
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

If you are in any doubt as to any aspect of about this circular or as to the action to be taken, you should consult your 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 Shanghai Fudan Microelectronics Group Company Limited, you should at once had this circular and the accompanying confirmation slip and form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



**FUDAN
MICRO**

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

PROPOSALS FOR

**(1) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE NEW COOPERATION
AGREEMENT;**

**(2) UTILISATION OF THE SURPLUS FUNDS RAISED FROM THE A SHARE
OFFERING FOR PERMANENT REPLENISHMENT OF WORKING CAPITAL;**

(3) CHANGE OF OVERSEAS AUDITOR;

**(4) APPOINTMENT OF NON-EXECUTIVE DIRECTORS AND SHAREHOLDER
REPRESENTATIVE SUPERVISOR;**

**(5) ADOPTION OF THE 2021 RESTRICTED SHARE INCENTIVE SCHEME
AND ISSUE OF RESTRICTED SHARES UNDER SPECIFIC MANDATE;**

AND

(6) NOTICE OF EGM AND H SHAREHOLDERS' CLASS MEETINGS

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



The notices convening the EGM and H Shareholders' Class Meeting to be held at Building 4, Lane 127, Guotai Road, Shanghai, the People's Republic of China on 5 November 2021 from 10:00 a.m. are set out on pages 63 to 66 of this circular.

Form of proxy for use at the EGM and H Shareholders' Class Meeting are enclosed with this circular and such forms of proxy are also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.fmsh.com). Whether or not you are able to attend the EGM and/or H Shareholders' Class Meeting, you are requested to complete and return the enclosed forms of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 24 hours before the time appointed for convening the EGM and H Shareholders' Class Meeting.

20 October 2021

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	
Introduction	5
A. Proposed Revision of Annual Caps for Continuing Connected Transactions in relation to the New Cooperation Agreement	6
B. Proposed Utilisation of the Surplus Funds Raised from the A Share Offering for Permanent Replenishment of Working Capital	11
C. Proposed Change of Overseas Auditor	12
D. Proposed Appointment of Non-Executive Directors and Shareholder Representative Supervisor	12
E. Proposed Adoption of the 2021 Restricted Share Incentive Scheme and Issue of Restricted Shares under Specific Mandate	13
F. EGM and H Shareholders' Class Meeting	32
G. Closure of Register of Members of H Shares	32
H. Recommendations	32
I. Responsibility Statement	33
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	34
LETTER FROM AKRON CORPORATION FINANCE	35
APPENDIX 1 – GENERAL INFORMATION	48
APPENDIX 2 – BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISOR TO BE APPOINTED	56
APPENDIX 3 – 2021 RESTRICTED SHARE INCENTIVE SCHEME ASSESSMENT MANAGEMENT MEASURES	57
NOTICE OF EGM	63
NOTICE OF H SHAREHOLDERS' CLASS MEETING	65

DEFINITIONS

“Articles of Association”	the articles of association of the Company
“A Share(s)”	the ordinary share(s) of nominal value of RMB0.1 each in the share capital of the Company to be allotted, issued and listed on the Sci-Tech Innovation Board
“A Shareholder(s)”	holder(s) of A Shares
“A Shareholders’ Class Meeting”	the 2021 second A Shareholders’ class meeting to be held on Friday, 5 November 2021 at 10:30 a.m. or immediately after the conclusion of the EGM (or any adjournment thereof)
“A Share Offering”	the proposed initial public offering of 120,000,000 A Shares with a nominal value of RMB0.1 each, which was listed on the Sci-Tech Innovation Board on 4 August 2021
“Assessment Management Measures”	the Management Measures for Assessment for the Implementation of the 2021 Restricted Share Incentive Scheme
“Board”	the board of Directors
“CASBE”	China Accounting Standards for Business Enterprises
“Class Meeting(s)”	the A Shareholders’ Class Meeting and H Shareholders’ Class Meeting
“Company”	上海復旦微電子集團股份有限公司 (Shanghai Fudan Microelectronics Group Company Limited*), a joint stock limited company incorporated in the PRC and whose A shares are listed on the Sci-Tech Innovation Board and H shares are listed on the main board of the Stock Exchange
“Company Law”	the Company Law of the People’s Republic of China
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Directors”	the director(s) of the Company
“Domestic Share(s)”	domestic share(s) of nominal value of RMB0.10 each in the capital of the Company which are subscribed for in RMB

DEFINITIONS

“EGM”	the 2021 second extraordinary general meeting of the Company to be held at Building 4, Lane 127, Guotai Road, Shanghai, the PRC on Friday, 5 November 2021 at 10:00 a.m.
“First Grant”	the proposed grant of not more than 8,997,000 Restricted Shares, representing approximately 89.97% of the total number of Restricted Shares under the Share Incentive Scheme
“Fudan Communication”	上海復旦通訊股份有限公司(Shanghai Fudan Communication Co., Ltd.*), a 30%-controlled company of Fudan Fukong (as defined in the Listing Rules)
“Fudan Fukong”	上海復旦復控科技產業控股有限公司 (Shanghai Fudan Fukong Technology Enterprise Holdings Limited.*), a substantial Shareholder
“Grant Date”	the date on which the Company grants the Restricted Shares
“Grant Price”	the price of each Restricted Share to be granted to the Participants
“Group”	the Company and its subsidiaries
“H Share(s)”	foreign invested share(s) of nominal value of RMB0.10 each in the capital of the Company which are listed on main board of the Stock Exchange and subscribed for in HK\$
“H Shareholders’ Class Meeting”	the 2021 second H Shareholders’ class meeting to be held on Friday, 5 November 2021 at 10:45 a.m. or immediately after the conclusion of the A Shareholders’ Class Meeting (or any adjournment thereof)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising all its independent non-executive Directors, namely Mr. Guo Li, Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin, established for the purpose of advising the Independent Shareholders in relation to the continuing connected transactions under the New Cooperation Agreement (including the Revised Annual Caps)

DEFINITIONS

“Independent Financial Adviser” or “Akron Corporate Finance”	Akron Corporate Finance Limited is registered with Securities and Futures Commission in Hong Kong as a licensed corporation under SFO to conduct Type 6 (advising on corporate finance) regulated activity, and was appointed as the independent financial adviser of the Company to provide advice to the Independent Board Committee and Independent Shareholders in relation to the continuing connected transactions under the New Cooperation Agreement (including the Revised Annual Caps)
“Independent Shareholders”	Shareholders who are not prohibited from voting at the EGM for the resolution in respect with the continuing connected transactions under the New Cooperation Agreement (including the Revised Annual Caps)
“Independent Third Party(ies)”	any entity or person who, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
“Latest Practicable Date”	18 October 2021 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 Stock Exchange
“New Cooperation Agreement”	the sales agency cooperation agreement in respect of reconfigurable devices and memory IC chips entered into between the Company and Fudan Communication on 26 March 2021 and effective on 12 June 2021 for a term of three years
“Old Cooperation Agreement”	the sales agency cooperation agreement in respect of reconfigurable devices and memory IC chips entered into between the Company and Fudan Communication on 12 June 2020 for a term of one year
“Participant(s)”	the participants of the Share Incentive Scheme
“PRC”	The People’s Republic of China, for the purpose of this circular, excluding the regions of Hong Kong, Macau Special Administrative Region and Taiwan
“Reserved Grant”	the reserved grant of not more than 1,003,000 Restricted Shares, representing approximately 10.03% of the total number of Restricted Shares under the Share Incentive Scheme

DEFINITIONS

“Restricted Share(s)”	A Share(s) to be granted to the Participants by the Company at the Grant Price stipulated under the Share Incentive Scheme, which are subject to the conditions stipulated under the Share Incentive Scheme
“Revised Annual Caps”	the revision of annual caps for the relevant three years commencing from 12 June 2021 to 11 June 2024 under the New Cooperation Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong
“Sci-Tech Innovation Board”	the Sci-Tech Innovation Board of the Shanghai Stock Exchange
“Share(s)”	the A Share(s) and the H Share(s)
“Shareholder(s)”	registered holder(s) of the Shares
“Share Incentive Scheme” or “Incentive Scheme”	the 2021 restricted share incentive scheme of the Company
“Specific Mandate”	the specific mandate to be sought from the Shareholders at the EGM and the Class Meetings to issue and allot no more than 10,000,000 A Shares as Restricted Shares under the Share Incentive Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“%”	Percent.

LETTER FROM THE BOARD



FUDAN
MICRO

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1385)

Executive Directors:

Mr. Jiang Guoxing (*Chairman*)
Mr. Shi Lei (*Managing Director*)
Mr. Yu Jun (*Deputy Managing Director*)
Ms. Cheng Junxia

Non-executive Directors:

Ms. Zhang Qianling
Mr. Ma Zhicheng
Ms. Zhang Huajing
Mr. Wu Ping

Independent non-executive Directors:

Mr. Guo Li
Mr. Cao Zhongyong
Mr. Cai Minyong
Mr. Wang Pin

Registered Office:

No.220 Handan Road
Shanghai
The PRC

Principal Place of Business:

In the PRC:
Building 4, Lane 127, Guotai Road
Shanghai, the PRC

In Hong Kong:

Flat 6, 5/F., East Ocean Centre
98 Granville Road
Tsimshatsui East
Kowloon
Hong Kong

Dear Sir or Madam:

PROPOSALS FOR

- (1) REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE NEW COOPERATION
AGREEMENT;**
- (2) UTILISATION OF THE SURPLUS FUNDS RAISED FROM THE A SHARE
OFFERING FOR PERMANENT REPLENISHMENT OF WORKING CAPITAL;**
- (3) CHANGE OF OVERSEAS AUDITOR;**
- (4) APPOINTMENT OF NON-EXECUTIVE DIRECTORS AND SHAREHOLDER
REPRESENTATIVE SUPERVISOR;**
- (5) ADOPTION OF THE 2021 RESTRICTED SHARE INCENTIVE SCHEME
AND ISSUE OF RESTRICTED SHARES UNDER SPECIFIC MANDATE;**
- AND**
- (6) NOTICE OF EGM AND H SHAREHOLDERS' CLASS MEETING**

INTRODUCTION

The purpose of this circular is to provide you with the resolutions to be proposed at the EGM: and H Shareholders' Class Meeting (i) Revision of Annual Caps for Continuing Connected Transactions in relation to the New Cooperation Agreement; (ii) Utilisation of the Surplus Funds raised from the A Share Offering

* For identification purpose only

LETTER FROM THE BOARD

for Permanent Replenishment of Working Capital; (iii) Change of Overseas Auditor; (iv) Appointment of Non-Executive Directors and Shareholder Representative Supervisor; (v) Adoption of the 2021 Restricted Share Incentive Scheme and Issue of Restricted Shares under Specific Mandate; and (vi) to give you notices of EGM and H Shareholders' Class Meeting.

A. PROPOSED REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE NEW COOPERATION AGREEMENT

Continuing Connected Transactions

References are made to the announcements of the Company dated 26 March 2021, 2 June 2021 and 30 August 2021 (the “**Announcements**”), and the circular dated 28 April 2021, in relation to the entering into the New Cooperation Agreement between the Company and Fudan Communication for the agency of selling the reconfigurable devices and memory IC chips and the setting of the relevant annual caps.

To fulfil the increasing demand of the customers of Fudan Communication and the future development of the Company and Fudan Communication, it is expected that the sales transactions under the framework agreement of the New Cooperation Agreement will be sharply increased, and the Board envisages that the original annual caps will not be sufficient to fulfil the additional transactions that may take place under the New Cooperation Agreement.

New Cooperation Agreement

(i) Date

26 March 2021 (after the trading hours)

(ii) Contracting parties

- (a) the Company; and
- (b) Fudan Communication

(iii) Nature of Agreement

According to the New Cooperation Agreement, the Company agreed to appoint Fudan Communication as the qualified agent to sell the reconfigurable devices and memory IC chips manufactured by the Company. The Company will sell related chips to Fudan Communication, and Fudan Communication will then sell the chips and solutions to its end customers. The Company will set the market sales guidance price of the products based on the principle of product cost and related expenses plus a certain profit. Fudan Communication shall purchase related products from the Company at the purchase prices, policies and terms consistent with other agents that are uniformly formulated by the Company. Meanwhile, Fudan Communication shall not sell at a price higher than the market guide price. The specific business of both parties shall be executed separately by signing a purchase and sale contract.

LETTER FROM THE BOARD

(iv) Duration

From 12 June 2021 to 11 June 2024, for a term of three years.

(v) Payment method

Delivery after payment is made.

Proposal for Revision of Annual Caps under the New Cooperation Agreement

1. According to the Announcements, the annual caps for the 3 years ending 31 December 2023 and the annual cap for the period from 1 January to 11 June 2024 are RMB120,000,000, RMB150,000,000, RMB180,000,000 and RMB100,000,000 respectively.
2. The revision of annual caps proposed by the Directors under the New Cooperation Agreement are based on the following factors: (a) to fulfil the increasing demand of the customers of Fudan Communication; (b) the sales record for the months from January to July 2021 amounted to RMB69,620,000 and the season factor which will expedite the sales growth in the 3rd and 4th quarters; (i) it is a characteristic of the downstream products of the IC industry to fulfil high market demand during Mid-Autumn Festival, National Day, Double Eleven large scale promotion activities, Christmas, New Year and Chinese New Year; (ii) because of long holidays and prolonged factory closure in China during Chinese New Year, customers use to stock up goods during year end in order to meet market demand in the first quarter of the coming year; and (iii) sales records of the Company for the past 3 years are set out as follows for reference:

Year	Jan – Jun <i>RMB million</i>	July – Dec <i>RMB million</i>	% increase
2018	672	738	9.82
2019	639	816	27.70
2020	712	953	33.85

(c) as at 31 July 2021, the sales orders placed by Fudan Communication to the Company still have a total outstanding of approximately RMB66,354,000; (d) the Company has entered into new sales orders with Fudan Communication amounted to RMB83,002,000 in August 2021, RMB29,900,000 of which will be delivered and completed in 2022, with conditional terms which is subject to the approval of the proposed revision of annual caps by the Company's shareholders in the general meeting; (e) Fudan Communication has entered into a letter of intent with the Company in relation to its increasing customer demand for 2022 to 2024. As the trade war between China and the USA started two years ago, there has been short supplies of IC chips around the world. The domestic IC industry is now facing increase in costs, prolonged raw materials delivery and delay in product shipment. In order to secure its sales supply as well as to fulfil increasing end user demands, Fudan Communication has to lock up the Company's supply to meet its orders in coming years. On the other hand, the Company also has to decrease its business risk in production by securing orders placed by Fudan

LETTER FROM THE BOARD

Communication. According to the letter of intent, the sales orders that Fudan Communication will place during the 2 years ending 31 December 2023 and for the period from 1 January 2024 to 11 June 2024 are RMB280,000,000, RMB370,000,000 and RMB200,000,000 respectively. As the sales amounts entered into the letter of intent are higher than the existing annual caps, the Company is required to revise the annual caps to meet the increasing demand from Fudan Communication. (f) the Company has launched approximately 20 new products during the year with satisfactory sales performance that will support sales growth in future years; and (g) the Directors, having further reviewed the sales performance and market development of the relevant products, anticipate an increasing demand which is far more than the original estimation.

3. As such, the Board has resolved to revise the annual caps of the New Cooperation Agreement as follows:

	For the year ended 31 December			For the period ended
	2021	2022	2023	11 June 2024
	RMB'000	RMB'000	RMB'000	RMB'000
Annual cap of the Old Cooperation Agreement	60,000	–	–	–
Annual cap of the New Cooperation Agreement	<u>60,000</u>	<u>150,000</u>	<u>180,000</u>	<u>100,000</u>
Existing Annual Caps	120,000	150,000	180,000	100,000
Annual cap to be increased under the New Cooperation Agreement	<u>80,000</u>	<u>130,000</u>	<u>190,000</u>	<u>100,000</u>
Revised Annual Cap	<u><u>200,000</u></u>	<u><u>280,000</u></u>	<u><u>370,000</u></u>	<u><u>200,000</u></u>

Note: the New Cooperation Agreement was effective on 12 June 2021 and will expire on 11 June 2024.

Fudan Communication has been engaged in the industry of telecommunication devices for more than 20 years. Industries across the business verticals in China are on their way to the digitization and artificial intelligence upgradation. With the government support in recent years for the development of domestic IC industry, Fudan Communication has gained the benefits of changes in technologies and increasing demand in domestic IC chips. The sales of Fudan Communication for the past 3 years ended 31 December 2020 were RMB60,390,000, RMB66,480,600 and RMB121,452,000 respectively. The sales for the 1st half year of 2021 was RMB109,162,000 (2020 1st half year: RMB66,896,000). There were big surges in sales growth during the past year and the 1st half year of 2021 which shows the ability of Fudan Communication to cope with the shortage in IC supplies and the benefits gained from government support. The revised annual cap increased by more than 32% each year from 2021 to 2023 is based on Fudan Communication's best estimate of

LETTER FROM THE BOARD

potential orders and the new products to be launched in the coming years. Having considered the historical growth trend of the sales transactions with Fudan Communication, the Directors consider the increase rate is reasonable.

As at 31 August 2021, the total of sales orders entered by Company and Fudan Communication since 1 January 2021 amounted to RMB115,151,000 and the total sales to Fudan Communication amounted to approximately RMB70,052,000 which is still within the limit of RMB120,000,000 under the existing 2021 annual cap. The Directors confirm that they will use their best endeavors to ensure the actual transaction amount under the New Cooperation Agreement will not exceed the existing annual cap of 2021 before the approval of the revised annual cap in the EGM.

Reasons for the Transactions

Taking into account of the factors set out above, in view of the business relationship between the Company and Fudan Communication and their respective business development, and the increasing customer demand of Fudan Communication, the Board envisages that the original annual caps will not be sufficient to fulfil the transactions that may take place under the New Cooperation Agreement. Hence, the Board proposes to revise the relevant annual caps in order to satisfy the increasing demand of Fudan Communication.

The Board (excluding the independent non-executive Directors, who have provided their opinions in the Letter From The Independent Board Committee set out on page 34 in this circular) considers the revision of the annual caps of the transactions contemplated under the New Cooperation Agreement are in the ordinary course of business of the Group, are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Pricing Policies

The Company has established a product pricing system with issuance of a “Guide on Product Pricing” which is applicable to all customers, agents and connected enterprises. The pricing of product will be based on the market situation, the acceptance by customers and the price set by competitors, and also with the consideration of product costs and related expenses plus profits of not less than 30%. The selling prices and updated adjustments from time to time are set by the relevant divisions; and upon approved by the management, the unified product catalogs and prices will be offered to customers and agents respectively. The products provided by the Company to Fudan Communication under the New Cooperation Agreement cover more than 20 types and all sales will be conducted in accordance with the set profit ranges, the unified product prices and same terms offered to agents. These procedures can ensure that the transactions will be conducted on normal commercial terms and on terms and prices no more favourable to Fudan Communication than those offered to independent agents.

LETTER FROM THE BOARD

Internal Control

Pursuant to the internal control system as set out in the Announcements, besides the strict monitoring of the sales orders and aggregated amounts performed by the internal audit department, the Board has been carefully monitoring the performance of the transactions contemplated under the New Cooperation Agreement.

Information of the Company and Fudan Communication

The Company's principal activities consist of design, development and sales of products of application-specific IC.

Fudan Communication is mainly engaged in design, development and production of telecommunication devices in the PRC. As at the Latest Practicable Date, Fudan Communication's equity interest is being held as 33.84% by Fudan Fukong; 16.34% by the Company; 22.76% by 39 individuals who are existing employees and past employees of Fudan Communication, employees of the Company and third party investors, and Mr. Yu Jun, the executive Director, who has 1.19% equity interest through his spouse; and 14.78% and 12.28% respectively by two limited partnership enterprises which consist 38 and 9 individuals who are existing employees, past employees of Fudan Communication and third party investors. Approximately 70.2% of equity interest of Fudan Fukong is held by Shanghai Commerce and Invest (Group) Corporation ("SCI"). SCI is wholly owned by Bailian Group Company Limited which is a state-owned enterprise in Shanghai mainly engaged in operating department stores, shopping malls, outlet, large stores, supermarket, convenience stores, specialty retail formats, trading in non-ferrous metals, ferrous metals, automotive, chemical light, electrical, timber, fuel, etc. involving fields of e-commerce, logistics, consumer services, and electronic information.

Listing Rules Implications

To the best of the Directors' knowledge and belief, having made all reasonable enquiries and at the Latest Practicable Date, Fudan Fukong holds approximately 13.46% of the issued share capital of the Company and is a substantial Shareholder. Fudan Fukong also holds approximately 33.84% of the issued share capital of Fudan Communication which is its controlled company. As defined in Chapter 14A of the Listing Rules, Fudan Communication is a Connected Person of the Company, therefore the transactions under the New Cooperation Agreement constitute connected transactions of the Company.

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for the continuing connected transactions, the Company will be required to re-comply with the provisions of Chapter 14A of the Listing Rules.

Other than the disclosure in the above section that Mr. Yu Jun has an equity interest in Fudan Communication, none of the Directors has any material interest in the connected transactions. As Mr. Ma Zhicheng and Mr. Wu Ping are the representatives of Fudan Fukong, and together with Mr. Yu

LETTER FROM THE BOARD

Jun, have abstained from voting on the Board resolution approving the revision of annual caps. Pursuant to the listing rules of the Shanghai Stock Exchange, Mr. Jiang Guoxing and Ms. Zhang Huajing are related parties and have also abstained from voting on the Board resolution.

As the Revised Annual Caps exceed the applicable percentage ratios of 5% (except for ratio of profits), the continuing connected transactions are subject to the reporting, annual review, announcement and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Independent Board Committee and Independent Financial Adviser

Pursuant to the Rule 13.39(6) of the Listing Rules, the Board has established Independent Board Committee which comprises of 4 independent non-executive Directors for the purpose of advising the Independent Shareholders on the New Cooperation Agreement and the transactions contemplated thereunder (including the Revised Annual Caps). The letter from the Independent Board Committee is set out in page 34 of this circular.

The Company has engaged Akron Corporate Finance as the Independent Financial Adviser to provide advice to the Independent Board Committee and the Independent Shareholders on the New Cooperation Agreement and the transactions contemplated thereunder (including the Revised Annual Caps). The resolution regarding the engagement of Akron Corporate Finance as the Independent Financial Adviser has been approved by the Board and the letter from Akron Corporate Finance is set out in pages 35 to 47 to this circular.

B. PROPOSED UTILISATION OF THE SURPLUS FUNDS RAISED FROM THE A SHARE OFFERING FOR PERMANENT REPLENISHMENT OF WORKING CAPITAL

As approved by the document "Approval in Relation to Registration of the Initial Public Offering of Shanghai Fudan Microelectronics Group Company Limited." (Zheng Jian Xu Ke 2021 No. 1874) granted by the CSRC, the Company was permitted to issue 120,000,000 A Shares at an issue price of RMB6.23 per share. The total amount of proceeds from the A Share Offering amounted to RMB747,600,000. The net proceeds have been fully received and verified by Pan-China Certified Public Accountants LLP, which has issued the Capital Verification report (Pan-China Yan (2021) No. 6-70). For the protection of investors, the proceeds are all held in a specialized bank account of the Company.

The net amount of funds raised from the A Share Offering is approximately RMB680,280,000. Since the amount of funds to be raised from the A Share Offering was originally estimated to be RMB600,000,000, the actual funds raised by the Company exceed the original estimate by approximately RMB80,280,000 (the "**Surplus Funds**").

In order to secure the capital requirements of the projects in which the proceeds are intended to be used and the normal operation of intended use of proceeds of the A Share Offering, and to satisfy the Company's working capital requirements, to utilize the proceeds more effectively, to reduce finance costs, pursuant to the "Regulatory Guidance for Listed Companies No. 2 – Regulatory Requirements for the Administration and Use of Proceeds of the Listed Companies", the "Administrative Measures for Proceeds

LETTER FROM THE BOARD

by Companies Listed on the Shanghai Stock Exchange” and relevant regulations, the Company intends to utilize RMB24,000,000 (the “**Utilisation Fund**”) of the Surplus Fund for the permanent replenishment of working capital.

The Company undertakes that the aggregate amount of Surplus Fund intends for the replenishment of working capital within every twelve months will not exceed 30% of the Surplus Funds; the Utilisation Fund to be utilized will not affect the capital requirements of the projects in which the proceeds are intended to be used; and it will not carry out any high-risk investment or provide financial assistance for third-party entities other than its subsidiaries, within twelve months following the approval of the Utilisation Fund.

C. PROPOSED CHANGE OF OVERSEAS AUDITOR

Reference is made to the announcement of the Company dated 16 August 2021 in relation to the change of overseas auditor. In view of the Company has completed its proposed A Share Offering and listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange, the Board passed a resolution in relation to the preparation of only one set of financial statements of the Company under the CASBE. It is expected that the financial statements of the Company for the year ending 31 December 2021 and the financial periods thereafter will be prepared in accordance with CASBE.

Ernst & Young, formerly acted as the Company’s overseas auditor which was responsible for auditing the financial statements of the Company prepared in accordance with the Hong Kong Financial Reporting Standards, has notified the Company on 16 August 2021 of its termination of services as auditor of the Company. The Board proposed to appoint Ernst & Young Hua Ming LLP, subject to the approval of the Shareholders at the EGM. The proposed change of overseas auditor has also been approved by the audit committee of the Company (the “**Audit Committee**”).

Ernst & Young Hua Ming LLP is a certified public accountant firm approved by the Ministry of Finance and the CSRC and is qualified to adopt the China Standards on Auditing in providing auditing services to the issuers incorporated in the Mainland and listed in Hong Kong.

Ernst & Young confirms that there is no circumstance relating to the proposed change of overseas auditor that needed to be brought to the attention of the Shareholders. The Board is not aware of any issues relating to the proposed change of overseas auditor that needed to be brought to the attention of the Shareholders. The Board and the Audit Committee confirm that there is no disagreement between the Company and Ernst & Young in relation to the proposed change of overseas auditor.

D. PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTORS AND SHAREHOLDER REPRESENTATIVE SUPERVISOR

Appointment of Non-Executive Directors

Reference is made to the Company’s announcement dated 23 September 2021 that the non-executive directors of the Company (the “**NED(s)**”), Mr. Ma Zhicheng and Ms. Zhang Huajing have respectively notified the Board on 23 September 2021 and tendered their resignations from the post of NED.

LETTER FROM THE BOARD

The Board is pleased to announce that the nomination committee of the Company has approved the proposed nominations of Mr. Sun Zheng (“**Mr. Sun**”) and Ms. Liu Huayan (“**Ms. Liu**”) as NEDs to fill the casual vacancies of Mr. Ma and Ms. Zhang respectively, and relevant resolutions will be proposed by the Board for getting Shareholders’ approval at the EGM. Upon the passing of the resolutions proposed to appoint Mr. Sun and Ms. Liu as NEDs at the EGM, the Company will enter into a NED service contract respectively with Mr. Sun and Ms. Liu to be effective from the date of EGM until the expiry date of the 8th session of the Board, which is 2 June 2022. Mr. Sun and Ms. Liu will not receive any director’s remuneration. Biographical details of Mr. Sun and Ms. Liu are set out respectively in the appendix 2 of this circular.

Appointment of Shareholder Representative Supervisor

Reference is made to the Company’s announcement dated 23 September 2021 that the shareholder representative supervisor of the Company (the “**Shareholder Representative Supervisor**”), Mr. Gu Weizhong (“**Mr. Gu**”) has notified the supervisory committee of the Company (the “**Supervisory Committee**”) on 23 September 2021 and tendered his resignation from the post of Shareholder Representative Supervisor.

According to the recommendation of the relevant Shareholder’s unit, the Supervisory Committee has resolved to nominate Ms. Tang Xiaojie (“**Ms. Tang**”) as Shareholder representative Supervisor to fill the casual vacancy, and relevant resolution will be proposed by the Board for getting Shareholders’ approval at the EGM. Upon the approval of the resolution proposed to appoint Ms. Tang as Supervisor at the EGM, the Company will enter into a Supervisor service contract with Ms. Tang from the date of EGM until the expiry date of the 8th session of the Supervisory Committee, which is 2 June 2022. Ms. Tang will not receive any supervisor’s remuneration. Biographical details of Ms. Tang are set out in the appendix 2 of this circular.

E. PROPOSED ADOPTION OF THE 2021 RESTRICTED SHARE INCENTIVE SCHEME AND ISSUE OF RESTRICTED SHARES UNDER SPECIFIC MANDATE

Reference is made to the Company’s announcement on 23 September 2021 that the Board has resolved to propose (i) the adoption of the 2021 Restricted Share Incentive Scheme and the issue of Restricted Shares under Specific Mandate; (ii) the adoption of the Assessment Management Measures, and (iii) the authorization to the Board to deal with matters relating to the Share Incentive Scheme, all of which are subject to Shareholders’ approval by way of special resolutions at the EGM and the Class Meetings.

LETTER FROM THE BOARD

1. Proposed Adoption of the 2021 Restricted Incentive Scheme and Issue of Restricted Shares Under Specific Mandate

Purpose: To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's quality experts, fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members, bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized.

Participants: The Participants under the First Grant amount to 578 persons, representing approximately 37.70% of the total number of 1,533 employees of the Company as of the date of 30 June 2021. In accordance with "The Measures Governing Equity Incentive Plans of Listed Companies"《上市公司股權激勵管理辦法》 issued by the CSRC, the incentive party may include directors, senior managers, core technical personnel or core business personnel of listed companies, as well as those that the company believes should be motivated and have a direct impact on the company's business performance and future development, but should not include independent directors and supervisors. As such, the Participants under the First Grant shall include persons as considered by the Board to be motivated other than independent non-executive Directors and Supervisors. The Directors confirmed that all the Participants under the Share Incentive Scheme will exclude Directors, Supervisors, senior management and Connected Persons.

Participants under the Reserved Grant will be determined in 12 months after the approval at the EGM and the Class Meetings. The Company will announce relevant information about the Participants on the Company's website timely after the Board having made such proposal, independent Directors and the Supervisory Committee having expressed clear opinions, and the Company counsel having provided professional opinions and legal opinions.

The Reserved Grant shall lapse if the Participants cannot be determined within the 12-month period. The basis for determining the Participants for the Reserved Grant shall be the same as the basis for determining the Participants for the First Grant.

LETTER FROM THE BOARD

Form and Source of the Restricted Shares to be Granted:

The form of incentive adopted by the Share Incentive Scheme is the Type II Restricted Shares. Type II Restricted Shares are Restricted Shares that can only be attributed and transferred after satisfactory with the attribution conditions as stipulated under the Share Incentive Scheme.

The source of all Restricted Shares under the Incentive Scheme will be new ordinary A Shares to be issued by the Company to the Participants.

Number of the Restricted Shares to be Granted:

The total number of Restricted Shares to be granted under the Share Incentive Scheme will be not more than 10,000,000 A Shares, representing approximately 1.23% of the total number of issued share of 814,502,000 Shares of the Company as at the Latest Practicable Date, amongst which 8,997,000 A Shares, representing approximately 1.10% of the total issued share capital of the Company and approximately 89.97% of the total number of Restricted Shares under the Share Incentive Scheme, will be granted as the First Grant and 1,003,000 A Shares, representing approximately 0.12% of the total issued share capital of the Company and approximately 10.03% of the total number of Restricted Shares under the Share Incentive Scheme will be reserved for the Reserved Grant.

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

Basis of Grant Price:

The Grant Price of the First Grant shall be RMB18.00 per A Share. The Grant Price of the Reserved Grant shall be the same as the Grant Price of the First Grant.

The Grant Price is 46.24% to the closing price of the average trading price of RMB38.93 per A Share as quoted on the trading day immediately preceding the date of announcement of this Share Incentive Scheme;

The Grant Price is 40.35% to the closing price of the 20 days average trading price of RMB44.61 per A Share as quoted on the 20 trading days immediately preceding the date of announcement of this Share Incentive Scheme;

LETTER FROM THE BOARD

As up to the date of announcement of this Share Incentive Scheme, the Company's A Shares have not listed more than 60 days.

"The Measures Governing Equity Incentive Plans of Listed Companies" ("the Measures") 《上市公司股權激勵管理辦法》 promulgated by the CSRC which sets out the pricing methods of stock incentive plans. The Grant Price adopts an independent pricing method other than the pricing methods stipulated in the Measures, subject to relevant laws and regulations, the Company is required to explain the basis of Grant Price and to appoint an independent financial adviser to opine on whether the Share Incentive Scheme is feasible, the basis of pricing method is fair and reasonable, in line with the Company's continuing development and in the best interests of the Company and the Shareholders.

The purpose of determining the Grant Price by independent pricing is to promote the development of the Company, protect the rights and interests of the Shareholders, and provide a mechanism and talent guarantee for the long-term and stable development of the Company.

In the event of conversion of capital reserve into share capital, stock dividend, share split or share consolidation and share allotment, the Grant Price and the number of Restricted Shares to be granted shall be adjusted in accordance with the terms of the Share Incentive Scheme accordingly.

Validity period:	The Share Incentive Scheme will become effective upon the Grant Date of the First Grant, and shall be valid until the date on which all Restricted Shares have been attributed or lapsed, such period shall not exceed 60 months.
Administration:	The Board is the administrative office for the execution of the Share Incentive Scheme and is responsible for the implementation of the Share Incentive Scheme.
Grant Date:	To be determined by the Board upon approval of the Share Incentive Scheme by the general meeting.
Attribution Period:	Within 12 months after the Grant Date and subject to the attribution conditions having been fulfilled, the Restricted Shares may be attributed to the Participants in sequence:

LETTER FROM THE BOARD

Attribution arrangement	Attribution period	Attribution percentage
First attribution tranche	From the first trading day after the expiry of 12 months following the Grant Date of the First Grant to the last trading day within the 24 months following the Grant Date of the First Grant	25%
Second attribution tranche	From the first trading day after the expiry of 24 months following the Grant Date of the First Grant to the last trading day within the 36 months following the Grant Date of the First Grant	25%
Third attribution tranche	From the first trading day after the expiry of 36 months following the Grant Date of the First Grant to the last trading day within the 48 months following the Grant Date of the First Grant	25%
Fourth attribution tranche	From the first trading day after the expiry of 48 months following the Grant Date of the First Grant to the last trading day within the 60 months following the Grant Date of the First Grant	25%

If the Reserve Grant is granted on or before 31 December 2021, The attribution arrangements of the Reserved Grant will be the same as the First Grant.

LETTER FROM THE BOARD

If the Reserve Grant is granted after 31 December 2021, The attribution arrangements of the Reserved Grant will be as follows:

Attribution arrangement	Attribution period	Attribution percentage
First attribution tranche	From the first trading day after the expiry of 12 months following the Grant Date of the Reserved Grant to the last trading day within the 24 months following the Grant Date of the Reserved Grant	30%
Second attribution tranche	From the first trading day after the expiry of 24 months following the Grant Date of the Reserved Grant to the last trading day within the 36 months following the Grant Date of the Reserved Grant	30%
Third attribution tranche	From the first trading day after the expiry of 36 months following the Grant Date of the Reserved Grant to the last trading day within the 48 months following the Grant Date of the Reserved Grant	40%

The Restricted Shares which have not been attributed during the attribution period of their respective tranches as a result of failure to fulfil the attribution conditions are not allowed to be attributed or deferred to be attributed in the next year(s) and shall lapse according to the Share Incentive Scheme.

LETTER FROM THE BOARD

**Conditions for Grant
of the Restricted
Shares:**

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

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

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

(b) None of the following has occurred on the part of the Participants:

1. the Participant has been determined as an inappropriate candidate by relevant stock exchange within the most recent 12 months;
2. the Participant has been identified as an inappropriate candidate by the CSRC and its delegated institutions within the most recent 12 months;
3. the Participant has been subject to administrative punishment or market ban measures by the CSRC and its delegated institutions due to major breach of laws and regulations in the most recent 12 months;

LETTER FROM THE BOARD

4. the Participant shall not act as a director or member of the senior management of a company according to the PRC Company Law;
5. applicable laws and regulations stipulate that the Participant shall not participate in the equity incentives of listed companies;
6. other circumstances as determined by the CSRC.

**Conditions for
attribution of the
Restricted Shares:**

For the Restricted Shares to be attributed to the Participant, among others, all of the following conditions need to be satisfied within the attribution period:

- (a) None of the following has occurred on the part of the Company:
 1. an audit report on the financial and accounting report for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 2. an audit report on internal control over financial reporting for the most recent financial year in which a certified public accountant issued an adverse opinion or was unable to express an opinion;
 3. in the most recent 36 months upon listing, there have been cases of failure to distribute profits according to laws and regulations, the Articles of Association and public undertakings;
 4. laws and regulations stipulate that equity incentives shall not be implemented;
 5. other circumstances as determined by the CSRC.

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

LETTER FROM THE BOARD

(b) None of the following has occurred on the part of the Participants:

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

In the event that any one of the circumstances specified in (b) above arises in relation to a certain Participant, the Company will terminate such Participant's right to participate in the Incentive Scheme and the Restricted Shares that have been granted but have not yet been attributed to such Participant under the Incentive Scheme shall not be attributed and shall lapse.

(c) Requirements on length of employment of the Participants for attribution of Restricted Shares:

Before each tranche of Restricted Shares granted to the Participants attributes, the Participant must be employed for more than 12 months.

LETTER FROM THE BOARD

(d) Performance assessment requirements at the Company level:

1. First Grant

Under the Share Incentive Scheme, the Company's performance indicators will be evaluated on an annual basis for the financial years of 2021 to 2024, and the achievement of performance assessment target will be one of the attribution conditions for the Participants for the current year.

The performance assessment objectives of Share Incentive Scheme are set out below:

		Performance Assessment Target A Company attribution factor 100%	Performance Assessment Target B Company attribution factor 80%
Restricted Shares granted for the first time	First tranche	Meet any one of the following conditions: 1. The revenue increased by 40% or above over 2020; 2. Sales profit margin increased by 50% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 32% over 2020; 2. Sales profit margin increased no less than 40% over 2020.
	Second tranche	Meet any one of the following conditions: 1. The revenue increased by 65% or above over 2020; 2. Sales profit margin increased by 65% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 52% over 2020; 2. Sales profit margin increased no less than 52% over 2020.

LETTER FROM THE BOARD

Tranche	Performance	Performance
	Assessment Target A Company attribution factor 100%	Assessment Target B Company attribution factor 80%
Third tranche	Meet any one of the following conditions: 1. The revenue increased by 90% or above over 2020; 2. Sales profit margin increased by 90% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 72% over 2020; 2. Sales profit margin increased no less than 72% over 2020.
Fourth tranche	Meet any one of the following conditions: 1. The revenue increased by 120% or above over 2020; 2. Sales profit margin increased by 120% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 96% over 2020; 2. Sales profit margin increased no less than 96% over 2020.

2. Reserved Grant

If the Reserve Grant is granted on or before 31 December 2021, the performance assessment requirements of the Reserved Grant will be the same as the First Grant.

If the Reserve Grant is granted after 31 December 2021, The performance assessment requirements of the Reserved Grant will be evaluated on an annual basis for the 3 financial years of 2022 to 2024, and the achievement of performance assessment target will be one of the attribution conditions for the Participants for the current year. The performance assessment objectives of Share Incentive Scheme are set out below:

LETTER FROM THE BOARD

		Performance Assessment Target A Company attribution factor 100%	Performance Assessment Target B Company attribution factor 80%
Restricted Shares granted for the Reserved Grant	First tranche	Meet any one of the following conditions: 1. The revenue increased by 65% or above over 2020;	Meet any one of the following conditions: 1. The revenue increased no less than 52% over 2020;
		2. Sales profit margin increased by 65% or above over 2020.	3. Sales profit margin increased no less than 52% over 2020.
	Second tranche	Meet any one of the following conditions: 1. The revenue increased by 90% or above over 2020;	Meet any one of the following conditions: 1. The revenue increased no less than 72% over 2020;
		2. Sales profit margin increased by 90% or above over 2020.	2. Sales profit margin increased no less than 72% over 2020.
	Third tranche	Meet any one of the following conditions: 1. The revenue increased by 120% or above over 2020;	Meet any one of the following conditions: 1. The revenue increased no less than 96% over 2020;
		2. Sales profit margin increased by 120% or above over 2020.	2. Sales profit margin increased no less than 96% over 2020.

Note: As referred above, “revenue” means audited consolidated revenue of the Company; “sales profit margin” means audited revenue after deducting operating expenses of the Company.

LETTER FROM THE BOARD

- (e) Performance assessment requirements at the Participant's individual level:

The individual assessment of Participants is carried out according to the internal performance assessment system of the Company. The individual evaluation results of the Participants are divided into four levels: "pass" and "fail". The corresponding attribution situations are as follows:

Assessment standards	Pass	Fail
Individual Attribution Coefficient	100%	0

If the Company's performance reaches performance assessment target, the number of Restricted Shares actually attributable to the Participant in the current year = the number of individual attribution for the year × the company attribution coefficient × the individual attribution coefficient.

If the Restricted Shares that the Participant belongs to in the current plan cannot be attributed or cannot be fully attributed due to assessment reasons, the Restricted Shares shall become invalid and shall not be deferred to the next year.

Explanation on reasonableness of the performance appraisal indicators of the Restricted Shares:

The Company is a professional company engaged in the design, development and testing of very large integrated circuits as well as provision of system solutions to customers. The Company has established and improved product lines such as security and identification IC chips, non-volatile memory chips, smart meter ASIC chips, FPGA chips and testing services for IC products, and the products are widely used in numerous fields such as finance, social security, urban public transportation, electronic certificates, mobile payment, anti-counterfeiting traceability, smart phones, security monitoring, industrial control, signal processing and smart computing. The Group continued to increase investment in product research and development, and promoted product structure optimization through technological innovation, so as to adapt to the technical needs of the Internet of Things, financial payment, industry, consumer electronics and other application fields in the new era, and to support the Company's steady growth in operating performance.

LETTER FROM THE BOARD

Based on comprehensive considerations including but not limited to the macroeconomic environment, the Company's historical performance, development in vaccine industry, competition in the market, the Company's future development plan and other relevant factors, the Company has set the performance assessment indicators of the Share Incentive Scheme. The objectives set in the Share Incentive Scheme are beneficial to enhance the competitiveness of the Company, motivate employees, ensure the realization of the Company's development strategy and business objectives, and bring more efficient and lasting returns to Shareholders.

In addition to the performance assessment at the company level, the Company has also set up a stringent performance assessment mechanism for each individual employee, which is expected to lead to a more accurate and comprehensive evaluation on the performance of the Participants. The Company will determine whether the relevant Participants meet the conditions of attribution according to the annual performance assessment results.

In summary, the Company's appraisal mechanism under the Share Incentive Scheme is integrated, comprehensive and practicable. Meanwhile, the Participants are subject to the scientific and reasonable performance indicators, through which the appraisal purpose of the Share Incentive Scheme can be achieved.

**Accounting
Treatment on the
Restricted Shares:**

In accordance with relevant requirements of the Accounting Standards for Business Enterprises No. 11 – Share-Based Payments and the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, on each balance sheet date during the period from the Grant Date to the attribution date, the Company shall revise the number of the Restricted Shares which are expected to be attributed according to the changes in the latest available number of persons eligible to be attributed the Restricted Shares, fulfilment of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

LETTER FROM THE BOARD

1. Fair Value of the Type II Restricted Shares and the Determination Method

The Company will include the services obtained in the current period into relevant costs or expenses and capital reserves according to the fair value of stock options on the Grant Date. In accordance with the relevant requirements of the Accounting Standards for Business Enterprises No. 11-Share-based Payments 《企業會計準則第 11 號 – 股份支付》 and the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments 《企業會計準則第 22 號 — 金融工具確認和 計量》 issued by the Finance Department, the requirements were effective on 1 January 2007 and applicable to listed companies. Pursuant to the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments 《企業會計準則第 22 號 — 金融工具確認和 計量》 in relation to the requirements of recognition of fair value, a proper valuation model has to be selected for the measurement of the fair value of stock options. The Company has selected the Black Scholes model to calculate the fair value of the Type II Restricted Shares, and uses the model on 23 September 2021 to predict the Type II Restricted Shares under the First Grant.

2. The Estimated Impact on the Operating Performance in each accounting period due to the implementation of the Restricted Shares

Assuming that the Company grants Restricted Shares in October 2021, in accordance with PRC Accounting Standards, the amortization of cost of the Restricted Shares under the First Grant for each accounting period is as follows:

RMB0'000

Amortization cost of the Restricted Shares	2021	2022	2023	2024	2025	
	19,856.38	1,695.56	9,380.87	5,010.58	2,691.60	1,077.77

The above estimations do not include the Reserved Grant of 1,003,000 Restricted Shares, the Reserved Grant will incur additional share payment expenses when granted.

LETTER FROM THE BOARD

The Company estimates that, based on available information, the amortization of costs of the Restricted Shares will have an impact on the net profit each year within the validity period. The implementation of the Incentive Scheme will further improve the cohesion of the employees and stability of team, stimulate the enthusiasm of the management, and improve operating efficiency, thus will have a positive effect on the Company's performance and internal value.

Proposed Issue of Restricted Shares Pursuant to Specific Mandate

The Company proposed to issue no more than 10,000,00 Restricted Shares to be granted to the Participants (including those under the First Grant and the Reserved Grant) under the Incentive Scheme pursuant to a Specific Mandate, representing approximately 1.23% of the total issued share capital of the Company as of the Latest Practicable Date, which is subject to, among other things, the approval at the EGM and the Class Meetings. No Restricted Shares will be granted to connected persons of the Company.

2. Proposed Adoption of the Assessment Management Measures

To ensure the smooth implementation of the Incentive Scheme, the Assessment Management Measures and other relevant laws, administrative regulations, normative documents, the relevant requirements of the Articles of Association as well as the actual situation of the Company. The full text of the Assessment Management Measures are set out in the appendix 3 of this circular.

3. Proposed Grant of Authorization to the Board of Directors to deal with Matters Relating to the Share Incentive Scheme

To ensure the smooth implementation of the Incentive Scheme, it is proposed at the EGM and the Class Meetings that the Board of Directors shall be authorized to handle matters relating to the Incentive Scheme, including but not limited to the following:

- (a) to propose at the EGM and the Class Meetings that the Board of Directors be authorized to be responsible for the following matters in relation to the implementation of the Incentive Scheme:
 - (1) to authorize the Board to determine the Grant Date under the Share Incentive Scheme;
 - (2) to authorize the Board to adjust the number of the Restricted Shares to be granted/attributed according to the terms of the Share Incentive Scheme in the event of conversion of capital reserve into share capital, stock dividend, share split or share consolidation and share allotment of the Company;

LETTER FROM THE BOARD

- (3) to authorize the Board to adjust the Grant Price for the Restricted Shares to be granted/attribution according to the terms of the Share Incentive Scheme in the event of conversion of capital reserve into share capital, stock dividend, share split or share consolidation and share allotment of the Company;
- (4) to authorize the Board to grant the Restricted Shares to a Participant upon his/her fulfillment of the conditions of grant, and to handle all necessary matters in connection with the grant of the Restricted Shares, including signing agreement on the grant of Restricted Shares;
- (5) to authorize the Board to review and confirm the qualification of the Participants for attribution and the number of the Restricted Shares to be attributed, and to agree to the Board of Directors delegating such rights to the Remuneration and Assessment Committee;
- (6) to authorize the Board to handle all matters necessary in connection with the attribution of the Restricted Shares, including but not limited to the submission of application to a stock exchange in respect of the attribution of the Restricted Shares, applying to securities registration and clearing company for registration and clearing services, amending the Articles of Association; and applying to register the change in registered capital of the Company;
- (7) to authorize the Board to handle the changes and termination of restricted stock incentive plans in accordance with the provisions of the 2021 Restricted Share Incentive Scheme, including but not limited to canceling the qualification of the Participant, invalidating the Restricted Shares that the Participant has not yet vested, and handling the inheritance of the Restricted Shares that the deceased Participant has not yet vested;
- (8) to authorize the Board to determine the Participants, number of grant, Grant Price, Grant Date and all other matters in respect of the Reserved Grant under the Share Incentive Scheme;
- (9) to authorize the Board to execute, implement, revise and terminate any agreement relating to the Share Incentive Scheme and other relevant agreements;
- (10) to authorize the Board to manage and adjust the Share Incentive Scheme, and from time to time formulate or amend the management and implementation rules of the Incentive Scheme, subject to compliance with the terms of the Share Incentive Scheme. However, if such amendments are subject to approval at the general meeting or/and by relevant regulatory authorities under the requirements of laws, regulations or relevant regulatory authorities, such amendments by the Board shall be subject to such approvals; and

LETTER FROM THE BOARD

- (11) to authorize the Board to implement all other necessary matters in connection with the Share Incentive Scheme, except such rights as expressly required under the relevant documents to be exercised by the Shareholders at a general meeting;
- (b) to propose at the EGM and the Class Meetings to authorize the Board of Directors to complete procedures with relevant governments and authorities in relation to the Incentive Scheme including review, registration, filing, approval and consent; to sign, execute, amend and complete documents submitted to relevant governments, authorities, organizations, and individuals; to amend the Articles of Association and handle the registration of the change in registered capital of the Company; and to carry out all actions deemed to be necessary, appropriate, or expedient in relation to the Incentive Scheme;
- (c) to propose at the EGM and the Class Meetings to authorize the Board of Directors to engage intermediaries, such as financial consultant, receiving bank, accountants, lawyers or securities companies, for the implementation of the Incentive Scheme;
- (d) to propose at the EGM and the Class Meetings to approve the period of authorization given to the Board of Directors to be consistent with the validity period of the Share Incentive Scheme; and
- (e) Save for matters to be approved by the Board of Directors as explicitly stipulated by laws, administrative regulations, rules of CSRC, regulatory documents, the Incentive Scheme or the Articles of Association, the above authorizations may be exercised directly by the Chairman of the Board or appropriate person authorized by the Chairman of the Board on behalf of the Board.

The total funds to be raised and the proposed use of proceeds

Under the Share Incentive Scheme, not more than 10,000,000 Restricted Shares will be granted and not more than RMB180,000,000 will be raised. The proceeds obtained by the Company from the Share Incentive Scheme shall be applied towards the replenishment of the working capital.

LETTER FROM THE BOARD

Dilution effect

The shareholding structure of the Company before and after the attribution of the Restricted Shares granted under the Share Incentive Scheme to the Participants is set out as follows:

	As of the Latest Practicable date	Assuming full attribution and issue of the Restricted Shares under the Share Incentive Scheme (note)
Number of A Shares	530,172,000	540,172,000
Number of H Shares	<u>284,330,000</u>	<u>284,330,000</u>
Total	<u>814,502,000</u>	<u>824,502,000</u>

Note: Assuming that no other Shares are issued or repurchased by the Company from the Latest Practicable Date up to the date of fully attribution of Restricted Shares.

Fund raising activities in the past 12 months

The Company has completed the issuance of 120,000,000 ordinary A shares and listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange on 4 August 2021, and the net proceeds raised is RMB680,282,800 for the purposes of investing in R&D projects and replenishment of working capital.

Save as disclosed above, the Company has not conducted any fund raising activities involving the issuance of share capital within 12 months immediately preceding the date of this circular.

Listing Rules implications

The Share Incentive Scheme does not involve the grant of options over new H Shares or issue of H Shares by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to, the regulations of Chapter 17 of the Hong Kong Listing Rules.

The First Grant and Reserved Grant under the Share Incentive Scheme do not involve the grant of Restricted Shares to connected persons of the Company (or any of its subsidiaries) and therefore is not subject to the notification, announcement and shareholder approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

F. EGM AND H SHAREHOLDERS' CLASS MEETING

Notices convening the EGM and H Shareholders' Class Meeting are set out in pages 63 to 66 to this circular.

Pursuant to the Listing Rules and in accordance with article 66 of the Articles of Association, all of the resolutions set out in the notices of EGM and H Shareholders' Class Meeting will be voted by poll.

Connected persons who required to abstain from voting

Under Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in the transaction must abstain from voting on the resolution.

As at the Latest Practicable Date which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Fudan Fukong which has a material interest in the proposed resolution No. 1 at the EGM, will abstain from voting on the resolution in relation to the Revised Annual Caps. Save as mentioned above, the Board confirm that, to the best of their knowledge, information and belief, none of other Shareholders is required to abstain from voting on such resolution at the EGM pursuant to the Listing Rules.

G. CLOSURE OF REGISTER OF MEMBERS OF H SHARES

For the purpose of EGM and H Shareholders' Class Meeting, the Register of Members of H Shares of the Company will be closed from 2 November 2021 to 5 November 2021 (both days inclusive) and during which no transfer of H Shares will be effected.

Persons who hold H Shares and whose names appear on the Register of Members of H Shares of the Company as at 5 November 2021 shall be entitled to attend the EGM and the H Shareholders' Class Meeting. To be qualified to attend the EGM and the H Shareholders' Class Meeting, all transfers accompanied by the relevant share certificates must be lodged at the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 1 November 2021.

H. RECOMMENDATIONS

After taking into account the advice provided by the Independent Financial Adviser (which sets out in pages 35 to 47 to this circular), the Independent Board Committee considered the revision of the annual caps of the transactions contemplated under the New Cooperation Agreement are in the usual course of business of the Company, on normal commercial terms and are fair and reasonable and in the interests of the Company and Shareholders as a whole. Therefore, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Revised Annual Caps at the EGM.

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and other information which is set out in this circular.

LETTER FROM THE BOARD

The Directors consider that the proposals for the Revised Annual Caps, utilisation of the Surplus Funds raised from the A Share Offering for permanent replenishment of working capital and change of overseas auditor, appointment of non-executive Directors and shareholder representative Supervisor and adoption of the 2021 Restricted Share Incentive Scheme and issue of Restricted Shares under Specific Mandate are in the best interests of the Company and its Shareholders and, accordingly, recommend that all Shareholders to vote in favour of the above proposed resolutions in the EGM and Class Meetings.

I. 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 inquiries, 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.

By order of the Board
Shanghai Fudan Microelectronics Group Company Limited*
Jiang Guoxing
Chairman

Shanghai, the PRC, 20 October 2021

* *For identification purpose only*

LETTER FROM INDEPENDENT BOARD COMMITTEE



**FUDAN
MICRO**

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1385)

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE NEW COOPERATION AGREEMENT

To the Independent Shareholders

Dear Sir/Madam

We have been appointed by the Board as members to form the Independent Board Committee to advise the Independent Shareholders on terms of the New Cooperation Agreement and the transactions thereunder (including the Revised Annual Caps) are fair and reasonable and in line with the interests of the Company and the Shareholders as a whole. The details relating to the terms of the New Cooperation Agreement and the transactions thereunder (including the Revised Annual Caps) are set out in the “Letter from the Board” to the circular of the Company dated 20 October 2021 (the “**Circular**”). Unless otherwise stated, terms defined in the Circular shall have the same meanings when used in this letter.

We wish to draw your attention to the advice from Akron Corporate Finance to the Independent Board Committee and the Independent Shareholders regarding the terms of the New Cooperation Agreement and the transactions thereunder (including the Revised Annual Caps) together with the principal factors taken into consideration in arriving at such, which sets out in “Letter from the Independent Financial Adviser” to the Circular. We have taken into account the advice from Akron Corporate Finance and considered that, the entering into of the New Cooperation Agreement and the transactions thereunder (including the Revised Annual Caps) are in the usual course of business of the Company, on normal commercial terms and are fair and reasonable and in the interests of the Company and Shareholders as a whole. Therefore, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Revised Annual Caps at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

*Independent
non-executive Director*
Guo Li

*Independent
non-executive Director*
Cao Zhongyong

*Independent
non-executive Director*
Cai Minyong

*Independent
non-executive Director*
Wang Pin

20 October 2021

LETTER FROM AKRON CORPORATE FINANCE

The following is the full text of the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps and is prepared for inclusion in this circular.



20 October 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE NEW COOPERATION AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular issued by the Company to its Shareholders dated 20 October 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 26 March 2021, the Company and Fudan Communication entered into the New Cooperation Agreement for the agency of selling the reconfigurable devices and memory IC chips and the setting of the relevant annual caps (the “**Existing Annual Caps**”). Relevant resolutions were proposed and passed at the annual general meeting of the Company held on 2 June 2021.

As stated in the Board Letter, the Board envisages that the Existing Annual Caps will not be sufficient to fulfil the additional transactions that may take place under the New Cooperation Agreement. As such, the Board has resolved to revise the annual caps of the New Cooperation Agreement.

As at the Latest Practicable Date, Fudan Fukong holds approximately 13.46% of the issued share capital of the Company and is a substantial Shareholder of the Company. Fudan Fukong also holds approximately 33.84% of the issued share capital of Fudan Communication which is its controlled company. As defined in Chapter 14A of the Listing Rules, Fudan Communication is a Connected Person of the Company, therefore the transactions under the New Cooperation Agreement constitute connected transactions of the Company.

LETTER FROM AKRON CORPORATE FINANCE

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for the continuing connected transactions, the Company will be required to re-comply with the provisions of Chapter 14A of the Listing Rules.

As the Revised Annual Caps exceed the applicable percentage ratios of 5% (except for ratios of profits), the continuing connected transactions are subject to the reporting, annual review, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Guo Li, Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin, all being independent non-executive Directors, has been established to advise the Independent Shareholders (i) whether the terms of the New Cooperation Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the New Cooperation Agreement and the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (iii) whether the Revised Annual Caps are reasonably determined, fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the resolutions relating thereto at the EGM, taking into account the recommendation of the independent financial adviser to the Independent Board Committee and the Independent Shareholders. We, Akron Corporate Finance Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We are not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date. In the last two years, there was no engagement between the Group and Akron Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to the Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinion and representations contained or referred to in the Circular and the statements, information, opinion and representations provided to us by the management of the Company (the “**Management**”) and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Management and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so as at the date of the EGM, and the Shareholders will be informed of any material change

LETTER FROM AKRON CORPORATE FINANCE

of information in the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors as set out in the Circular were reasonably made after due and careful inquiry 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 representations contained in the Circular.

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 as a whole misleading.

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, or its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the revision of the annual caps of the New Cooperation Agreement. 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 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 Akron Corporate Finance Limited to ensure that such information has been correctly extracted from relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following factors and reasons:

1. Background information of the parties involved in the New Cooperation Agreement

(i) Background information of the Group

The Group is principally engaged in design, development and sales of specific application of integrated circuit ("IC") and provision of testing services for IC products.

LETTER FROM AKRON CORPORATE FINANCE

We set out below a summary of the key financial information of the Group for the years ended 31 December 2019 (the “**FY2019**”) and 2020 (the “**FY2020**”) and six months ended 30 June 2020 (the “**1H2020**”) and 2021 (the “**1H2021**”) as extracted from the annual report of the Company for FY2020 (the “**2020 Annual Report**”) and the interim report of the Company for 1H2021 (the “**2021 Interim Report**”).

	1H2021	1H2020	FY2020	FY2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
		(restated)		
		(Note 1)		
Revenue/Operating income				
(Note 2)	1,128,664	723,274	1,665,087	1,454,772
Gross profit (Note 3)	623,312	337,550	748,102	516,779
Profit/(Loss) before taxation	217,985	72,276	170,868	(146,028)
Profit/(Loss) after taxation	211,693	68,604	161,104	(148,961)
		As at	As at 31 December	
		30 June	2020	2019
		2021		
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(restated)	(audited)
			(Note 1)	
Total assets		3,038,431	2,678,603	2,458,372
Total liabilities		714,278	566,552	520,086
Net asset value		2,324,153	2,112,051	1,938,286

Notes:

- As disclosed in the 2021 Interim Report, the Company has adopted the Accounting Standards for Business Enterprises with effect from the year ended 31 December 2021, and certain comparative figures in 2020 have been restated to cope with the presentation for 1H2021.
- As a result of the change in presentation of financial statements, no revenue figures of the Company are disclosed in the 2021 Interim Report. Figures for 1H2021 and 1H2020 represent the operating income of the Company.
- As a result of the change in presentation of financial statements, no gross profit figures of the Company are disclosed in the 2021 Interim Report. Figures for 1H2021 and 1H2020 represent the implied gross profits of the Group (calculated as operating income minus operating costs) for our analysis purpose.

LETTER FROM AKRON CORPORATE FINANCE

Financial performance (FY2020 vs FY2019)

Based on the 2020 Annual Report, the revenue of the Group increased from approximately RMB1,454.8 million for FY2019 to approximately RMB1,665.1 million for FY2020, representing an increase of approximately 14.5%. Such increase was mainly due to the increase in sales of products other than security and identification IC chips and smart meter ASIC chips.

The gross profit of the Group increased from approximately RMB516.8 million for FY2019 to approximately RMB748.1 million for FY2020, representing an increase of approximately 44.8%. Such increase was mainly due to non-volatile memory chips which had a relatively high gross margin as well as the programmable gate array chips products which accounted for a relative high proportion in the principal business of the Group had a substantial increase in sales. The change in product structure resulted in the rapid surge of gross profit in principle business.

As disclosed in the 2020 Annual Report, the Group recorded a turnaround from a net loss after taxation of approximately RMB149.0 million for FY2019 to a net profit after taxation of approximately RMB161.1 million for FY2020. Such improvement was primarily due to (i) the increase in revenue as discussed above; (ii) the increase in profit margin brought from the launch of new products; and (iii) the decrease in research and development expenditure.

Financial performance (1H2021 vs 1H2020)

Based on the 2021 Interim Report, the Group achieved an operating income of approximately RMB1,128.7 million for 1H2021, representing an increase of approximately 56.0% over the corresponding figure of approximately RMB723.3 million for 1H2020.

For 1H2021, the implied gross profit of the Group (calculated as operating income minus operating costs) was approximately RMB623.3 million, representing an increase of approximately 84.6% as compared to that of approximately RMB337.6 million for 1H2020.

As disclosed in the 2021 Interim Report, the Group recorded a net profit after taxation of approximately RMB211.7 million for 1H2021, representing a significant increase of approximately 208.6% as compared with approximately RMB68.6 million for 1H2020. The significant growth in net profit is primarily due to (i) strong demand of the downstream application market; and (ii) exploration of new customers and the launch of new products. These factors brought with significant growth in revenue as well as the comprehensive gross profit margin.

Financial position (30 June 2021 vs 31 December 2020)

The total assets of the Group increased from RMB2,678.6 million as at 31 December 2020 to approximately RMB3,038.4 million as at 30 June 2021, representing an increase of approximately 13.4%.

LETTER FROM AKRON CORPORATE FINANCE

The total liabilities of the Group increased from approximately RMB566.6 million as at 31 December 2020 to approximately RMB714.3 million as at 30 June 2021, representing an increase of approximately 26.1%.

As such, it resulted in the increase in the net asset value of the Group by approximately 10.0% from approximately RMB2,112.1 million as at 31 December 2020 to approximately RMB2,324.1 million as at 30 June 2021.

(ii) Information of Fudan Communication

As stated in the Board Letter, Fudan Communication is mainly engaged in design, development and production of telecommunication devices in the PRC. As at the Latest Practicable Date, Fudan Communication's equity interest is being held as 33.84% by Fudan Fukong; 16.34% by the Company; 22.76% by 39 individuals who are existing employees and past employees of Fudan Communication, employees of the Company and third party investors, and Mr. Yu Jun, the executive Director, who has 1.19% equity interest through his spouse; and 14.78% and 12.28% respectively by two limited partnership enterprises which consist 38 and 9 individuals who are existing employees, past employees of Fudan Communication and third party investors. Approximately 70.2% of equity interest of Fudan Fukong is held by SCI. SCI is wholly owned by Bailian Group Company Limited which is a state-owned enterprise in Shanghai mainly engaged in operating department stores, shopping malls, outlet, large stores, supermarket, convenience stores, specialty retail formats, trading in non-ferrous metals, ferrous metals, automotive, chemical light, electrical, timber, fuel, etc. involving fields of e-commerce, logistics, consumer services, and electronic information.

2. The New Cooperation Agreement

Nature of the agreement

Pursuant to the New Cooperation Agreement, the Company agreed to appoint Fudan Communication as the qualified agent to sell the reconfigurable devices and memory IC chips manufactured by the Company (the “**Products**”) for a term of three years from 12 June 2021 to 11 June 2024. The Company has set the unified selling prices for end customers and qualified agents (the “**Product Selling Prices**”) based on the “*Guide on Product Pricing*” (as described below). Fudan Communication shall purchase the Products from the Company at the Product Selling Prices, policies and terms consistent with other qualified agents that are uniformly formulated by the Company. The actual sales and purchase of both parties shall be executed by signing separate contracts.

Pricing policy

The Company has established a product pricing system with issuance of a “*Guide on Product Pricing*” which sets out the principles of product pricing. The Product Selling Prices shall be set based on the market situation, the acceptance by customers and the prices offered by market competitors, and also with the consideration of production costs and related expenses. The Product

LETTER FROM AKRON CORPORATE FINANCE

Selling Prices (subject to adjustments from time to time) are set by the relevant divisions. Upon obtaining of approval from the management, the unified product catalogs and prices will be offered to qualified agents respectively.

According to the Management, all sales to Fudan Communication under the New Cooperation Agreement have been and will continue to be conducted in accordance with the Product Selling Prices. These procedures can ensure that the transactions will be conducted on normal commercial terms and the terms and prices of the Products offered to Connected Persons are no more favourable than those offered to independent qualified agents.

Our view on the pricing policy

We have discussed with the Management and understand that even that the Existing Annual Caps are proposed to be revised to the Revised Annual Caps, the pricing policy under the New Cooperation Agreement will remain unchanged.

We have reviewed the terms of the New Cooperation Agreement and understand that the sales to Fudan Communication would be based on the Product Selling Prices, which are identical to all qualified agents. The Company has formulated an actual product price list (“**Actual Price List**”) based on the “*Guide on Product Pricing*” which applies to both Fudan Communication and Independent Third Parties. We have reviewed the Actual Price List and noted that the selling prices of the Products would be adjusted in accordance with purchase quantity which is applicable to Fudan Communication as well as Independent Third Parties.

We have also reviewed a transaction list (the “**Transaction List**”) for the eight months ended 31 August 2021 (the “**Review Period**”) covering over 18,000 transaction records (setting out the date, name of customers, product name, product model number and price) of Fudan Communication and Independent Third Parties. We are advised by the Management that such list is exhaustive and therefore is considered fair and representative. Based on our review, we observed that the selling prices of the Products sold to Fudan Communication are based on the Actual Price List and thus is no more favourable than that offered to Independent Third Parties.

3. Determination basis of the Revised Annual Caps

As stated in the Board Letter, to fulfil the increasing demand of the customers of Fudan Communication and the future development of the Company and Fudan Communication, it is expected that the sales transactions under the framework agreement of the New Cooperation Agreement will be sharply increased. Thus, the Board envisages that the Existing Annual Caps will not be sufficient to fulfil the transactions that may take place under the New Cooperation Agreement.

LETTER FROM AKRON CORPORATE FINANCE

The Board has resolved to revise the annual caps of the New Cooperation Agreement as follows:

	For the year ending 31 December			For the period from
	2021	2022	2023	1 January to
	RMB'000	RMB'000	RMB'000	11 June 2024
	(Note)			(Note)
Annual cap of the Old Cooperation Agreement	60,000	-	-	-
Annual caps of the New Cooperation Agreement	<u>60,000</u>	<u>150,000</u>	<u>180,000</u>	<u>100,000</u>
Existing Annual Caps	120,000	150,000	180,000	100,000
Annual caps to be increased under the New Cooperation Agreement	<u>80,000</u>	<u>130,000</u>	<u>190,000</u>	<u>100,000</u>
Revised Annual Caps	<u>200,000</u>	<u>280,000</u>	<u>370,000</u>	<u>200,000</u>

Note: The New Cooperation Agreement was effective on 12 June 2021 and will expire on 11 June 2024.

As stated in the Board Letter, the revision of annual caps proposed by the Directors under the New Cooperation Agreement was based on the following factors:

- (a) to fulfil the increasing demand of the customers of Fudan Communication;
- (b) the sales record for the months from January to July 2021 amounted to RMB69,620,000 and the seasonal factor which will expedite the sales of the 3rd and 4th quarters;
 - (i) it is a characteristic of the downstream products of the IC industry to fulfil high market demand during Mid-Autumn Festival, National Day, Double Eleven large scale promotion activities, Christmas, New Year and Chinese New Year;
 - (ii) because of long holidays and prolonged factory closure in China during Chinese New Year, customers use to stock up goods during year end in order to meet market demand in the first quarter of the coming year; and
 - (iii) sales records of the Company for the past 3 years are set out as follows for reference:

LETTER FROM AKRON CORPORATE FINANCE

Year	January - June <i>RMB million</i>	July - December <i>RMB million</i>	% increase
2018	672	738	9.82
2019	639	816	27.70
2020	712	953	33.85

- (c) as at 31 July 2021, the sales orders placed by Fudan Communication to the Company still have a total outstanding of approximately RMB66,354,000;
- (d) the Company has entered into new sales orders amounted to RMB83,002,000 in August 2021, RMB29,900,000 of which will be delivered and completed in 2022, with conditional terms which is subject to the approval of the proposed revision of annual caps by the Company's shareholders in the general meeting;
- (e) Fudan Communication has entered into a letter of intent with the Company in relation to its increasing customer demand for 2022 to 2024.

As the trade war between China and the USA started two years ago, there has been short supplies of IC chips around the world. The domestic IC industry is now facing increase in costs, prolonged raw materials delivery and delay in product shipment. In order to secure its sales supply as well as to fulfil increasing end user demands, Fudan Communication has to lock up the Company's supply to meet its orders in coming years. On the other hand, the Company also has to decrease its business risk in production by securing orders placed by Fudan Communication. According to the letter of intent, the sales orders that Fudan Communication will place during the 2 years ending 31 December 2023 and for the period from 1 January 2024 to 11 June 2024 are RMB280,000,000, RMB370,000,000 and RMB200,000,000 respectively. As the sales amounts entered into the letter of intent are higher than the existing annual caps, the Company is required to revise the annual caps to meet the increasing demand from Fudan Communication;

- (f) the Company has launched approximately 20 new products during the year with satisfactory sales performance that will support sales growth in future; and
- (g) the Directors, having further reviewed the sales performance and market development of the relevant products, anticipate an increasing demand which is far more than the original estimation.

The Directors confirm that they will use their best endeavors to ensure the actual transaction amount under the New Cooperation Agreement will not exceed the Existing Annual Cap for the year ending 31 December 2021 before the approval of the Revised Annual Caps in the EGM.

LETTER FROM AKRON CORPORATE FINANCE

4. Analysis on the Revised Annual Cap

In assessing the reasonableness and fairness of the Revised Annual Caps, we have taken into account the following factors:

(i) Prospect of the IC chips industry in the PRC

In order to get a better grasp of the outlook of the IC chips industry in the PRC, we have conducted our own desktop research.

According to the 《新時期促進集成電路產業和軟件產業高質量發展的若干政策》 (Several Policies to Promote the High-quality Development of the IC Industry and the Software Industry in the New Era*) published by the state Council of the PRC in July 2020, the PRC Government has instituted a series of policies to encourage development of IC chips industry. The policies including investment and financing, industrial technology, export, human talent, protection of intellectual property rights and industry administration. In addition, under 《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》 (The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035*) which was approved at the fourth session of the 13th National People's Congress in March 2021, the development of IC chips industry was listed as a priority of the PRC Government.

In addition, according to the National Bureau of China, the total number of IC chips produced in the PRC increased from approximately 1,852.6 billion to 2,614.7 billion from 2018 to 2020, representing a compound annual growth rate of 18.80%. These statistics demonstrate that the PRC IC chips industry has experienced rapid growth in recent years.

In view of the favorable policies and growth of the IC chips industry in the PRC, it would benefit the sales of Fudan Communication and therefore may further increase the Company's sales to Fudan Communication.

(ii) Utilisation of the Existing Annual Caps

Based on the Transaction List, the total sales to Fudan Communication during the Review Period amounted to approximately RMB70,052,000, representing approximately 58.4% of the Existing Annual Cap for the year ending 31 December 2021 of RMB120,000,000. The remaining Existing Annual Cap available for the year ending 31 December 2021 is approximately RMB49,948,000. The outstanding sales orders placed by Fudan Communication as at 31 August 2021 amounted to approximately RMB65,866,000.

We observed that the remaining quota of the Existing Annual Cap for the year ending 31 December 2021 will not be sufficient to fulfill the outstanding sales orders.

* For identification purposes only

LETTER FROM AKRON CORPORATE FINANCE

(iii) New sales orders for 2021

On 27 August 2021, the Company has entered into new sales orders (the “**New Sales Orders**”) amounted to approximately RMB83,002,000, which is subject to obtaining the approval of the proposed Revised Annual Caps by the Independent Shareholders at the EGM. We have reviewed the New Sales Orders, which set out the product model number, order quantity and sales amount. Based on our discussion with the Management, we understand that the Company is currently unable to execute the New Sales Orders given the remaining quota of the Existing Annual Cap for the year ending 31 December 2021 will not be sufficient to fulfill the above-mentioned outstanding sales orders. Such circumstance has hindered the Company’s sales performance and therefore the Management considers that it is necessary to revise the Existing Annual Caps to cope with the business need.

We have discussed with the Management and understand that there is always timing difference between entering into of sales orders and delivery of the Products and such time difference may vary depending on the technical requirement of the production as well as production capacity of the Company. After assessing the current production capacity, the Management estimated that part of the New Sales Orders in amount of approximately RMB29,900,000 will be executed in 2022. Having taken into account this factor, the proposed Revised Annual Caps for the year ending 31 December 2021 would be sufficient for the New Sales Orders.

(iv) Purchase intention of Fudan Communication

On 27 August 2021, the Company had received a letter of intent (the “**LoI**”) from Fudan Communication regarding its purchase intention during the terms of the New Cooperation Agreement. We have obtained the LoI as part of our due diligence work. Pursuant to the LoI, Fudan Communication intended to purchase the Products from the Company in estimated amounts of approximately RMB280 million and RMB370 million for the two years ending 31 December 2023 respectively and RMB200 million for the period from 1 January to 11 June 2024 (the “**Estimated Purchasing Amounts**”). The Revised Annual Caps are therefore matched with the Estimated Purchasing Amounts.

We have obtained the summary list of sales orders placed by Fudan Communication from 12 June 2020 (being the commencement date of the Old Cooperation Agreement) to 31 August 2021 provided by the Company. We noted that the aggregate amount of the sales orders has registered a significant increase of approximately 285.3%, from approximately RMB29.9 million for the six months ended 31 December 2020 to approximately RMB115.2 million for the six months ended 30 June 2021. In view of the historical growth trend of the sales orders placed by Fudan Communication and the positive industry outlook discussed earlier, we consider that the Estimated Purchasing Amounts were reasonably estimated.

LETTER FROM AKRON CORPORATE FINANCE

(v) *Sales performance of new products*

We have obtained the list of new products offered to Fudan Communication in 2021 with respective sales performance. It is observed that a total of 20 new products have been offered to Fudan Communication since February 2021. Based on our discussion with the Management, most of these new products are programmable gate array chips which has been in a high market demand in recent years.

We also noted that the total turnover of these new products accounted for a significant portion of the total sales to Fudan Communication. During the Review Period, these new products contributed turnover of approximately RMB17.4 million, representing approximately 24.9% of the total sales to Fudan Communication.

In view of the above, we concur with the Management that these new products will support sales growth in future and therefore may further increase the Company's sales to Fudan Communication.

Our view

Based on our discussion with the Management, we understand that the continuing connected transactions under the New Cooperation Agreement are primarily market-driven. On this basis, the volume and aggregate value of each of the continuing connected transactions under the New Cooperation Agreement may vary from time to time and depends on a number of external factors including seasonal factors, fluctuations in the economic conditions or new policies/measures promulgated by the relevant government or regulatory bodies which is not within the control of the Group nor possible to anticipate. As such, there are inherent difficulties in accurately estimating the relevant annual caps. Based on our review on the business development of the Company and relevant sales orders entered into by the Company, we concur with the Management that the Existing Annual Caps will not be sufficient to fulfil the transactions that may take place under the New Cooperation Agreement

Having considered the factors set out above and based on our work performed, we are of the view that the Revised Annual Caps are reasonably determined, fair and reasonable in so far as the Independent Shareholders are concerned.

5. Internal control

The Company has adopted and will continue to apply various internal control procedures. The Company has established an internal control system and pursuant to the system, an internal control division (the "**Internal Control Division**") will be responsible to monitor and review the continuing connected transactions contemplated under and the New Cooperation Agreement to ensure that the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the pricing policy of the Company. In addition, the Internal Control Division will pay close attention to the sales contracts so as to control the aggregate transaction amount under the annual cap or to alert the relevant division to publish revision announcement when the transaction amounts nearly reach the Existing Annual Caps in order to comply with the Listing Rules.

LETTER FROM AKRON CORPORATE FINANCE

In respect of the pricing, as discussed in the section headed “*Pricing Policy*” above, the pricing for the Products will be referred to the “*Guide on Product Pricing*”. Based on the “*Guide on Product Pricing*”, an actual price list for different products under different bulk purchase quantity will be decided by the manufacturing department, sales department and finance department and monitored by the management of the Group in charge. These procedures are to ensure the products prices offered to connected persons are no more favourable than that offered to Independent Third Parties.

In respect of monitoring the aggregate amount for transactions contemplated under the New Cooperation Agreement, we understand from the Management that the sales department would inform the financial department before entering into sales contracts with Fudan Communication and the financial department would monitor the remaining quota of the annual caps by computing an aggregate transactions amount list to ensure that the aggregated amounts have not exceeded the relevant annual caps.

Based on our review, we noted that (i) the selling prices of the Products sold to Fudan Communication are based on the Actual Price List and thus is no more favourable than that offered to Independent Third Parties; and (ii) the total sales to Fudan Communication during the Review Period did not exceed the Existing Annual Caps.

Having considered the above, we concur with the Management that the internal control system and the internal control adopted are sufficient to ensure transactions under the New Cooperation Agreement will be conducted on normal commercial terms and shall safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that (i) the terms of the New Cooperation Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the New Cooperation Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) the Revised Annual Caps are reasonably determined, fair and reasonable.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
For and on behalf of
Akron Corporate Finance Limited
Felix Tsang
Assistant Director

Mr. Felix Tsang is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Akron Corporate Finance Limited to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO.

1. DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests of the directors and supervisors of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in A shares of the Company:

	Number of issued shares held, capacity and nature of interest				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	
Directors					
Mr. Jiang Guoxing	8,810,000	—	—	8,810,000	1.08
Mr. Shi Lei	8,810,000	—	—	8,810,000	1.08
Mr. Yu Jun	1,400,000	—	—	1,400,000	0.17
Ms. Cheng Junxia	700,000	—	—	700,000	0.09
	<u>19,720,000</u>	<u>—</u>	<u>—</u>	<u>19,720,000</u>	
Supervisor					
Ms. Zhang Yanfeng	—	—	994,000	994,000	0.12

Long positions in H shares of the Company:

	Number of issued shares held, capacity and nature of interest				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	
Supervisor					
Ms. Zhang Yanfeng	–	268,000	–	268,000	0.03

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or Supervisors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to 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 Issuers.

2. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions and short positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Long positions (L)/Short positions (S)	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Fuxin Fangao IC Technology Co. Ltd. ("Fuxin Fangao")	(1)	Directly beneficially owned	106,730,000	(L)	A shares	20.13	13.10
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(1)	Interest of corporation controlled	106,730,000	(L)	A shares	20.13	13.10
Fudan University	(1)	Interest of corporation controlled	106,730,000	(L)	A shares	20.13	13.10
Shanghai Fudan Fukong Technology Enterprise Holdings Limited ("Fudan Fukong")	(2)	Directly beneficially owned	109,620,000	(L)	A shares	20.68	13.46
Shanghai Commerce and Invest (Group) Corporation ("SCT")	(2)	Interest of corporation controlled	109,620,000	(L)	A shares	20.68	13.46
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	(L)	A shares	20.68	13.46
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	(L)	A shares	9.84	6.40

APPENDIX 1

GENERAL INFORMATION

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Long positions (L)/Short positions (S)	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Yikun Investment Consultant Partnership Enterprise (“ Shanghai Yikun ”)	(3)	Interest of corporation controlled	66,845,110	(L)	A shares	12.61	8.21
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	(L)	A shares	12.61	8.21
Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise (“ Shanghai Zhenghua ”)	(4)	Directly beneficially owned	34,650,000	(L)	A shares	6.54	4.25
Shanghai Shanyao Industrial Limited (“ Shanghai Shanyao ”)	(4)	Interest of corporation controlled	34,650,000	(L)	A shares	6.54	4.25
Zhou Yufeng	(4)	Interest of corporation controlled	34,650,000	(L)	A shares	6.54	4.25
Shanghai Guonian Corporate Management Consultant Partnership Enterprise (“ Shanghai Guonian ”)	(5)	Directly beneficially owned	29,941,470	(L)	A shares	5.65	3.68
Shanghai Danruo Investment Management Partnership Enterprise (“ Shanghai Danruo ”)	(5)	Interest of corporation controlled	29,941,470	(L)	A shares	5.65	3.68
Dazi County Dingcheng Capital Investment Limited (“ Dingcheng Capital ”)	(5)	Interest of corporation controlled	29,941,470	(L)	A shares	5.65	3.68

APPENDIX 1

GENERAL INFORMATION

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Long positions (L)/Short positions (S)	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Beijing Zhongrong Dingxin Investment Management Limited (“Zhongrong Dingxin”)	(5)	Interest of corporation controlled	29,941,470	(L)	A shares	5.65	3.68
Zhongrong International Trust Limited (“Zhongrong International”)	(5)	Interest of corporation controlled	29,941,470	(L)	A shares	5.65	3.68
Jingwei Textile Machinery Co., Ltd. (“Jingwei Textile”)	(5)	Interest of corporation controlled	29,941,470	(L)	A shares	5.65	3.68
Springs China Opportunities Master Fund (“Springs China”)	(6)	Directly beneficially owned	17,088,000	(L)	H shares	6.01	2.10
Springs China Limited	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.10
Zhao Jun	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.10

Notes:

- (1) Fuxin Fangao (formerly known as “**Shanghai Fudan High Tech Company**”) is a state-owned enterprise wholly owned by Fudan Asset and Fudan Asset is wholly owned by Fudan University.
- (2) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Fukong. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Fukong's interest in the Company.
- (3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben. Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben's interest in the Company. Shanghai Yikun and Zhang Yong further held the Company's interest through another controlled corporation.
- (4) Zhou Yufeng held 99% of the equity interest in Shanghai Shanyao, and Shanghai Shanyao held 99.79% of the equity interest in Shanghai Zhenghua. Accordingly, each of Shanghai Shanyao and Zhou Yufeng is deemed to be interested in Shanghai Zhenghua's interest in the Company.

- (5) Jingwei Textile holds 37.47% of the equity interest in Zhongrong International, Zhongrong International holds the entire equity interest in Zhongrong Dingxin, Zhongrong Dingxin holds the entire equity interest in Dingcheng Capital, Zhongrong Dingxin and Dingcheng Capital holds 99.9% and 0.01% respectively of the equity interest in Shanghai Danruo and Dingcheng Capital is the general partner thereof. Shanghai Danruo and Dingcheng holds 72.69% and 0.33% of the equity interest in Shanghai Guonian, respectively. Accordingly, each of Shanghai Danruo, Dingcheng Capital, Zhongrong Dingxin, Zhongrong International, Jingwei Textile is deemed to be interested in Shanghai Guonian's interest in the Company.
- (6) Spring China is beneficially owned by Spring China Limited, which is beneficially owned by Zhao Jun. Accordingly, each of Spring China Limited and Zhao Jun is deemed to be interested in Spring China's interest in the Company.

Save as disclosed above and the directors and supervisors of the Company, whose interests are set out in the section headed "Directors' and supervisors' interests in shares and underlying shares and debentures" above, as at the Latest Practicable Date, no person, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

The following table shows the directorship/employment of the Directors with a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Relevant company	Directorship/employment
Jiang Guoxing	Fudan Asset	Director
Yu Jun	Fuxin Fangao Fudan University	Director Associate Dean of the Faculty of Microelectronics
Ma Zhicheng	Fudan Fukong	Director
Zhang Huajing	Fudan Fukong	Supervisor
Wu Ping	SCI Fudan Fukong	Managing director Chairman
Sun Cheng (proposed Director)	SCI	Deputy general manager
Liu Huayan (proposed Director)	SCI	Deputy general manager

Save and except the above, none of the Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As at the Latest Practicable Date, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group (as defined in the Listing Rules).

4. DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

As at the Latest Practicable Date, no director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to the Company or any of the Company's subsidiaries was a party.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Group were made up.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

6. NO MATERIAL ADVERSE CHANGE

As at the latest Practicable Date, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

7. EXPERT AND CONSENT

- (i) The following is the qualification of the expert who has given opinion or advice which are contained in this circular:

Name	Qualifications
Akron Corporate Finance Limited	registered with the Securities and Futures Commission in Hong Kong as a licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activity

- (ii) As at the Latest Practicable Date, the expert above did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

- (iii) As at the Latest Practicable Date, the expert above did not have any direct or indirect interests in any assets which have since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been 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.
- (iv) The letter from the above expert is given as of the date of this circular regarding the advice provided to the Independent Board Committee and Independent Shareholders from the expert, for the purpose of incorporation in this circular.
- (v) The expert above has given its written consent to the issue of this circular and the references to its name included herein the form and context in which it appears, and has not withdrawn with copies of its letter.

8. CONTRACT OF SIGNIFICANCE

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular which are or may be material:

- i) The Company entered into an underwriting agreement dated on 24 March 2021 with CSC Financial Co., Ltd. (as the lead of leading underwriter) and Great Wall Securities Co., Ltd. (as the joint leading underwriter) regarding the A Share Offering.
- ii) On 14 April 2021, the Company entered into the S&P Agreement with Shanghai Yuxia Business Consultant Ltd. for the acquisition of office premises at the consideration of RMB209,940,370.

9. MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Li Wing Sum, Steven who is a fellow member respectively of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (ii) The registered office of the Company is at No. 220, Handan Road, Shanghai, People's Republic of China. The place of business in Hong Kong of the Company is at Flat 6, 5/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong.
- (iii) The H share registrar and transfer office is Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

10. MATERIAL CONTRACTS AND DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the Stock Exchange's website and the Company's website for not less than 14 days from the date of this circular:

- (i) New Cooperation Agreement;
- (ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 34 of this circular;
- (iii) the letter from Akron Corporate Finance to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 35 to 47 of this circular;
- (iv) the written consent referred in note 7 of this Appendix;
- (v) the contracts mentioned in the "Contract of significance" to this Appendix; and
- (vi) a copy of this circular.

APPENDIX 2 BIOGRAPHICAL DETAILS OF NON-EXECUTIVE DIRECTORS AND SUPERVISOR TO BE APPOINTED

The biographical details of Non-Executive Directors to the appointed are as follows:

Mr. Sun Cheng, aged 47, he holds a bachelor's degree from the Shanghai University of Finance and Economics and a master's degree in business and administration from the Fudan University, and is also an economist. Mr. Sun joined Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial Shareholder, in January 2021 as deputy general manager. He had worked for Shanghai Wenguang Capital Management Co. Ltd. as general manager; Shanghai First Financial Media Co. Ltd. as financial controller; Shanghai First Financial Investment Management Co. as executive director; Blockbuster Investment Management Co. Ltd. as deputy general manager; Shanghai New Countryside Construction Co. Ltd. as assistant to general manager; Shanghai Wenguang Multimedia Television Co. Ltd. as financial controller and the subsidiaries of the SAIC Motor Group, namely SAIC Investment Co. as investment officer, SAIC Information Industry Investment Co. as assistant general manager, SAIC Motor Corporation Ltd. as assistant financial controller and SAIC Finance Ltd. as deputy manager in investment banking division.

Ms. Liu Huayan, aged 49, she graduated from the Shanghai University of Finance and Economics as an undergraduate and holds a master's degree in management, and is also an economist. Ms. Liu joined SCI in March 2021 as deputy general manager. She had worked for Shang Finance Corporation as managing director and investment committee member; J.P. Morgan First Capital Securities Co., Ltd. as executive director and internal control committee member of the investment banking division; BOCI International Securities Co. Ltd. as executive director, vice officer of internal control, quality control officer and merger and acquisition finance vice officer of the investment banking division; Haitong Securities Co. Ltd. as vice finance officer of investment banking division, internal control committee member and audit department; and the Jiangnan Certified Public Accountants operated by the Shanghai Jiangnan Shipyard.

The biographical details of Supervisor to the appointed as follows:

Ms. Tang Xiaojie, aged 41, she graduated from the University of Ballarat in Australia as an undergraduate and holds a master's degree in commerce. Ms. Tang joined SCI in 2015 as deputy general manager of the audit department. She had worked for Shanghai Minqiang Investment (Group) Co. Ltd. as internal audit officer; HNA Group Co., Ltd. as internal audit; Industrial Bank Co. Ltd. as sales staff; Shanghai Nile Environmental Protection Technology Ltd. as accounting staff and Shanghai Dali Food Additives Co. Ltd. as accounting staff.

Mr. Sun, Ms. Liu and Ms. Tang confirmed that, save as disclosed above, (i) they did not hold any position in the Company or any of its subsidiaries nor any directorship in other listed companies in the past three years; (ii) they did not have any relationship with any director, supervisor, senior management or substantial shareholder (as defined under Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) of the Company or any of its subsidiaries; and (iii) they did not hold any interest in the shares of the Company (as defined under Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) as at the Latest Practicable Date.

There is no other information relating to the appointment of Mr. Sun, Ms. Liu and Ms. Tang that needs to be disclosed pursuant to the requirement of Rule 13.51(2)(h) to (v) of the Listing Rules and there is no other matter that needs to be brought to the attention of the Shareholders.

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's quality experts, fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members, bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized. To safeguard the best interests of the Shareholders, as well as equally align the income and contributions; the Company has formulated the "Shanghai Fudan Microelectronics Group Company Limited 2021 Restricted Share Incentive Scheme (Draft)" hereinafter referred as the "Share Incentive Scheme" or "Incentive Scheme".

To ensure the smooth implementation of the Share Incentive Scheme, the Management Measures for Assessment for the Implementation of the 2021 Restricted Share Incentive Scheme of Shanghai Fudan Microelectronics Group Company Limited (the "**Measures**") are specially formulated according to the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Securities Law of the People's Republic of China (《中華人民共和國證券法》), the Management Measures for Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》) and other relevant laws, administrative regulations, regulatory documents, relevant articles of the Articles of Association as well as the actual situation of the Company.

Article 1 Purpose of Assessment

The purposes of these measures are to strengthen the planned implementation of the Company's Share Incentive Scheme, quantify the specific objectives set by the Company's Share Incentive Scheme, promote the scientific, standardized and institutionalized assessment management of Participants, and ensure the realization of the various performance indicators under the Company's Share Incentive Scheme; at the same time, these measures are to guide the Participants to improve work performance and competence and evaluate employees' performance and contribution in an objective and fair manner, to provide an objective and comprehensive evaluation basis for the implementation of the Incentive Scheme.

Article 2 Principles of Assessment

- (i) Assessment and evaluation of the Participants shall be conducted in strict accordance with these measures following the principles of fairness, justice, and openness;
- (ii) The assessment indicators shall be combined with the Company's medium and long-term development strategies and annual business objectives; as well as the work performance, work competence and work attitude of the Participants.

Article 3 Scope of Assessment

These measures apply to all Participants identified in the Share Incentive Scheme, including staff considered by the Board to be required to be incentivized of the Company (including its subsidiaries, the same applies below) but excluding the independent Directors and Supervisors of the Company. All Participants must have an employment or labour relationship with the Company or its subsidiaries at the time of grant under and during the assessment period of the Incentive Scheme.

Article 4 Assessment Body and Implementation Body

- (i) The remuneration and appraisal committee of the board of directors is responsible for organizing and implementing the Share Incentive Scheme;
- (ii) The HR and administration department of the Company shall form an assessment team that is responsible for the specific assessment work and reporting to the Remuneration Committee;
- (iii) Under the supervision of the internal audit department of the Company, the HR and administration department, finance department and other relevant departments of the Company are responsible for the collection and provision of relevant assessment data, as well as the authenticity and reliability of the data;
- (iv) The board of directors of the Company is responsible for reviewing the assessment results.

Article 5 Performance Assessment Indicators and Standards

The attribution of the Restricted Shares that have been granted to the Participants will depend on the assessment results at both the Company level and at the level of the Participants.

(i) ***Performance assessment requirements at the Company level:***

1. First Grant

Under the Share Incentive Scheme, the Company's performance indicators for the Participants of the First Grant will be evaluated on an annual basis for the financial years of 2021 to 2024, and the achievement of performance assessment target will be one of the attribution conditions for the Participants for the current year.

The performance assessment objectives of Share Incentive Scheme in respect of the relevant years are set out below:

		Performance Assessment Target A Company attribution factor 100%	Performance Assessment Target B Company attribution factor 80%
Restricted Shares granted for the first time	First tranche	Meet any one of the following conditions: 1. The revenue increased by 40% or above over 2020; 2. Sales profit margin increased by 50% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 32% over 2020; 2. Sales profit margin increased no less than 40% over 2020.
	Second tranche	Meet any one of the following conditions: 1. The revenue increased by 65% or above over 2020; 2. Sales profit margin increased by 65% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 52% over 2020; 2. Sales profit margin increased no less than 52% over 2020.
	Third tranche	Meet any one of the following conditions: 1. The revenue increased by 90% or above over 2020; 2. Sales profit margin increased by 90% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 72% over 2020; 2. Sales profit margin increased no less than 72% over 2020.
	Fourth tranche	Meet any one of the following conditions: 1. The revenue increased by 120% or above over 2020; 2. Sales profit margin increased by 120% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 96% over 2020; 2. Sales profit margin increased no less than 96% over 2020.

Note: As referred above, “revenue” means audited consolidated revenue of the Company; “sales profit margin” means audited revenue after deducting operating expenses of the Company.

2. *Reserved Grant*

If the Reserve Grant is granted on or before 31 December 2021, the performance assessment requirements of the Reserved Grant will be the same as the First Grant.

If the Reserve Grant is granted after 31 December 2021, The performance assessment requirements of the Reserved Grant will be evaluated on an annual basis for the 3 financial years of 2022 to 2024, and the achievement of performance assessment target will be one of the attribution conditions for the Participants for the current year. The performance assessment objectives of Share Incentive Scheme are set out below:

Tranche		Performance Assessment Target A Company attribution factor 100%	Performance Assessment Target B Company attribution factor 80%
Restricted Shares granted for Reserved Grant	First tranche	Meet any one of the following conditions: 1. The revenue increased by 65% or above over 2020; 2. Sales profit margin increased by 65% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 52% over 2020; 2. Sales profit margin increased no less than 52% over 2020.
	Second tranche	Meet any one of the following conditions: 1. The revenue increased by 90% or above over 2020; 2. Sales profit margin increased by 90% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 72% over 2020; 2. Sales profit margin increased no less than 72% over 2020.
	Third tranche	Meet any one of the following conditions: 1. The revenue increased by 120% or above over 2020; 2. Sales profit margin increased by 120% or above over 2020.	Meet any one of the following conditions: 1. The revenue increased no less than 96% over 2020; 2. Sales profit margin increased no less than 96% over 2020.

Note: As referred above, “revenue” means audited consolidated revenue of the Company; “sales profit margin” means audited revenue after deducting operating expenses of the Company.

During the tranches period, the Company will base on the above mentioned performance assessment requirements, upon the fulfillment of any one of the two performance targets, arrange share transfer for the Participants who have fulfilled the attribution conditions. Those Restricted Shares which have not been attributed during the period of their respective tranches as a result of failure to fulfil the attribution conditions shall lapse.

(ii) *Performance assessment requirements at the Participant's individual level:*

The individual assessment of Participants is carried out according to the internal performance assessment system of the Company. The individual evaluation results of the Participants are divided into four levels: "pass" and "fail". The corresponding attribution situations are as follows:

Assessment standards	Pass	Fail
Individual Attribution Coefficient	100%	0

If the Company's performance reaches performance assessment target, the number of Restricted Shares actually attributable to the Participant in the current year = the number of individual attribution for the year × the company attribution coefficient × the individual attribution coefficient.

If the Restricted Shares that the Participant belongs to in the current plan cannot be attributed or cannot be fully attributed due to assessment reasons, the Restricted Shares shall become invalid and shall not be deferred to the next year.

Article 6 Assessment Procedures

The human resources department of the Company is responsible for the specific assessment work under the guidance of the Remuneration and Evaluation Committee and retaining the assessment results. On this basis, a performance assessment report shall be prepared and submitted to the Remuneration and Evaluation Committee, and the Board is responsible for reviewing the assessment results.

Article 7 Period and Times of Assessment

(i) *Assessment Period*

The accounting year prior to attribution of each tranche of Restricted Shares of the Participants.

(ii) *Number of times of assessment*

The assessment years of the Share Incentive Scheme are the four accounting years of 2021-2024, and the assessment shall be conducted once a year.

Article 8 Management of Assessment Results***(i) Feedback and application of assessment results***

1. The assessment targets are entitled to know their own assessment results. The direct supervisor of the employees shall inform the assessment targets of the assessment results within 5 working days after the completion of the assessment.
2. If the assessment targets have objections against the assessment results, they can communicate with the HR and administration department to resolve. If the objections cannot be resolved through communication, the assessment objects may appeal to the Remuneration Committee which shall review and determine the final assessment result or level within 10 working days.
3. The assessment results shall be the basis for the attribution of Restricted Shares.

(ii) Filing of assessment records

1. After the completion of assessment, the human resources department shall retain all the records of the performance assessment. The assessment results shall be kept as confidential information.
2. In order to ensure the validity of the performance records, the performance records are not allowed to be altered. If the records are to be revised or re-recorded, it must be signed by the parties concerned.
3. The performance assessment records shall be kept for 10 years. Documents and records that exceed the storage period shall be uniformly destroyed by the Remuneration and Evaluation Committee.

Article 9 Supplementary Provisions

- (i) The board of directors is responsible for the formulation, interpretation and revision of these measures.
- (ii) If the relevant provisions of these measures conflict with the relevant national laws, administrative regulations, regulatory documents, and the draft of the Share Incentive Scheme, the relevant national laws, administrative regulations, regulatory documents, and the draft of the Share Incentive Scheme shall prevail. If there are no clear provisions in these measures, the relevant national laws, administrative regulations, regulatory documents, and the Share Incentive Scheme shall be implemented.
- (iii) These measures shall be subject to consideration and approval at the general meeting and become effective upon the Share Incentive Scheme becoming effective.

NOTICE OF EXTRAORDINARY GENERAL MEETING



**FUDAN
MICRO**

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1385)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Shanghai Fudan Microelectronics Group Company Limited (the “**Company**”) will be held at Building 4, Lane 127, Guotai Road, Shanghai, the People’s Republic of China (the “**PRC**”) on 5 November 2021 at 10:00 a.m. for considering, if thought fit, pass with or without amendments, the following resolutions:

To consider and approve:

ORDINARY RESOLUTIONS

1. the proposed revision of Annual Caps for Continuing Connected Transactions in relation to the New Cooperation Agreement;
2. the proposed utilisation of the Surplus Funds Raised from the A Share Offering for Permanent Replenishment of Working Capital;
3. the proposed appointment of Ernst & Young Hua Ming LLP as the auditor of the Company;
4. the proposed appointment of Mr. Sun Cheng as non-executive Director;
5. the proposed appointment of Ms. Liu Huayan as non-executive Director;
6. the proposed appointment of Ms. Tang Xiaojie as Supervisor;

SPECIAL RESOLUTIONS

7. the proposed adoption of the 2021 Restricted Share Incentive Scheme and a specific mandate to allot and issue Restricted Shares to the participants under the scheme;
8. the proposed Assessment Management Measures for the implementation of the 2021 Restricted Share Incentive Scheme; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

9. the proposed authorization granted to the Board to deal with matters relating to the Restricted Share Incentive Scheme.

By order of the Board
Shanghai Fudan Microelectronics Group Company Limited*
Jiang Guoxing
Chairman

Shanghai, the PRC, 20 October 2021

Notes:

1. Persons who hold shares of the Company and whose names appear on the Register of Members of the Company as at 5 November 2021 shall be entitled to attend the EGM.
2. Any member entitled to attend and vote at the EGM is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
3. The instrument appointing a proxy must be in writing of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or in writing by its director or other attorney duly authorized to sign the same. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of attorney, must be deposited not less than 24 hours before the time appointed for the holding of the EGM at the Company's principal place of business in the PRC at Building 4, Lane 127, Guotai Road, Shanghai, the PRC (for holders of Domestic Shares) or the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) as stipulated in the proxy form.
4. The Register of Members of H Shares of the Company will be closed from 2 November 2021 to 5 November 2021 (both dates inclusive) during which period no transfer of shares will be registered. To be qualified to attend the EGM, all transfers of H shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 1 November 2021.
5. Shareholders or their proxies shall provide their identification documents when attending the EGM. If corporate Shareholders appoint authorized representative to attend the EGM, the authorized representative shall produce his/her identity documents and a notarially certified copy of the relevant authorization instrument signed by the board of directors or other authorized parties of the corporate Shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the Shareholders or their attorney when attending the EGM.
6. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.
8. Information containing further details regarding the proposed resolutions set out in the above notice as required by the Listing Rules are set out in appendix 1 to 3 of this circular.

* *For identification purpose only*

NOTICE OF H SHAREHOLDERS' CLASS MEETING



**FUDAN
MICRO**

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 1385)

NOTICE OF H SHAREHOLDERS' CLASS MEETING

NOTICE IS HEREBY GIVEN that the H Shareholders' class meeting (the "**H Shareholders' Class Meeting**") of Shanghai Fudan Microelectronics Group Company Limited (the "**Company**") will be held at Building 4, Lane 127, Guotai Road, Shanghai, the People's Republic of China (the "**PRC**") on 5 November 2021 at 10:45 a.m. (or immediately after the A shareholders' class meeting of the Company which will be held at 10:30 a.m. on the same day and at the same venue, whichever is later) for considering, if thought fit, pass with or without amendments, the following resolutions:

To consider and approve:

SPECIAL RESOLUTIONS

1. the proposed adoption of the 2021 Restricted Share Incentive Scheme and a specific mandate to allot and issue Restricted Shares to the participants under the scheme;
2. the proposed Assessment Management Measures for the implementation of the 2021 Restricted Share Incentive Scheme; and
3. the proposed authorization granted to the Board to deal with matters relating to the Restricted Share Incentive Scheme.

By order of the Board

Shanghai Fudan Microelectronics Group Company Limited*

Jiang Guoxing

Chairman

Shanghai, the PRC, 20 October 2021

Notes:

1. Persons who hold H Shares and whose names appear on the Register of Members of the Company as at 5 November 2021 shall be entitled to attend the H Shareholders' Class Meeting.
2. Any member entitled to attend and vote at the H Shareholders' Class Meeting is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

NOTICE OF H SHAREHOLDERS' CLASS MEETING

3. The instrument appointing a proxy must be in writing of a Shareholder or his attorney duly authorized in writing. If the Shareholder is a legal person, that instrument must be executed either under its seal or in writing by its director or other attorney duly authorized to sign the same. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power of attorney, must be deposited not less than 24 hours before the time appointed for the holding of the H Shareholders' Class Meeting at the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as stipulated in the proxy form.
4. The Register of Members of H Shares of the Company will be closed from 2 November 2021 to 5 November 2021 (both dates inclusive) during which period no transfer of shares will be registered. To be qualified to attend the H Shareholders' Class Meeting, all transfers of H shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 1 November 2021.
5. Shareholders or their proxies shall provide their identification documents when attending the H Shareholders' Class Meeting. If corporate Shareholders appoint authorized representative to attend the H Shareholders' Class Meeting, the authorized representative shall produce his/her identity documents and a notarially certified copy of the relevant authorization instrument signed by the board of directors or other authorized parties of the corporate Shareholders or other notarially certified documents allowed by the Company. Proxies shall produce their identity documents and the proxy form signed by the Shareholders or their attorney when attending the H Shareholders' Class Meeting.
6. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the H Shareholders' Class Meeting if the member so desires, and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. Shareholders attending the H Shareholders' Class Meeting shall be responsible for their own travel and accommodation expenses.
8. Information containing further details regarding the proposed resolutions set out in the above notice as required by the Listing Rules are set out in appendix 3 of this circular.

* *For identification purpose only*