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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION
FORMATION OF JOINT VENTURE COMPANY IN LIN-GANG, SHANGHAI**

FORMATION OF THE LIN-GANG JOINT VENTURE COMPANY

Reference is made to the announcement of the Company dated 3 September 2021 in respect of the disclosure of the inside information regarding the entering into of the Cooperation Framework Agreement between the Company and Lin-Gang FTZ Administration pursuant to which the Company and Lin Gang FTZ Administration intended to jointly establish the Lin-Gang Joint Venture Company in the PRC for the development of the Lin-Gang Project.

The Company is pleased to announce that on 12 November 2021, SMIC Holdings, China IC Fund II and Hailinwei entered into the Lin-Gang Joint Venture Agreement to jointly establish the Lin-Gang Joint Venture Company. The registered capital of the Lin-Gang Joint Venture Company is US\$5.5 billion, of which SMIC Holdings, China IC Fund II and Hailinwei agreed to contribute US\$3.655 billion, US\$922 million and US\$923 million, respectively, representing 66.45%, 16.77% and 16.78% of the registered capital of the Lin-Gang Joint Venture Company, respectively.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

As (i) China IC Fund II holds 23.077% equity interest in SMSC, which is regarded as a subsidiary of the Company since SMIC Holdings is entitled to appoint the majority of the directors in SMSC's board of directors and those directors can veto certain material matters discussed in the board meeting of SMSC at its sole discretion; (ii) Hailinwei is held as to 36.67% and 30.00% by Shanghai IC FundII and Shanghai IC Fund, which respectively holds 11.538% and 12.308% of the equity interests in SMSC and therefore Hailinwei is an associate of each of Shanghai IC Fund II and Shanghai IC Fund; and (iii) China IC Fund II holds 24.49% in SMBC, a subsidiary of the Company, China IC Fund II is a connected person of the Company at the subsidiary level by way of being a substantial shareholder (as defined in the Hong Kong Listing Rules) of SMSC and SMBC, respectively and Hailinwei is a connected person of the Company at the subsidiary level by way of being an associate (as defined in the Hong Kong Listing Rules) of each of Shanghai IC Fund II and Shanghai IC Fund, which are substantial shareholders of SMSC. Accordingly, the Lin-Gang Joint Venture Agreement constitutes a connected transaction for the Company under Chapter 14A of the Hong Kong Listing Rules.

As the formation of the Lin-Gang Joint Venture Company and the formation of SMBC are both entered into with China IC Fund II and within a 12-month period, the transactions contemplated under the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement are aggregated as one transaction under Rules 14.22 and 14A.81 of the Hong Kong Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Hong Kong Listing Rules in respect of the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement exceed 5% but are less than 25%, the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

As (i) the Board has approved the Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder; and (ii) the Board (including the independent non-executive Directors) has confirmed that the terms of the Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Lin-Gang Joint Venture Agreement is only subject to reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Hong Kong Listing Rules.

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THE LIN-GANG JOINT VENTURE AGREEMENT

The principal terms of the Lin-Gang Joint Venture Agreement are set out as follows:

Date

12 November 2021

Parties

- (a) SMIC Holdings;
- (b) China IC Fund II; and
- (c) Hailinwei.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, other than China IC Fund II, Hailinwei, Shanghai IC Fund and Shanghai IC Fund II as disclosed in this announcement, the parties to the Lin-Gang Joint Venture Agreement listed above and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

Scope of Business

The business scope of the Lin-Gang Joint Venture Company includes manufacturing of 12-inch integrated circuit wafers and integrated circuit packaging series; technical testing; technical development, technical services, and design services related to integrated circuits; sales of self-produced products (for projects which require the approval in accordance with the law, the business activities to be carried out in accordance with the approved contents as determined by the relevant authorities) (subject to the contents ultimately approved and registered by the Administration for Market Regulation).

Registered Capital and Capital Commitment

The Lin-Gang Joint Venture Company's total investment amount is US\$8.866 billion and its registered capital is US\$5.5 billion.

The details of capital commitment to be made by the shareholders are as follows:

Shareholders	Capital commitment	Means of contribution	Shareholding
SMIC Holdings	US\$3.655 billion	Cash	66.45%
China IC Fund II	US\$922 million	Cash	16.77%
Hailinwei	US\$923 million	Cash	16.78%

With the approval of the board of directors of the Joint Venture Company, the Lin-Gang Joint Venture Company may raise funds in respect of the difference between the total investment and its registered capital from banks or other financial or non-financial institutions within the PRC and abroad or from parties to the Lin-Gang Joint Venture Agreement. The Joint Venture Company may mortgage or pledge its assets for the purpose of raising and obtaining the aforesaid funds with the approval of the board of directors of the Lin-Gang Joint Venture Company.

In consideration of the factors such as the Company's strategic planning, financial and capital position, the Company has determined its investment amount. The capital contribution to be made by the Company will be funded by internal resources. Each shareholder of Lin-Gang Joint Venture Company is required to inject the agreed capital commitment according to the following schedule:

- (a) 50% by 30 November 2021;
- (b) 20% by 31 December 2023; and
- (c) 30% by 31 December 2024

In between the aforesaid capital contribution deadlines, the Lin-Gang Joint Venture Company can, according to the actual capital demand and after the unanimous agreement formed and resolutions made at the meetings of the board of directors, issue notices of capital contribution to all parties requesting the relevant parties to complete the capital contribution in stages or at once. The last capital contribution shall not be later than 31 December 2024. If any of the parties fails to fulfill its obligation to pay its agreed contribution in the same proportion at any stages of the payment schedule, the other parties shall be entitled to refuse to pay its portion of contribution.

SMIC Holdings shall make its contribution in cash and in United States dollars or in an amount in RMB equivalent to its contribution in United States dollars. The other parties shall contribute in cash and in an amount in RMB equivalent to its corresponding contribution in United States dollars. The exchange rate applicable shall be calculated based on the central parity rate of RMB to United States dollars of the People's Bank of China on the date of contribution.

Composition of the Board of the Lin-Gang Joint Venture Company

The board of the Lin-Gang Joint Venture Company will comprise nine directors, with five directors to be nominated by SMIC Holdings, two directors to be nominated by China IC Fund II and two directors to be nominated by Hailinwei. The directors will be elected by the shareholders at their meeting. The chairman of the board will be elected by the board of the Lin-Gang Joint Venture Company.

Composition of the Supervisory Board of the Lin-Gang Joint Venture Company

The supervisory board of the Lin-Gang Joint Venture Company will comprise three members with one member to be nominated by China IC Fund II, one member to be nominated by Hailinwei, both of which are elected by the shareholders at their meeting and one member to be nominated and elected by the employee representatives of the Lin-Gang Joint Venture Company. The chairman of the supervisory board will be elected by the supervisory board.

Restriction on transfer

As long as SMIC Holdings remains as the single largest holder and to have effective control of the Lin-Gang Joint Venture Company, all parties to Lin-Gang Joint Venture Agreement shall have the right to purchase all or part of the equity interest of each other in the Lin-Gang Joint Venture Company and where any shareholders intends to transfer its equity interests in the Lin-Gang Joint Venture Company to a third party, the other non-transferring parties shall have the right to purchase all the equity interest to be transferred at the price, terms and conditions no less favourable than those provided to the third party.

On the premise that SMIC Holdings remains as a shareholder of the Lin-Gang Joint Venture Company, China IC Fund II and Hailinwei agree that the proposed transferee of equity interest of the Lin-Gang Joint Venture Company under the Lin-Gang Joint Venture Agreement shall not be a competing entity (i.e. the top ten semiconductor manufacturing entities for the latest year on terms of revenue generated globally according to the relevant semiconductor advisory services firms and the top ten semiconductor manufacturing entities in terms of revenue generated in the PRC according to the China Semiconductor Industry Association) of the Company and its controlled affiliated parties and the connected persons of the aforesaid competing entities.

Other terms

As long as SMIC Holdings remains as the single largest shareholder with not less than 30% shareholding and to have effective control of the Lin-Gang Joint Venture Company, SMIC Holdings will procure the Company and its designated affiliated parties to agree to authorise the Lin-Gang Joint Venture Company to use the manufacturing technologies, including but not limited to 28nm and above technology that the said entities could lawfully employ. Such authorisation arrangements shall be agreed after formation of the Lin-Gang Joint Venture Company through signing separate authorisation agreements by the Lin-Gang Joint Venture Company with the Company and its designated affiliated parties.

The term of operation of the Lin-Gang Joint Venture Company will be 50 years from the date of issue of the business licence. The parties to the Lin-Gang Joint Venture Agreement may unanimously agree to extend the term of operation of the Lin-Gang Joint Venture Company.

The terms of the parties under the Lin-Gang Joint Venture Agreement are subject to compliance with applicable laws (including requirements of regulatory authorities (including but not limited to the Hong Kong Stock Exchange and the SSE)).

REASONS FOR AND BENEFITS OF ESTABLISHING THE LIN-GANG JOINT VENTURE COMPANY

The Company considers that, seizing the strategic opportunity period for the development of the integrated circuit industry in Lin-Gang Pilot Free Trade Zone, the formation of the Lin-Gang Joint Venture Company can meet the growing market and customer needs and enable the Company to expand its production scale, reduce its costs of production, advance its foundry service and thus promote the sustainable development of the Company.

The Board (including the independent non-executive Directors) considers that the terms of the Lin-Gang Joint Venture Agreement are fair and reasonable, and the entering into of the Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and its shareholders as a whole.

Save for Mr. Huang Dengshan, a non-executive Director, who is a vice president of China IC Fund II, no other Director is considered to have a material interest in the Lin-Gang Joint Venture Agreement which would have required such Director to abstain from voting at the Board meeting approving the Lin-Gang Joint Venture Agreement.

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As the formation of the Lin-Gang Joint Venture Company and the formation of SMBC are all entered into with China IC Fund II and within a 12-month period, the transactions contemplated under the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement are aggregated as one transaction under Rules 14.22 and 14A.81 of the Hong Kong Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Hong Kong Listing Rules in respect of the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement exceed 5% but are less than 25%, the Lin-Gang Joint Venture Agreement and the Beijing Joint Venture Agreement constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules.

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The Lin-Gang Joint Venture Agreement and the transactions contemplated thereunder are also required to be disclosed at the SSE as they constitute related transactions pursuant to the relevant rules of the Science and Technology Innovation Board of the SSE.

INFORMATION ABOUT THE PARTIES

The Company and SMIC Holdings

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

SMIC Holdings, as a multinational company’s regional headquarters, was formed in 2015 and is a wholly-owned subsidiary of the Company principally functioning as an investment holding platform.

China IC Fund II

China IC Fund II, established in October 2019, mainly invests in the value chain of integrated circuit industry via equity investment, primarily in integrated circuit chip manufacturing as well as chip designing, packaging test and equipment and materials. There are 27 fund investors in China IC Fund II, including, among others, the Ministry of Finance of the PRC (as the single largest shareholder holding 11.02% shareholding interest), CDB Capital (holding 10.78% shareholding interest), Chengdu Tianfu Guoji Investment Co., Ltd (holding 7.35% shareholding interest), Chongqing Strategic Emerging Industries Equity Investment Fund Partnership (Limited Partnership) (holding 7.35% shareholding interest), Wuhan Optics Valley Financial Holding Group Co., Ltd. (holding 7.35% shareholding interest), China National Tobacco Corporation (holding 7.35% shareholding interest), Shanghai Guosheng (Group) Co., Ltd. (holding 7.35% shareholding interest), Zhejiang Fuzhe Integrated Circuit Industry Development Co., Ltd. (holding 7.35% shareholding interest) and a group of 19 shareholders (holding less than 7% shareholding interest each) comprising companies, partnerships and Sino IC Capital Co., Ltd. (which also acts as the fund manager). For further details about China IC Fund II, please refer to the circular of the Company dated 6 June 2020.

Hailinwei

Hailinwei was established in October 2021 and is principally engaged in investment holding. It has a registered Capital of RMB6.0 billion and is held as to 36.67%, 33.33% and 30.00% by Shanghai IC Fund II, Shanghai New Chip Industry Investment Fund Partnership (Limited Partnership)* (上海新芯產業私募投資基金合夥企業(有限合夥)) and Shanghai IC Fund, respectively.

Shanghai IC Fund is has nine investors, including Shanghai Technology Venture Capital (Group) Co., Ltd (as the single largest shareholder holding 30.70% shareholding interest), Shanghai Automotive Group Equity Investment Co., Ltd. (holding 21.05% shareholding interest), China IC Fund (holding 10.53% shareholding interest), Shanghai International Group Co., Ltd. (holding 9.21% shareholding interest), Shanghai Guosheng (Group) Co., Ltd. (holding 9.21% shareholding interest), Shanghai Pudong Emerging Industries Investment Co., Ltd. (7.02% shareholding interest), Shanghai International Trust Co.Ltd (holding 6.32% shareholding interest), China Insurance Investment Conductor (Jianxing) Integrated Credit Industry Investment Limited Liability Company (holding 4.21% shareholding interest) and Shanghai Jiading Venture Capital Management Co., Ltd. (holding 1.75% shareholding interest), with a total amount of 1st phase investment of RMB28.5 billion and is the largest state-owned integrated circuit industry investment fund in Shanghai.

Shanghai New Chip Industry Investment Fund Partnership (Limited Partnership)* is a fund which held as to 99.5% by Shanghai Lin-Gang New City Investment Construction Limited* (上海臨港新城投資建設有限公司) (“**Lin-Gang New City**”) (which also act as the limited partner) and held as to 0.5% by Shanghai Lin-Gang Special Area Investment Fund Management Limited* (上海臨港新片區私募基金管理有限公司) (“**Lin-Gang Special Area**”) (which also act as the general partner). Lin-Gang Special Area is wholly-owned by Lin-Gang New City which is in turn wholly-owned by China (Shanghai) Free Trade Pilot Area Lin-Gang Special Area Administration Committee Financial Settlement and State-owned Asset Affairs Centre* (中國上海自由貿易試驗區臨港新片區管理委員會財務結算和國有資產事務中心).

Shanghai IC Fund II has six shareholders, including Shanghai Technology Venture Capital (Group) Co., Ltd (as the single largest shareholder holding 45% shareholding interest), Shanghai International Group Co., Ltd. (holding 15% shareholding interest), Shanghai Guosheng (Group) Co., Ltd. (holding 15% shareholding interest), Shanghai Lingang Guanwei Investment Development Co., Ltd. (holding 12.5% shareholding interest), Shanghai Pudong Emerging Industries Investment Co., Ltd. (holding 10% shareholding interest) and Shanghai Xingjia Equity Investment Partnership (Limited Partnership) (holding 2.5% shareholding interest).

DEFINITIONS

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

“Board”	the board of Directors
“China IC Fund II”	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.* (國家集成電路產業投資基金二期股份有限公司), a company established under the laws of the PRC

“Company”	Semiconductor Manufacturing International Corporation (中芯國際集成電路製造有限公司*), a 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 Science and Technology Innovation Board of the Shanghai Stock Exchange
“Cooperation Framework Agreement”	a cooperation framework agreement entered into between the Company and Lin-Gang FTZ Administration in respect of, among other matters, the proposed formation of the Lin-Gang Joint Venture Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hailinwei”	Shanghai Hailinwei IC Inc.* (上海海臨微集成電路有限公司), a limited liability company established in the PRC
“Hong Kong”	Hong Kong Special Administrative Region of the PRC “Hong
Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Lin-Gang FTZ Administration”	China (Shanghai) Pilot Free Trade Zone Lin-Gang Special Area Administration (中國(上海)自由貿易試驗區臨港新片區管理委員會)
“Lin-Gang Joint Venture Agreement”	the joint venture agreement entered into between SMIC Holdings, China IC Fund II and Hailinwei on 12 November 2021 in relation to the Lin-Gang Joint Venture Company
“Lin-Gang Joint Venture Company”	Semiconductor Manufacturing East China Corporation (中芯東方集成電路製造有限公司), a limited liability company to be established in the PRC pursuant to the Lin-Gang Joint Venture Agreement as a non-wholly-owned subsidiary of the Company
“Lin-Gang Project”	setting up a production line with a production capacity of 100,000 12-inch wafer per month in the Shanghai Pilot Free Trade Zone Lin-Gang Special Area

“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai IC Fund”	Shanghai Integrated Circuit Industry Investment Fund Co., Ltd.* (上海集成電路產業投資基金股份有限公司), a company established under the laws of the PRC and holds 30.00% and 12.308% of equity interests in Hailinwei and SMSC, respectively
“Shanghai IC Fund II”	Shanghai Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.* (上海集成電路產業投資基金(二期)有限公司), a company established under the laws of the PRC and holds 36.67% and 11.538% of equity interests in Hailinwei and SMSC, respectively
“SMBC”	Semiconductor Manufacturing Beijing Corporation* (中芯京城集成電路製造(北京)有限公司), a limited liability company established in the PRC and a non-wholly-owned subsidiary of the Company
“SMBC Joint Venture Agreement”	the joint venture agreement entered into among SMIC Holdings, China IC Fund II and Beijing E-Town International Investment & Development Co., Ltd.* (北京亦莊國際投資發展有限公司) on 4 December 2020 in relation to the formation of SMBC
“SMIC Holdings”	SMIC Holdings Corporation* (中芯國際控股有限公司), a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of the Company
“SMSC”	Semiconductor Manufacturing South China Corporation* (中芯南方集成電路製造有限公司), a Chinese-foreign joint venture established under the laws of the PRC and a non-wholly-owned subsidiary of the Company

“SSE”	the Shanghai Stock Exchange
“US\$”	United States Dollars, the lawful currency of the United States of America
“%”	per cent.

By order of the Board
Semiconductor Manufacturing International Corporation
Guo Guangli
Board Secretary and Joint Company Secretary

Shanghai, PRC
12 November 2021

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

Executive Directors

GAO Yonggang (*Acting Chairman and Chief Financial Officer*)

ZHOU Zixue

ZHAO Haijun (*Co-Chief Executive Officer*)

Non-executive Directors

LU Guoqing

CHEN Shanzhi

HUANG Dengshan

REN Kai

Independent Non-executive Directors

William Tudor BROWN

LAU Lawrence Juen-Yee

FAN Ren Da Anthony

LIU Ming

* *For identification purposes only*