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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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board of directors (the “Board”) of Shanghai Fudan Microelectronics Group Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021, along with the comparative audited figures for the year ended 31 December 2020. Such financial results in this announcement had been agreed by Ernst & Young Hua Ming (LLP), the external auditor of the Company.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

	Note 4	2021	2020
Assets			
Current assets			
Currency funds		801,647,230.19	440,699,680.21
Financial assets held for trading		390,948,111.87	-
Notes receivable	1	372,363,594.25	296,716,865.58
Accounts receivable	2	451,703,130.78	439,477,415.11
Prepayments		84,362,851.17	64,097,974.58
Other receivables		18,473,721.44	11,752,036.80
Inventories		916,083,064.72	610,597,557.24
Other current assets		6,081,071.74	3,153,289.62
Total current assets		3,041,662,776.16	1,866,494,819.14
NON-CURRENT ASSETS			
Long-term equity investments		75,508,769.52	70,295,724.52
Other equity instruments investments		32,987,123.03	30,863,697.93
Fixed assets		567,876,494.59	347,588,297.16
Construction in progress		54,689,418.17	49,269,882.49
Right-of-use assets		47,942,433.91	47,676,306.58
Intangible assets	7	74,833,172.67	117,162,424.24
Development expenditures		172,728,127.43	104,875,536.15
Long-term prepaid expenses		57,378,801.04	29,039,916.72
Deferred tax assets		7,484,219.27	9,052,382.30
Other non-current assets		31,922,847.40	6,284,030.00
Total non-current assets		1,123,351,407.03	812,108,198.09
Total assets	8	4,165,014,183.19	2,678,603,017.23

LIABILITIES AND EQUITY**Current liabilities**

Short-term borrowings	100,000.00	-
Accounts payable	200,262,918.53	159,595,143.92
Contract liabilities	126,274,826.25	25,704,513.56
Employee benefits payable	162,012,097.14	114,420,274.19
Taxes and surcharges payable	15,731,095.55	18,431,196.66
Other payables	31,163,593.01	49,819,848.75
Non-current liabilities due within one year	44,832,935.50	9,999,817.43
Other current liabilities	132,771,061.35	100,160,988.54

Total current liabilities	713,148,527.33	478,131,783.05
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Non-current liabilities

Long-term borrowings	18,200,000.00	-
Lease liabilities	38,553,525.36	40,681,893.47
Deferred income	24,215,577.84	44,086,888.09
Deferred tax liabilities	3,994,006.16	3,651,182.41

Total non-current liabilities	84,963,109.36	88,419,963.97
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Total liabilities	798,111,636.69	566,551,747.02
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Owners' equity

Paid-in capital	4	81,450,200.00	69,450,200.00
Capital reserves		1,259,212,929.93	576,858,667.16
Accumulated other comprehensive income		10,509,082.70	9,336,778.97
Surplus reserves		40,725,100.00	35,478,142.63
Retained earnings	5	1,748,348,393.72	1,239,128,570.38

Total equity attributable to owners of the parent	3,140,245,706.35	1,930,252,359.14
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Non-controlling interests	226,656,840.15	181,798,911.07
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Total equity	3,366,902,546.50	2,112,051,270.21
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Total liabilities and equity	4,165,014,183.19	2,678,603,017.23
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CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

	Note 4	2021	2020
Revenue	7	2,577,262,346.93	1,690,896,813.00
Less: Cost of sales	7	1,058,923,542.46	913,783,292.11
Taxes and surcharges	8	12,263,146.20	7,500,525.47
Selling expenses		171,639,406.24	117,430,872.51
Administrative expenses		112,055,490.71	102,984,962.47
Research and development expenses	9	691,637,283.03	490,548,110.34
Finance expenses		(1,171,733.58)	3,099,902.85
Including: Interest expenses		4,527,523.11	1,955,955.77
Interest income		8,431,206.09	6,290,924.01
Add: Other income		108,883,535.56	123,643,314.80
Investment income		(2,713,577.29)	(203,458.48)
Including: Investment income in associates and joint ventures		(5,526,536.20)	(203,458.48)
Profit or loss arising from changes in fair value		948,111.87	(1,350,110.00)
Credit impairment losses		(1,311,048.83)	(909,243.48)
Assets impairment losses		(64,880,461.60)	(6,690,544.30)
Profit or loss arising from disposal of assets		519,205.28	(15,739.47)
Operating profit		573,360,976.86	170,023,366.32
Add: Non-operating income		104,975.63	279,750.57
Less: Non-operating expenses		16,433.13	257,149.55
Total profit:		573,449,519.36	170,045,967.34
Less: income tax expenses	10	14,124,809.57	9,763,937.32
Net profit		559,324,709.79	160,282,030.02
Classified by operation continuity			
Net profit from continuing operations		559,324,709.79	160,282,030.02
Classified by attribution of ownership			
Net profit attributable to owners of the parent		514,466,780.71	132,867,923.11
Non-controlling interests		44,857,929.08	27,414,106.91
Other comprehensive income, net of tax		1,172,303.73	(2,382,446.71)
Other comprehensive income attributable to owners of the parent, net of tax		1,172,303.73	(2,382,446.71)
Other comprehensive income that will not be reclassified to profit or loss			
Changes in fair value of other equity instrument investments		1,931,730.92	(926,656.69)

Other comprehensive income that may be reclassified to profit or loss		
Exchange differences on translation of foreign currency financial statements	<u>(759,427.19)</u>	<u>(1,455,790.02)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>-</u>	<u>-</u>
Total comprehensive income	<u>560,497,013.52</u>	<u>157,899,583.31</u>
Including :		
Total comprehensive income attributable to owners of the Company	515,639,084.44	130,485,476.40
Total comprehensive income attributable to non-controlling interests	44,857,929.08	27,414,106.91
Earnings per share	11	
Basic earnings per share	<u>0.69</u>	<u>0.19</u>
Diluted earnings per share	<u>0.69</u>	<u>0.19</u>

Notes to Financial Statements

Year ended 31 December 2021

1. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with Accounting Standards for Business Enterprises - Basic Standard and specific accounting standards, implementation guidance, interpretations and other relevant provisions issued subsequently by the Ministry of Finance (the “MOF”) (collectively referred to as “ASBEs”).

The financial statements have been prepared on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant requirements.

The Group has historically adopted Hong Kong Financial Reporting Standards for the preparation of financial statements for disclosure on The Stock Exchange of Hong Kong Limited (“the Exchange”). According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Incorporated Companies Listed in Hong Kong " published by the Exchange in December 2010, starting from this financial year, the Group has decided to prepare financial statements in accordance with Accounting Standards for Business Enterprises and related provisions issued by the Ministry of Finance of China for information disclosure on the Exchange.

2. Significant accounting policies and estimates

The Group formulated specific accounting policies and accounting estimates according to the characteristics of its actual production and operation, which is mainly embodied in the impairment of financial instruments, depreciation of fixed assets, amortization of intangible assets, eligibility of the development costs for capitalisation and recognition and measurement of revenue.

1. Declaration Following ASBEs

The financial statements have been prepared in accordance with ASBEs, and presented truly and completely the Group’s and the Company’s financial position as at 31 December 2021 and the operating results and cash flows for each of the Relevant Periods.

2. Accounting Period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

3. Functional Currency

The Company’s functional currency is Renminbi and these financial statements are presented in Renminbi. The currency unit is RMB Yuan unless otherwise stated. The subsidiaries, joint ventures and associates of the Group determine their functional currencies according to the main economic environment in which they operate. In preparation of the financial statements, their functional currencies are translated into RMB.

3. Segment Reporting

Operating segment

For management purposes, the Group is organised into business units based on their products and services and has reporting segments as follows:

(1) The Design and Sales of Integrated Circuits segment (“Design segment”) manufactures electronic components used primarily in video and audio products.

(2) The integrated circuit testing services segment (“Testing segment”) produces machines for automated production lines used in the textile industry.

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is measured consistently with the Group’s total profit from continuing operation.

Transfer pricing between operating segments is determined by reference to the fair prices used in transactions with third parties.

2021

	Design segment	Testing segment	Offsets between segments	Consolidation
External revenue	2,335,581,439.22	241,680,907.71	-	2,577,262,346.93
Inter-segment revenue	75,862,823.65	42,744,978.16	(118,607,801.81)	-
Gains on investments in joint ventures and associates	5,526,536.20	-	-	5,526,536.20
Assets impairment loss	64,880,461.60	-	-	64,880,461.60
Depreciation and amortisation	145,735,812.36	77,291,426.99	-	223,027,239.35
Total profit	470,202,245.89	103,793,567.81	(546,294.34)	573,449,519.36
Income tax	412,836.09	13,671,143.36	40,830.12	14,124,809.57
Total assets	3,613,951,802.61	556,241,695.09	(5,179,314.51)	4,165,014,183.19
Total liabilities	704,191,206.04	99,099,745.16	(5,179,314.51)	798,111,636.69
Long-term equity investments in joint ventures and associates	75,508,769.52	-	-	75,508,769.52
Capital expenditure	450,308,386.25	112,832,028.59	-	563,140,414.84

2020

	Design segment	Testing segment	Offsets between segments	Consolidation
External revenue	1,523,147,148.87	167,749,664.13	-	1,690,896,813.00
Inter-segment revenue	53,738,412.40	23,935,684.12	(77,674,096.52)	-
Gains on investments in joint ventures and associates	203,458.48	-	-	203,458.48
Assets impairment loss	6,690,544.30	-	-	6,690,544.30
Depreciation and amortisation	106,074,977.39	85,862,516.14	-	191,937,493.53
Total profit	106,400,942.43	65,377,952.00	(1,732,927.09)	170,045,967.34
Income tax	84,173.89	9,569,734.60	110,028.83	9,763,937.32
Total assets	2,191,999,973.36	491,314,336.74	(4,711,292.87)	2,678,603,017.23
Total liabilities	446,968,228.63	124,294,811.26	(4,711,292.87)	566,551,747.02
Long-term equity investments in joint ventures and associates	70,295,724.52	-	-	70,295,724.52
Capital expenditure	169,023,713.80	84,487,916.24	-	253,511,630.04

Products and services

Revenue from external transactions

	2021	2020
Security and Identification Chips	866,262,870.90	609,238,419.54
Smart Meter Chips	295,785,007.36	180,155,350.04
Non-Volatile Memory	721,026,182.95	509,345,267.30
Other Chips	452,507,378.01	224,408,111.99
Integrated Circuit Test Services	240,276,516.59	164,132,217.43
Lease income	1,404,391.12	3,617,446.70
	<u>2,577,262,346.93</u>	<u>1,690,896,813.00</u>

Geographic information

Revenue from external transactions

	2021	2020
Mainland China	2,344,514,970.78	1,524,441,793.27
Others	<u>232,747,376.15</u>	<u>166,455,019.73</u>
	<u>2,577,262,346.93</u>	<u>1,690,896,813.00</u>

Total non-current assets

	2021	2020
Mainland China	1,080,802,722.46	771,754,354.80
Others	<u>2,077,342.27</u>	<u>437,763.06</u>
	<u>1,082,880,064.73</u>	<u>772,192,117.86</u>

Non-current assets are attributable to the geographic locations where the assets are located, excluding financial assets and deferred income tax assets.

Major customers information

During the year ended 31 December 2021, no customer individually accounted for 10% or more of the Group's revenue (2020: nil).

4. Notes to Major Items of the Consolidated Financial Statements

(1) Notes receivable

	2021	2020
Bank acceptance bills	222,633,952.12	233,310,367.78
Commercial acceptance bills	<u>156,701,047.72</u>	<u>67,110,845.80</u>
	379,334,999.84	300,421,213.58
Less: Provision for bad debts	<u>6,971,405.59</u>	<u>3,704,348.00</u>
	<u>372,363,594.25</u>	<u>296,716,865.58</u>

Notes receivable that were endorsed or discounted but not yet due at the balance sheet date were as follows:

	2021		2020	
	Termination of confirmation	Non-termination confirmation	Termination of confirmation	Non-termination confirmation
Bank acceptance bills	15,702,190.06	-	25,166,025.55	7,014,778.29

The movements on the provision for bad debts in relation to the notes receivable are as follows:

	Opening balance	Provision	Recovered or reversal	Closing balance
2021	3,704,348.00	3,267,057.59	-	6,971,405.59
2020	1,890,300.00	1,814,048.00	-	3,704,348.00

(2) Accounts receivable

The credit period of accounts receivable is generally one month, extending up to three months for major customers. Accounts receivable are non-interest-bearing.

An ageing analysis of accounts receivable is as follows:

	2021	2020
Within 1 year	406,261,790.71	378,449,429.03
1 to 5 years	55,792,879.47	73,362,814.87
Over 5 years	6,957,587.19	8,567,361.57
	469,012,257.37	460,379,605.47
Less: Provision for bad debts	17,309,126.59	20,902,190.36
	451,703,130.78	439,477,415.11

	31 December 2021				
	Book balance		Provision for bad debts		Book value
		Amount		Proportion of	
	Amount	proportion (%)	Amount	provision (%)	
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	220,338,215.38	46.98	5,120,432.94	2.32	215,217,782.13
Industrial Sales Portfolio	208,153,293.48	44.38	10,972,724.87	5.27	197,180,568.61
Testing Services Portfolio	40,520,748.51	8.64	1,215,968.78	3.00	39,304,779.73
	469,012,257.37	100.00	17,309,126.59	3.69	451,703,130.78

	31 December 2020				Book value
	Book balance		Provision for bad debts		
		Amount		Proportion of	
	Amount	proportion (%)	Amount	provision (%)	
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	223,622,958.09	48.58	6,620,399.74	2.96	217,002,558.35
Industrial Sales Portfolio	198,436,196.58	43.10	13,087,958.46	6.60	185,348,238.12
Testing Services Portfolio	38,320,450.80	8.32	1,193,832.16	3.12	37,126,618.64
	460,379,605.47	100.00	20,902,190.36	4.54	439,477,415.11

The movements on the provision for bad debts in relation to the accounts receivable are as follows:

	Opening balance	Provision	Others	Recovered or Reversal	Written-off	Closing balance
2021	20,902,190.36	677,836.61	(770.58)	(2,633,845.37)	(1,636,284.43)	17,309,126.59
2020	21,810,636.97	-	(3,642.09)	(904,804.52)	-	20,902,190.36

(3) Accounts payable

Accounts payable are non-interest-bearing and are generally settled within 3 months.

	2021	2020
Within 1 year	200,135,123.53	159,458,623.92
1 to 2 years	<u>127,795.00</u>	<u>136,520.00</u>
	<u>200,262,918.53</u>	<u>159,595,143.92</u>

(4) Paid-in capital

2021

			Opening balance	Changes for the year			Closing balance
				Issue of new shares	Others	Total	
Ordinary RMB	shares	in	41,017,200.00	12,000,000.00	-	12,000,000.00	53,017,200.00
Foreign shares	listed		28,433,000.00	-	-	-	28,433,000.00
abroad			<u>69,450,200.00</u>	<u>12,000,000.00</u>	<u>--</u>	<u>12,000,000.00</u>	<u>81,450,200.00</u>

On 29 July 2021, the Company raised funds by way of a public offering of RMB ordinary shares to the public, the share capital was increased by RMB12,000,000.00.

2020

			Opening balance	Changes for the year			Closing balance
				Issue of new shares	Others	Total	
Ordinary RMB	shares in		41,017,200.00	-	-	-	41,017,200.00
Foreign shares abroad	listed		<u>28,433,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,433,000.00</u>
			<u>69,450,200.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,450,200.00</u>

(5) Retained Earnings

	2021	2020
Opening balance of retained earnings	1,239,128,570.38	1,106,260,647.27
Net profit attributable to owners of the parent	514,466,780.71	132,867,923.11
Less: Statutory surplus reserves transferred	<u>(5,246,957.37)</u>	<u>-</u>
Closing balance of retained earnings	<u>1,748,348,393.72</u>	<u>1,239,128,570.38</u>

(6) Dividend

On 18 March 2022, the Company held the 32th meeting of the 8th session of the Board for the purpose of considering and passing the “Resolution of the 2021 Distribution Plan of the Company”. The company intends to use the total share capital registered on the equity registration date for the implementation of equity distribution as the base, 10 shares will be distributed with a cash dividend of RMB0.65 (tax included) with total cash dividend amounted to RMB52,942,630, representing 10.29% of the net profits attributable to the shareholders of the parent for the year 2021.

(7) Revenue and Costs of Sales

	2021		2020	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal business	2,551,976,044.49	1,048,745,666.61	1,670,299,986.94	910,051,333.03
Other businesses	<u>25,286,302.44</u>	<u>10,177,875.85</u>	<u>20,596,826.06</u>	<u>3,731,959.08</u>
	<u>2,577,262,346.93</u>	<u>1,058,923,542.46</u>	<u>1,690,896,813.00</u>	<u>913,783,292.11</u>

(8) Taxes and surcharges

	2021	2020
Urban maintenance and construction tax	5,194,656.89	3,041,041.28
Education surcharge	2,226,281.54	1,303,303.42
Local education surcharge	1,484,187.68	868,868.91
Property tax	2,249,784.26	1,440,649.76
Land use tax	17,082.82	12,195.90
Vehicle and vessel tax	7,040.00	11,280.00
Stamp duties	1,084,113.01	823,186.20
	<u>12,263,146.20</u>	<u>7,500,525.47</u>

(9) Research and development expenses

	2021	2020
Staff costs	384,159,560.36	297,531,244.30
Material costs	135,924,354.34	83,076,427.21
Depreciation and amortisation	124,286,979.87	88,511,720.98
Office and administrative expenses	4,405,321.44	9,258,102.47
Professional service fee	26,651,854.34	10,462,539.22
Travelling expense	1,354,903.07	1,513,250.69
Equity incentive fees	9,628,492.10	-
Others	5,225,817.51	194,825.47
	<u>691,637,283.03</u>	<u>490,548,110.34</u>

(10). Income tax expenses

	2021	2020
Current tax	12,554,716.48	11,138,299.54
Deferred tax	<u>1,570,093.09</u>	<u>(1,374,362.22)</u>
	<u>14,124,809.57</u>	<u>9,763,937.32</u>

The reconciliation between income tax expenses and total profit is as follows:

	2021	2020
Total profit	573,449,519.36	170,045,967.34
Tax at the applicable tax rate (15%)	86,017,427.90	25,506,895.10
Effect of different tax rates for some subsidiaries	(554,453.91)	(1,166,675.95)
Adjustments in respect of current tax of previous periods	-	446,068.84
Expenses not deductible for tax	4,589,004.53	2,468,353.97
Super deduction of research and development costs	(64,667,763.05)	(48,663,524.19)
Setting off of losses in prior years	(15,768,326.09)	-
Unrecognised deductible temporary differences and tax losses	4,503,759.95	31,167,419.11
Others	<u>5,160.24</u>	<u>5,400.44</u>
Tax charge at the Company's effective tax rate	<u>14,124,809.57</u>	<u>9,763,937.32</u>

(11). Earnings per Share

	2021 RMB/Share	2020 RMB/Share
Basic earnings per share		
Continuing operations	<u>0.69</u>	<u>0.19</u>
Diluted earnings per share		
Continuing operations	<u>0.69</u>	<u>0.19</u>

Basic earnings per share and diluted earnings per share are calculated as follows.

	2021	2020
Earnings		
Net income for the period attributable to the Company's common shareholders		
Continuing operations	<u>514,466,780.71</u>	<u>132,867,923.11</u>
Attributed to :		
Continuing operations	<u>514,466,780.71</u>	<u>132,867,923.11</u>
	2021	2020
Shares		
Weighted average number of common shares of the Company issued and outstanding (Note)	745,460,904.00	694,502,000.00
Dilution effect - weighted average number of common shares		
Share Option	<u>217,494.00</u>	<u>-</u>
Adjusted weighted average number of common shares of the Company issued and outstanding	<u>745,678,398.00</u>	<u>694,502,000.00</u>

Note: No events have occurred between the balance sheet date and the date of approval of these financial statements that would result in a change in the number of common shares or potential common shares outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

I. DISCUSSION AND ANALYSIS OF OPERATING

In 2021, the integrated circuit industry still faced great challenges on both sides of supply and demand. On the demand side, the digital transformation of the global economy accelerated, and the development of application scenarios such as the Internet of Things, new energy vehicles, and the "home" economy greatly increased the demand for chip performance and output from channels to end users; On the supply side, due to the repeated pandemics, unstable trade environment and other factors, the stability of the supply chain was insufficient. In the face of the complex situation, the Company overcame the challenges, and achieved significant increase sales and profits. During the year of 2021, the Company achieved a 52.42% increase in operating income compared with the same period of the previous year; and realized a net profit attributable to shareholders of the listed company of approximately RMB514 million, an increase of 287.20% over the same period of the previous year; the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses for the period amounted to approximately RMB444 million, an increase of 1,013.88% over the same period of the previous year. The report on the business situation in 2021 is as follows:

(1) Stabilized the Supply Chain, Expanded New Customers, and Explored New Scenarios

The Company is a domestic chip design enterprise with a wide range of product lines. We have four major product lines: security and identification chips, non-volatile memory chips, smart meter chips, and FPGA. We also provides chip testing services to customers through Sino IC, our holding subsidiary.

1. Product line of security and identification chips

The product line has several sub-product series such as RFID and sensor chip (formerly "RFID and memory card chip"), smart card and security chip, and smart identification device chip. In 2021, it achieved sales revenue of approximately RMB866 million, and delivered more than 1.5 billion units of goods in total.

During the Reporting Period, the product line adhered to the high-quality service route of "overall solution system" and "deeply cultivated terminal key customers" that integrates and complements sub-product lines, and achieved good results. The RFID product line combined NFC technology with PUF-based physical unclonable technology, and formed a special anti-counterfeiting chip, which has established a good and stable customer reputation in the field of anti-counterfeiting traceability of high-level conference documents, alcohol and other high-value items. On the basis of maintaining the competitiveness of in traditional industries including smart cards, contactless readers and others, our smart card and security chip, smart identification device chip has steadily expanded into new fields represented by the Internet of Things such as device security certification, communication security, and device connection. Among them, the FM1280 chip for smart cards and security chips and the FM17 series of read-write chip products for smart device chips have all successfully obtained AEC-Q100 certification, achieved breakthroughs in the fields of automotive TBOX security chips and digital keys. The research and development of key new products in this product line has been well developed. The development of ultra-high frequency RFID chips, ultra-high frequency read-write chips, and security SE chips continued to advance with expectation to be mass-produced successively.

2. Product line of non-volatile memory chips

The product line has EEPROM memory, NOR Flash memory and SLC NAND Flash memory in a variety of capacities, interfaces and packages. In 2021, it achieved sales revenue of approximately RMB721 million.

During the Reporting Period, the product line continued to expand its market share in three dimensions: stable supply chain, advanced manufacturing process and market coverage. Focusing on major customers, and on the basis of stabilizing the market share of home appliances, instruments, mobile phone modules, and PC peripheral products, the Company has successively connected with leading customers in the fields of network communication, IPC (Internet camera), wearable, WiFi6, display screen and others, and has also successfully entered into mass production of many projects in the field of automotive electronics.

3. Product line of smart meter chips

The product line mainly includes: smart meter MCU, and general low-power MCU. In 2021, it achieved sales revenue of approximately RMB296 million.

The Company is an early start-up enterprise in the design of MCU chips for smart meters in China, and has accumulated profound technical reserves in the field. The FM33A048(B) large-capacity smart meter MCU of the Company was rated as the "Top 100" and Independent Innovation "Top Ten" in Shanghai's high-tech achievement transformation projects in 2020. In 2021, under the pressure of the supply chain, the product line worked hard to cooperate with customers for inspection and mass production, continued to follow up on changes in specifications such as high-protection and long-life meters, and maintained a growth trend in operating income.

In the fields of industrial control, smart home, and automotive electronics, the proportion of our general-purpose low-power MCUs has gradually increased. The Company has been working in the Internet of Things industry for many years. With excellent low power consumption performance, the Company has launched a large number of applications in the Internet of Things, water and gas heat meters and smart cities, which are extremely sensitive to chip power consumption. The Company has accumulated a lot of practical experience in the fields of underlying driver development and application software development of MCU chips. Through tools such as Rubik's Cube and self-built ecology, the Company can greatly reduce the threshold for user technology development and shorten the time to market of products. The Company actively launched new products based on the characteristics of white goods, motor drives, new energy, pan-IoT and other fields. During the Reporting Period, the Company released the LG series MCU, which has successfully obtained the AEC-Q100 certification. The target application areas of it include wipers, windows, seats, door locks, air conditioners, electronic shifters, etc.

4. FPGA and other products

The Company is one of the leading companies in the field of FPGA technology in China. At present, we can provide three series of products: 10 million-gate-level FPGA chips, 100 million-gate-level FPGA chips and embedded programmable devices (PSoC). Other products are mainly including smart electrical chips and special chips for residual current protection. FPGA and other products achieved sales revenue of approximately RMB427 million in 2021, of which, PSoC products achieved sales revenue of approximately RMB56.9895 million. The Company has the first domestically marketed embedded programmable PSoC, which can well meet the needs of high-speed communication, signal processing, image processing, industrial control and other application fields, and has received good market response.

At present, the Company is actively developing 1 billion-gate-level products in a new generation of 14/16nm process; enriching the FPGA and PSoC chip pedigree of 28nm process to expand new markets and maintain our leading position in domestic FPGA technology.

5. Testing Services

Sino IC, our holding subsidiary, has carried out integrated circuit test research and development in China earlier, and has formed many technical achievements in the fields such as product test solution design, mass production test automation and test informatization, and undertaken a number of major national science and technology special projects. The 10GHz high-speed wafer testing and over 4,800pins high-density wafer direct-attachment testing of Sino IC have achieved mass production, and has actively carried out the research and development of artificial intelligence chip testing, research and development for high-performance image transmission chip testing, and research and development for 5G chip testing.

For information related to Sino IC (stock code: 430139), please refer to the "2021 Annual Report" disclosed by Sino IC on the National Equities Exchange and Quotations (<http://www.neeq.com.cn>).

(2) Continued to Attach Importance to Research and Development Investment and Widened Our Technical Moat

The Company has attached great importance to research and development, and has maintained a high level of research and development investment for a long time. The Company aimed at emerging fields, insisted on technological innovation, and continuously enriched our products. During the Reporting Period, the Company invested approximately RMB749 million in research and development, accounted for 29.06% of the operating income during the year.

Through research and development, the Company has continued to maintain a leading position in the field of chip security. The Company has also expanded into fields including software and system security, IoT security, AI security, and privacy computing; actively built a smart computing platform based on FPGA product series, improved product value with algorithms and overall solutions, and explored and expanded application fields.

II. PRINCIPAL BUSINESSES, OPERATING MODEL OF THE COMPANY, CONDITIONS OF THE INDUSTRY AND RESEARCH AND DEVELOPMENT DURING THE REPORTING PERIOD

1. Principal activities

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 main products of the Company include security and identification IC chips, non-volatile memory chips, smart meter ASIC chips, FPGA chips and testing services for IC products.

2. Main products and services

2.1 Security and identification IC chips

Relying on self-developed radio-frequency, memory chips and security anti-attack technologies, the security and identification product line of the Company has formed a number of product series, such as RFID and sensor chips, smart card and security chips, smart identification device chips, etc. The products include memory card, HF/UHF tag chips, NFC TAG, contact/contactless/dual interface smart card, security SE chips, security MCU chips, contactless reader equipment and mobile payment and dozens of other products. It is one of the suppliers with a complete range of domestic security and identification chip products.

Description and application fields of the security and identification chip product line of the Company are as follows:

Product type	Product description	Application fields
RFID and sensor chip series	It is mainly composed of FM11, FM13 and FM44 series products, including contactless logic encryption chips, NFC tag and access chips, high-frequency RFID chips, UHF RFID tag chips, reader chips, sensor chips, etc.	Identity identification, electronic shelf, smart household electrical appliances, logistics management, anti-counterfeiting traceability, vehicle management, etc.
Smart card and security chip series	It is mainly composed of FM12, FM15 and other series products, including contactless CPU card chips, dual interface CPU card chips and security chips	Social security card, health card, bank card, bus card, citizen card, etc.
Smart identification IC equipment chip series	It is mainly composed of FM17 series, and the product is of contactless reader chip type	Door lock, access control, contactless card reader, OBU, financial POS, subway gate, public bicycle system, etc.

2.2 Non-volatile memory chips

The memory chip product line of the Company can provide a variety of non-volatile memory chip products with multiple interfaces, packages, comprehensive capacity and cost-effective. At present, the main products are EEPROM memory chips, NOR flash memory chips and SLC NAND Flash memory chips, with a variety of capacity, interfaces and packaging forms.

Description and application fields of non-volatile memory chip products of the Company are as follows:

Product type	Product description	Application fields
EEPROM memory chips	It is mainly composed of FM24 / FM25 / FM93 series, supports I2C, SPI and Micro Wire interfaces, and has a storage capacity of 1Kbit-1024Kbit	Mobile phone module, smart meter, communication, home appliances, display, LCD panel, automotive electronics, computer memory strip, medical instruments, industrial control instruments, Bluetooth module, password lock, etc.
NOR Flash memory chips	It is mainly composed of FM25 / FM29 series, supports SPI and general parallel interface, and has a storage capacity of 0.5Mbit-256Mbit	Network communication, IoT module, computer and peripheral products, mobile phone module, display and screen module, smart meter, security monitoring, on-board box, Ukey, automotive electronic medical instruments, chip sealing, industrial control instruments, Bluetooth

module, high reliability application, etc.

SLC NAND Flash memory chips	It is mainly composed of FM25 / FM9 series, supports SPI and ONFI parallel interfaces, and has a storage capacity of 1Gbit-4Gbit	Network communication, security monitoring, on-board box, automotive electronics, medical instruments, etc.
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2.3 Smart meter chips

Smart meter MCU is the core component of electronic watt-hour meter and smart meter, which can realize the functions of power consumption information measurement, automatic reading, information transmission of industrial and household users, etc.; general low-power MCU products can be applied to many fields including smart meter, smart water, gas and heat meter, smart home, Internet of Things, etc.

Description and application fields of MCU chip product series of the Company are as follows:

Product type	Product description	Application fields
Smart meter MCU	It is mainly composed of FM33A series of products, and the product is of the type of smart meter MCU with 32-bit Cortex-M0 as the core	IR46 standard smart energy meter, State Grid 2020 standard smart energy meter, State Grid single-phase / three-phase smart energy meter, Southern Power Grid single-phase / three-phase smart energy meter, overseas single-phase / three-phase smart energy meter, etc.
General low-power MCU	It is mainly composed of FM33A, FM33G, FM33L, FM33LC, FM33LG, FM3316, FM33LG0xxA Series of MCU products, including 32-bit low-power MCU chips with ARM Cortex-M0 as the core and 16-bit enhanced 8xC251 processor with low-power MCU chips as the core	Domestic / overseas single-phase and three-phase smart meters, smart water meters / heat meters / gas meters, Internet of Things related instruments and communication modules, smoke alarm and sensor modules, smart home, display panel control, etc.

2.4 FPGA chips

FPGA, an on-site programmable gate array, is a hardware reconfigurable integrated circuit chip. FPGA has the programmability and flexibility of software, and is an ideal solution in 5G communication, artificial intelligence and other fields with frequent repeated operation and upgrading cycles and large technical uncertainty. The Company is one of the leading companies in the field of FPGA technology in the PRC.

Description and application fields of FPGA chip product series of the Company are as follows:

Product type	Product description	Application fields
Ten-million gate FPGA chips	Using 65nm CMOS technology, it is a series of SRAM FPGA products with high performance and cost-effective	Applicable to high-performance and large-scale applications such as network communication, information security, industrial control and high reliability application
hundred-million gate FPGA chips	Using 28nm CMOS technology, it is a series of SRAM FPGA products with high performance and in large scale	Applicable to 5G communication, artificial intelligence, data center, high reliability and other high-performance, large bandwidth and ultra large- scale applications
Embedded programmable device PSoC	Using 28nm CMOS technology, it is a series of embedded programmable SoC products	Applicable to video, industrial control, security, AI, high reliability and other applications

2.5 Testing services for IC products

Through its holding subsidiary Sino IC, the Company provides customers with integrated solutions of integrated circuit testing services from chip verification analysis, wafer testing to finished product testing. The specific contents of integrated circuit testing include wafer testing and finished product testing. The testing capability covers a wide range of product fields, such as mobile intelligent terminals, information security, digital communications, FPGA, CIS, financial IC cards, automotive electronics, IOT devices, MEMS devices, three-dimensional high-density devices, new materials, new structures, etc.

During the Reporting Period, the Company achieved an overall sales revenue of approximately RMB2.577 billion, an increase of 52.42% over the same period last year; net profit attributable to the shareholders of the Company was approximately RMB514 million, an increase of 287.20% over the same period last year; net profit attributable to shareholders of the Company after deducting non-recurring profit or loss for the period was approximately RMB444 million, an increase of 1,013.88% over the same period last year.

As at 31 December 2021, the total assets of the Company were approximately RMB4.165 billion, representing a year-on-year increase of 55.49%; and the net assets attributable to shareholders of the Company were approximately RMB3.140 billion, representing a year-on-year increase of 62.69%.

The growth of the above major accounting data and financial indicators is mainly due to the following:

- (1) Due to the strong demand in the downstream application market of integrated circuit, the Company has seized the development opportunities in the industry, actively explored market and new customers, optimized the product and customer structure, and achieved growth in the operating revenue of each product line;
- (2) Benefiting from the introduction of new products and the increase of unit prices of some products, the comprehensive gross profit margin increased by 12.95 percentage points over the previous year;
- (3) The Company continued to increase investment in research and development, with an investment amount of approximately RMB749 million for the year, representing an increase of 41.46% over the previous year;

(4) The share-based payment of the Company was approximately RMB14.0715 million, which is included in the recurring profit or loss, representing an increase of 974.79% over the previous year.

Reasons for changes in operating income: mainly due to the substantial increase in operating income during the Reporting Period caused by the strong demand in the downstream application market, and the Company's continuous investment in research and development, and the launch of new products.

Reasons for changes in operating costs: mainly due to the increase in operating income and corresponding increase in costs, and the rising prices of upstream suppliers during the Reporting Period which led to the increase in product costs.

Reasons for changes in tax and surcharges: mainly due to the increase in operating income and corresponding increase in tax and surcharges during the Reporting Period.

Reasons for changes in sales expense: mainly due to the increase in sales personnel, the increase in wages and social security funds, and the addition of equity incentive expenses; and the corresponding increase in promotion expenses for market expansion during the Reporting Period.

Reasons for changes in administrative expenses: mainly due to the increase in investment of resources in operation, administration and other department by the Company in order to improve the Company's operation efficiency and risk control ability during the Reporting Period.

Reasons for changes in financial expenses: mainly due to the increase in proceeds raised from issuance of shares and corresponding increase in interest income during the Reporting Period.

Reasons for changes in R&D expenses: mainly due to the increase in wages of R&D personnel, the addition of equity incentive expense, the increase in investment of materials required for R&D projects and the increase in R&D outsourcing processing expenses during the Reporting Period.

Reasons for changes in investment income: mainly due to the loss of long-term equity investment under the equity method during the Reporting Period.

Reasons for changes in asset impairment losses: mainly due to the increase in intangible asset impairment losses and provision for impairment of inventory during the Reporting Period.

Reasons for changes in net cash flow from operating activities: mainly due to the increase in operating income and the increase in receipts of sale of goods of the Company during the Reporting Period.

Reasons for changes in net cash flow from investment activities: mainly due to the expansion of the Company's business scale, the increase in related assets, and cash management with temporarily idle funds during the Report Period.

Reasons for changes in net cash flow from financing activities: mainly due to the increase in proceeds raised from issuance of shares by the Company during the Reporting Period.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

As of the end of the Reporting Period, the Company invested and established [Shanghai Haojun Venture Capital Partnership (Limited Partnership)] (上海皓駿創業投資合夥企業（有限合夥）) with its own funds, to invest in new generation of information technology and high-end manufacturing field. As a limited partner, the Company plans to invest RMB25 million, accounting for no more than 25% (inclusive) of the partnership, and the amount invested was RMB10 million, for a term of seven years commencing from the date of establishment of the fund. During the Reporting Period, there was no actual external investment.

Save as mentioned above, the Group had no other significant investments in and acquisitions and sales of subsidiaries during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

(i) According to the circular dated 18 April 2019 of the Company, concerning (of which included) the proposal of A share offering, and the circular dated 28 August 2020, concerning (of which included) proposal of amendment to the fund raising amount and investing in the projects with proceeds from initial public offering of A shares. The Company has completed the issuance of A shares on 29 July 2021. The Company made use of RMB398,806,861.98 according to the schedule to invest in research and development of programmable system-on-chip and to industrialize projects and as reserve fund for development and technology. The remaining unutilized RMB201,193,138.02 balance from fund raising will be gradually applied to the relevant projects.

(ii) Due to the rapid business development of the Group and a growing number of employees every year, the space in the current office was no longer sufficient. The Company has entered into the agreement on 27 January 2022 to acquire the office building at a consideration of RMB222,130,456.00, and will settle by internal resources.

The Group still focuses on its core business development and has no material investment plan at present apart from orderly increase in research and development projects.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2021, net assets of the Group amounted to RMB3,366,902,546.50 (2020: RMB2,112,051,270.21), a growth of approximately 59.41% over last year; of which current assets amounted to RMB3,041,662,776.16 (2020: RMB1,866,494,819.14), a rise of 62.96% over last year, of which included cash and bank deposits which were RMB801,647,230.19 (2020: RMB440,699,680.21), an increase of nearly 81.90% over last year.

The Group kept profiting for the past years, and profit, placement of shares and internal cash flows generated have been used to meet the operations and business development needs. The Company has completed in the issuance of A shares during the year with additional funds raised for the Group, with the Group's adoption of a cautious monetary policy which is sufficient to cope with daily operation and future development.

The net cash inflow from operating activities for the year was RMB602,204,878.08 (2020: RMB219,652,685.81). Cash inflow was substantial mainly because of the increase in both revenue from products, trade payables and contracts payable during the year. The net cash inflows from investment activities amounted to RMB519,698,982.85 (2020: RMB40,974,075.09), was increased significantly as compared to the previous year; its reasons were that there were due to cash of RMB514,000,000.00 recovered from investments. The cash outflows from investment activities amounted to RMB1,182,797,302.32 (2020: RMB207,329,410.13), was due to significant increases in acquisition of fixed assets, intangible assets and other long term assets as well as increase in investments. Net cash flows from financing activities amounted to RMB718,805,717.40 (2020: net cash flows RMB73,558.04), a significant increase over the last year due to the success in issuance of A shares during the year. The cash and cash equivalents at the end of the reporting period amounted to RMB415,755,306.55 (2020: RMB279,369,367.09), having a growth of RMB136,385,939.46.

PLEDGE OF ASSETS

As at 31 December 2021, the Group had pledged its fixed assets with book value amounted to RMB 178,037,972.67 for the securities of bank borrowings of RMB49,800,000.00 (2020: nil).

CAPITAL STRUCTURE

On 4 August 2021, the Company completed the public issuance of 120,000,000 ordinary shares with a par value of RMB0.1 per share, and the total share capital upon the completion of the issuance was 814,502,000 shares (including the total share capital of 530,172,000 A shares and total share capital of 284,330,000 H shares).

GEARING RATIO

As at 31 December 2021, the Group's current liabilities amounted to RMB713,148,527.33 (2020: RMB478,131,783.05), an increase of approximately 49.15% over last year. Non-current liabilities amounted to RMB84,963,109.36 (2020: RMB88,419,963.97), an decrease of approximately 3.91% over the previous year. Net asset value per share was approximately RMB3.86 (2020: RMB2.78), a growth of approximately 38.72% over last year. The Group's ratio of current liabilities over current assets was approximately 23.45% (2020: 25.62%), indicating that the Group's short-term debt paying ability was ideal and the asset realisation capacity still remained at a healthy level, and the gearing ratio was approximately 19.16% (2020:21.15%) on the basis of total liabilities over total assets, indicating that the Group's capital was mainly from shareholders and the credit risk in relation to provision of financing to the Group remained relatively low.

As at 31 December 2021, other than the amount of RMB51,730,920.03 (2020: RMB50,681,710.90) of the lease liabilities which was accounted for in other borrowings in accordance with accounting standards, the Group had no bank borrowings amounted to RMB49,955,540.83 (2020: nil).

COMMITMENTS AND CONTINGENCIES

1. Major Commitments

	2021	2020
Contracted but not provisioned		
Capital commitment	<u>264,057,272.11</u>	<u>4,004,586.24</u>

2. Contingencies

As at the balance sheet date, the Group has no contingent that need to be disclosed.

EMPLOYEES

The Company provides employees with competitive compensation and benefits, including salary, bonus, social insurance, housing provident fund, health examination, supplementary commercial medical insurance and other welfare systems. The Company provides employees with various leave in accordance with the law, including personal leave, sick leave, marriage leave, work injury leave, bereavement leave, annual leave, maternity leave, paternity leave and others.

The Company has established a complete performance appraisal system, and evaluates each employee according to the targeted appraisal objectives. At the end of each year, the Company formulates a salary adjustment plan based on the results of employee performance evaluation, and with reference to the market salary situation and the Company's current operating conditions. Besides, the Company optimizes the talent team through comprehensive talent evaluation mechanisms such as performance appraisal and talent promotion channels to achieve the development goal of building and developing a first-class talent team.

FUTURE OUTLOOK

In 2022, the Group will continue to carry out pre-research and strengthen its own R&D capacity, and proactively provide customers with better quality products and more choice of service solutions. For the security and identification product line, the Group will actively explore the RFID, NFC and security chip markets, provide customers with one-stop complete solutions with chip portfolios and systematic solutions, and expand more applications; for nonvolatile memory chips, the Group will stabilize and increase the market supply capacity of high value-added industries, and expand the market of network routing, IPC (network camera), wearable, WiFi6, display screen and automotive grading products; for MCU product line, the Group will continue to follow up the update and implementation of relevant specifications of electric meters, expand new customers of three-phase meters, and promote the application of products in smart water, gas and heat meters, smart home, IoT and other industries; and for FPGA business, the Group will strengthen the promotion and service ability for key customers and key platforms. In addition to fundamentals and ensuring the existing market, the Group will continue to explore new customers at home and abroad, and accelerate the updating of repetitive computing of product applications, it is expected that the Group will maintain and steadily improve the market share and sales performance will grow steadily. Benefiting from the continuous optimization of new application fields, emerging markets and the Group's product structure, it is expected that the gross profit of the Group will be further improved. The Group hopes to establish the reputation of Shanghai Fudan in new application scenarios and among new customers in a rapid manner in the new year, and continuously improve performance to feedback the support of shareholders.

FINAL DIVIDEND

The Board proposes to declare a final dividend of RMB0.65 (tax inclusive) per 10 shares for the year ended 31 December 2021.

The above proposal is subject to consideration and approval at the upcoming annual general meeting (the “AGM”) of the Company. If the proposed distribution being approved at the AGM, the final dividend for the year ended 31 December 2021 is expected to be paid to shareholders within 60 days after the AGM. Details of the Company's closure of register of shares and the declaration and payment of dividends will be announced in due course.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of standards and code of conduct regarding Directors' securities transactions on terms no less exacting than those set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors and confirmed that they had all complied with such standards and code of conduct throughout the year ended 31 December 2021.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

USE OF PROCEEDS

The Company had its first initial public offering of A shares in PRC and listed on the Shanghai Stock Exchange upon completion of issuance. The Company offered to the public for 120,000,000 RMB ordinary shares of RMB0.1 each for an issuance price of RMB6.23 per share. The total amount raised was RMB747,600,000 and the actual net proceeds after deducting issuing expenses (tax not inclusive) was RMB680,282,800.

I. On 27 August 2021, the Board has considered and approved:

1. the Proposal on the Replacement of Self-raised Funds Invested in Advance with Proceeds from the Issuance (關於使用募集資金置換預先投入的自籌資金的議案), which agreed the Company to replace the self-raised funds invested in advance in investment projects with proceeds from the Issuance amounting to RMB374,561,298.30, and the replacement of self-raised funds used in advance for the payment of issuance expenses with proceeds from the Issuance amounting to RMB5,730,425.73. In aggregate, the Company will replace self-raised funds invested in advance with proceeds amounting to RMB380,291,724.03.

2. the Proposal on Using Temporarily Idle Proceeds for Cash Management (關於使用暫時閒置募集資金進行現金管理的議案), which agreed the Company to use the idle proceeds for cash management under the condition that it does not affect the progress of the investment plan of the proceeds, does not affect the normal production and operation of the Company, and ensures the safety of funds. The Company can use the temporarily idle proceeds of not exceeding RMB250 million (inclusive) to purchase investment products with high security, good liquidity, and capital protection agreements (including but not limited to purchasing principal-guaranteed wealth management products, structured deposits, large deposit certificates, time deposits, call deposits and income certificates). The period of use is valid within 12 months from the date of consideration and approval by the Board of the Company. Within the aforesaid limit and period of use, the amounts can be used on a rolling basis.

3. The Proposal on Using Part of the Over-raised Proceeds to Permanently Supplement Working Capital(關於使用部分超募資金永久補充流動資金的議案), which agreed the Company to use part of the over-raised proceeds of RMB24 million for permanent supplement of working capital.

II. Use of proceeds and balance of funds

As at 31 December 2021, the balance of fund raising amounted to RMB 260,613,417.03 元, the use of proceeds and balance of funds were:

	RMB yuan
Actual amount received on 29 July 2021 from fund raising on 29 July 2021 ^(note)	696,803,773.58
Less: Other issuing expenses	10,790,566.05
Replacement of Self-raised Funds Invested in advance	380,291,724.03
Funds invested in advance in investment projects	24,245,563.68
Permanent supplement of working capital	24,000,000.00
Add: Accumulated income from cash management of fund raising	1,662,931.51
Accumulated interest income net of charges	1,474,565.70
	<hr/>
Balance of special account for fund raising as at 31 December 2021, including cash management products	260,613,417.03

Note: The actual proceeds from fund raising after deducting underwriting expenses (excluding tax) of RMB50,796,226.42 was RMB696,803,773.58.

In accordance with the approval for revision of use of proceeds from fund raising on the extraordinary general meeting of the Company held on 28 September 2020, the Company will keep the expected timetable to use the unutilized balance within two years after the listing of its A shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

I. On 29 July 2021, the Company raised proceeds through the public issuance of RMB dominated ordinary shares to the public, resulted in an increase of 120,000,000.00 shares.

II. On 6 December 2021, the Company implemented an employee equity incentive plan to motivate the core workforce and retain technical talents. Under the scheme, the Company has 8,934,000 outstanding share options under the Scheme. According to the capital structure of the Company, if all the outstanding share options are exercised, 8,934,000 additional ordinary shares of the Company will be issued.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, disposed or redeemed any of the listed securities of the Company during the Reporting Period.

SHARE OPTION SCHEME

The Company implemented a share option Scheme (the "Scheme") on 6 December 2021 (the "Grant Date") for the purpose of incentivizing and rewarding those who contribute to the operations of the Group. Eligible persons include persons who the Board deems to be motivated, other than Directors and senior management. The Validity Period of the Scheme shall commence from the completion date of the registration of the Restricted Shares and end on the date on which all the Restricted Shares granted to the Participants have been vested or invalidated, which shall not be longer than 60 months.

During the validity period, the total number of underlying shares under the Scheme did not exceed 20.00% of the total number of shares of the Company on the date when the plan being submitted to the general meeting. The cumulative number of Company shares granted by any one of the Participants under the Scheme through the Equity Incentive Scheme during the validity period did not exceed 1.00% of the total number of shares of the Company.

The Grant Price of the Restricted Shares under the First Grant is RMB18.00 per Share, i.e., the Participants who have satisfied the conditions of grant and conditions of vesting can subscribe for the Restricted Shares to be issued by the Company to them at the price of RMB18.00 per A Share. The pricing method for the Restricted Shares under the Scheme is independent pricing.

The Scheme is valid for five years from the date of grant of the share options. The granted share options will be exercised in four batches according to the exercise ratios of 25%, 25%, 25%, and 25% after a 12-month exercise restriction period from the date of grant, on the premise that the exercise conditions are met. The Participants can exercise the options at the exercise price determined by the Scheme within the validity period of the share option.

On 31 December 2021, the Company's outstanding share options under the Scheme were 8,934,000. According to the capital structure of the Company, if all the outstanding share options are exercised, 8,934,000 additional ordinary shares of the Company will be issued, increasing the Company's share capital by RMB8,934,000.00 and a share capital premium of RMB159,918,600.00 (before deduction of issuance expenses).

On the date of approve these financial statements, there were 8,934,000.000 outstanding share options of the Company under the Scheme, which is approximately 1.10% of the Company's outstanding shares on that date.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, save and except the code provision A.6.7 of the CG Code. A report on the principal corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control and risk management system of the Group. The audit committee comprises three independent non-executive directors, Mr. Wang Pin (Chairman), Mr. Guo Li and Mr. Cai Minyong.

The Group's audited financial statements for the year ended 31 December 2021 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the requirements as set out by the Stock Exchange and the relevant legal provisions, and that adequate disclosures had been made.

EVENTS AFTER THE REPORTING PERIOD

On 27 January 2022, the Company entered into an agreement with TianYu Eco-Environment Co., Ltd.(天域生態環境股份有限公司) for the acquisition of Rooms 101-701, Building 12 and Rooms 101-501 Building 15, Lane 1688, Guoquan North Road, Yangpu District, Shanghai, as well as the land use rights within the area occupied by those properties, with a total construction area of 6,772.27 square meters, and the transaction price is RMB222,130,456.00. The above properties will be used as office space of the Company.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated balance sheet and the Company's balance sheet, the Group's consolidated profit and loss account and the Company's profit and loss account, the statement of cash flows and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed with by the Group's auditor, Ernst & Young Hua Ming (LLP) ("Ernst & Young") to the amounts set out in the Group's audited financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary Announcement.

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

Shanghai, the PRC, 18 March 2022

As at the date of this announcement, the Company's executive directors are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun and Ms. Cheng Junxia; non-executive directors are Ms. Zhang Qianling, Mr. Wu Ping, Ms. Liu Huayan and Mr. Sun Zheng, and independent non-executive directors are Mr. Guo Li, Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin.

** For identification purpose only*