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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Semiconductor Manufacturing International Corporation, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares mentioned herein have not been, and will not be, registered under the Securities Act, and may not be offered or sold in the United States except pursuant to registration or an exemption from the registration requirements of the Securities Act. No public offering of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares will be made in the United States.



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)

NON-EXEMPT CONNECTED TRANSACTIONS — (1) PRE-EMPTIVE SUBSCRIPTIONS FOR SHARES BY DATANG AND COUNTRY HILL (2) PROPOSED SPECIFIC MANDATES TO ISSUE PRE-EMPTIVE SHARES (3) GRANT OF RESTRICTED SHARE UNITS TO A DIRECTOR AND (4) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 25 to 26 of this circular. A letter from Gram Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 27 to 47 of this circular.

The notice convening the EGM to be held at No. 18 Wenchang Avenue, Economic-Technological Development Area, Beijing, People's Republic of China on Tuesday, 11 August 2015 at 12:00 noon is contained in this circular. Shareholders are advised to read the notice and to complete and return the enclosed form of proxy for use at the EGM in accordance with the instructions printed thereon.

Whether you are able to attend the EGM or not, please complete and return the enclosed form of proxy to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. The completion and delivery of a form of proxy will not preclude you from attending and voting at the EGM in person should you wish. Only Shareholders of record on 11 August 2015 are entitled to attend and vote at the EGM.

* for identification purpose only

27 July 2015

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“2013 Annual Report”	the annual report of the Company for the year ended 31 December 2013
“2014 Equity Incentive Plan”	the 2014 equity incentive plan adopted by the Company pursuant to a resolution passed by the Shareholders at the annual general meeting of the Company held on 13 June 2013 and effective from 15 November 2013 upon its registration with SAFE, a summary of which is set out in the 2013 Annual Report
“2014 Stock Option Plan”	the 2014 stock option plan adopted by the Company pursuant to a resolution passed by the Shareholders at the annual general meeting of the Company held on 13 June 2013 and effective from 15 November 2013 upon its registration with SAFE, a summary of which is set out in the 2013 Annual Report
“ADS(s)”	American depositary share(s) of the Company, each of which represents 50 Shares
“associates”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Closing Date”	the closing date of the Datang Pre-emptive Share Purchase Agreement or the closing date of the Country Hill Pre-emptive Share Purchase Agreement (as the case may be)
“Company”	Semiconductor Manufacturing International Corporation, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Hong Kong Stock Exchange and the ADSs of which are listed on the New York Stock Exchange, Inc.
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“Country Hill”	Country Hill Limited, a wholly-owned subsidiary of Bridge Hill Investments Limited, which is a subsidiary controlled by China Investment Corporation
“Country Hill Pre-emptive Share Purchase Agreement”	the agreement entered into between the Company and Country Hill dated 11 June 2015 in relation to the subscription of the Country Hill Pre-emptive Shares

DEFINITIONS

“Country Hill Pre-emptive Shares”	323,518,848 new Shares to be issued to Country Hill pursuant to the Country Hill Pre-emptive Share Purchase Agreement
“Country Hill Pre-emptive Specific Mandate”	the authority to be granted by the Independent Shareholders to the Directors at the EGM to allot and issue the Country Hill Pre-emptive Shares
“Country Hill Subscription Agreement”	the share subscription agreement dated 18 April 2011 entered into between the Company and Country Hill
“Datang”	Datang Holdings (Hongkong) Investment Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Datang Telecom
“Datang Pre-emptive Share Purchase Agreement”	the agreement entered into between the Company and Datang dated 11 June 2015 in relation to the subscription of Datang Pre-emptive Shares
“Datang Pre-emptive Shares”	961,849,809 new Shares to be issued to Datang pursuant to the Datang Pre-emptive Share Purchase Agreement
“Datang Pre-emptive Specific Mandate”	the authority to be granted by the Independent Shareholders to the Directors at the EGM to allot and issue the Datang Pre-emptive Shares
“Datang Subscription Agreement”	the share purchase agreement dated 6 November 2008 entered into between the Company and Datang Telecom
“Datang Telecom”	Datang Telecom Technology & Industry Holdings Co., Ltd., a company incorporated under PRC laws
“Director(s)”	the director(s) of the Company
“Dr. Zhou”	Dr. Zhou Zixue, who was appointed by the Board as an executive Director and the chairman of the Board on 6 March 2015

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“EGM”	the extraordinary general meeting of the Company proposed to be held at No. 18 Wenchang Avenue, Economic-Technological Development Area, Beijing, People’s Republic of China on Tuesday, 11 August 2015 at 12:00 noon to approve, among other things, (i) the Datang Pre-emptive Share Purchase Agreement and the allotment and issue of the Datang Pre-emptive Shares, (ii) the grant of the Datang Pre-emptive Specific Mandate, (iii) the Country Hill Pre-emptive Share Purchase Agreement and the allotment and issue of the Country Hill Pre-emptive Shares, (iv) the grant of the Country Hill Pre-emptive Specific Mandate and (v) the Grant and any transactions contemplated thereunder
“General Mandate”	the general mandate granted to the Directors pursuant to the resolutions of the Shareholders passed at its annual general meeting held on 27 June 2014
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the non-exempt connected transactions relating to the Datang Pre-emptive Share Purchase Agreement, the Country Hill Pre-emptive Share Purchase Agreement and the Grant
“Grant”	the conditional grant of 10,804,985 RSUs by the Company to Dr. Zhou on 20 May 2015, subject to the Independent Shareholders’ approval at the EGM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board that consists of all independent non-executive Directors who have no direct or indirect interest in the Datang Pre-emptive Share Purchase Agreement, the Country Hill Pre-emptive Share Purchase Agreement and the Grant, other than, where applicable, being a Shareholder

DEFINITIONS

“Independent Shareholders”	in relation to the Datang Pre-emptive Share Purchase Agreement, Shareholders other than Datang and its associates, and in relation to the Country Hill Pre-emptive Share Purchase Agreement, Shareholders other than Country Hill and its associates
“Investor”	China Integrated Circuit Industry Investment Fund Co., Ltd., a company established under the laws of the PRC
“Latest Practicable Date”	21 July 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“New Shares”	4,700,000,000 Shares issued by the Company to Xinxin (Hongkong) Capital Co., Limited, a wholly-owned subsidiary of the Investor, pursuant to the Share Purchase Agreement
“PRC”	the People’s Republic of China (for the purpose of this circular, not including Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan)
“RSU(s)”	Restricted Share Unit(s), an unsecured promise of the Company to pay eligible individuals a specific number of Shares or ADSs, as applicable, on a specified date pursuant to 2014 Equity Incentive Plan, subject to all applicable laws, rules, regulations and the applicable vesting, transfer or forfeiture restrictions as set out in the 2014 Equity Incentive Plan and the applicable award document
“SAFE”	the PRC State Administration of Foreign Exchange
“Securities Act”	the U.S. Securities Act of 1933, as amended
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Purchase Agreement”	the share purchase agreement dated 12 February 2015 between the Company and the Investor
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares with a par value of US\$0.0004 each in the capital of the Company listed on the Hong Kong Stock Exchange
“Subscription Price”	HK\$0.6593 per New Share

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“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Datang Subscription Agreement”	the supplemental agreement to the Datang Subscription Agreement dated 22 August 2014 among the Company, Datang and Datang Telecom
“United States” or “U.S.”	the United States of America
“US\$”	United States Dollars, the lawful currency of the United States of America
“%”	per cent.



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)

Executive Directors:

Zhou Zixue (*Chairman*)

Tzu-Yin Chiu (*Chief Executive Officer*)

Gao Yonggang (*Chief Financial Officer*)

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Non-Executive Directors:

Chen Shanzhi (Alternate: Li Yonghua)

Zhou Jie

Principal Place of Business:

18 Zhangjiang Road

PuDong New Area

Shanghai 201203

People's Republic of China

Independent Non-Executive Directors:

William Tudor Brown

Sean Maloney

Lip-Bu Tan

Carmen I-Hua Chang

27 July 2015

To the Shareholders

Dear Sir or Madam,

NON-EXEMPT CONNECTED TRANSACTIONS —
(1) PRE-EMPTIVE SUBSCRIPTIONS FOR SHARES BY
DATANG AND COUNTRY HILL
(2) PROPOSED SPECIFIC MANDATES TO ISSUE
PRE-EMPTIVE SHARES

AND

(3) GRANT OF RESTRICTED SHARE UNITS TO A DIRECTOR

INTRODUCTION

The purpose of this circular is to provide you with information on the businesses to be transacted at the EGM in respect of, among other matters, (i) the Datang Pre-emptive Share Purchase Agreement and the allotment and issue of the Datang Pre-emptive Shares, (ii) the

* for identification purpose only

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grant of the Datang Pre-emptive Specific Mandate, (iii) the Country Hill Pre-emptive Share Purchase Agreement and the allotment and issue of the Country Hill Pre-emptive Shares, (iv) the grant of the Country Hill Pre-emptive Specific Mandate and (v) the Grant and any transactions contemplated thereunder.

SHARE PURCHASE AGREEMENT DATED 12 FEBRUARY 2015

Reference is made to the Company's announcement dated 12 February 2015 relating to the Company's entering into of the Share Purchase Agreement with the Investor, whereby (i) the Company has conditionally agreed to allot and issue to the Investor, and the Investor has conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 New Shares at the Subscription Price of HK\$0.6593 per New Share under the Company's General Mandate. The aggregate consideration for the New Shares is HK\$3,098.71 million. The issue of 4,700,000,000 New Shares was completed on 8 June 2015.

DATANG PRE-EMPTIVE SUBSCRIPTION

Pre-emptive rights of Datang

Pursuant to the Datang Subscription Agreement and the Supplemental Datang Subscription Agreement, in case of any issue of new Shares, subject to certain exceptions, Datang has the pre-emptive right to purchase such number of additional Shares so as to enable Datang to hold, after the issue of such securities, a pro rata portion of such securities equivalent to the percentage of the issued share capital of the Company then beneficially owned by Datang prior to the Company's entering into of the relevant agreement for the issue of such securities. Datang's pre-emptive right is applicable to the issue of the New Shares. Datang held approximately 19.48% of the issued share capital of the Company prior to the Company's entering into of the Share Purchase Agreement. On the basis that Datang fully exercises its pre-emptive right under the Datang Subscription Agreement and the Supplemental Datang Subscription Agreement in respect of (i) the issue of the New Shares and (ii) the proposed subscription by Country Hill of the Country Hill Pre-emptive Shares for a total consideration of RMB170 million (which gives rise to the proposed issue of 323,518,848 Country Hill Pre-emptive Shares), Datang will be entitled to subscribe for up to 1,215,012,235 additional Shares so as to enable Datang to continue to hold approximately 19.48% of the issued share capital of the Company after the issue of the New Shares and the Country Hill Pre-emptive Shares. Completion of any such issue of the Datang Pre-emptive Shares to Datang upon exercise of its pre-emptive right will be further subject to the receipt of any required regulatory approvals. Any exercise by Datang of its pre-emptive right to subscribe for the Datang Pre-emptive Shares in connection with the issue of the New Shares will be at a price equivalent to the Subscription Price and conditional on, among others, the obtaining of the necessary governmental approval and the obtaining of the approval of the Independent Shareholders.

The Company has notified Datang in accordance with the terms of the Datang Subscription Agreement and the Supplemental Datang Subscription Agreement in respect of the issue of the New Shares. Pursuant to the Datang Subscription Agreement and the Supplemental Datang Subscription Agreement, Datang delivered an irrevocable notice to

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the Company on 2 March 2015 that it would be exercising its pre-emptive right in respect of the issue of the New Shares only for a total consideration of an amount equivalent to approximately RMB500 million. The subscription by Datang of the Datang Pre-emptive Shares will be based on terms and conditions that are substantially the same as the issue of the New Shares.

THE DATANG PRE-EMPTIVE SHARE PURCHASE AGREEMENT

On 11 June 2015, the Company entered into the Datang Pre-emptive Share Purchase Agreement with Datang, pursuant to which, on and subject to the terms of the Datang Pre-emptive Share Purchase Agreement, the Company conditionally agreed to issue, and Datang conditionally agreed to subscribe for, the Datang Pre-emptive Shares. The subscription by Datang of the Datang Pre-emptive Shares will be at a price equivalent to the Subscription Price, and conditional upon, among others, the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders. It is noted that Datang has reported the proposed subscription of the Datang Pre-emptive Shares to the National Development and Reform Commission (NDRC) of the PRC for its review. Datang will report the proposed subscription of the Datang Pre-emptive Shares to the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the Ministry of Commerce and the SAFE for their approvals. The conditions precedent under the Datang Pre-emptive Share Purchase Agreement relating to the delivery of closing documentation are to be fulfilled on or before the Closing Date.

The principal terms of the Datang Pre-emptive Share Purchase Agreement are set out below:

Date: 11 June 2015

Parties: (i) the Company as the issuer; and
(ii) Datang as the subscriber

Interest to be acquired:

The Datang Pre-emptive Shares represent (i) approximately 2.36% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 2.31% of the issued share capital of the Company as enlarged by the issue of the Datang Pre-emptive Shares.

Consideration and Subscription Price:

The Subscription Price is HK\$0.6593 per Share, and the total cash consideration for the issue of the Datang Pre-emptive Shares is HK\$634,147,579.07.

The Subscription Price of HK\$0.6593 per Share, represents: (i) a discount of approximately 23.34% over the closing price of HK\$0.860 per Share quoted on the Hong Kong Stock Exchange on 11 June 2015, being the last full trading day immediately before the execution of the Datang Pre-emptive Share Purchase Agreement; (ii) a discount of

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approximately 23.16% over the average closing price of HK\$0.858 per Share quoted on the Hong Kong Stock Exchange for the five trading days up to and including 11 June 2015; (iii) a discount of approximately 23.96% over the average closing price of HK\$0.867 per Share as quoted on the Hong Kong Stock Exchange for the ten trading days up to and including 11 June 2015.

Proposed issue of the Datang Pre-emptive Shares:

Subject to the fulfilment of the conditions set out below in the section headed “Conditions Precedent”.

Conditions Precedent:

The issuance of the Datang Pre-emptive Shares is, unless otherwise waived by the parties, conditional on, inter alia:

- (i) the obtaining by Datang of applicable governmental approvals;
- (ii) the granting of approval for the listing of, and permission to deal in, the Datang Pre-emptive Shares by the Hong Kong Stock Exchange;
- (iii) the Company having obtained the approval of the Independent Shareholders’ approval in a general meeting of a specific mandate for the issue of the Datang Pre-emptive Shares pursuant to the Datang Pre-emptive Share Purchase Agreement; and
- (iv) the delivery of certain closing documentation.

Termination:

The Datang Pre-emptive Share Purchase Agreement may be terminated:

- 1. by mutual agreement of the parties;
- 2. by the Company if the closing and issue of New Shares under the Share Purchase Agreement will not have occurred pursuant to the terms therein;
- 3. by either party if completion will not take place by the date falling four months after the date of the Datang Pre-emptive Share Purchase Agreement (or such other date or time as may be agreed between the parties);
- 4. by either party if any governmental authority or court shall have enacted or issued any regulation or order which has the effect of prohibiting the sale and issue of the Datang Pre-emptive Shares;
- 5. by either party if there has been a material breach of any representation, warranty or covenant of the other party under the Datang Pre-emptive Share Purchase Agreement; or

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6. by Datang if, from the date of the Datang Pre-emptive Share Purchase Agreement and the Closing Date, there shall have occurred (i) a material limitation of trading of the Shares on the Hong Kong Stock Exchange; or (ii) suspension in the trading of Shares on the Hong Kong Stock Exchange for a consecutive period of five trading days.

Pre-emptive Rights:

In case of any issue of new Shares or convertible equity securities by the Company, Datang has a pre-emptive right to purchase a pro rata portion of such new securities being issued by the Company equivalent to the percentage of the issued share capital of the Company then beneficially owned by Datang (together with its permitted transferee) prior to the issue of such new securities, provided that Datang (together with its permitted transferee) owns not less than 1,849,547,150 Shares, which reflects the minimum number of Shares required to be held by Datang in maintaining its current pre-emptive right under the Datang Subscription Agreement and the Supplemental Datang Subscription Agreement.

Lock-up:

Datang shall not transfer any Datang Pre-emptive Shares (except to its permitted transferee) without the prior written consent of the Company for a period of two (2) years from the Closing Date, provided that such lock-up shall not apply to the pledging of any of the Datang Pre-emptive Shares with the permitted transferees and the rights of Datang under the Datang Pre-emptive Share Purchase Agreement will not be affected by such pledge.

Datang will refrain at all times from selling the Datang Pre-emptive Shares to any person or entity (except to its permitted transferee) that is a competitor of the Company (or a member of such competitor's group), except in a genuine open market sale where the identity of the purchaser of the Datang Pre-emptive Shares is not known to, and cannot reasonably be determined by, Datang or its agent effecting such sale and provided that the number of Pre-emptive Shares that Datang is permitted to sell in the open market shall not exceed 1% of the issued share capital of the Company at the relevant time during any 30-day period. (The abovementioned competitor means (a) the leading ten (10) companies in the area of pure foundry or semiconductor, respectively, in terms of annual global revenues according to the most recent data of Gartner and/or iSuppli as at the Closing Date, or (b) the leading ten (10) semiconductor manufacturing companies in the PRC according to the most recent data of the Ministry of Industry and Information Technology of the PRC or other institutions under its supervision (such as but not limited to the China Semiconductor Industry Association) as at the Closing Date. The abovementioned competitor's group means the competitor, its subsidiaries and holding company, and any subsidiaries of the competitor's holding company.)

The lock-up undertaking was provided by Datang to the Company on the basis that any pre-emptive subscription by Datang would be on substantially the same terms and conditions as the Share Purchase Agreement. The lock-up undertaking was provided by the

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Investor to the Company under the Share Purchase Agreement. The Company believes that the undertakings received are in the interests of the Company and the Shareholders as a whole.

Exclusivity:

The Company has agreed not to enter into discussion or negotiations with any other parties with respect to any equity or convertible debt instrument in the Company or sale of substantially all of the assets of the Company until the earliest of (a) any termination of the Datang Pre-emptive Share Purchase Agreement or (b) the Closing Date.

Completion of the Datang Pre-emptive Share Purchase Agreement:

The Datang Pre-emptive Share Purchase Agreement will complete on a date which is no later than the third business day immediately after the conditions have been fulfilled or waived and no later than four months after the signing of the Datang Pre-emptive Share Purchase Agreement (or such later date as may be agreed by the parties).

COUNTRY HILL PRE-EMPTIVE SUBSCRIPTION

Pre-emptive rights of Country Hill

Pursuant to the Country Hill Subscription Agreement, in case of any issue of new Shares, subject to certain exceptions, Country Hill has the pre-emptive right to purchase such number of additional Shares so as to enable Country Hill to hold, after the issue of such securities, a pro rata portion of such securities equivalent to the percentage of the issued share capital of the Company then beneficially owned by Country Hill prior to the issue of such securities. Country Hill's pre-emptive right is applicable to the issue of the New Shares. Country Hill held approximately 8.24% of the issued share capital of the Company immediately prior to the issue of the New Shares. On the basis that Country Hill fully exercises its pre-emptive right under the Country Hill Subscription Agreement in respect of (i) the issue of the New Shares and (ii) the proposed subscription by Datang of the Datang Pre-emptive Shares for a total consideration of RMB500 million (which gives rise to the proposed issue of 961,849,809 Datang Pre-emptive Shares), Country Hill will be entitled to subscribe for up to 508,165,920 additional Shares so as to enable Country Hill to continue to hold approximately 8.24% of the issued share capital of the Company after the issue of the New Shares and the Datang Pre-emptive Shares. Any exercise by Country Hill of its pre-emptive right to subscribe for the Country Hill Pre-emptive Shares in connection with the issue of the New Shares will be at a price equivalent to the Subscription Price and conditional on, among others, the obtaining of the approval of the Independent Shareholders. The conditions precedent under the Country Hill Pre-emptive Share Purchase Agreement relating to the delivery of closing documentation are to be fulfilled on or before the Closing Date.

The Company has notified Country Hill in accordance with the terms of the Country Hill Subscription Agreement in respect of the issue of the New Shares. Pursuant to the Country Hill Subscription Agreement, Country Hill delivered an irrevocable notice to the Company on 2 March 2015 that it would be exercising its pre-emptive right in respect of the

LETTER FROM THE BOARD

issue of the New Shares only for a total consideration of an amount equivalent to approximately RMB170 million. The subscription by Country Hill of the Country Hill Pre-emptive Shares will be based on terms and conditions that are substantially the same as the issue of the New Shares.

THE COUNTRY HILL PRE-EMPTIVE SHARE PURCHASE AGREEMENT

On 11 June 2015, the Company entered into the Country Hill Pre-emptive Share Purchase Agreement with Country Hill, pursuant to which, on and subject to the terms of the Country Hill Pre-emptive Share Purchase Agreement, the Company conditionally agreed to issue, and Country Hill conditionally agreed to subscribe for, the Country Hill Pre-emptive Shares. The subscription by Country Hill of the Country Hill Pre-emptive Shares will be at a price equivalent to the Subscription Price, and conditional upon, among others, the obtaining of the approval of the Independent Shareholders.

The principal terms of the Country Hill Pre-emptive Share Subscription Agreement are set out below:

- Date:** 11 June 2015
- Parties:** (i) the Company as the issuer; and
- (ii) Country Hill as the subscriber

Interest to be acquired:

The Country Hill Pre-emptive Shares represent (i) approximately 0.79% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 0.79% of the issued share capital of the Company as enlarged by the issue of the Country Hill Pre-emptive Shares.

Consideration and Subscription Price:

The Subscription Price is HK\$0.6593 per Share, and the total consideration for the issue of the Country Hill Pre-emptive Shares is HK\$213,295,976.49.

The Subscription Price of HK\$0.6593 per Share, represents: (i) a discount of approximately 23.34% over the closing price of HK\$0.860 per Share quoted on the Hong Kong Stock Exchange on 11 June 2015, being the last full trading day immediately before the execution of the Country Hill Pre-emptive Share Purchase Agreement; (ii) a discount of approximately 23.16% over the average closing price of HK\$0.858 per Share quoted on the Hong Kong Stock Exchange for the five trading days up to and including 11 June 2015; (iii) a discount of approximately 23.96% over the average closing price of HK\$0.867 per Share as quoted on the Hong Kong Stock Exchange for the ten trading days up to and including 11 June 2015.

LETTER FROM THE BOARD

Proposed issue of the Country Hill Pre-emptive Shares:

Subject to the fulfilment of the conditions set out below in the section headed “Conditions Precedent”.

Conditions Precedent:

The issuance of the Country Hill Pre-emptive Shares is, unless otherwise waived by the parties, conditional on, inter alia:

- (i) the granting of approval for the listing of, and permission to deal in, the Country Hill Pre-emptive Shares by the Hong Kong Stock Exchange;
- (ii) the Company having obtained the approval of the Independent Shareholders’ approval in a general meeting of a specific mandate for the issue of Country Hill Pre-emptive Shares pursuant to the Country Hill Pre-emptive Share Purchase Agreement; and
- (iii) the delivery of certain closing documentation.

Termination:

The Country Hill Pre-emptive Share Purchase Agreement may be terminated:

- 1. by mutual agreement of the parties;
- 2. by the Company if the closing and issue of New Shares under the Share Purchase Agreement will not have occurred pursuant to the terms therein;
- 3. by either party if completion will not take place by the date falling four months after the date of the Country Hill Pre-emptive Share Purchase Agreement (or such other date or time as may be agreed between the parties);
- 4. by either party if any governmental authority or court shall have enacted or issued any regulation or order which has the effect of prohibiting the sale and issue of the Country Hill Pre-emptive Shares;
- 5. by either party if there has been a material breach of any representation, warranty or covenant of the other party under the Country Hill Pre-emptive Share Purchase Agreement; or
- 6. by Country Hill if, from the date of the Country Hill Pre-emptive Share Purchase Agreement and the Closing Date, there shall have occurred (i) a material limitation of trading of the Shares on the Hong Kong Stock Exchange; or (ii) suspension in the trading of Shares on the Hong Kong Stock Exchange for a consecutive period of five trading days.

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Pre-emptive Rights:

In case of any issue of new Shares or convertible equity securities by the Company, Country Hill has a pre-emptive right to purchase a pro rata portion of such new securities being issued by the Company equivalent to the percentage of the issued share capital of the Company then beneficially owned by Country Hill (together with its permitted transferee) prior to the issue of such new securities.

Lock-up:

Country Hill shall not transfer any Country Hill Pre-emptive Shares (except to its permitted transferee) without the prior written consent of the Company for a period of two (2) years from the Closing Date.

Country Hill will refrain at all times from selling the Country Hill Pre-emptive Shares to any person or entity (except to its permitted transferee) that is a competitor of the Company (or a member of such competitor's group), except (1) in a genuine open market sale where the identity of the purchaser of the Country Hill Pre-emptive Shares is not known to, and cannot reasonably be determined by, Country Hill or its agent effecting such sale and provided that the number of Country Hill Pre-emptive Shares that Country Hill is permitted to sell in the open market shall not exceed 1% of the issued share capital of the Company at the relevant time during any 30-day period (The abovementioned competitor means (a) the leading ten (10) companies in the area of pure foundry or semiconductor, respectively, in terms of annual global revenues according to the most recent data of Gartner and/or iSuppli as at the Closing Date, or (b) the leading ten (10) semiconductor manufacturing companies in the PRC according to the most recent data of the Ministry of Industry and Information Technology of the PRC or other institutions under its supervision (such as but not limited to the China Semiconductor Industry Association) as at the Closing Date. The abovementioned competitor's group means the competitor, its subsidiaries and holding company, and any subsidiaries of the competitor's holding company); and (2) accepting an offer (as defined in the Code on Takeovers and Mergers in Hong Kong) under a general offer for the Company where the offer has become unconditional, or where the offeror has become entitled to compulsorily acquire the securities held by Country Hill (and/or its permitted transferees) under applicable laws and regulations.

The lock-up undertaking was provided by Country Hill to the Company on the basis that any pre-emptive subscription by Country Hill would be on substantially the same terms and conditions as the Share Purchase Agreement. The lock-up undertaking was provided by the Investor to the Company under the Share Purchase Agreement. The Company believes that the undertakings received are in the interests of the Company and the Shareholders as a whole.

Exclusivity:

The Company has agreed not to enter into discussion or negotiations with any other parties with respect to any equity or convertible debt instrument in the Company or sale of substantially all of the assets of the Company until the earliest of (a) any termination of the Country Hill Pre-emptive Share Purchase Agreement or (b) the Closing Date.

LETTER FROM THE BOARD

Completion of the Country Hill Pre-emptive Share Purchase Agreement:

The Country Hill Pre-emptive Share Purchase Agreement will complete on a date which is no later than the third business day immediately after the conditions have been fulfilled or waived and no later than four months after the signing of the Country Hill Pre-emptive Share Purchase Agreement (or such later date as may be agreed by the parties).

GRANT OF RESTRICTED SHARE UNITS TO A DIRECTOR

Reference is made to the Company's announcement dated 6 March 2015 in relation to, among other things, the change of executive Director and the chairman of the Board and the proposed grant of a certain number of RSUs to Dr. Zhou as part of his compensation package.

The Board announces that the Company has granted 10,804,985 RSUs to Dr. Zhou on 20 May 2015 under the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at the EGM. Each of these RSUs granted to Dr. Zhou represents the right to receive a Share on the date it vests; and the total number of RSUs granted to Dr. Zhou is equivalent to 30% of 0.1% of the total issued Shares as of the date of the Grant.

In accordance with the terms of the 2014 Equity Incentive Plan, the Grant has been made for no consideration, other than the minimum payment required by the applicable law in the Cayman Islands (which may amount up to US\$4,321.99, being the par value of the maximum number of the Shares of US\$0.0004 each to be issued pursuant thereto, and the corresponding amount of which is payable upon vesting of the RSUs). The RSUs to be granted to Dr. Zhou shall vest over a four-year period. 25% of the total RSUs under the Grant shall vest on each of the first, second, third and fourth anniversaries of 6 March 2015, being the vesting commencement date and the effective date of Dr. Zhou's appointment as an executive Director. The RSUs may be settled in Shares or cash or both. Any Shares to be issued pursuant to the Grant upon the RSUs being vested and settled will rank *pari passu* in all respects among themselves and with all the Shares in issue from time to time. Subject to the terms of the 2014 Equity Incentive Plan, the RSUs which have been granted to Dr. Zhou but have not yet vested would be forfeited in the event that Dr. Zhou's employment with the Company is terminated prior to end of the vesting period, and the grant of RSUs to Dr. Zhou is not subject to performance targets.

Dr. Zhou is currently interested in a total of 25,211,633 share options, representing approximately 0.062% of the total issued share capital of the Company as at the Latest Practicable Date, granted to him by the Company pursuant to the 2014 Stock Option Plan. Subject to the Independent Shareholders' approval at the EGM and assuming that no further Shares will be issued or repurchased by the Company prior to the date of the EGM, the maximum number of the Shares that may be issued to Dr. Zhou under the Grant in accordance with and subject to the terms of the 2014 Equity Incentive Plan will be 10,804,985 Shares, representing approximately 0.027% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 0.027% of the total issued share capital of the Company enlarged by the issue of the maximum number of Shares pursuant to the Grant.

LETTER FROM THE BOARD

Dr. Zhou's total interests in the underlying shares of the Company under the 2014 Stock Option Plan and the 2014 Equity Incentive Plan represents approximately 0.088% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 0.089% of the total issued share capital of the Company enlarged by the issue of the maximum number of Shares pursuant to the Grant.

Based on the closing price of HK\$0.770 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date, the market value of the RSUs under the Grant amounted to approximately HK\$8,319,838.45.

REASONS FOR, AND BENEFITS OF, THE DATANG PRE-EMPTIVE SHARE PURCHASE AGREEMENT, THE COUNTRY HILL PRE-EMPTIVE SHARE PURCHASE AGREEMENT AND THE GRANT

The Company is of the view that the entering into of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement will strengthen the relationship between Datang, Country Hill and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the subscription by the Investor.

The Company is also of the view that the grant of RSUs to an executive Director is part of the Company's remuneration system, the purpose of which is to closely align the interests and benefits of and risks sharing among the Shareholders, the Company and the employees in order to maximize the motivation of the executive Directors and senior management. The Grant aims to provide sufficient incentives to attract, retain and motivate Dr. Zhou to participate in the continuing operation and long-term development and growth of the Company; and there will not be substantial cash outflow by the Company under the Grant.

On this basis, the Directors (including the independent non-executive directors) consider that (i) the terms of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are fair and reasonable, the entering into of each of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement is on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

It is estimated that the net proceeds (net of fees and expenses) from the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares will be approximately HK\$634 million (HK\$0.6592 per Share) and HK\$213 million (HK\$0.6592 per Share), respectively.

LETTER FROM THE BOARD

The Company intends to use the net proceeds from the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares for the purpose of capital expenditure, debt repayment and general corporate purposes.

Under the Company's current capital expenditure plan, it plans to spend approximately US\$1.5 billion in capital expenditures for foundry operations in 2015, which are subject to adjustment based on market conditions. The capital expenditures are mainly for: (1) the expansion of capacity in the 12-inch fab of Semiconductor Manufacturing North China (Beijing) Corporation, the Company's majority owned subsidiary in Beijing, which would amount to approximately US\$800 million, of which US\$450 million will be funded by the Company, (2) the new 8-inch fab in Shenzhen and (3) research and development equipment, mask shops and intellectual property acquisition. The Company also plans to spend approximately US\$150 million in capital expenditures for non-foundry operations, mainly for the construction of living quarters, the units of which are intended to be rented out or sold to the Company's employees in the future.

GRANT OF THE DATANG PRE-EMPTIVE SPECIFIC MANDATE AND THE COUNTRY HILL PRE-EMPTIVE SPECIFIC MANDATE

Any Datang Pre-emptive Shares will be allotted and issued under the Datang Pre-emptive Specific Mandate to be obtained from the Independent Shareholders at the EGM, any Country Hill Pre-emptive Shares will be allotted and issued under the Country Hill Pre-emptive Specific Mandate to be obtained from the Independent Shareholders at the EGM.

Application will be made by the Company to the Listing Committee of the Hong Kong Stock Exchange for the grant of the listing of, and permission to deal in, any Datang Pre-emptive Shares and any Country Hill Pre-emptive Shares.

The new Shares to be issued under the Grant will be issued under the specific mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 13 June 2013 for the issue of Shares under the 2014 Equity Incentive Plan. The Listing Committee of the Hong Kong Stock Exchange has granted its approval on 18 July 2013 for the listing of, and permission to deal in, Shares to be issued under the 2014 Equity Incentive Plan, subject to the fulfilment of all other conditions of the 2014 Equity Incentive Plan. In the context of the grant of RSUs and the issue of Shares pursuant thereto under the 2014 Equity Incentive Plan to a Director as a connected person, the requirements under Chapter 14A of the Listing Rules would be required to be satisfied, including the obtaining of the approval of the Independent Shareholders. The total number of such new Shares which may be issued under the 2014 Equity Incentive Plan may not exceed 801,844,281 Shares.

LETTER FROM THE BOARD

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

In the past 12 months immediately preceding the Latest Practicable Date, the Company has raised funds in a total amount of US\$785.7 million on the issue of equity securities, of which a detailed breakdown is as follows:

Date of Issue	Fund Raising Activity	Net Proceeds <i>(US\$ million)</i>	Use of Net Proceeds
12 June 2014	Issue of 2,590,000,000 new Shares to Datang under a top-up placing arrangement	197.2	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
24 June 2014	Issue of US\$95,000,000 zero coupon convertible bonds due 2018	94.2	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
21 November 2014	Issue of 669,468,952 new Shares to Datang	51.8	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
27 November 2014	Issue of 268,642,465 new Shares to Country Hill	20.8	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes

LETTER FROM THE BOARD

Date of Issue	Fund Raising Activity	Net Proceeds <i>(US\$ million)</i>	Use of Net Proceeds
4 December 2014	Issue of US\$22,200,000 zero coupon convertible bonds due 2018 to Datang	22.5	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
8 June 2015	Issue of 4,700,000,000 new Shares to Xinxin (Hongkong) Capital Co., Limited	399.2	To be utilized for capital expenditure, debt repayment and general corporate purposes

EFFECTS OF THE ISSUE OF THE DATANG PRE-EMPTIVE SHARES AND THE COUNTRY HILL PRE-EMPTIVE SHARES ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The subscription price of any exercise by Datang of its pre-emptive right to subscribe for the Datang Pre-emptive Shares and the subscription price of any exercise by Country Hill of its pre-emptive right to subscribe for the Country Hill Pre-emptive Shares will be at a price equivalent to the Subscription Price.

The following table illustrates (i) the existing shareholding structure of the Company as at the Latest Practicable Date based on the disclosure of interests in the Shares made by the substantial shareholders of the Company under Part XV of the SFO, and (ii) the shareholding structure of the Company after the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares:

Shareholders	As at the Latest Practicable Date		Immediately after the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares	
	<i>% of issued share capital of</i>		<i>% of issued share capital of</i>	
	<i>No. of Shares</i>	<i>the Company</i>	<i>No. of Shares</i>	<i>the Company</i>
Datang	6,822,707,422	16.74%	7,784,557,231	18.52%
Country Hill	2,968,642,465	7.29%	3,292,161,313	7.83%
Investor	4,700,000,000	11.53%	4,700,000,000	11.18%
Other Shareholders	<u>26,260,945,366</u>	<u>64.44%</u>	<u>26,260,945,366</u>	<u>62.47%</u>
Total	<u>40,752,295,253</u>	<u>100.00%</u>	<u>42,037,663,910</u>	<u>100.00%</u>

LETTER FROM THE BOARD

GENERAL

At the EGM, ordinary resolutions will be proposed to the Independent Shareholders to approve (i) the Datang Pre-emptive Share Purchase Agreement and the allotment and issue of the Datang Pre-emptive Shares, (ii) the grant of the Datang Pre-emptive Specific Mandate, (iii) the Country Hill Pre-emptive Share Purchase Agreement, the allotment and issue of the Country Hill Pre-emptive Shares, (iv) the grant of the Country Hill Pre-emptive Specific Mandate and (v) the Grant and any transactions contemplated thereunder.

Datang and its associates, being connected persons of the Company in respect of the Datang Pre-emptive Share Purchase Agreement, will abstain from voting on the ordinary resolutions to approve (i) the Datang Pre-emptive Share Purchase Agreement and the allotment and issue of the Datang Pre-emptive Shares and (ii) the grant of the Datang Pre-emptive Specific Mandate.

Country Hill and its associates, being connected persons of the Company in respect of the Country Hill Pre-emptive Share Purchase Agreement, will abstain from voting on the ordinary resolutions to approve (i) the Country Hill Pre-emptive Share Purchase Agreement and the allotment and issue of the Country Hill Pre-emptive Shares and (ii) the grant of the Country Hill Pre-emptive Specific Mandate.

Dr. Zhou and his associates, being connected persons of the Company in respect of the Grant, will abstain from voting on the ordinary resolution to approve the Grant and any transactions contemplated thereunder.

An application will be made by the Company to the Listing Committee of the Hong Kong Stock Exchange for the granting of the approval for the listing of, and permission to deal in, the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares.

UNITED STATES SECURITIES LAW MATTERS

The Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to US persons (as defined in the Securities Act) unless the securities are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. There will be no public offering of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares in the United States. This circular does not constitute an offer of any securities for sale.

INFORMATION ABOUT THE COMPANY

The Company is one of the leading semiconductor foundries in the world and the largest and most advanced foundry in mainland China. The Company provides integrated circuit (IC) foundry and technology services at 0.35-micron to 28-nanometer. Headquartered in Shanghai, China, the Company has a 300mm wafer fabrication facility (fab) and a 200mm mega-fab in Shanghai; a 300mm mega-fab and a second majority owned

LETTER FROM THE BOARD

300mm fab under development for advance nodes in Beijing; 200mm fabs in Tianjin and Shenzhen. The Company also has marketing and customer service offices in the U.S., Europe, Japan, and Taiwan, and a representative office in Hong Kong.

INFORMATION ABOUT DATANG

Datang is a wholly-owned subsidiary of Datang Telecom which is a subsidiary of Datang Telecom Technology and Industry Group (“Datang Telecom Group”). Datang Telecom Group is headquartered in Beijing and a large-scale high technology enterprise focusing on development, production and sales of electronic information system and equipment, particularly in the fields of wireless mobile communication, integrated circuit and information security. Datang Telecom Group is the initiator of international standards of TD-SCDMA third generation (3-G) mobile telecommunication, the owner of core intellectual property rights, the promoter of industrialization and the market leader in the equipment sector. Further, Datang Telecom Group is also the owner of the core infrastructure patent of international standards of TD-LTE-Advanced fourth generation (4-G) mobile telecommunication. Datang Telecom Group has experience in technology development and innovation in mobile telecommunication and chip design, and has developed a series of telecommunication products of advance domestic and international standards. Datang Telecom Group is one of the leading forces in technology innovation in the PRC.

INFORMATION ABOUT COUNTRY HILL

Country Hill is a controlled subsidiary of China Investment Corporation (“CIC”). Headquartered in Beijing, CIC was founded on September 2007 as a wholly state-owned company incorporated in accord with the Company Law of China. The company was established as a vehicle to diversify China’s foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance. As a financial investor, CIC invests on a commercial basis.

IMPLICATIONS OF THE LISTING RULES

As Datang is a substantial shareholder, and thus a connected person of the Company and Country Hill was a substantial shareholder, and thus a connected person of the Company as of 2 March 2015, being the date on which Country Hill gave an irrevocable notice to the Company that it would be exercising its pre-emptive right in respect of the issue of the New Shares, the entering into of each of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement will constitute a connected transaction of the Company and will be subject to reporting, announcement and the Independent Shareholders’ approval under Chapter 14A of the Listing Rules.

As Dr. Zhou is an executive Director and therefore a connected person of the Company, the Grant and any transactions contemplated thereunder (including the allotment and issue of any new Shares pursuant thereto) constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are thus subject to reporting, announcement and the Independent Shareholders’ approval requirements.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Dr. Zhou and his associates are not interested in any Shares as at the Latest Practicable Date. In this regard, apart from Datang and its associates (as defined in the Listing Rules) (in the case of the Datang Pre-emptive Share Purchase Agreement and the Datang Pre-emptive Specific Mandate) and Country Hill and its associates, (in the case of the Country Hill Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Specific Mandate), no other Shareholder of the Company will be required to abstain from voting on the resolutions at the EGM.

Other than Dr. Gao Yonggang and Dr. Chen Shanzhi (both being Directors nominated by Datang), none of the Directors has a material interest in the Datang Pre-emptive Share Purchase Agreement, the Country Hill Pre-emptive Share Purchase Agreement and the transactions contemplated thereunder and therefore none of the Directors (save for the above named Directors) is required to abstain from voting on the Board resolutions in respect of the aforesaid transactions. Dr. Zhou, who was appointed as an executive Director and the chairman of the Board by the Board on 6 March 2015, was not involved in deciding his own remuneration (including the Grant and any transactions contemplated thereunder) which was approved by the Board at the Board meeting held on 6 March 2015.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

In accordance with the Listing Rules, the Independent Board Committee comprising Mr. William Tudor Brown, Mr. Sean Maloney, Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) whether the respective terms of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are fair and reasonable, and whether the entering into of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement is on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and (ii) whether the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders as to (i) whether the respective terms of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are fair and reasonable, and whether the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and (ii) whether the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders as to whether they

LETTER FROM THE BOARD

should vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Datang Pre-emptive Share Purchase Agreement, the Country Hill Pre-emptive Share Purchase Agreement, the Grant and the transactions contemplated thereunder.

The letter from the Independent Board Committee to the Independent Shareholders is set out on pages 25 to 26 of this circular. The letter from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 47 of this circular.

GENERAL

Your attention is drawn to the general information set out in Appendix I to this circular.

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that (i) the respective terms of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are fair and reasonable, the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and (ii) the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the Datang Pre-emptive Share Purchase Agreement and the allotment and issue of the Datang Pre-emptive Shares, (ii) the grant of the Datang Pre-emptive Specific Mandate, (iii) the Country Hill Pre-emptive Share Purchase Agreement, the allotment and issue of the Country Hill Pre-emptive Shares, (iv) the grant of the Country Hill Pre-emptive Specific Mandate and (v) the Grant and any transactions contemplated thereunder.

EXTRAORDINARY GENERAL MEETING

The voting at the EGM will be taken by a poll. The Company will make an announcement of the poll results in accordance with the relevant requirements under the Listing Rules as soon as possible.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it/he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/his Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the branch share registrar of the Company, Computershare Hong Kong Investor Services

LETTER FROM THE BOARD

Limited, at Hopewell Centre, 17M Floor, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion of a form of proxy will not preclude you from attending and voting at the EGM in person.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 7 August 2015 to Tuesday, 11 August 2015 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for attending and voting at the EGM, all transfers, accompanied by the relevant certificates, must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Thursday, 6 August 2015. All persons who are registered holders of the Shares on 11 August 2015, the record date for the EGM, will be entitled to attend and vote at the EGM.

By Order of the Board
Semiconductor Manufacturing International Corporation
Dr. Tzu-Yin Chiu
Chief Executive Officer & Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of the letter of recommendation, prepared for incorporation in this circular, from the Independent Board Committee to the Independent Shareholders.



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)

27 July 2015

To the Independent Shareholders

Dear Sir or Madam,

**NON-EXEMPT CONNECTED TRANSACTIONS —
(1) PRE-EMPTIVE SUBSCRIPTIONS FOR SHARES BY
DATANG AND COUNTRY HILL
(2) PROPOSED SPECIFIC MANDATES TO ISSUE
PRE-EMPTIVE SHARES
AND
(3) GRANT OF RESTRICTED SHARE UNITS TO A DIRECTOR**

We refer to the circular dated 27 July 2015 (the “Circular”) issued by the Company to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings given to them in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to (i) whether the respective terms of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are fair and reasonable, and whether the entering into of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement is on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and (ii) whether the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of Gram Capital.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the respective terms of the Datang Pre-emptive Share Purchase Agreement and the Country

* *for identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Hill Pre-emptive Share Purchase Agreement are fair and reasonable, and whether the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and (ii) whether the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote on the relevant resolutions. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 27 to 47 of the Circular.

We, having taken into account the advice of Gram Capital, consider that (i) the respective terms of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement are fair and reasonable, and the entering into of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement is on normal commercial terms or better, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole and (ii) the terms of the Grant are fair and reasonable and are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of all the ordinary resolutions to be proposed at the EGM.

Your attention is also drawn to the letter from the Board set out on pages 6 to 24 of the Circular and the additional information set out in the Appendix I to the Circular.

Yours faithfully,
Independent Board Committee
William Tudor Brown, Sean Maloney,
Lip-Bu Tan and Carmen I-Hua Chang
Independent Non-Executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Datang Pre-emptive Share Purchase Agreement, the Country Hill Pre-emptive Share Purchase Agreement, the Grant and the transactions contemplated thereunder for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

27 July 2015

*To: The independent board committee and the independent shareholders
of Semiconductor Manufacturing International Corporation*

Dear Sirs,

**NON-EXEMPT CONNECTED TRANSACTIONS
PRE-EMPTIVE SUBSCRIPTIONS BY
DATANG AND COUNTRY HILL
AND
GRANT OF RESTRICTED SHARE UNITS TO A DIRECTOR**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Datang Pre-emptive Share Purchase Agreement, the Country Hill Pre-emptive Share Purchase Agreement, the Grant and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 27 July 2015 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Pre-emptive Subscriptions

On 12 February 2015 (after trading hours), the Company entered into the Share Purchase Agreement with the Investor, China Integrated Circuit Industry Investment Fund Co., Ltd., whereby (i) the Company has conditionally agreed to allot and issue to the Investor, and the Investor has conditionally agreed to subscribe, through its wholly-owned subsidiary incorporated in Hong Kong, for 4,700,000,000 New Shares at the Subscription Price of HK\$0.6593 per New Share (the “**Investor Subscription**”). The aggregate consideration for the New Shares is HK\$3,098.71 million.

LETTER FROM GRAM CAPITAL

In connection with the Investor Subscription and pursuant to each of the Datang Subscription Agreement and the Country Hill Subscription Agreement, each of Datang and Country Hill delivered an irrevocable notice to the Company on 2 March 2015 that it would be exercising its pre-emptive right in respect of the Investor Subscription only for a total consideration of an amount equivalent to approximately RMB500 million and RMB170 million respectively.

On 11 June 2015, the Company entered into the Datang Pre-emptive Share Purchase Agreement with Datang and the Country Hill Pre-emptive Share Purchase Agreement with Country Hill (collectively, the “**Pre-emptive Subscription Agreements**”) respectively, pursuant to which, on and subject to the terms of each of the Pre-emptive Subscription Agreements, the Company conditionally agreed to issue, and each of Datang and Country Hill conditionally agreed to subscribe for, the Datang Pre-emptive Shares and Country Hill Pre-emptive Shares respectively (the “**Pre-emptive Subscriptions**”). The Pre-emptive Subscriptions will be at a price equivalent to the Subscription Price, and conditional upon, among others, the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders (as the case may be).

With reference to the Board Letter, Datang is a substantial shareholder, and thus a connected person of the Company and Country Hill was a substantial shareholder, and thus a connected person of the Company as of 2 March 2015, being the date on which Country Hill gave an irrevocable notice to the Company that it would be exercising its pre-emptive right in respect of the issue of the New Shares, the entering into of each of the Pre-emptive Subscription Agreements will constitute a non-exempt connected transaction of the Company and will be subject to reporting, announcement and the Independent Shareholders’ approval under Chapter 14A of the Listing Rules.

The Grant

On 20 May 2015, the Company has granted 10,804,985 RSUs to Dr. Zhou under the 2014 Equity Incentive Plan, subject to the Independent Shareholders’ approval at the EGM. Each of these RSUs granted to Dr. Zhou represents the right to receive a Share on the date it vests; and the total number of RSUs granted to Dr. Zhou is equivalent to 30% of 0.1% of the total issued Shares as of the date of the Grant.

Dr. Zhou is an executive Director and therefore a connected person of the Company, the Grant and any transactions contemplated thereunder (including the allotment and issue of any new Shares pursuant thereto) constitute non-exempt connected transactions of the Company under Chapter 14A of the Listing Rules and are thus subject to reporting, announcement and the Independent Shareholders’ approval requirements.

The Independent Board Committee comprising Mr. William Tudor Brown, Mr. Sean Maloney, Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the respective terms of each of the Pre-emptive Subscription Agreements are fair and reasonable, and whether the entering into of each of the Pre-emptive Subscription Agreements is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and (ii)

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whether the terms of the Grant are fair and reasonable and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders as to whether they should vote in favour of the ordinary resolutions to be proposed at the EGM to approve each of the Pre-emptive Subscription Agreements, the Grant and the transactions contemplated thereunder. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Company. We have assumed that all information and representations that have been provided by the Company, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Pre-emptive Subscriptions and the Grant. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Datang, Country Hill, Dr. Zhou, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Pre-emptive Subscriptions and the Grant. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take

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into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of that information.

(A) THE PRE-EMPTIVE SUBSCRIPTIONS

Principal factors and reasons considered

In arriving at our opinion in respect of the Pre-emptive Subscriptions, we have taken into consideration the following principal factors and reasons:

Information on the Company

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

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2014 as extracted from the Company’s annual report for the year ended 31 December 2014 (the “**2014 Annual Report**”):

	For the year ended 31 December 2014 US\$'000	For the year ended 31 December 2013 US\$'000	Year on year change %
Revenue	1,969,966	2,068,964	(4.78)
Profit for the year	126,261	174,467	(27.63)

As depicted by the above table, the Group’s revenue for the year ended 31 December 2014 was decreased by approximately 4.78% from 2013. The profit of the Group for the year ended 31 December 2014 was also decreased by approximately 27.63% as compared to the previous year. According to 2014 Annual Report and as confirmed by the management of the Company, the decrease in profit of the Group was primarily due to (i) an increase in R&D activities in 2014; (ii) higher gain realised from

the partial disposal of the living quarters in Shanghai in 2013; and (iii) the gain arising from the disposal of the Group's total ownership interest in SMIC (Wuhan) Development Corporation which was mainly engaged in the construction, operation and management of the Group's living quarters and schools in Wuhan in 2013.

Information on Datang

As extracted from the Board Letter, Datang is a wholly-owned subsidiary of Datang Telecom which is a subsidiary of Datang Telecom Technology and Industry Group ("**Datang Telecom Group**"). Datang Telecom Group is headquartered in Beijing and a large-scale high technology enterprise focusing on development, production and sales of electronic information system and equipment, particularly in the fields of wireless mobile communication, integrated circuit and information security. Datang Telecom Group is the initiator of international standards of TD-SCDMA third generation (3-G) mobile telecommunication, the owner of core intellectual property rights, the promoter of industrialization and the market leader in the equipment sector. Further, Datang Telecom Group is also the owner of the core infrastructure patent of international standards of TD-LTE-Advanced fourth generation (4-G) mobile telecommunication. Datang Telecom Group has experience in technology development and innovation in mobile telecommunication and chip design, and has developed a series of telecommunication products of advance domestic and international standards. Datang Telecom Group is one of the leading forces in technology innovation in the PRC.

Information on Country Hill

As extracted from the Board Letter, Country Hill is a controlled subsidiary of China Investment Corporation ("**CIC**"). Headquartered in Beijing, CIC was founded in September 2007 as a wholly state-owned company incorporated in accord with the Company Law of China. The company was established as a vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance. As a financial investor, CIC invests on a commercial basis.

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Equity fund raising activities of the Company in the past 12 months

In the past 12 months immediately preceding the Latest Practicable Date, the Company has raised funds in a total amount of US\$785.7 million on the issue of equity securities, of which a detailed breakdown is as follows:

Date of Issue	Fund raising activity	Net proceeds (US\$ million)	Use of net proceeds
12 June 2014	Issue of 2,590,000,000 new Shares to Datang under a top-up placing arrangement	197.2	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
24 June 2014	Issue of US\$95,000,000 zero coupon convertible bonds due 2018	94.2	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
21 November 2014	Issue of 669,468,952 new Shares to Datang	51.8	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
27 November 2014	Issue of 268,642,465 new Shares to Country Hill	20.8	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
4 December 2014	Issue of US\$22,200,000 zero coupon convertible bonds due 2018 to Datang	22.5	Fully utilized for capital expenditure in capacity expansion associated with 8-inch and 12-inch manufacturing facilities and general corporate purposes
8 June 2015	Issue of 4,700,000,000 new Shares to Xinxin (Hongkong) Capital Co., Limited	399.2	To be utilized for capital expenditure, debt repayment and general corporate purposes

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Reasons for and benefits of the Pre-emptive Subscriptions and the use of proceeds

Pursuant to the Datang Subscription Agreement (as supplemented by the Supplemental Datang Subscription Agreement), in the case of any issue of new Shares, subject to certain exceptions, Datang has the pre-emptive right to purchase such number of additional Shares so as to enable Datang to hold, after the issue of such securities, a pro rata portion of such securities equivalent to the percentage of the issued share capital of the Company then beneficially owned by Datang prior to the Company's entering into of the relevant agreement for the issue of such securities. Datang's pre-emptive right is applicable to the issue of the New Shares.

Pursuant to the Country Hill Subscription Agreement, in case of any issue of new Shares, subject to certain exceptions, Country Hill has the pre-emptive right to purchase such number of additional Shares so as to enable Country Hill to hold, after the issue of such securities, a pro rata portion of such securities equivalent to the percentage of the issued share capital of the Company then beneficially owned by Country Hill prior to the issue of such securities. Country Hill's pre-emptive right is applicable to the issue of the New Shares.

Given the above, the Company is legally obliged to enter into of the Datang Pre-emptive Share Purchase Agreement and Country Hill Pre-emptive Share Purchase Agreement upon the exercise by Datang and/or Country Hill of their/its pre-emptive right arising from the Investor Subscription pursuant to the Datang Subscription Agreement (as supplemented by the Supplemental Datang Subscription Agreement) and the Country Hill Subscription Agreement.

As also referred to in the Board Letter, the Company is of the view that the entering into of the Datang Pre-emptive Share Purchase Agreement and the Country Hill Pre-emptive Share Purchase Agreement will strengthen the relationship between Datang, Country Hill and the Company and provide an additional source of funding for the Company's needs beyond the capital raised through the subscription by the Investor.

It is estimated that the net proceeds (net of fees and expenses) from the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares will be approximately HK\$634 million (HK\$0.6592 per Share) and HK\$213 million (HK\$0.6592 per Share), respectively. The Company intends to use the net proceeds from the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares for the purpose of capital expenditure, debt repayment and general corporate purposes.

We noted from the unaudited financial results for the three months ended 31 March 2015 that the planned 2015 capital expenditures for foundry operations are adjusted to approximately US\$1.5 billion, which are mainly for (i) the capacity expansion of Semiconductor Manufacturing North China (Beijing) Corporation's 12-inch fab, which is approximately US\$800 million, of which approximately US\$450 million will be funded by the Company, (ii) the capacity expansion in the new 8-inch fab in Shenzhen; and (iii) research and development equipment, mask shops and

intellectual property acquisition. The planned 2015 capital expenditures for non-foundry operations, mainly for the construction of living quarters, are adjusted to approximately US\$150 million, the units of which are intended to be rent out or sold to the Company's employees in the future. Furthermore, the Group recorded total debt of approximately US\$1,106.5 million as at 31 March 2015. Given that the capital expenditure will facilitate the business development of the Group and the debt repayment will reduce debt level of the Group, the intended use of the net proceeds from the Pre-emptive Subscriptions may pose positive impact on the Group's future financial performance. Having also considered the aforesaid capital expenditures and amount of total debt as at 31 March 2015 of the Group, we consider that the allocation of net proceeds is justifiable.

In light of the above reasons for the Pre-emptive Subscriptions, and that the Company intends to use the net proceeds from the Pre-emptive Subscriptions for capital expenditure and debt repayment of the Group, which may pose positive impact on the Group's future financial performance, we concur with the Directors that the Pre-emptive Subscriptions is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Pre-emptive Subscription Agreements

Datang Pre-emptive Share Purchase Agreement

On 11 June 2015, the Company entered into the Datang Pre-emptive Share Purchase Agreement with Datang, pursuant to which, on and subject to the terms of the Datang Pre-emptive Share Purchase Agreement, the Company conditionally agreed to issue, and Datang conditionally agreed to subscribe for, the Datang Pre-emptive Shares. The subscription by Datang of the Datang Pre-emptive Shares will be at a price equivalent to the Subscription Price, and conditional upon, among others, the obtaining of the necessary governmental approvals and the approval of the Independent Shareholders.

The table below summarises the major terms of the Datang Pre-emptive Share Purchase Agreement:

Date:

11 June 2015

Parties:

- (i) the Company as the issuer; and
- (ii) Datang as the subscriber

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Interest to be acquired:

The Datang Pre-emptive Shares represent (i) approximately 2.36% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 2.31% of the issued share capital of the Company as enlarged by the issue of the Datang Pre-emptive Shares.

Pre-emptive Rights:

In case of any issue of new Shares or convertible equity securities by the Company, Datang has a pre-emptive right to purchase a pro rata portion of such new securities being issued by the Company equivalent to the percentage of the issued share capital of the Company then beneficially owned by Datang (together with its permitted transferee) prior to the issue of such new securities, provided that Datang (together with its permitted transferee) owns not less than 1,849,547,150 Shares. The Directors consider that the term “Pre-emptive rights”, which exactly mirrors the pre-emptive rights of the Investor under the Investor Subscription Agreement, could further secure the future strategic relationship between the Company and Datang and encourage the enduring equity capital commitment from Datang to the Company.

Lock-up:

Datang shall not transfer any Datang Pre-emptive Shares (except to its permitted transferee) without the prior written consent of the Company for a period of two (2) years from the Closing Date, provided that such lock-up shall not apply to the pledging of any of the Datang Pre-emptive Shares with the permitted transferees and the rights of Datang under the Datang Pre-emptive Share Purchase Agreement will not be affected by such pledge.

Datang will refrain at all times from selling the Datang Pre-emptive Shares to any person or entity (except to its permitted transferee) that is a competitor of the Company (or a member of such competitor’s group), except in a genuine open market sale where the identity of the purchaser of the Datang Pre-emptive Shares is not known to, and cannot reasonably be determined by, Datang or its agent effecting such sale and provided that the number of Pre-emptive Shares that Datang is permitted to sell in the open market shall not exceed 1% of the issued share capital of the Company at the relevant time during any 30-day period. (The abovementioned competitor means (a) the leading ten (10) companies in the area of pure foundry or semiconductor, respectively, in terms of annual global revenues according to the most recent data of Gartner and/or iSuppli as at the Closing Date, or (b) the leading ten (10) semiconductor manufacturing companies in the PRC according to the most recent data of the Ministry of Industry and Information Technology of the PRC or other institutions under its supervision (such as but not limited to the China Semiconductor Industry Association) as at the Closing Date. The abovementioned competitor’s group means the competitor, its subsidiaries and holding company, and any subsidiaries of the competitor’s holding company.)

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Having considered the above lock-up provision, we are of the view that such provision would reduce the possible negative impact of the issuance of new Shares on the market price of the Shares and is in the interest of the Company and the Shareholders as a whole.

Country Hill Pre-emptive Share Purchase Agreement

On 11 June 2015, the Company entered into the Country Hill Pre-emptive Share Purchase Agreement with Country Hill, pursuant to which, on and subject to the terms of the Country Hill Pre-emptive Share Purchase Agreement, the Company conditionally agreed to issue, and Country Hill conditionally agreed to subscribe for, the Country Hill Pre-emptive Shares. The subscription by Country Hill of the Country Hill Pre-emptive Shares will be at a price equivalent to the Subscription Price, and conditional upon, among others, the obtaining of the approval of the Independent Shareholders.

The table below summarises the major terms of the Country Hill Pre-emptive Share Purchase Agreement:

Date:

11 June 2015

Parties:

- (i) the Company as the issuer; and
- (ii) Country Hill as the subscriber

Interest to be acquired:

The Country Hill Pre-emptive Shares represent (i) approximately 0.79% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 0.79% of the issued share capital of the Company as enlarged by the issue of the Country Hill Pre-emptive Shares.

Pre-emptive Rights:

In case of any issue of new Shares or convertible equity securities by the Company, Country Hill has a pre-emptive right to purchase a pro rata portion of such new securities being issued by the Company equivalent to the percentage of the issued share capital of the Company then beneficially owned by Country Hill (together with its permitted transferee) prior to the issue of such new securities. The Directors consider that the term “Pre-emptive rights”, which exactly mirrors the pre-emptive rights of the Investor under the Investor Subscription Agreement, could further secure the future strategic relationship between the Company and Country Hill and encourage the enduring equity capital commitment from Country Hill to the Company.

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Lock-up:

Country Hill shall not transfer any Country Hill Pre-emptive Shares (except to its permitted transferee) without the prior written consent of the Company for a period of two (2) years from the Closing Date.

Country Hill will refrain at all times from selling the Country Hill Pre-emptive Shares to any person or entity (except to its permitted transferee) that is a competitor of the Company (or a member of such competitor's group), except (1) in a genuine open market sale where the identity of the purchaser of the Country Hill Pre-emptive Shares is not known to, and cannot reasonably be determined by, Country Hill or its agent effecting such sale and provided that the number of Country Hill Pre-emptive Shares that Country Hill is permitted to sell in the open market shall not exceed 1% of the issued share capital of the Company at the relevant time during any 30-day period (The abovementioned competitor means (a) the leading ten (10) companies in the area of pure foundry or semiconductor, respectively, in terms of annual global revenues according to the most recent data of Gartner and/or iSuppli as at the Closing Date, or (b) the leading ten (10) semiconductor manufacturing companies in the PRC according to the most recent data of the Ministry of Industry and Information Technology of the PRC or other institutions under its supervision (such as but not limited to the China Semiconductor Industry Association) as at the Closing Date. The abovementioned competitor's group means the competitor, its subsidiaries and holding company, and any subsidiaries of the competitor's holding company.); and (2) accepting an offer (as defined in the Code on Takeovers and Mergers in Hong Kong) under a general offer for the Company where the offer has become unconditional, or where the offeror has become entitled to compulsorily acquire the securities held by Country Hill (and/or its permitted transferees) under applicable laws and regulations.

Having considered the above lock-up provision, we are of the view that such provision would reduce the possible negative impact of the issuance of new Shares on the market price of the Shares and is in the interest of the Company and the Shareholders as a whole.

Consideration and Subscription Price:

The Subscription Price is HK\$0.6593 per Share, and the total consideration for the issue of (i) the Datang Pre-emptive Shares is HK\$634,147,579.07; and (ii) the Country Hill Pre-emptive Shares is HK\$213,295,976.49.

As confirmed by the Company, the subscription price of any exercise by Datang of its pre-emptive right to subscribe for the Datang Pre-emptive Shares and the subscription price of any exercise by Country Hill of its pre-emptive right to subscribe for the Country Hill Pre-emptive Shares will be at a price equivalent to the Subscription Price.

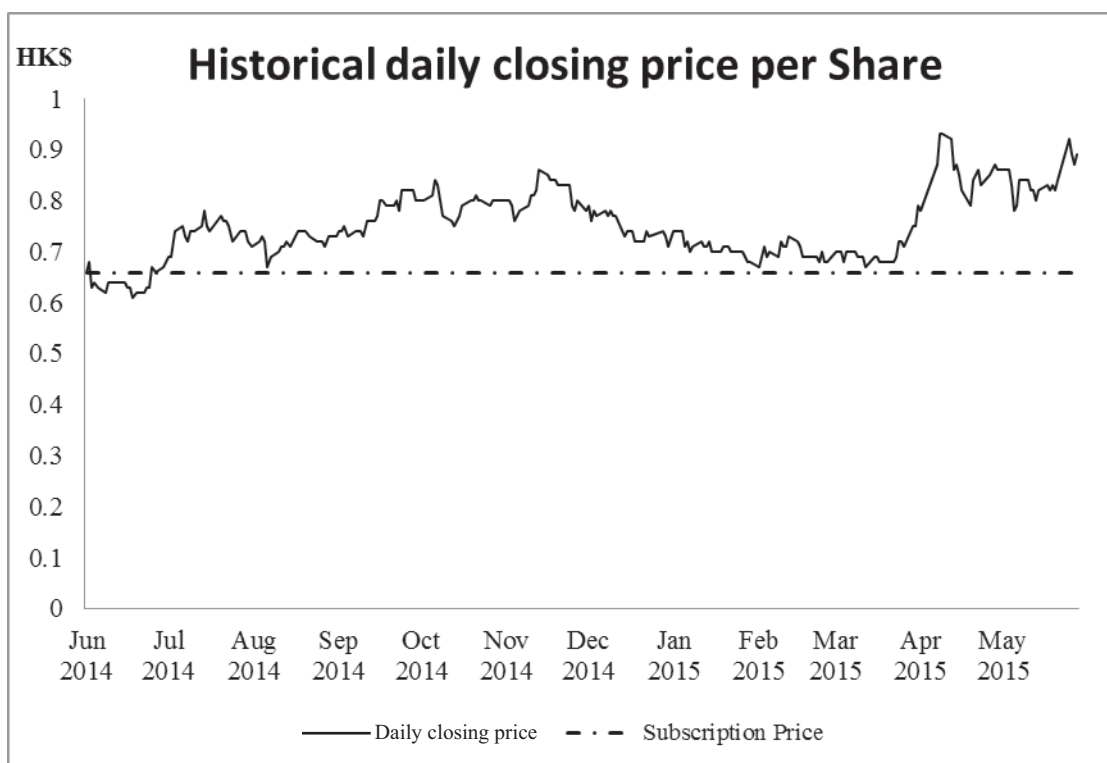
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The Subscription Price of HK\$0.6593 per Share, represents: (i) a discount of approximately 14.38% to the closing price of HK\$0.770 per Share quoted on the Hong Kong Stock Exchange on the Latest Practicable Date; (ii) a discount of approximately 23.34% to the closing price of HK\$0.860 per Share (the “**LTD Discount**”) quoted on the Hong Kong Stock Exchange on 11 June 2015, being the last full trading day (the “**Last Trading Day**”) immediately before the execution of the Pre-emptive Subscription Agreements; (iii) a discount of approximately 23.16% to the average closing price of HK\$0.858 per Share quoted on the Hong Kong Stock Exchange for the five trading days up to and including the Last Trading Day; (iv) a discount of approximately 23.96% to the average closing price of HK\$0.867 per Share as quoted on the Hong Kong Stock Exchange for the ten trading days up to and including Last Trading Day.

To further assess the fairness and reasonableness of the Subscription Price, we set out the following analyses for illustrative purpose:

Review of Share prices

The diagram demonstrating the daily closing price of the Shares as quoted on the Hong Kong Stock Exchange during the period commencing from 2 June 2014 up to and including the Last Trading Day (the “**Review Period**”) (being a period of approximately one year prior to and including the Last Trading day, which is commonly used for analysis purpose) is shown as follows:



Source: The Hong Kong Stock Exchange's web-site (www.hkex.com.hk)

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange were HK\$0.61 per Share (the “**Lowest Share Price**”) recorded on 19 June 2014 and HK\$0.93 per Share (the “**Highest Share Price**”) recorded on 9 April 2015 and 10 April 2015 respectively. The Subscription Price represents a premium of approximately 8.08% over the Lowest Share Price and a discount of approximately 29.11% to the Highest Share Price (the “**Highest Discount**”). As illustrated in the above diagram, the Subscription Price of HK\$0.6593 is within the range of the lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the Review Period.

Comparison with other share subscription exercises

As part of our analysis, we have also identified transactions regarding subscription of new shares under specific mandate by independent third parties/connected persons during the period from 1 May 2015 up to the Last Trading Day, as announced by companies listed on the main board of Hong Kong Stock Exchange (the “**Comparables**”) for comparison purpose. We consider that a sampling period of approximately one month is adequate and appropriate given that (i) such period is sufficiently recent to demonstrate the prevailing market practices prior to the Last Trading Day; and (ii) we were able to identify sufficient samples for comparison with such period. Subscriptions of new shares under specific mandate were selected for comparison purpose as the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares will be issued under specific mandate. In addition, given that listed companies may impose more favourable or stringent terms on subscriptions by connected persons as compared to those offered to the independent third parties which are usually on normal commercial terms, we have included subscriptions by independent third parties or connected persons for an objective and fair comparison with the Pre-emptive Subscriptions to examine whether they are comparable to the Comparables. To the best of our knowledge and as far as we are aware of, we found 15 transactions which met the said criteria and they are exhaustive as far as we are aware of. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables and thus the Comparables

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are only used to provide a reference (which also forms part of our analysis for our opinion) for the recent common market practice of Hong Kong main board listed companies in the subscription of new shares under specific mandate. Summarised below is our relevant findings:

Company name	Stock code	Date of announcement	Discount of the issue price to closing price per share on the last trading day prior to/the date of announcement/agreement in relation to the respective subscription of share %
CITIC Securities Company Limited	6030	8 June 2015	(43.13)
World Wide Touch Technology (Holdings) Limited	1282	4 June 2015	(82.35)
Sunshine Oilsands Ltd.	2012	1 June 2015	(19.40)
ReOrient Group Limited	376	29 May 2015	(77.78)
Huiyin Household Appliances (Holdings) Co., Ltd.	1280	28 May 2015	(9.23)
China Jinhai International Group Limited	139	27 May 2015	(73.96)
Emperor Capital Group Limited	717	26 May 2015	(12.79)
Asia Resources Holdings Limited	899	21 May 2015	(44.62)
China City Railway Transportation Technology Holdings Company Limited	1522	20 May 2015	(36.94)
Titan Petrochemicals Group Limited	1192	19 May 2015	(59.35)
China Beidahuang Industry Group Holdings Limited	39	17 May 2015	(19.97)
China Rundong Auto Group Limited	1365	17 May 2015	(15.00)
China Traditional Chinese Medicine Co. Limited	570	15 May 2015	(28.37)
21 Holdings Limited	1003	13 May 2015	(79.17)
Broad Greenstate International Company Limited	1253	7 May 2015	(61.74)
Maximum			(82.35)
Minimum			(9.23)
Average			(44.25)
The Company	981	11 June 2015	(23.34)

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Note:

1. Trading of shares of the company was suspended from 19 June 2012. The relevant subscription agreements were entered into on 27 March 2015 and 6 May 2015 respectively.
2. The company announced on 18 May 2015 that the subscription shares would not be allotted and issued pursuant to the general mandate of the company. The company will seek the grant of a specific mandate from the shareholders of the company to allot and issue the subscription shares.

As shown by the above table, the subscription prices of the Comparables ranged from a discount of approximately 82.35% to a discount of approximately 9.23% to the respective closing prices of their shares on the last trading days prior to/on the date of the announcements/agreement in relation to the relevant share subscription (the “**Market Range**”), with an average of a discount of approximately 44.25%. The LTD Discount and the Highest Discount are thus within the Market Range and much less than the average of the Comparables.

Having taken into account that (i) the Subscription Price of HK\$0.6593 is within the range of the lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the Review Period; and (ii) the LTD Discount and the Highest Discount are within the Market Range and much less than the average of the Comparables, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Details of the terms of Datang Pre-emptive Share Purchase Agreement and Country Hill Pre-emptive Share Purchase Agreement were set out under the section headed “Datang Pre-emptive Share Purchase Agreement” and “Country Hill Pre-emptive Share Purchase Agreement” of the Board Letter.

Having considered the above, we are of the view that the terms of the Pre-emptive Subscription Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Corporation and its Shareholders as a whole.

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Dilution effect on the shareholding interests of the existing public Shareholders

With reference to the Board Letter, the following table illustrates (i) the existing shareholding structure of the Company; and (ii) the shareholding structure of the Company after the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares:

<i>Shareholders</i>	As at the Latest Practicable Date		Immediately after the issue of the Datang Pre-emptive Shares and the Country Hill Pre-emptive Shares	
	<i>No. of Shares</i>	<i>% of issued share capital of the Company</i>	<i>No. of Shares</i>	<i>% of issued share capital of the Company</i>
Datang	6,822,707,422	16.74	7,784,557,231	18.52
Country Hill	2,968,642,465	7.29	3,292,161,313	7.83
Investor	4,700,000,000	11.53	4,700,000,000	11.18
Other				
Shareholders	<u>26,260,945,366</u>	<u>64.44</u>	<u>26,260,945,366</u>	<u>62.47</u>
Total	<u>40,752,295,253</u>	<u>100</u>	<u>42,037,663,910</u>	<u>100</u>

As depicted by the table above, upon completion of the Pre-emptive Subscriptions, the shareholding interests of the existing public Shareholders would be diluted by approximately 1.97 percent point. Nonetheless, in view of (i) the reasons for and the possible benefits of the Pre-emptive Subscriptions; and (ii) the terms of the Pre-emptive Subscription Agreements being fair and reasonable, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders and the size of the Pre-emptive Subscriptions are acceptable.

Financial effects of the Pre-emptive Subscriptions

Effect on total equity

Based on the 2014 Annual Report, the audited consolidated total equity of the Group was approximately US\$3,307.7 million as at 31 December 2014. As confirmed by the Company, the Pre-emptive Subscriptions would increase the total equity of the Group.

Effect on working capital

As confirmed by the Company, immediately upon completion of the Pre-emptive Subscriptions, the working capital (as calculated by current assets minus current liabilities) of the Group would be increased.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Pre-emptive Subscriptions.

RECOMMENDATION ON THE PRE-EMPTIVE SUBSCRIPTION AGREEMENTS

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Pre-emptive Subscription Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Pre-emptive Subscriptions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Pre-emptive Subscription Agreements and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

(B) THE GRANT

Principal factors and reasons considered

In arriving at our opinion in respect of the Grant, we have taken into consideration the following principal factors and reasons:

Information on Dr. Zhou

Dr. Zhou, was appointed as an executive Director with effect from 6 March 2015. With reference to the announcement of the Company dated 6 March 2015, Dr. Zhou received a master degree in management engineering from The University of Electronic Science and Technology of China and a Ph.D in Economic History from Central China Normal University. Prior to joining the Company, Dr. Zhou served as Chief Economist in the Ministry of Industry and Information Technology of China (“MIIT”) since April 2009. He was the Director-General in the Department of Finance of MIIT from 2008 to 2009. Dr. Zhou had worked as Director-General and Deputy Director-General in the Ministry of Information Industry of China and Deputy Director-General of the Ministry of Electronics Industry (“MEI”) and had served in other different divisions of the MEI and the Ministry of Machinery and Electronics Industry. Dr. Zhou had previously worked in Beijing State-Owned Dongguangdian Factory, one of the then largest semiconductor enterprises in China, responsible for accounting, marketing, etc. Dr. Zhou is also the secretary general of China Information Technology Industry Federation, the executive deputy director of the Standing Committee of Electronic Science and Technology Commission of China, a member of the National Informatization Expert Advisory Committee, a director of Chinese Accounting Association, the executive director and vice chairman of the board of directors of the China Institute of Electronics, the vice president of China Electronic Chamber of Commerce, the executive director of China Association of Chief Financial Officers and the president of its electronic branch and an Adjunct Professor of each of Beihang University, Beijing Institute

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of Technology, Renmin University of China, Nanjing University of Science and Technology, Zhejiang University, University of Electronic Science and Technology, etc.

Upon our further enquiry, we also understand from the Company that Dr. Zhou is primarily responsible for (i) providing top level leadership for the Company and the Board; and (ii) ensuring that the Board is effective in its tasks of setting and implementing the Company's direction and strategy. With the foregoing being the case, the Company considers Dr. Zhou to be a key personnel for the business and operation of the Group.

Reasons for and benefits of the Grant

With reference to the Board Letter, the Company is of the view that the grant of RSUs to an executive Director is part of the Company's remuneration system, the purpose of which is to closely align the interests and benefits of and risks sharing among the Shareholders, the Company and the employees in order to maximise the motivation of the executive Directors and senior management. The Grant aims to provide sufficient incentives to attract, retain and motivate Dr. Zhou to participate in the continuing operation and long-term development and growth of the Company; and there will not be substantial cash outflow by the Company under the Grant.

For our due diligence purpose, we have requested the Company to provide us with the background and working experience of Dr. Zhou and acknowledged his responsibility in the Group. Given the above, we concur with the Company that Dr. Zhou is a key personnel for the business and operation of the Group. Based on our independent research on the remuneration package and incentive plan adopted by listed companies engaging in the information technology — semiconductors sector as set out under their annual reports, we also noted that remuneration package and incentive plan which are similar to the 2014 Equity Incentive Plan are commonly adopted by listed companies engaging in the information technology — semiconductors sector. To the best of our knowledge and as far as we are aware of, the sampling of our independent research is exhaustive. For the above reasons, we are of the opinion that the Grant, which aims at providing sufficient incentives to attract, retain and motivate Dr. Zhou to participate in the continuing operation and long-term development of the Company and to recognise Dr. Zhou's contributions to the growth of the Company, is justifiable.

We have also obtained information from the Company regarding the estimated total expenses which would be incurred due to the Grant and noted that they are relatively minimal and hence we concur with the Directors that the Grant would not create substantial cash outflow by the Company. In view of the reasons for and possible benefits of the Grant as presented above, we concur with the Directors that the Grant is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Grant

With reference to the Board Letter, on 20 May 2015, the Company has granted 10,804,985 RSUs to Dr. Zhou under the 2014 Equity Incentive Plan, subject to the Independent Shareholders' approval at the EGM. Each of these RSUs granted to Dr. Zhou represents the right to receive a Share on the date it vests; and the total number of RSUs granted to Dr. Zhou is equivalent to 30% of 0.1% of the total issued Shares as of the date of the Grant.

The RSUs to be granted to Dr. Zhou shall vest over a four-year period. 25% of the total RSUs under the Grant shall vest on each of the first, second, third and fourth anniversaries of 6 March 2015, being the vesting commencement date and the effective date of Dr. Zhou's appointment as an executive Director. The RSUs may be settled in Shares or cash or both. Any Shares to be issued pursuant to the Grant upon the RSUs being vested and settled will rank pari passu in all respects among themselves and with all the Shares in issue from time to time.

The 2014 Equity Incentive Plan

The 2014 Equity Incentive Plan was approved by the then Shareholders at the annual general meeting of the Company on 13 June 2013. The 2014 Equity Incentive Plan will provide for the grant of awards to the Company's employees, officers or other service providers located in the PRC, the U.S. or elsewhere, or to a trust established in connection with any employee benefit plan of the Company (including the 2014 Equity Incentive Plan) for the benefit of those individuals eligible to participate in the 2014 Equity Incentive Plan. Upon registration of the 2014 Equity Incentive Plan with the PRC State Administration of Foreign Exchange on 15 November 2013, the 2014 Equity Incentive Plan has become effective. The total number of such new Shares that may be issued under the 2014 Equity Incentive Plan may not exceed 801,844,281 Shares.

Awards issued under the 2014 Equity Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or pursuant to a domestic relations order or as determined by the Compensation Committee.

A summary of the 2014 Equity Incentive Plan is included in the 2014 Annual Report.

The Restricted Share Units

The right under the Restricted Share Units to Dr. Zhou is subject to forfeiture because of termination of employment.

We are of the view that the terms that (i) the awards granted under the 2014 Equity Incentive Plan are not transferable and the right under the Restricted Share Units to Dr. Zhou will be forfeited in case of termination of employment; and (ii) the Restricted Share Units granted to Dr. Zhou are subject to vesting over a four-year period, are favourable to the Company as the said restrictions would further

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strengthen the effect of the Grant as an incentive scheme to attract, retain and motivate Dr. Zhou to participate in the continuing operation and long-term development of the Company.

Consideration of the Grant

As already mentioned, in accordance with the terms of the 2014 Equity Incentive Plan, the Grant will be made for no consideration, other than the minimum payment required by the applicable law in the Cayman Islands. As advised by the Company, the RSUs are granted as compensation to attract, retain and motivate employees and directors of, and other service providers to, the Company; and to allow them to participate in the growth and profits of the Company.

Based on the closing price of HK\$0.770 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date with regard to, among other things, the market value of the RSUs under the Grant amounts to approximately HK\$8.3 million (the “**Market Value**”).

As referred to in the 2014 Annual Report, the Group (i) generated audited consolidated revenue of approximately US\$1,969,966,000 (equivalent to approximately HK\$15,267,236,500 based on the exchange rate of US\$1: HK\$7.75) and audited consolidated profit of approximately US\$126,261,000 (equivalent to approximately HK\$978,522,750) for the year ended 31 December 2014; and (ii) recorded audited consolidated total equity of approximately US\$3,307,722,000 (equivalent to approximately HK\$25,634,845,500) as at 31 December 2014. Thus, the Market Value represents only approximately 0.054% of the revenue of the Group and approximately 0.850% of the profit of the Group for the year ended 31 December 2014, and approximately 0.032% of the total equity of the Group as at 31 December 2014, and is therefore relatively insignificant as compared to the overall financial position of the Group.

In light of the above, we consider that the Grant which was made at no consideration is acceptable.

Having considered the principal terms of the Grant as highlighted above, we are of the opinion that the terms of the Grant are fair and reasonable so far as the Independent Shareholders are concerned.

Dilution effect on the shareholding interests of the existing public Shareholders

Dr. Zhou was interested in a total of 25,211,633 share options, representing approximately 0.062% of the total issued share capital of the Company as at the Latest Practicable Date, granted to him by the Company pursuant to the 2014 Stock Option Plan. Subject to the Independent Shareholders’ approval of the Grant at the EGM and assuming that no further Shares will be issued or repurchased by the Company prior to the date of the EGM, the maximum number of Shares that may be issued to Dr. Zhou under the Grant in accordance with and subject to the terms of the 2014 Equity Incentive Plan would be 10,804,985 Shares, representing approximately 0.027% of the

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total issued share capital of the Company as at the Latest Practicable Date and approximately 0.027% of the total issued share capital of the Company enlarged by the issue of the maximum number of Shares pursuant to the Grant; and Dr. Zhou's total interests in the underlying shares of the Company under the 2014 Stock Option Plan and the 2014 Equity Incentive Plan would represent approximately 0.088% of the total issued share capital enlarged by the issue of the maximum number of Shares pursuant to the Grant.

As indicated above, the change in shareholding of the Company would be minimal as a result of the Grant. Moreover, taking into account (i) the reasons for and possible benefits of the Grant; and (ii) the terms of the Grant being fair and reasonable, we are of the view that the immaterial dilution to the shareholding interests of the existing public Shareholders as a result of the Grant is acceptable.

RECOMMENDATION ON THE GRANT

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Grant are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Grant is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Grant and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTERESTS

(a) Directors' Interests in Securities of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief Executive Officer in the Shares, underlying Shares and debentures of the Company (within the meaning of Part XV of the SFO), which were notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), and as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Long/Short Position	Nature of Interests	Number of Ordinary Shares held	Derivatives		Total Interests	Percentage of Aggregate Interests to Total Issued Share Capital of the Company (Note 1)
				Share Options	Other		
Executive Directors							
Zhou Zixue	Long Position	Beneficial Owner	—	25,211,633 (Note 2)	10,804,985 (Note 3)	36,016,618	0.088%
Tzu-Yin Chiu	Long Position	Beneficial Owner	31,539,945	86,987,535 (Note 4)	9,320,093 (Note 5)	127,847,573	0.314%
Gao Yonggang	Long Position	Beneficial Owner	—	19,640,054 (Note 6)	2,310,472 (Note 7)	21,950,526	0.054%
Non-executive Directors							
Chen Shanzhi	Long Position	Beneficial Owner	—	3,145,319 (Note 8)	—	3,145,319	0.008%
Zhou Jie	—	—	—	—	—	—	—
Independent non-executive Directors							
William Tudor Brown	Long Position	Beneficial Owner	—	4,492,297 (Note 9)	—	4,492,297	0.011%
Sean Maloney	Long Position	Beneficial Owner	—	4,490,377 (Note 10)	—	4,490,377	0.011%
Lip-Bu Tan	Long Position	Beneficial Owner	—	4,634,877 (Note 11)	—	4,634,877	0.011%
Carmen I-Hua Chang	Long Position	Beneficial Owner	—	4,887,303 (Note 12)	—	4,887,303	0.012%
Alternate Director							
Li Yonghua	—	—	—	—	—	—	—

The shareholdings set forth above exclude Shares beneficially owned by entities affiliated with the Directors. Each of the Directors disclaims beneficial ownership of the Shares beneficially owned by such affiliated entity, except to the extent of such Director's pecuniary interest therein as disclosed above.

Notes:

1. Based on 40,752,295,253 Shares in issue as at the Latest Practicable Date.
2. On 20 May 2015, Dr. Zhou was granted options to purchase 25,211,633 Shares at a price of HK\$0.830 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of 19 May 2025 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options have been exercised.
3. On 20 May 2015, Dr. Zhou was granted an award of 10,804,985 RSUs (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of 6 March 2015, shall fully vest on 6 March 2019. As of the Latest Practicable Date, none of Dr. Zhou's RSUs were vested.
4. On 8 September 2011, Dr. Chiu was granted options to purchase 86,987,535 Shares at a price of HK\$0.455 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of 7 September 2021 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options have been exercised.
5. On 8 September 2011, Dr. Chiu was granted an award of 37,280,372 RSUs (each representing the right to receive one Share) pursuant to the 2004 Equity Incentive Plan. These RSUs, 25% of which will vest on each anniversary of 5 August 2011, shall fully vest on 5 August 2015. As of the Latest Practicable Date, 75% of Dr. Chiu's RSUs were vested and 27,960,279 RSUs were settled in Shares, and thus 27,960,279 Shares were issued to Dr. Chiu.
6. These options comprise: (a) options which were granted to Dr. Gao on 24 May 2010 to purchase 3,145,319 Shares at a price of HK\$0.64 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of 23 May 2020 or 120 days after termination of his service as a Director to the Board, (b) options which were granted to Dr. Gao on 17 June 2013 to purchase 13,608,249 Shares at a price of HK\$0.624 per Share pursuant to the 2004 Stock Option Plan and will expire on the earlier of 16 June 2023 or 120 days after termination of his service as a Director to the Board, (c) options which were granted to Dr. Gao on 12 June 2014 to purchase 2,886,486 Shares at a price of HK\$0.64 per Share pursuant to the 2014 Stock Option Plan and will expire on the earlier of 11 June 2024 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options were exercised.
7. On 17 November 2014, Dr. Gao was granted an award of 2,910,836 RSUs (each representing the right to receive one Share) pursuant to the 2014 Equity Incentive Plan, consisting of (a) 2,401,456 RSUs, 25% of which will vest on each anniversary of 17 June 2013 and which shall fully vest on 17 June 2017, and (b) 509,380 RSUs, 25% of which will vest on each anniversary of 1 March 2014 and which shall fully vest on 1 March 2018. As of the Latest Practicable Date, 1,328,073 RSUs were vested, among which 600,364 RSUs were settled in cash.
8. On 24 May 2010, Dr. Chen was granted options to purchase 3,145,319 Shares at a price of HK\$0.64 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of 23 May 2020 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options were exercised.

9. On 6 September 2013, Mr. Brown was granted options to purchase 4,492,297 Shares at a price of HK\$0.562 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of 5 September 2023 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options have been exercised.
10. On 17 June 2013, Mr. Maloney was granted options to purchase 4,490,377 Ordinary Shares at a price of HK\$0.624 per Share pursuant to the 2004 Stock Option Plan. These options will expire on the earlier of 16 June 2023 or 120 days after termination of his service as a Director to the Board. As of the Latest Practicable Date, none of these options have been exercised.
11. These options comprise (a) options granted to Mr. Tan on 29 September 2006 to purchase 500,000 Ordinary Shares at a price per share of US\$0.132 pursuant to the 2004 Stock Option Plan which fully vested on 30 May 2008 and will expire on the earlier of 28 September 2016 or 120 days after termination of Mr. Tan's service as a Director to the Board, (b) options granted to Mr. Tan on 17 February 2009 to purchase 1,000,000 Shares at a price of HK\$0.27 per Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of 16 February 2019 or 120 days after termination of Mr. Tan's service as a Director to the Board, and (c) options granted to Mr. Tan on 23 February 2010 to purchase 3,134,877 Shares at a price of HK\$0.77 per Share pursuant to the 2004 Stock Option Plan, which will expire on the earlier of 22 February 2020 or 120 days after termination of Mr. Tan's service as a Director to the Board. As of the Latest Practicable Date, none of these options were exercised.
12. On 17 November 2014, Ms. Chang was granted options to purchase 4,887,303 Shares at a price of HK\$0.85 per Share pursuant to the 2014 Stock Option Plan. These options will expire on the earlier of 16 November 2024 or 120 days after termination of her service as a Director to the Board. As of the Latest Practicable Date, none of these options were exercised.

(b) Substantial Shareholders

Save as disclosed below, the Directors are not aware that there was any party who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and its subsidiaries:

Name of Shareholder	Long/Short Position	Number of Shares Held	Percentage of Shares held to Total Issued Share Capital of the Company (Note 1)	Derivatives	Total Interests	Percentage of Aggregate Interests to Total Issued Share Capital of the Company (Note 1)
Datang Telecom Technology & Industry Holdings Co., Ltd. ("Datang Telecom")	Long Position	7,784,557,231 (Note 2)	19.10%	—	7,784,557,231	19.10%
China Investment Corporation ("CIC")	Long Position	2,968,642,465 (Note 3)	7.29%	313,437,589 (Note 4)	3,282,080,054	8.05%
Xinxin (Hongkong) Capital Co., Limited	Long position	4,700,000,000 (Note 5)	11.53%	—	4,700,000,000	11.53%

Notes:

- (1) Based on 40,752,295,253 Shares in issue as at the Latest Practicable Date.
- (2) All such shares (including 961,849,809 Datang Pre-emptive Shares) are directly held by Datang Holdings (Hongkong) Investment Company Limited which is a wholly-owned subsidiary of Datang Telecom.
- (3) All such shares are directly held by Country Hill Limited ("Country Hill") which is a wholly-owned subsidiary of Bridge Hill Investments Limited, which in turn is a subsidiary controlled by CIC.
- (4) The Company issued US\$32,200,000 zero coupon convertible bonds due 2018 ("Country Hill Pre-emptive Bonds") to Country Hill on 29 May 2014 pursuant to the subscription agreement dated 18 December 2013 entered into between the Company and Country Hill. The Country Hill Pre-emptive Bonds are convertible into 313,437,589 Shares (assuming full conversion at the initial conversion price of HK\$0.7965 per Share). In this regard, Country Hill and CIC are deemed to be interested in these 313,437,589 underlying shares of the Company.
- (5) All such shares are directly held by Xinxin (Hongkong) Capital Co., Limited which is a wholly-owned subsidiary of China Integrated Circuit Industry Investment Co., Ltd.

MATERIAL CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial and trading position of the Group since 31 December 2014, the date of the latest published audited accounts of the Group.

DIRECTORS' INTEREST IN SERVICE CONTRACTS

None of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation (other than statutory compensation)).

OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have been, since the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) Save for the fact that Dr. Chen Shanzhi, a non-executive Director, is currently the senior vice president of Datang Telecom, a substantial shareholder of the Company, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO;
- (c) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the date of this circular and which is significant in relation to the business of the Group; and
- (d) none of the Directors and their associates had any competing interest, in a business which competes or is likely to compete either directly or indirectly, with the business of the Group.

EXPERT AND CONSENT

The following is the qualification of the Independent Financial Adviser which has given opinions or advice contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its statements, letter, report and opinion (as the case may be) as set out in this circular and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which have been, since 31 December 2014, the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letter from Gram Capital dated 27 July 2015 is given on pages 27 to 47 for incorporation herein.

MISCELLANEOUS

This circular has been prepared in both English and Chinese. In the case of inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Suite 3003, 30th Floor, 9 Queen's Road Central, Hong Kong during normal business hours on any weekday, excluding public holidays, from Tuesday, 28 July 2015 to Tuesday, 11 August 2015 (both days inclusive):

- (a) the Datang Pre-emptive Share Purchase Agreement;
- (b) the Country Hill Pre-emptive Share Purchase Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;
- (e) the written consent of Gram Capital referred to in this appendix; and
- (f) this circular.



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of Semiconductor Manufacturing International Corporation (the “Company”) will be held at No. 18 Wenchang Avenue, Economic-Technological Development Area, Beijing, People’s Republic of China on Tuesday, 11 August 2015 at 12:00 noon for the purpose of transacting the following businesses:

SPECIAL BUSINESSES

To consider and, if thought fit, to pass with or without modification the following ordinary resolutions:

1. **“THAT:**

- (a) the subscription agreement dated 11 June 2015 (the “Datang Pre-emptive Share Purchase Agreement”) entered into between the Company and Datang Holdings (Hongkong) Investment Company Limited (“Datang”), a substantial shareholder of the Company, in relation to the issue of 961,849,809 ordinary shares of US\$0.0004 each in the capital of the Company (the “Datang Pre-emptive Shares”) to be issued pursuant to Datang’s exercise of its pre-emptive right under the share purchase agreement dated 6 November 2008 (the “Datang Subscription Agreement”) between the Company and Datang Telecom Technology & Industry Holdings Co., Ltd. (“Datang Telecom”) by the Company as the issuer to Datang and the supplemental agreement to the Datang Subscription Agreement dated 22 August 2014 among the Company, Datang and Datang Telecom, a copy of the Datang Pre-emptive Share Purchase Agreement having been produced to the EGM marked “A” and signed by the chairman of the EGM for identification purpose, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the issue by the Company of the Datang Pre-emptive Shares to Datang pursuant to the terms and conditions of the Datang Pre-emptive Share Purchase Agreement be and are hereby approved;

* *for identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Datang Pre-emptive Shares, the directors of the Company be and are hereby authorised and granted a specific mandate (the “Datang Pre-emptive Specific Mandate”) to allot, issue and deal with the Datang Pre-emptive Shares, on and subject to the terms and conditions of the Datang Pre-emptive Share Purchase Agreement, provided that the Datang Pre-emptive Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company at the annual general meeting of the Company held on 26 June 2015; and
- (d) any director(s) of the Company be and is/are hereby authorised to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or do all such acts on behalf of the Company as he/she may consider necessary, desirable or expedient for the purpose of, or in connection with (i) the implementations and completion of the Datang Pre-emptive Share Purchase Agreement and transactions contemplated thereunder (including but not limited to the allotment and issue of the Datang Pre-emptive Shares to Datang), and/or (ii) any amendment, variation or modification of the Datang Pre-emptive Share Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Datang Pre-emptive Shares to Datang) upon such terms and conditions as the board of directors of the Company may think fit.”

2. **“THAT:**

- (a) The subscription agreement dated 11 June 2015 (the “Country Hill Pre-emptive Share Purchase Agreement”) entered into between the Company and Country Hill Limited (“Country Hill”), a former substantial shareholder of the Company, in relation to the issue of 323,518,848 ordinary shares of US\$0.0004 each in the capital of the Company (the “Country Hill Pre-emptive Shares”) to be issued pursuant to Country Hill’s exercise of its pre-emptive right under the share subscription agreement dated 18 April 2011 between the Company and Country Hill by the Company as the issuer to Country Hill, a copy of the Country Hill Pre-emptive Share Purchase Agreement having been produced to the EGM marked “B” and signed by the chairman of the EGM for identification purpose, and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the issue by the Company of the Country Hill Pre-emptive Shares to Country Hill pursuant to the terms and conditions of the Country Hill Pre-emptive Share Purchase Agreement be and are hereby approved;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in the Country Hill Pre-emptive Shares to be issued pursuant to the terms and conditions of the Country Hill Pre-emptive Share Purchase Agreement, the directors of the Company be and are hereby authorised and granted a specific mandate (the “Country Hill Pre-emptive Specific Mandate”) to allot, issue and deal with the Country Hill Pre-emptive Shares, on and subject to the terms and conditions of the Country Hill Pre-emptive Share Purchase Agreement, provided that the Country Hill Pre-emptive Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company at the annual general meeting of the Company held on 26 June 2015; and
- (d) any director(s) of the Company be and is/are hereby authorised to enter into any agreement, deed or instrument and/or to execute and deliver all such documents and/or do all such acts on behalf of the Company as he/she may consider necessary, desirable or expedient for the purpose of, or in connection with (i) the implementations and completion of the Country Hill Pre-emptive Share Purchase Agreement and transactions contemplated thereunder (including but not limited to the allotment and issue of the Country Hill Pre-emptive Shares to Country Hill), and/or (ii) any amendment, variation or modification of the Country Hill Pre-emptive Share Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Country Hill Pre-emptive Shares to Country Hill) upon such terms and conditions as the board of directors of the Company may think fit.”

3. “**THAT:**

- (a) the grant of 10,804,985 restricted share units to Dr. Zhou Zixue, an executive director of the Company, in accordance with the terms of the 2014 Equity Incentive Plan of the Company (the “Grant”), subject to all applicable laws, rules, regulations and the applicable award document(s), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) any one or more of the director(s) of the Company be and is/are hereby authorised to exercise the powers of the Company to allot and issue the ordinary shares of the Company pursuant to the Grant (the “Award Shares”) under the specific mandate granted to the directors of the Company by the shareholders of the Company at the annual general meeting of the Company held on 13 June 2013, in accordance with the terms of the 2014 Equity Incentive Plan of the Company, such that the Award Shares shall rank *pari passu* in all respects among themselves and with the existing ordinary shares of the Company in issue at the date of the allotment and issuance of the Award Shares; and

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- (c) any director(s) of the Company be and is/are hereby authorized to do all such acts and things and execute all such documents which he/she/they consider(s) necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Grant and the transactions contemplated in this Resolution 3.”

By Order of the Board
Semiconductor Manufacturing International Corporation
Gareth Kung
Company Secretary

Shanghai, 27 July 2015

Principal place of business:

18 Zhangjiang Road
PuDong New Area
Shanghai 201203
People's Republic of China

Registered office:

P.O. Box 309
Ugland House,
Grand Cayman, KY1-1104
Cayman Islands

As at the date of this notice, the Board comprises three executive Directors, namely Dr. Zhou Zixue (Chairman), Dr. Tzu-Yin Chiu (Chief Executive Officer) and Dr. Gao Yonggang (Chief Financial Officer); two non-executive Directors, namely Dr. Chen Shanzhi (Mr. Li Yonghua as his Alternate) and Mr. Zhou Jie; and four independent non-executive Directors, namely Mr. William Tudor Brown, Mr. Sean Maloney, Mr. Lip-Bu Tan and Ms. Carmen I-Hua Chang.

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint a proxy or, if such member is a holder of more than one share, more than one proxy to attend and vote instead of such member. Where a member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote on a poll. A proxy need not be a member of the Company.
2. To be valid, a form of proxy must be delivered to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the meeting or adjourned meeting (or 24 hours before a poll is taken, if the poll is not taken on the same day as the meeting or adjourned meeting). If a form of proxy is signed under a power of attorney, the power of attorney or other authority relied on to sign it (or an office copy) must be delivered to the Company's branch share registrar with the form of proxy, except that the power of attorney which has already

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been registered with the Company need not be so delivered. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof should he so wish.

3. The register of members of the Company will be closed from Friday, 7 August 2015 to Tuesday, 11 August 2015 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for attending and voting at the EGM, all transfers, accompanied by the relevant certificates, must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Thursday, 6 August 2015. All persons who are registered holders of the Shares on 11 August 2015, the record date for the EGM, will be entitled to attend and vote at the EGM.
4. Shareholders are advised to read the circular of the Company dated 27 July 2015 which contains information concerning the resolutions to be proposed at the EGM.
5. The voting at the meeting will be taken by a poll.