reserved Grant”	the reserved grant of not more than 7,565,200 Restricted Shares, representing approximately 10% of the total number of Restricted Shares under the Scheme

“Restricted Share(s)”	RMB Share(s) to be granted to the Awardees by the Company on such condition and at a price to be paid, determined in accordance with the relevant regulations of the CSRC relating to restricted share units, upon satisfaction of the conditions for grant and attribution of the Restricted Share Units stipulated under the Scheme
“Restricted Share Price”	the price of each Restricted Share to be paid upon satisfaction of the conditions for grant and attribution of the Restricted Share Units
“Restricted Share Units”	an unsecured promise of the Company to pay eligible individuals a specific number of RMB Shares, on a specified date pursuant to the Scheme, subject to all applicable laws, rules, regulations and the applicable vesting, transfer or forfeiture restrictions as set out in the Scheme and the applicable award document
“RMB”	Renminbi, the lawful currency of the PRC
“RMB Shares”	the common Shares listed on the STAR Market and traded in RMB
“Scheme”	the proposed restricted share incentive scheme of the Company, as amended from time to time
“Share(s)”	shares of all classes in the capital of the Company (including but not limited to Ordinary Shares and Preferred Shares) and warrants and other securities which carry a right to subscribe for or purchase shares of the Company
“Shareholder(s)”	holder(s) of existing Shares
“Specific Mandate”	the specific mandate to be sought from the Shareholders at the EGM to allot and issue not more than a total of 75,650,400 RMB Shares as Restricted Shares under the Scheme
“SSE”	the Shanghai Stock Exchange
“STAR Market”	the Science and Technology Innovation Board of the SSE
“STAR Market Listing Rules”	Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange (《上海證券交易所科創板股票上市規則》)

“United States”	the United States of America
“US\$”	United States dollar, the lawful currency of the United States
“%”	per cent.

By order of the Board
Semiconductor Manufacturing International Corporation
Gao Yonggang
Executive Director, Chief Financial Officer and Company Secretary

Shanghai, PRC
20 May 2021

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

Executive Directors

ZHOU Zixue (*Chairman*)
CHIANG Shang-Yi (*Vice Chairman*)
ZHAO Haijun (*Co-Chief Executive Officer*)
LIANG Mong Song (*Co-Chief Executive Officer*)
GAO Yonggang (*Chief Financial Officer and Company Secretary*)

Non-executive Directors

CHEN Shanzhi
ZHOU Jie
REN Kai
HUANG Dengshan
LU Guoging

Independent Non-executive Directors

William Tudor BROWN
LAU Lawrence Juen-Yee
FAN Ren Da Anthony
YOUNG Kwang Leei
LIU Ming

* *For identification purposes only*