



**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)

2023

ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Jiang Guoxing (*Chairman*)
Mr. Shi Lei (*Managing Director*)
Mr. Yu Jun (*Deputy Managing Director*)
Ms. Cheng Junxia (resigned on 29 December 2023)

Non-executive Directors

Ms. Zhang Qianling
Mr. Wu Ping
Mr. Sun Zheng
Ms. Liu Huayan (resigned on 11 July 2023)

Independent Non-executive Directors

Mr. Cao Zhongyong
Mr. Cai Minyong
Mr. Wang Pin
Ms. Zou Fuwen

COMPANY SECRETARY

Mr. Chong Hing Cheong

AUTHORISED REPRESENTATIVES

Mr. Shi Lei
Mr. Chong Hing Cheong

AUDIT COMMITTEE

Mr. Wang Pin (*Chairman*)
Mr. Cai Minyong
Mr. Cao Zhongyong

NOMINATION COMMITTEE

Mr. Cai Minyong (*Chairman*)
Ms. Zou Fuwen
Mr. Wang Pin (appointed on 1 March 2024)
Ms. Cheng Junxia (resigned on 29 December 2023)

REMUNERATION AND EVALUATION COMMITTEE

Mr. Cai Minyong (*Chairman*)
Ms. Zou Fuwen
Mr. Wang Pin (appointed on 1 March 2024)
Ms. Cheng Junxia (resigned on 29 December 2023)

STRATEGIC AND INVESTMENT COMMITTEE

Mr. Jiang Guoxing (*Chairman*)
Mr. Shi Lei
Mr. Yu Jun
Mr. Cai Minyong
Ms. Cheng Junxia (resigned on 29 December 2023)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. Jiang Guoxing (*Chairman*)
Mr. Cao Zhongyong
Mr. Cai Minyong (appointed on 1 March 2024)
Ms. Cheng Junxia (resigned on 29 December 2023)

SUPERVISORY COMMITTEE

Ms. Zhang Yanfeng (*Chairman*)
Mr. Ren Junyan
Ms. Tang Xiaojie

AUDITOR

Ernst & Young Hua Ming LLP

REGISTERED OFFICE

No. 220, Handan Road
Shanghai
People's Republic of China

PLACE OF BUSINESS IN HONG KONG

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

H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Shanghai branch

China Everbright Bank Co., Ltd. Shanghai branch

STOCK CODE

A shares: 688385
H shares: 01385

COMPANY'S WEBSITE

www.fmsh.com

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Shanghai Fudan Microelectronics Group Company Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023 (the "Reporting Period").

The Group is a domestic chips design enterprise with a wide range of products with four major product lines: security and identification chips, non-volatile memory, smart meter chips, and programmable gate array FPGA, and also provide chip testing services to customers through a subsidiary, Sino IC Technology Co., Ltd. (上海華嶺集成電路技術股份有限公司) ("Sino IC"). During the year of 2023, the Group achieved revenue of approximately RMB3,536 million, basically the same when compared with the last year; net profit attributable to shareholders of the parent company of approximately RMB719 million, representing a decrease of 33.18% when compared with the last year; and comprehensive gross profit margin of 61.21%. During the Reporting Period, the semiconductor industry was in a downward cycle which was affected by factors such as the structural relief of production capacity and the digestion of prior-period inventories. Demand for some chips, especially represented by consumer electronics, was on a downward trend. The impacts on the sales of some of the Group's products applied in consumer electronics, power electronics and other industries were relatively significant. Although the relevant product lines adopted countermeasures such as launching new products and exploring new customers proactively, they were still under pressure during the Reporting Period which resulting in a decline in revenue. Benefiting from the advanced and reliable technology, continuous expansion of application areas and steady growth in demand from major customers, the revenue of the Group's FPGAs and some of the Group's non-volatile memory products applied in high-reliability scenarios maintained a steady growth in the relevant products, which contributed significantly to the Group's results for the Reporting Period.

Having witnessed the ups and downs of China's semiconductor industry over the past 25 years, the Group recognised in early 2023 that the current macro-economic environment would pose a severe challenge for business development. The Group insists on meeting challenges with courage, confidence and perseverance, on working steadfastly and on doing things that we can be proud of, so as to consolidate and enhance the Group's sustainable development capability continuously. As a chips design company, the Group believes that an ever-growing team is the core strength of the Group's development. The Group maintained the stability of its human resources policy during the downturn of the industry. The Group ensured the job stability of its existing staff, and on the other hand, it introduced new talents and expanded the recruitment of new graduates in order to bring in fresh strength for the development of the Group. As at the end of 2023, the total number of employees of the Group was 2,045, including 1,178 research and development personnel, representing an increase of 293 research and development personnel as compared with 2022. We believe in the power of young people, and these seeds will surely bloom and bear fruit in the soil of our Group.

During the Reporting Period, the Group placed great emphasis on research and development investment, with annual research and development investment of approximately RMB1,190 million, representing an increase of 34.25% when compared with last year. The Group is concurrently pursuing projects including (i) the New Generation FPGA Platform Development and Industrialization Project, (ii) the Intelligent and Reconfigurable SoC Platform Development and Industrialization Project, (iii) the New Technical Platform Storage Development and Industrialization Project, (iv) the New High-end Security Controller Development and Industrialization Project, and (v) the Passive IoT Basic Chip Development and Industrialization Projects. The Group is planning ahead for its medium to long-term business development.

Chairman's Statement

In 2023, the Board of Directors and the management have been pursuing the application of issuing convertible bonds actively under the authorisation of the shareholders' general meeting. We have selected five projects with certain technological foresight and good market potential as important directions for the Group's research and development, which were highly recognised by our shareholders. The Company's management believes that the tougher the times, the more important it is to enhance internal skills. The Group's investment in research and development also reached a record high in 2023. The pre-research and development of new technologies and the launch of new products have strengthened the Group's development momentum greatly. On 22 March 2024, the Board of Directors approved the profit distribution proposal for 2023 and proposed to distribute a cash dividend of RMB1.00 per ten shares, totaling RMB81,906,040. The proposed dividend distribution shall be submitted to the shareholders' general meeting for consideration and approval.

Pessimists are often correct, but it is the optimists who will win the future. In order to respond to the macro-economy, industry pattern, technological development and other aspects of the challenges to the operation, all management will adhere to the strategy of "indomitable spirit". We will not focus on competition in the short term, but on the long-term survival and long-term development of the Company, and lead all employees to create better results.

On behalf of the Board and the management team, I would like to express my sincere gratitude to all shareholders, clients and business partners. My heartfelt appreciation also goes to all the Directors for their contributions, and all the staff members for their hard work and collective efforts. The Company will continue to grow and strive to deliver ideal investment returns and income to shareholders.

Mr. Jiang Guoxing

Chairman

Shanghai, the PRC, 22 March 2024

Management Discussion and Analysis

I. DISCUSSION AND ANALYSIS OF OPERATING

For the year ended 31 December 2023 (the “Reporting Period”), the semiconductor industry was in a downward cycle which was affected by factors such as the structural relief of production capacity and the digestion of prior-period inventories. Demand for some chips, especially represented by consumer electronics, was on a downward trend. The impacts on the sales of some of the Group’s products applied in consumer electronics, power electronics and other industries were relatively significant. Although the relevant product lines adopted countermeasures such as launching new products and exploring new customers proactively, they were still under pressure during the Reporting Period which resulting in a decline in revenue. Benefiting from the advanced and reliable technology, continuous expansion of application areas and steady growth in demand from major customers, the revenue of the Group’s FPGAs and some of the Group’s non-volatile memory products applied in high-reliability scenarios maintained a steady growth in the relevant products, which contributed significantly to the Group’s results for the Reporting Period. During the year of 2023, the Group achieved revenue of approximately RMB3,536 million, basically the same when compared with the last year; comprehensive gross profit margin decreased to 61.21% due to the downward trend of some product lines; net profit attributable to shareholders of the parent company of approximately RMB719 million, representing a decrease of 33.18% when compared with the last year. The report on the business situation in 2023 is as follows:

(1) Business situation for each product line

The Group is a domestic chips design enterprise with a wide range of products with four major product lines: security and identification chips, non-volatile memory, smart meter chips, and programmable gate array FPGA. We also provide chip testing services to customers through a subsidiary, Sino IC Technology Co., Ltd. (上海華嶺集成電路技術股份有限公司) (“Sino IC”).

1. Product line of security and identification chips

The product line has several sub-products including smart card and security chips, radio frequency identification (“RFID”) and sensor chips, and smart identification device chips, etc. In 2023, it achieved revenue of approximately RMB863 million.

The Group has many years of technology accumulation and security advantages in smart card and secure chips. During the Reporting Period, the overall domestic smart card market was sluggish, coupled with intense competition, and faced great pressures. The Business Division is expanding into the security SE, SIM card fields and overseas markets actively. In terms of RFID and sensor chips, the Group’s high-frequency security labels benefited from the growth in sales volume in the liquor industry, with a relatively large increase in sale volume. The first generation of EPC-compliant UHF RFID tag chips passed GS1 testing and is in mass production and sale, and the Group’s competitiveness in RFID products continues to be maintained. In terms of chips for smart identification devices, the Group has completed the research and development (“R&D”) of a new generation of chips for overseas POS targeting high-end EMV applications and a new generation of chips for low-cost reader/writer applications. The R&D investment and application of NFC read/write chips for automobiles also has a greater advantage. The introduction of vehicle-specific items such as digital keys, in-vehicle aromatherapy, and wireless chargers has been smooth, and e-Bike and consumable anti-counterfeiting are expected to make a better contribution to the division’s results in 2024.

Management Discussion and Analysis

I. DISCUSSION AND ANALYSIS OF OPERATING *(Continued)*

(1) Business situation for each product line *(Continued)*

2. *Product line of non-volatile memory*

The product line has products including EEPROM memory, NOR Flash memory and SLC NAND Flash memory in a variety of capacities, interfaces and packages. In 2023, it achieved revenue of approximately RMB1,072 million.

The Group has a wide range of memory products. During the Reporting Period, the Group's memory products, which are used in consumer electronic products, faced great market pressure. As a result of the significant decline in customer demand and intensified competition, which had an impact on its revenue and gross margin, consumer memory products responded to the fluctuations by adopting strategies such as price adjustments, keeping close to customers' needs and focusing on core customers. Benefiting from the early deployment of memory products in the industrial market, high-reliability market, automotive electronics and other areas, especially the solid foundation of high-reliability products, leading the product line go through the product cycle, so as to enhance the business performance of the product line.

3. *Product line of smart meter chips*

The product line mainly includes: smart meter MCU, and general low-power MCU. In 2023, it achieved revenue of approximately RMB274 million.

During the Reporting Period, the Group's smart meter MCU continued to maintain a leading position in the market share of single-phase smart meter MCUs in the national power grid. Factors such as declining market demand, inventory digestion, and oversupply have a greater impact on the MCU market. In order to go through the product cycle, the product line has made greater efforts in general-purpose products, while maintaining its focus on mainly smart meters, with outreach to water, gas and heat meters. In the second half of 2023, the product lines in automotive electronics, smart home appliances, and industrial sectors began to grow. As we continue to expand our market share with products that are more competitive in terms of features and performance, sales are expected to grow with the gradual introduction and stable supply of the M-STAR series from 2024 onwards, which will have a wider range of applications, a process that moves to 40/55nm. Smart home appliances, automotive electronics and industrial control will be the key directions in general-purpose MCUs of the Company.

4. *FPGA and other products*

The Company is one of the leading companies in the field of field-programmable gate array ("FPGA") technology in China. At present, we can provide four series of products: 10 million-gate-level FPGA chips, 100 million-gate-level FPGA chips, 1000 million-gate-level FPGA chips and embedded programmable devices (PSoC). FPGA and other products achieved revenue of approximately RMB1,139 million in 2023.

Management Discussion and Analysis

I. DISCUSSION AND ANALYSIS OF OPERATING *(Continued)*

(1) Business situation for each product line *(Continued)*

4. *FPGA and other products (Continued)*

The Group's FPGA product line has a series of ultra-large scale heterogeneous converged programmable logic device series. We are the first in China to have successfully developed 100 million-gate FPGAs and embedded programmable devices (PSoC) chips, as well as reconfigurable chips that integrated FPGA and artificial intelligence (AI) for AI applications (FPAI). The product line is currently advancing a new generation of FPGAs and intelligent reconfigurable SoCs based on the advanced 1xnm FinFET process. We provide low-cost, low-power, high-performance, and high-reliability product series for applications such as computer vision, machine learning, high-speed digital processing, targeting industry sectors such as intelligent cockpits, video surveillance, medical imaging, and network communications.

Other products are mainly including smart electrical chips which have good applications in leakage protection devices and low-voltage electrical appliances. During the Reporting Period, the product line established the strategic goal of planning for development in the direction of new energy sources (electric vehicle charging piles and photovoltaic and energy storage), and began to ship small batches of arc fault detection modules/chips for application in this field.

5. *Testing Services*

Sino IC, our subsidiary, has carried out integrated circuit test research and development in China at the early stage, and has formed many technical achievements in the fields such as product test solution, mass production test automation and test informatization, and undertaken a number of major national science and technology special projects and provincial and ministerial level research projects. The 10GHz high-speed wafer KGD test and over 10,000 pins high-density wafer test methods developed by Sino IC are in mass production, and we are actively developing test solutions and complete engineering technologies for artificial intelligence chips, high-performance computing chips and automotive chips.

6. *Other business situations*

Shanghai Fuwei Xunjie Digital Technology Co., Ltd.* (上海復微迅捷數字科技股份有限公司) built on the existing strengths of the Company's Internet Innovation Division. Based on the SaaS service model, we are developing the market in the areas of mobile phone virtual card, mobile phone short-distance communication compatibility testing, and intelligent short video service. It is still operating in the business development stage.

(2) Research and development and Talent team building

The Group attaches great importance to research and development ("R&D") and invested approximately RMB1,190 million in R&D for the year, representing an increase of 34.25% when compared with the last year. The Group's R&D staff increased from 885 to 1178 when compared with the last year, resulting in enhanced R&D ability. The Group is simultaneously pursuing projects including but not limited to the New Generation FPGA Platform Development and Industrialization Project, the Intelligent and Reconfigurable SoC Platform Development and Industrialization Project, the New Technical Platform Storage Development and Industrialization Project, the New High-end Security Controller Development and Industrialization Project, and the Passive IoT Basic Chip Development and Industrialization Projects. For details, please refer to the relevant filing documents of the Company's convertible bonds application. The Group is planning for its medium to long-term business development.

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, MAIN PRODUCTS AND SERVICES OF THE GROUP, DURING THE REPORTING PERIOD

1. Principal activities

The Group engaged in the design, development and testing of very large integrated circuits as well as provision of system solutions to customers. The Group has established and improved product lines such as security and identification IC chips, non-volatile memory, smart meter chips, FPGA chips and testing services for IC products, and the products are widely used in numerous fields such as finance, social security, anti-counterfeiting and traceability, network communications, home appliances, automotive electronics, industrial control, signal processing, data centers, artificial intelligence and many other aspects.

2. Main products and services

2.1 Security and identification IC chips

The security and identification products rely on self-developed radio-frequency, memory chips and security anti-attack technologies, and 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. The Company 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 Group 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 and 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	Banking, social security, electronic documents, transportation, campus, health, telecommunications, anti-counterfeiting, etc.
Smart identification device 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, digital key applications for e-bikes/electronic vehicles, smart home appliances, etc.

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, MAIN PRODUCTS AND SERVICES OF THE GROUP, DURING THE REPORTING PERIOD *(Continued)*

2. Main products and services *(Continued)*

2.2 Non-volatile memory

The memory chip product line of the Group provides a variety of non-volatile memory products with multiple interfaces, packages, comprehensive capacity and cost-effectiveness. At present, the main products are EEPROM memory chips, NOR flash memory chips and SLC NAND Flash memory, with a variety of capacity, interfaces and packaging forms, which representing a leading market share in China.

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

Product type	Product description	Application fields
EEPROM memory	It is mainly composed of FM24 / FM25 / FM93 series, supports I2C, SPI and Micro Wire interfaces with 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, password lock, etc.
NOR Flash memory	It is mainly composed of FM25 / FM29 series, supports SPI and general parallel interface with 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, industrial control instruments, wifi/ Bluetooth module, high reliability application, etc.
SLC NAND Flash memory	It is mainly composed of FM25 / FM9 series, supports SPI and ONFI parallel interfaces with storage capacity of 1Gbit-4Gbit	Network communication, security monitoring, wearable device, on-board box, automotive electronics, medical instruments, etc.

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, MAIN PRODUCTS AND SERVICES OF THE GROUP, DURING THE REPORTING PERIOD *(Continued)*

2. Main products and services *(Continued)*

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, such as, power consumption information measurement, automatic reading, information transmission of industrial and household users. 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, smart home appliances, automotive electronics, industrial controls etc.

Description and application fields of MCU chip product series of the Group 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 core smartwatch MCUs and SoCs	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, FM33LC, FM33LG, FM33LE, FM33FR, FM33LF, FM33FK5, FM33LG0xxA, FM33LE0xxA, FM33FT0xxA, FM33FG0xxA Series of MCU products, including 32-bit low-power MCU chips with ARM Cortex-M0/M-star cores Processor cores Low-power MCU chips	Smart meters, smart water, gas and heat meters, smart home appliances, automotive electronics, industrial control meters/heat meters/gas meters, etc.

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, MAIN PRODUCTS AND SERVICES OF THE GROUP, DURING THE REPORTING PERIOD *(Continued)*

2. Main products and services *(Continued)*

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 fast upgrading cycles and large technical uncertainty. The Company is one of the leading companies in the field of FPGA technology in China.

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

Product type	Product description	Application fields
10-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
100-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
1000-million gate FPGA chips	Next-generation FPGA serialisation based on 1xnm FinFET advanced process	Provide low-cost, low-power, high-performance and high-reliability products for computer vision, machine learning, high-speed digital processing and other applications, targeting intelligent cockpit, video surveillance, medical imaging, network communication and other industry sectors.
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

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, MAIN PRODUCTS AND SERVICES OF THE GROUP, DURING THE REPORTING PERIOD *(Continued)*

2. Main products and services *(Continued)*

2.5 Testing services for IC products

Through the subsidiary, Sino IC, the Group provides customers with integrated solutions of integrated circuit testing services from chip verification analysis, wafer testing to finished product testing. The specific scopes 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.

MAIN BUSINESS ANALYSIS

1. ANALYSIS OF CHANGES IN INCOME STATEMENT AND CASH FLOW STATEMENT RELATED ITEMS

Item	RMB '0,000		
	2023	2022	Change(%)
Revenue	353,625.94	353,890.89	(0.07)
Cost of sales	137,166.80	125,027.12	9.71
Selling expenses	25,174.20	22,281.89	12.98
Administrative expenses	15,793.58	13,893.55	13.68
Finance expenses	1,570.15	(775.38)	N/A
Research and development expenses	101,059.76	73,541.97	37.42
Other income	17,389.90	10,691.50	62.65
Credit impairment losses	(1,363.05)	110.99	(1,328.08)
Assets impairment losses	(13,351.95)	(16,280.43)	(17.99)
Net cash flows (used in)/from operating activities	(70,816.66)	32,128.55	N/A
Net cash flows used in investing activities	(73,159.68)	(13,251.45)	452.09
Net cash flows from financing activities	131,027.07	50,458.69	159.67

Reasons for changes in revenue: Revenue decreased by 0.07% due to the differentiation of downstream market demand for each product line which caused the changes in the structure of products sold. There was growth in revenue from the design and sale of integrated circuits, and decline in revenue from integrated circuit testing services. The overall revenue was decreased slightly.

Reasons for changes in cost of sales: Cost of sales increased by 9.71%, which was mainly attributable to the change in the structure of the Group's products sold and the increase in the proportion of sales of low margin products.

Management Discussion and Analysis

MAIN BUSINESS ANALYSIS *(Continued)*

1. ANALYSIS OF CHANGES IN INCOME STATEMENT AND CASH FLOW STATEMENT RELATED ITEMS *(Continued)*

Reasons for changes in selling expenses: Selling expenses increased by 12.98%, which was mainly attributable to the increase in staff remuneration because of the increase in number of staff and wage during the Reporting Period. Also, there were increase in travelling expenses and promotional expenses due to the enhanced marketing efforts.

Reasons for changes in administrative expenses: This was mainly attributable to the increase in staff remuneration and office expenses as a result of the expansion of the Group's scale of operations and increase in number of staff, as well as the increase in share incentive expenses as a result of the implementation of the share incentive scheme by a subsidiary, Sino IC, during the Reporting Period.

Reasons for changes in finance expenses: This was mainly attributable to the significant increase in the Group's bank loans and the corresponding increase in interest expenses.

Reasons for changes in research and development expenses: Research and development expenses increased by 37.42% which was mainly attributable to the Group invested in research and development when product iterative computing and product spectrum expansion proceeded continuously, as well as the strengthening of product research and development based on diversified supply-side processes.

Reasons for changes in other income: Other income increased by 62.65% which was mainly attributable to the increase in government grants recognised as a result of the completion and acceptance of certain research and development projects during the Reporting Period.

Reasons for changes in credit impairment losses: The significant increase in credit impairment losses was mainly due to the increase in the balance of accounts receivable, which led to the increase in credit impairment losses.

Reasons for changes in assets impairment losses: Assets impairment losses decreased by 17.99% which was mainly attributable to the impairment loss on long-term equity investments in associates was recorded in the last year. In addition, provision of impairment of inventories was recorded due to the decrease in demand and price for some of the Group's chips which caused by the sluggish demand in markets such as consumer electronic products. For the year ended 31 December 2023, the Group recorded provision for write-down of inventories of RMB120,532,133.01. Inventories are stated at the lower of cost and net realisable value, which are written down below cost to net realisable value if the cost is higher than the net realisable value.

Reasons for changes in net cash flows (used in)/from operating activities: This was mainly due to the increase in cash outflow from operating activities as a result of the increase in stock of certain products, which led to the increase of payment of production and purchase.

Reasons for changes in net cash flows used in investing activities: This was mainly attributable to the expansion of production scale and purchase of plant and equipment by a subsidiary, Sino IC.

Reasons for changes in net cash flows from financing activities: This was mainly attributable to the increase in the Group's bank loans as a result of the increase in demand of working capital.

Management Discussion and Analysis

MAIN BUSINESS ANALYSIS (Continued)

2. STATUS OF ASSETS AND LIABILITIES

RMB '0,000

Item	As at 31 December 2023	Balance as at the end of the Reporting Period as a percentage of total assets (%)	As at 31 December 2022	Balance as at the end of last year as a percentage of total asset (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of last year (%)
Notes receivable	39,094.62	4.65	25,214.41	4.13	55.05
Accounts receivable	92,961.93	11.05	73,020.43	11.95	27.31
Prepayments	11,068.20	1.32	47,470.22	7.77	(76.68)
Inventories	317,737.06	37.77	148,326.45	24.27	114.21
Investment properties	–	–	12,268.79	2.01	(100.00)
Fixed assets	111,545.43	13.26	69,444.67	11.36	60.62
Construction in progress	48,065.66	5.71	19,377.64	3.17	148.05
Intangible assets	14,327.69	1.70	8,575.06	1.40	67.09
Development costs	45,610.86	5.42	31,652.17	5.18	44.10
Short-term borrowings	89,386.01	10.63	5,400.00	0.88	1,555.30
Contract liabilities	5,756.75	0.68	21,040.23	3.44	(72.64)
Employee benefits payable	25,111.83	2.99	19,234.01	3.15	30.56
Other payables	18,223.07	2.17	7,233.56	1.18	151.92
Long-term borrowings	53,006.37	6.30	–	–	N/A

Management Discussion and Analysis

MAIN BUSINESS ANALYSIS *(Continued)*

2. STATUS OF ASSETS AND LIABILITIES *(Continued)*

Reasons for changes in notes receivable: This was mainly attributable to changes in revenue and customer structure and an increase in note-settled transactions.

Reasons for changes in accounts receivable: The increase in accounts receivable was mainly attributable to the change in revenue and customer structure and the settlement period of payments from customers for highly reliable products was longer.

Reasons for changes in prepayments: This was mainly attributable to the delivery of goods from suppliers for the prepaid orders in the prior period.

Reasons for changes in inventories: This was mainly attributable to the increase in stock of certain products in order to secure continuous supply to customers and capture market opportunities.

Reasons for changes in investment properties: This was mainly attributable to the non-renewal of leases upon expiry of the lease terms and the investment property was reclassified as fixed assets.

Reasons for changes in fixed assets: This was mainly attributable to the purchase of equipment for the testing business of the subsidiary for the expansion of operation scale, and the investment property was reclassified as fixed assets upon the expiry of the lease terms.

Reasons for changes in construction in progress: This was mainly attributable to the fact that the plant purchased by the subsidiary for the expansion of operation scale of the testing business had not yet reached operating condition.

Reasons for changes in intangible assets: This was mainly attributable to the conversion of some of the Group's capitalised projects to intangible assets when they reached their intended useable condition and there was increase in purchased software and intellectual property.

Reasons for changes in development costs: This was mainly attributable to the increase in expenditure as a result of the Group's continuous increase in investment in research and development as well as the upgrading of the technological process of the productised research and development projects.

Reasons for changes in short-term borrowings: This was mainly attributable to the increase in short-term bank loans as a result of increase in demand of working capital.

Reasons for changes in contract liabilities: This was mainly attributable to the decrease in receipts in advance as a result of the completion of pre-paid orders from customers which were recognised as revenue.

Reasons for changes in employee benefits payable: This was mainly attributable to the increase in the number of staff of the Group and the increase in the provision for staff remuneration.

Reasons for changes in other payables: This was mainly attributable to the unsettled final payment for the purchase of plant and equipment for the expansion of the subsidiary, Sino IC.

Reasons for changes in long-term borrowings: This was mainly attributable to the increase in long-term bank loans as a result of increase in demand of working capital.

Management Discussion and Analysis

CAPITAL MANAGEMENT

The key objective of the Group's capital management is to ensure the Group's ability to operate on a going concern basis and maintain healthy capital ratios so as to support business growth and maximise shareholder value.

The Group manages its capital structure and makes adjustments in response to changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not constrained by any external mandatory requirements on capital. The capital structure of the Group consists of equity attributable to owners of the Company (comprising issued share capital and various reserves) and bank borrowings. There was no change in the Group's capital management objectives, policies or procedures in 2023 and 2022.

The Group manages its capital with the gearing ratio. The gearing ratio of the Group, which is the total liabilities divided by the total liabilities and owner's equity as at 31 December 2023 is approximately 29.12% (2022: 15.67%).

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider that developing and implementing rigorous risk management practices can efficiently and effectively reduce operational risks. The Board has delegated the responsibilities to relevant departments and will monitor, review and improve the practices from time to time.

The Directors believe that the Group is not exposed to risks associated with business regulations in view that there is no specific legislative control over the design, development and sales of integrated circuit where Group focuses its business at present, and national policies are all advantageous to the development of the industry. In addition, the Group's business maintained a stable and healthy growth over the years. With the Group's existing customers and suppliers are all long-term partners, and business of the industry is still in the growth phase driven by national policies and huge market demands in most of its products, the Directors believe there will be no uncertainties.

The Group is exposed to various risks as analysed below:

I. CORE COMPETITIVENESS RISKS

1. *New product research and development and technical repetitive computing risks*

The integrated circuit design industry in which the Group operated in is a typical technology intensive industry. Technology upgrades and product iterations at a high speed, while chip products have higher technical barriers and obvious advantages of first-mover. If the Group makes mistakes in its judgment of market demand or slow development progress in the follow-up R&D process, it will face the risk of being grabbed for market share by competitors. In addition, the R&D of high-end chips has the characteristics of long development cycle, large capital investment, and high R&D risk. During the research and development process, there is a risk that certain key technologies cannot be broken through or product performance, parameters, and yield rates cannot meet market needs, leading to R&D failure and falling behind the new generation of technology.

Management Discussion and Analysis

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

I. CORE COMPETITIVENESS RISKS *(Continued)*

2. *Risks of attracting talents and maintaining innovative capabilities*

At present, the domestic chip design industry is developing rapidly, and the competition among enterprises for R&D talents is very fierce. If the Group cannot formulate a good talent incentive policy, or human resource management cannot meet the needs of rapid development, it will face the risk of core talent loss, and it may also fall into a situation where it is difficult to attract talents to join, resulting in the Group's failure to maintain continuous innovation ability.

II. OPERATIONAL RISKS

In the international market, compared with the leading enterprises in the industry, there are shortfalls in the richness of the Group's product layout, the advancement of technical indicators such as technological process and performance, and the scale of operation or market share of certain products of the Group. In the domestic market, there was increasing attention from the society, market and capital for the IC design industry. The Group is also facing an increasing number of competitors in each of its product lines and the competition is keen. Since 2023, due to the downturn in consumer electronics, the supply and demand relationship for some products has changed, and the overall gross profit margin level of the industry has been significantly impacted. At the same time, the gross profit margin level of the Group's existing high-reliability and mature products may be gradually adjusted downwards due to factors such as competition in the market and the lower gross profit margin level in the newly expanded areas. If the Group is unable to take effective measures to consolidate and enhance the competitiveness of its products in the future as a result of advancement in technology standards, increase in labour and raw material costs as well as decrease in the bargaining power of the Group's products, the Group's comprehensive gross profit margins will be subject to the risk of decline, which will put the Group in an unfavourable position in the keenly competitive marketplace and reduce its sustainable profitability.

Management Discussion and Analysis

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

III. FINANCIAL RISKS

1. *Risk of impairment of inventories*

The inventories of the Group mainly include chips and wafers. To safeguard the supply chain, the Group has invested more resources in inventories. At the end of the reporting period, the carrying amount of the inventories of the Group was approximately RMB3,177.3706 million, accounting for 53.52% of the corresponding total current assets at the end of the period. The Group makes corresponding impairment provisions every year according to the amount of the net realizable value of inventories lower than the cost. At the end of the reporting period of the reporting period, the balance of inventory impairment provisions of the Group was approximately RMB286.6746 million, and the proportion of inventory impairment provisions was 8.28%. If the market accelerates to go down in the future or the product replacement is accelerated due to technical repetitive computing, the risk of impairment of inventories may increase, which will have an adverse impact on the operating results of the Group.

2. *Financial risks associated with R&D investment*

The Group attaches great importance to the independent research and development of core technologies. During the reporting period, the R&D investment was approximately RMB1,190 million, accounting for 33.64% of the revenue during the reporting period. The R&D investment intensity was relatively high. The amortization provided for the intangible assets formed by development expenditure or write-off of the development expenditure and impairment of the intangible assets may have a significant impact on the profits of the Group.

3. *Risks of policy changes such as government subsidies and tax incentives*

The Group's integrated circuit design and integrated circuit testing related businesses are encouraged and supported by national industrial policies. The Group has strong scientific research capabilities and obtained more subsidies for scientific research projects during the reporting period, which can make up for the Group's R&D investment to a certain extent. As a high and new technology enterprise, the Group enjoys preferential tax policy support. If the national incentive policy changes, it may cause the risk of fluctuations in the profitability of the Group.

4. *Risk of collection of accounts receivable and notes receivable*

At the end of the reporting period, the book balance of the accounts receivable of the Group was approximately RMB953.4330 million, and the book balance of notes receivable was approximately RMB398.5367 million. The total book balance of accounts receivable and notes receivable accounted for 38.23% of the revenue. If the macroeconomic situation, industry development prospects and other factors adversely change in the future, and the operating conditions of customers experience major difficulties, the Group may face the risk of increasing bad debt losses due to uncollectible accounts receivable and notes receivable.

IV. INDUSTRY RISKS

Risk of slowdown in industry growth: Since the second half of 2022, demand for some chips, represented by consumer electronics products, has shown a downward trend due to factors such as the structural easing of production capacity and the absorption of existing inventories which brought challenges to the business of the Group. Although the Group's product lines cover industrial grade products, consumer and high reliability applications and are more resilient to volatility, an industry-wide slowdown in growth could adversely affect the Group's results.

Management Discussion and Analysis

PRINCIPAL RISKS AND UNCERTAINTIES *(Continued)*

V. MACRO-ENVIRONMENTAL RISKS

In recent years, the uncertainty of the international trade environment has increased, and anti-globalization trade has further spread. Some countries have adopted trade protection measures and have repeatedly taken long-arm jurisdictional measures, which have had an impact on China's integrated circuit industry. The integrated circuit industry has typical characteristics of global division of labor and cooperation. If there are major adverse changes in the international trade environment, the trade friction between countries and regions further escalates, and global trade protectionism continues to heat up, the production and operation of upstream and downstream companies in the integrated circuit industry chain may be adversely affected, resulting in an increase in upstream and downstream transaction costs in the industry chain, which may adversely affect the operation of the Group.

FUTURE OUTLOOK

In 2024, the Group will continue to consolidate and enhance its comprehensive competitive advantages in technology, services, quality and branding, further expand its production capacity and product applications, as well as continuously increase the coverage of the Group's business in the industrial chain, so as to achieve a sustainable, rapid and healthy development of the Group. Meanwhile, the Group will continue to consolidate the Group's technological advantages through technical cooperation between colleges and enterprises and continuous investment in research and development, and actively focus on advanced technologies and products overseas to build up the Group's competitive advantages in the international market. In terms of product technology, the Group will accelerate the improvement of its product lines, enrich and optimise its product portfolio, and form product matrix rapidly. Bold innovation according to application needs, especially integrated innovation in cross areas. We will develop the ability to derive spectrum products rapidly through strengthening the efficient R&D system and establishing a platform to overcome technical difficulties. In terms of marketing and operation, we will continue to leverage our strategic portfolio to complement our markets and products. Not only formulate a reasonable marketing strategy based on product planning, but we also need to dig deep into new markets and trends to lead our products to explore new areas. We will expand the content and level of research on new markets in a timely manner, so as to provide a good starting point for building new competitiveness. The Group will optimise the allocation of resources to strengthen the market system of the existing businesses; to enhance the quality of customer support services and stabilise our existing market share; to build our marketing network actively and focus our resources on exploring new opportunities and generating new markets in order to expand our market share. In terms of internal management, the Group will endeavour to safeguard the quality of its products, improve the efficiency of its research and development and optimise its management practices. We will improve the Company's ESG management standards continuously and adhering to the business philosophy of sustainable development.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in this annual report, the Group had no other material investments and acquisitions and disposals of subsidiaries, associates and joint ventures during the year.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Company is applying to the Shanghai Stock Exchange and the China Securities Regulatory Commission for the Issuance of A Share Convertible Bonds to non-specific investors in China with a total amount not exceeding RMB2 billion (RMB2 billion inclusive). The proceeds shall be fully invested in the Group's principal business, including, (i) the New Generation FPGA Platform Development and Industrialization Project, (ii) the Intelligent and Reconfigurable SoC Platform Development and Industrialization Project, (iii) the New Technical Platform Storage Development and Industrialization Project, (iv) the New High-end Security Controller Development and Industrialization Project, and (v) the Passive IoT Basic Chip Development and Industrialization Projects. The resolutions in relation to the Issuance of A Share Convertible Bonds have been passed in the extraordinary general meeting and class meetings which were held on 5 July 2023. The relevant application is still under examination by the Shanghai Stock Exchange and the China Securities Regulatory Commission up to the date of this annual report, even though the approval of Listing Committee for the Sci-Tech Innovation Board has obtained.

Before the receipt of the proceeds from the issuance of A Share Convertible Corporate Bonds, the Company will invest with its own or self-raised funds as required based on the actual progress of the projects to be invested. When the proceeds are available, such funds used will be replaced by the proceeds so raised according to the procedures stipulated by the relevant laws and regulations. In the event that the actual amount of proceeds from the Issuance after deducting issuance expenses is less than the amount of proceeds proposed to be invested in the projects above, any shortfall will be made up by the Company with its own or self-raised funds.

Save as mentioned in this annual report, there was no other specific plan for material investments or capital assets as at 31 December 2023.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2023, net assets of the Group amounted to RMB5,961,701,809.14 (2022: RMB5,153,169,377.95), representing an increase of approximately 15.69% over last year; of which current assets amounted to RMB5,937,283,670.86 (2022: RMB4,327,100,944.42), representing an increase of approximately 37.21% over last year, of which included cash at bank and on hand which were RMB1,003,337,496.96 (2022: RMB1,190,828,339.52), representing a decrease of approximately 15.74% over last year.

The Group kept earning profit for the past years, and thus profit, placement of shares, bank borrowings and cash flows generated internally have been used to meet the operations and business development needs. With the cautious treasury policy adopted by the Group, the current cashflow is sufficient to cope with daily operation and future development. The Group may also obtain appropriate credit facilities from financial institutions when there is additional funding requirement for its business development in the future, including but not limited to bank borrowings, acceptance bills, discounted bills, trade finance and letters of credit, depending on the scale and duration of the funding requirements. The Company is also applying to the Shanghai Stock Exchange and the China Securities Regulatory Commission for the Issuance of A Share Convertible Bonds to non-specific investors in China with a total amount not exceeding RMB2 billion (RMB2 billion inclusive). The Group does not use any financial instruments for hedging purposes and does not have foreign currency net investments hedged by currency borrowings and other hedging instruments.

The Group's exposure to currency exchange rate risk is relatively low as most of the Group's operations are carried out in the PRC and most of the transactions conducted are denominated and settled in Renminbi. The Group has not entered into any foreign exchange hedging arrangements. The Directors are of the opinion that the fluctuation of exchange rate has no material impact on the financial performance of the Group.

As at 31 December 2023, the Group had bank borrowings amounted to RMB1,436,202,110.03, which are repayable in 1 to 2 years with interest rate 2.50% to 3.45% per annual (2022: RMB50,000,000.00).

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2023, the Group did not have any assets pledged as security. (2022: fixed assets with carrying amounts RMB173,447,600.91 were pledged for the securities of bank borrowings which were fully repaid in Year 2022).

COMMITMENTS AND CONTINGENCIES

1. Major Commitments

	2023	2022
Contracted but not provided Capital commitment	202,947,261.42	204,494,238.41

2. Contingencies

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

EMPLOYEES

1. Employees status

Number of employees in the parent company	1,514
Number of employees in major subsidiaries	531
Total number of employees	2,045
Number of retired employees whose expenses are to be paid by the parent company and the subsidiaries	1

Profession Class of Profession	Number (person)
Production personnel	351
Sales personnel	326
Technical personnel	1,178
Financial personnel	18
Administrative personnel	172
Total	2,045

Educational Background Class of education	Number (person)
Doctor's degree	26
Master's degree	780
Undergraduate	726
College	246
High school and below	267
Total	2,045

Management Discussion and Analysis

EMPLOYEES *(Continued)*

2. Remuneration policy

The Group 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. Staff costs (including directors' emoluments) incurred for the year ended 31 December 2023 were approximately RMB1,021,461,524.87 (2022: RMB857,025,020.56). The Group 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 Group has established a complete performance appraisal system, and evaluates each employee according to the targeted appraisal objectives. At the end of each year, the Group formulates a salary adjustment plan based on the results of employee performance evaluation, and with reference to the market salary situation and the Group's current operating conditions. Besides, the Group 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.

Retirement benefits scheme

The employees of the Company's subsidiaries in Hong Kong participate in the MPF Scheme established under the Mandatory Provident Fund Schemes Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. All employees in Hong Kong joining the Group are required to join the MPF Scheme.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income capped at HK\$1,500 per month. The retirement benefit costs charged to profit or loss represent contributions payable to such fund by the Group at rates specified in the rules of this scheme.

The employees of the Company's subsidiaries in PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Retirement Benefit Costs Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions. At 31 December 2023, there were no forfeited contributions available to offset future employers' contributions to the schemes.

The total expense recognised in profit or loss for the year ended 31 December 2023 of RMB73,267,404.48 (2022: RMB62,887,779.19) represents contributions paid or payable to the above schemes by the Group.

3. Training plan

The Human Resources Department has set up a human resource management process, based on an annual performance appraisal and assessment of the prior year and the development objectives of all departments, formulated the annual training plan. The implementation of training plan adopts two types of training being outsourcing and in-house. The effectiveness of the training plan will be assessed by examinations, feedbacks and performance appraisals with recommendations for the further improvements.

Management Discussion and Analysis

COMPLIANCE WITH LAWS AND REGULATIONS

The Directors deem the compliance with laws and regulations as the cornerstone of a business and attach considerable importance to it. The Group strictly complies with relevant laws and regulations of each country and region where the subsidiary companies perform business activities. Furthermore, as the A shares of the Company are listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange and H shares of the Company are listed on the main board of Stock Exchange of Hong Kong Limited (“The Stock Exchange”), the Company shall be bound by the rules governing the listing of securities on the Shanghai Stock Exchange and The Stock Exchange, relevant regulatory rules of the China Securities Regulatory Commission and the Securities and Futures Ordinance on Chapter 571 of the Laws of Hong Kong respectively. The Group’s operating business is not subject to any specific regulation at the time being.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

Understanding that customer is the key factor for generating revenue and business development, the Group actively maintains close and long term partnerships with customers. With more than twenty years of business experience and expertise, the Group strives to fulfill the requirements of customers. All the Group’s five largest customers were manufacturers of security IC chips, smart meter and high reliable products, which are renowned enterprises in the industry with business relationship with the Group for long years. These customers are traded with 30 days to 90 days credit that is the same credit term given by the Group to other customers. For the year ended 31 December 2023, the above-mentioned 5 customers have no indication of doubtful debt. In accordance with the risk management policies adopted by the Group, its customers and products are managed in well-balanced portfolios, there is no exposure on heavy reliance on individual products nor these major customers’ orders.

The Group sees the suppliers as valued business partners, and is committed to maintain long term relationships with them and protect interests of both sides to ensure reasonable prices and stable supply of the Group.

Management Discussion and Analysis

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS (Continued)

Information in respect of the Group's sales and purchases attributable to major customers and suppliers respectively for the year ended 31 December 2023 is as follows:

Major customers

	Customer	Revenue (RMB'0,000)	Percentage of annual revenue (%)	Interests of any of the directors; their close associates; or any shareholder (which to the knowledge of the directors own more than 5% of the number of issued shares of the listed issuer)
1	The first customer	79,763.96	22.56	Nil
2	Shanghai Fudan Communication Co., Ltd.	26,233.37	7.42	Mr. Yu Jun, the executive director of the Company, holds approximately 1.19% of its equity interest through his spouse; Shanghai Fudan Fukong Technology Enterprise Holdings Limited* (上海復旦復控科技產業控股有限公司), a substantial shareholder of the Company, holds approximately 33.84% of its equity interest
3	The third customer	8,016.05	2.27	Nil
4	The fourth customer	7,798.49	2.21	Nil
5	The fifth customer	6,918.96	1.96	Nil
	Total	128,730.83	36.42	

Major suppliers

	Supplier	Cost of purchase (RMB'0,000)	Percentage of annual cost of purchase (%)	Interests of any of the directors; their close associates; or any shareholder (which to the knowledge of the directors own more than 5% of the number of issued shares of the listed issuer)
1	The first supplier	106,700.03	33.76	Nil
2	The second supplier	60,027.56	18.99	Nil
3	The third supplier	22,468.16	7.11	Nil
4	The fourth supplier	16,023.54	5.07	Nil
5	The fifth supplier	13,731.07	4.34	Nil
	Total	218,950.36	69.27	

Directors and Supervisors and Senior Management Biographies

Biographical details of the directors and the supervisors and the senior management of the Company are set out below:

DIRECTORS

Executive directors

Mr. Jiang Guoxing, aged 70, joined the Company in July 1998, is the Chairman of the Board and the chairman of the Strategic and Investment Committee and the chairman of the Environmental, Social and Governance Committee of the Company. Mr. Jiang graduated with a Master's degree in Computer Science from the Fudan University and is a professor grade senior engineer. He was the executive manager of Hong Kong Huayu Technology Co. Ltd., from 1987 to 1993, the deputy general manager of Shanghai Fudan Forward Science and Technology Co., Limited from 1993 to 1994 and the chief of the Office of Research-product Industrialization and University Enterprise Management of the Fudan University from 1995 to 2007. From 2007 to 2017, he was the vice chairman and general manager of Shanghai Fudan Forward Science and Technology Co., Limited.

Mr. Shi Lei, aged 57, joined the Company in July 1998, is the Managing Director and a member of the Strategic and Investment Committee of the Company. He was graduated with a Master's degree in Management from the Fudan University and is a professor grade senior engineer. Mr. Shi was the deputy manager in the Development Division of Shanghai Agricultural Investments Company from 1993 to 1997; the general manager of Shanghai Pacific Commercial Trust Company Limited from 1997 to 1998; worked for Shanghai Commerce Investment Company from 1997 to 2001; the assistant to general manager, deputy general manager, general manager and chairman of Shanghai Commerce and Invest (Group) Corporation ("SCI") which is a major shareholder of the Company from 1997 to 2015.

Mr. Yu Jun, aged 56, joined the Company in July 1998, is the Deputy Managing Director and a member of the Strategic and Investment Committee of the Company and also a director respectively of the Company's substantial shareholder, Shanghai Fuxin Fangao IC Technology Co. Ltd. and an associate namely Shanghai Fukong Hualong Micro-system Technology Co., Ltd ("Fukong Hualong"). He worked as a director of the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") from September 2016 to August 2023. He graduated with a Bachelor's degree in Electronics Engineering and a Master's degree in Electrical Circuits and Systems professional from the Fudan University and is a professional grade senior engineer. Mr. Yu has held positions as the deputy director, professional grade senior engineer, deputy professor, tutor and assistant tutor of the Electronic Engineering department of the Fudan University since 1990.

Directors and Supervisors and Senior Management Biographies

DIRECTORS *(Continued)*

Non-executive directors

Ms. Zhang Qianling, aged 87, joined the Company in July 1998. She is also the supervisor of Sino IC. since 2001 She graduated from the Department of Physics of Fudan University and was a principal professor and tutor to doctorate students at Fudan University from 1960 to 2001. She was a promoter and first supervisor of the ASIC and System State Key Laboratory of the Fudan University. She was a director of Shanghai Fudan High-Tech Company from 1995 to September 2021 and a director of Shanghai Huahong Integrated Circuit Co. Ltd. from 1998 to 2006.

Mr. Wu Ping, aged 59, joined the Company in August 2019. He holds a Bachelor's degree from Shanghai Second Polytechnic University. He previously served as the executive director of Shanghai Fosun High Technology (Group) Co., Ltd. from 1995 to 2018; the director and general manager of SCI and the chairman of Shanghai Fudan Fukong Technology Industry Holdings Co., Ltd. ("Fudan Fukong") since 2018. He has been a director of Shanghai No.1 Pharmacy Co., Ltd., a company listed on the Shanghai Stock Exchange, since 12 December 2018.

Mr. Sun Zheng, aged 49, joined the Company in November 2021. He holds a Bachelor's degree from the Shanghai University in Finance and Economics and a Master's degree in Business and Administration from the Fudan University, and is also an economist. He had worked for 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; Shanghai Wenguang Multimedia Television Co. Ltd. as financial controller; Shanghai New Countryside Construction Co. Ltd. as assistant to general manager; Blockbuster Investment Management Co. Ltd. as deputy general manager; Shanghai First Financial Media Co. Ltd. as financial controller; Shanghai First Financial Investment Management Co. as executive director; Shanghai Wenguang Capital Management Co. Ltd. as legal representative and general manager; SCI as deputy general manager. He is currently the financial controller and Secretary of the Board of Shanghai No.1 Pharmacy Co., Ltd., a company listed on the Shanghai Stock Exchange.

Independent non-executive directors

Mr. Cao Zhongyong, aged 65, joined the Company in June 2019 and is a member of the Audit Committee and the Environmental, Social and Governance Committee of the Company. He holds a Doctorate's degree in Economics from the Beijing Jiaotong University. He was a professor, Assistant Dean of International Economics and Management from 1992 to 1996 and a professor and deputy head of the Academic Technology Research Registry from 1997 to 1998 of the Shanghai Railways University; a visiting scholar in the John F. Kennedy School of Political of the Harvard University from 1997 to 1998; from 1998 to 2018, he had held positions as supervisor and deputy supervisor accreditation committee of qualifications for assigned directors and supervisors of state-owned enterprises of Shanghai, the supervisor of the Shanghai Executive Development Centre, supervisor of the Examination and Assessment Centre for Leader Cadres of Shanghai, and retired in 2018. He is currently a tutors to doctorate students of post-doctoral station of the Shanghai Maritime University; chairman of the Shanghai European and American Alumni Association and the Alumni Association of the Harvard University and a core expert of Shanghai Lingang Integration of Industry and Education in New Engineering Institute.

Directors and Supervisors and Senior Management Biographies

DIRECTORS *(Continued)*

Independent non-executive directors *(Continued)*

Mr. Cai Minyong, aged 67, joined the Company in June 2019 and is a member of the Audit Committee and the Strategic and Investment Committee and the Environmental, Social and Governance Committee, chairman of the Nomination Committee and Remuneration and Evaluation Committee of the Company. He graduated in Fudan University with a Bachelor's degree in Economics and Management. He was the Party Secretary and Factory Manager of the Shanghai Wuzhou Pharmaceutical Factory, and the Chairman of Shanghai Wuzhou Hesite Pharmaceutical Co., Ltd. from 1993 to 1996; chairman of the Shanghai Jiuzhou Property Development Co., Ltd. from 1994 to 1996; chairman of the Shanghai Pioneer Antibeer Pharmaceutical Co., Ltd. and the party secretary and general manager of the Shanghai Pioneer Pharmaceutical Company from 1995 to 1996; the deputy director of the management office of the Organization Department of the Shanghai Municipal from 1996 to 1998, the supervisor of the Shanghai High-tech Achievement Transformation Service Center from 1998 to 2003, the president of Shanghai Technology Property Exchange from 1999 to 2003, the Supervisor of the Shanghai Science and Technology Development and Exchange Center from 2001 to 2004, the party secretary and president of the Shanghai United Assets and Equity Exchange from 2004 to 2014, chairman of the Common Market of Proprietary Rights Trading in the Yangtze River Delta from 2005 to 2014, the member of the Shanghai Arbitration Committee and the arbitrator of China International Economic and Trade Arbitration Commission from 2005 to 2019, a member of the Financial and Economic Committee of the Shanghai Municipal People's Congress from 2013 to 2018 and a member of the Budget Working Committee of the Standing Committee of Shanghai Municipal People's Congress from 2018 to 2019. He is currently the chairman of the Shanghai Association of Senior Scientists and Technologists and vice supervisor of the Shanghai Care Next Generation Work Committee.

Mr. Wang Pin, aged 50, joined the Company in June 2019 and is the chairman of the Audit Committee and member of the Nomination Committee and Remuneration and Evaluation Committee of the Company. He graduated in Shanghai National Accounting Institute with an EMBA degree and is a registered accountant of the PRC. He was the assurance manager of Shanghai Gongxin Zhongnan Accounting Firm from 1996 to 2005; the financial controller of Shanghai Prime Machinery Company Ltd. from 2005 to 2016. He is currently the executive director of Shanghai Shenyin Enterprise management consultant Ltd.; a director of Shanghai Luanhai Investment Management Ltd., the executive director of Shanghai Luanhai Puyu Investment Management Ltd and the independent director of Shanghai Lansheng Brain Hospital Investment Co. Ltd.

Ms. Zou Fuwen, aged 56, joined the Company in June 2022 and is a member of Remuneration and Evaluation Committee and Nomination Committee. She graduated from the Law major of the East China University of Political Science and Law, and was a post-graduate in international trade of the Shanghai University of International Business and Economics as well as a registered lawyer in China. She was a lawyer of Shanghai Baoshan Law Firm and Shanghai Yinxin Law Firm; and was a supervisor of Shanghai Hao Kun Law Firm. She is currently a supervisor of Shanghai Parkway Law Firm and the vice president of Shanghai Lawyers Association and president of Shanghai Women Lawyers Fellowship Association.

Directors and Supervisors and Senior Management Biographies

SUPERVISORS

Ms. Zhang Yanfeng, aged 48, was appointed in June 2019 and is a staff representative supervisor and chairman of the Supervisory Committee of the Company. She joined the Company in 2005 and is the officer of Human Resource Department of the Company and holds a Master's degree in Business Administration of the University of Hong Kong.

Mr. Ren Junyan, aged 63, was appointed in June 2019 and is a shareholders' representative supervisor of the Company. He holds Master's degree in Semi-conductor physics and Semi-conductor Device Physical professional from the Fudan University. Mr. Ren is a professor and tutor to doctorate students of the Fudan University and a member of The Institute of Electrical and Electronics Engineers ("IEEE").

Ms. Tang Xiaojie, aged 42, was appointed in November 2021 and is a shareholders' representative supervisor of the Company. She graduated from the University of Ballarat in Australia as an undergraduate and holds a Master's degree in Commerce. Ms. Tang is the deputy general manager of the audit department of SCI and the supervisors of Fudan Fukong. 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.

SENIOR MANAGEMENT

Mr. Diao Linshan, aged 57, joined the Company in 1999 and is the Deputy General Manager of the Company and a director of Fudan Hong Kong. He holds a Master's degree in Business Management and Administration from the Arizona State University of the United States. He worked as assistant engineer in the Shenyang Branch of the Chinese Academy of Sciences from 1990 to 1992; deputy manager in the sales department of Fuzhou Zhengda Ltd. from 1992 to 1993; as deputy general manager in Beijing Wantong Industrial Corporation Limited from 1993 to 1996; as assistant to general manager in Oxford and Cambridge International Group from 1996 to 1998; and as marketing manager in Beijing Quantum Communication Network Ltd. in 1998.

Mr. Zeng Shaobin, aged 54, joined the Company in 2016 and is the Deputy General Manager of the Company. He holds a Doctorate degree in Management Engineering from the Wuhan Polytechnic University. From 1989 to 2007, he served as the supervisor of the development and reform office of the Henan Nanyang Normal University in Henan and the director of headmaster's office. From 2007 to 2016, he served as the director of the United Front Work Department of Shanghai Municipal Committee.

Ms. Li Qing, aged 55, joined the Company in 1998 and has served as a senior engineer, manager of the technical planning department, manager of the design department, and currently serves as the president of the Central Research Institute and the Deputy General Manager of the Company. Ms. Li holds a Bachelor's degree in Radio Technology and a Master's degree in Radio Electronics from the Department of Radio Electronics and is a professor grade senior engineer. She has worked in the State Key Laboratory of Dedicated Integrated Circuits and Systems of Fudan University to conduct works on integrated circuit design, and has been a lecturer, senior engineer, and instructor of master students.

Mr. Shen Lei, aged 57, joined the Company in 2001 and is currently the Deputy Chief Engineer and Deputy General Manager of the Company, and is the core technical staff of the Company. Mr. Shen holds a master's degree in semiconductor physics and devices and a master's degree in microelectronics and solid electronics. Mr. Shen joined the State Key Laboratory of Dedicated Integrated Circuits and Systems of Fudan University in 1995 to conduct research on integrated circuit design and process correlation, and has served as an engineer, senior engineer and master's degree instructor.

Ms. Fang Jing, aged 56, joined the Company in 2003 and is the Chief Financial Officer and Secretary to the Board of the Company, and also is the Supervisor of Sino IC and a director of Fukong Hualong and Fudan Hong Kong. She holds a Master's degree in Business Management and Administration from the Arizona State University of the United States and is also a senior accountant. She served as deputy manager of financial planning department of Shanghai Pacific Commercial Trust Company Limited and chief financial officer of Shanghai Fudan Communications Co., Ltd.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The directors of the Company (the "Directors") acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2023, which were prepared in accordance with statutory requirements and applicable accounting standards. The reporting responsibilities of the external auditor on the financial statements are set out in the Auditors' Report on pages 65 to 70.

CORPORATE CULTURE

The Company has adopted, promoted and preserved a healthy corporate culture by which our directors, management and employees are bounded to strike for a sustainable development of the Company in a lawfully, ethically, and responsibly manner. Our culture is also about reaching a balance of benefits and risks of short terms goals with our long-term strategy.

The Board of the Directors has a collective responsibility for promoting robust corporate governance, at heart of which embedded with our corporate culture which has the following features.

- **Transparency**
Our directors and management shall be moulded to make decisions and to conduct our business based on the best information available to them and shared among them.
- **Integrity and Objectivity**
Our directors and management shall undertake to make decisions and to conduct our business with integrity and objectivity in the best interests of the Company and its shareholders.
- **Accountability**
Our directors and management shall be rewarded commensurately by the performance of the Company under their decisions and actions.

The Board is satisfied that our corporate culture has been well promoted and preserved based on its review of a set of culture-related factors, such as compliance history, staff turnover rate, numbers of stakeholders' complaints and performance of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2023. The Board confirms and undertakes the ultimate responsibilities for acting as the corporate governance function of the Company and performs duties in accordance with clause A.2.1 of the CG Code.

Corporate Governance Report

SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Company has adopted a code of conduct on terms no less exacting than the model code for securities transactions by directors of listed issuers as set out in Appendix C3 of the Listing Rules. Having made specific enquiry to all directors and supervisors, the directors and supervisors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 December 2023.

BOARD OF DIRECTORS AND BOARD MEETING

Composition and role

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Jiang Guoxing (*Chairman*)
Mr. Shi Lei (*Managing Director*)
Mr. Yu Jun (*Deputy Managing Director*)
Ms. Cheng Junxia (resigned on 29 December 2023)

Non-executive Directors

Ms. Zhang Qianling
Mr. Wu Ping
Mr. Sun Zheng
Ms. Liu Huayan (resigned on 11 July 2023)

Independent Non-executive Directors

Mr. Cao Zhongyong
Mr. Cai Minyong
Mr. Wang Pin
Ms. Zou Fuwen

The Company has received written annual confirmations from the four independent non-executive Directors of their independence according to Rule 3.13 under the Listing Rules and recognized their independence.

Changes in the Board members during the year were as followings:

- (a) Ms. Liu Huayan has resigned as the non-executive director on 11 July 2023; and
- (b) Ms. Cheng Junxia has resigned as the executive director, chairman of the Strategic and Investment Committee, a member of each of the Nomination Committee, the Remuneration and Evaluation Committee and the Environmental, Social and Governance Committee of the Company on 29 December 2023.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Composition and role *(Continued)*

The Board members have no financial, business, family or other material/relevant relationships with each other. The Company has appointed non-executive directors and independent non-executive directors. The Directors (including independent non-executive directors) may, upon reasonable request, seek independent professional advice to assist them in performing their duties at the Company's expense. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The Board reviews the implementation and effectiveness of the mechanisms annually and considers them to be implemented properly and effectively. The biographies of the Directors are set out on pages 25 to 28 of this annual report, with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Details of these committees are set out below in this report.

The Board classifies Directors into chairman, executive directors, non-executive directors and independent non-executive directors and this has been disclosed in all the Company's announcements, circulars and the websites of the Company and the Stock Exchange.

For the year ended 31 December 2023, the Company has complied with the Listing Rules that the independent non-executive directors appointed must representing at least one-third of the Board. In addition, the Company has ensured that at least one of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise as required by the Listing Rules. The participation of independent non-executive Directors can provide the Board with independent judgements, knowledge and experience to ensure the interests of all shareholders have been duly considered.

The Board is satisfied with the overall board effectiveness of the Company based on its own annual review over the board diversity, independence, succession and performance. The current board gender diversity has fulfilled the principle set out in Rule 13.92 of the Listing Rules.

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

Chairman and Managing Director

The Company has, since the early stage of its incorporation in 1998, segregated the duties of the Chairman of the Board and the Managing Director. The Chairman of the Board and the Managing Director are separately held by Mr. Jiang Guoxing and Mr. Shi Lei in order to preserve independence and have a balanced judgement of views. The Chairman of the Board has the responsibilities to lead the Board and make sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The Managing Director has the responsibilities to manage and execute the Group's business directions and operation decisions.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Board diversity policy

The board diversity policy aims to set out the Company's approach on the diversity of the Board. This policy applies to the Board. It does not apply to diversity in relation to the employees of the Company, nor the Board and the employees of any subsidiary of the Company.

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company believes that greater diversity of directors is good for corporate governance and is committed:

1. To attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talent.
2. To maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company's strategy and objectives.
3. To assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any.
4. To ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered.
5. To set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions.
6. To ensure that changes to the Board's composition can be managed without undue disruption.

The Nomination Committee reviews the structure, size and composition of the Board annually and where appropriate, makes recommendations on changes to the Board to complement the Company's corporate strategy. In reviewing and assessing the Board composition and the nomination of directors (as applicable), Board diversity has to be considered from a number of aspects, including but not limited to the following:

- Gender
- Age
- Cultural and educational background
- Ethnicity
- Professional qualifications
- Skills, knowledge and industry and regional experience
- Length of service

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Board diversity policy *(Continued)*

The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives and/or measurable objectives that are appropriate to the Company's business and Board succession planning, as applicable. The ultimate decision will be made based on the merits and contributions that the candidates can provide to the Company as well as taking into account the business model and specific needs of the Company from time to time.

The Company has adopted the following measures to develop a pipeline of potential successors to the Board:

- the Company keeps track of the tenure of Directors and the need for new or replacement directors to be appointed (as the case may be), and maintains a running list of candidates comprising internal and external candidates as may be identified from time to time
- principles and key criteria for evaluating candidates for directorship are set out in the Nomination Committee's terms of reference and the Company's Board Diversity Policy

The Nomination Committee will review this policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

As for our workforce gender diversity, the Group has a gender ration of 29.50% (female): 70.50% (male). The Board considers that this gender ratio is commensurate with the business model and business development needs. The Board has set a target to maintain this ratio with a 5% reasonable deviations for the coming 2 years. Currently, there are no particular challenging factors or circumstances that may prevent us from achieving the target.

Appointment, re-election and removal of Directors

All appointments of Directors have to be first considered by the Nomination Committee and proposed by the Nomination Committee to the Board according to the skills, knowledge and experience of the nominee for further approval. Term of appointment of all Directors of the Company is three years for one session.

Terms of Appointment of Directors

Executive Directors

Each of the three executive Directors has entered into a service contract with the Company for a term of three years which commenced on 3 June 2022 unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

Non-executive Directors

Each of the three non-executive directors has entered into service contracts with the Company for a term of three years which commenced on 3 June 2022 unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Terms of Appointment of Directors *(Continued)*

Independent Non-executive Directors

Ms. Zou Fuwen, who was appointed on 2 June 2022, has entered into a service contract with the Company for a term of three years which commenced on 2 June 2022 and the remaining three independent non-executive Directors have entered into service contract with the Company for a term of three years which commenced on 3 June 2022 unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

Board meetings

The Board held 4 full board meetings in each year and meets as and when required. During the year, the Directors received details of agenda and related documentary materials for decision and to make sure they had sufficient information in advance of each board meeting.

Board minutes are kept by the secretary of the Board and the company secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

The number of Board meetings and general meetings and attendance of Directors during the year ended 31 December 2023 are set out below:

Name	Number of Board Meetings Attended/ Should Attend	Number of General Meeting Attended/ Should Attend
<i>Executive Directors:</i>		
Jiang Guoxing	6/6	2/2
Shi Lei	6/6	2/2
Yu Jun	6/6	2/2
Cheng Junxia (resigned on 29 December 2023)	6/6	2/2
<i>Non-executive Directors:</i>		
Zhang Qianling	6/6	2/2
Wu Ping	6/6	2/2
Sun Zheng	6/6	2/2
Liu Huayan (resigned on 11 July 2023)	3/3	2/2
<i>Independent non-executive Directors:</i>		
Cao Zhongyong	6/6	2/2
Cai Minyong	6/6	2/2
Wang Pin	6/6	2/2
Zou Fuwen	6/6	2/2

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees

The Board strives to maintain excellent corporate governance and has established committees with written terms of reference setting out the powers and duties of the committees:

1. *Audit Committee*

An audit committee has been established with written terms of reference in compliance with Listing Rules and has been published on the websites of the Stock Exchange and the Company. The primary duties of the audit committee include, among others:

- to supervise and assess the external audit works, to propose the engagement, reappoint, remove or replacement of the external auditing firms;
- to supervise and assess the internal audit works, and to be responsible for the coordination between internal and external auditing;
- to review the financial information of the Company and its disclosures;
- to review and assessment the internal control system of the Company; and
- to handle other matters as required by laws, regulations, Articles and authorities granted by the Board.

The audit committee comprises three independent non-executive Directors, Mr. Wang Pin (Chairman of the committee), Mr. Cao Zhongyong and Mr. Cai Minyong. The audit committee members are well experienced with professional knowledge in management, accounting, finance, commercial and electronic industry sectors.

During the year ended 31 December 2023, the Audit Committee (1) reviewed the Group's annual, interim and quarterly reports and result announcements, the related accounting principles and practices adopted by the Group and provided advice and comments thereon; (2) made recommendations to the Board and the management in respect of the Group's financial reporting, risk management and internal control procedures; and (3) reviewed the Group's discloseable and connected transactions.

The Audit Committee held 6 meetings during the year under review. Among which, the committee also held 2 meetings with the auditor for the discussions on issues including audit planning, accounting policies adopted by the Group, internal control, risk management and preparation of financial statements.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees *(Continued)*

2. *Nomination Committee*

The Nomination Committee now comprises two independent non-executive Directors, Mr. Cai Minyong (Chairman of the committee) and Ms. Zou Fuwen and Mr. Wang Pin. The Nomination Committee was established with written terms of reference which has been published on the websites of the Stock Exchange and the Company. The main roles and functions of the Nomination Committee include periodical review on the structure, number of members and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, and to assess the independence of independent non-executive Directors and to make recommendation as to the changes of Directors. The Nomination Committee identifies suitable candidates who can add value to the management through their contributions in the relevant strategic business areas, and makes recommendation to the Board in respect of the appointment and reappointment of Directors which will result on the constitution of a strong and diverse Board. In carrying out its responsibilities, the Nomination Committee would give adequate consideration to the principles under Rules B.1 and B.2 of Appendix C1 of the Listing Rules.

Nomination policy

The nomination policy sets out the procedures and criteria for the nomination process, selection and recommendation of suitable candidates for the purpose of achieving diversity of members.

When considering and accessing suitable candidates, the Nomination Committee will consider the diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and understanding of the Group's business and achievements in the industry, and will also consider the adequacy of time commitment by candidate, the commitment to perform relevant duties and the assessment of the contribution to the Group. The Nomination Committee will review the nomination policy from time to time in response to changes in the business of the Group and specific needs to ensure that the relevant policies continue to be effective. The Nomination Committee is responsible for adopting the measurable objectives for achieving diversity on the Board and monitoring the achievement of measurable objectives and reporting the progress.

For the year ended 31 December 2023, the Nomination Committee held 2 meetings. These meetings reviewed the current structure, number of members, composition and diversity of the Board, and the effectiveness of the nomination policy, and assessed the independence of each independent non-executive Directors.

3. *Remuneration and Evaluation Committee*

The Remuneration and Evaluation Committee now comprises of independent non-executive Directors, Mr. Cai Minyong (Chairman of the committee) and Ms. Zou Fuwen and Mr. Wang Pin. The Remuneration and Evaluation Committee was established with written terms of reference which has been published on the websites of the Stock Exchange and the Company. The roles and functions of the Remuneration and Evaluation Committee included the determination of the remuneration packages of all executive Directors, including their benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board for the remuneration of non-executive Directors. The Remuneration and Evaluation Committee also considers factors such as salaries of comparable companies in the same industry, time commitment and responsibilities of the Directors, employment conditions within the Group and performance appraisal.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees *(Continued)*

3. *Remuneration and Evaluation Committee (Continued)*

During the year under review, 3 meetings of the Remuneration and Evaluation Committee were held. The Remuneration and Evaluation Committee has considered and reviewed the remuneration of the Directors for the year ended 31 December 2023 which considered to be fair and reasonable and has evaluated the performance of executive Directors and reviewed the implementation of the 2021 A Shares Restricted Share Incentive Scheme.

4. *Strategic and Investment Committee*

The Strategy and Investment Committee was established with duties to review, evaluate and approve or propose investment projects to the Board for approval; to supervise the implementation and to keep all investment projects within the limit approved; and to determine whether the proposed investment project is in the interests of the Company and the shareholders of the Company as a whole.

The Strategy and Investment Committee comprises of four members and three of which are executive directors of the Company and the remaining member is Mr. Cai Minyong, an independent non-executive Director. Mr. Jiang Guoxing is the Chairman of the committee. The Strategy and Investment Committee held 1 meeting during the year for the review of the investment report of the Group and the discussions of potential investment opportunities available to the Company.

5. *Environmental, Social and Governance Committee*

The Environmental, Social and Governance Committee was established with 3 members which includes executive Director, Mr. Jiang Guoxing (Chairman of the committee), and independent non-executive Directors, namely Mr. Cao Zhongyong and Mr. Cai Minyong. The main duties of the Environmental, Social and Governance Committee are responsible for the reporting to the Board matters relating to the Group's environmental, social and governance of the Group, and monitoring the formulation and implementation of vision, strategy, objective and policy of environmental, social and governance.

The Environmental, Social and Governance Committee held 1 meeting during the year.

Record of number of committee meetings and Directors' attendance during the year ended 31 December 2023 are set out below:

Name	Audit Committee	Nomination Committee	Remuneration and Evaluation Committee	Strategy and Investment Committee	Environmental, Social and Governance Committee
Jiang Guoxing	N/A	N/A	N/A	1/1	1/1
Shi Lei	N/A	N/A	N/A	1/1	N/A
Yu Jun	N/A	N/A	N/A	1/1	N/A
Cheng Junxia (resigned on 29 December 2023)	N/A	2/2	3/3	1/1	1/1
Cao Zhongyong	6/6	N/A	N/A	N/A	1/1
Cai Minyong	6/6	2/2	3/3	1/1	N/A
Wang Pin	6/6	N/A	N/A	N/A	N/A
Zou Fuwen	N/A	2/2	3/3	N/A	N/A

Note: With effect from 1 March 2024, Mr. Jiang Guoxing, an executive Director, has been appointed as the Chairman of the Strategy and Investment Committee of the Company; Mr. Wang Pin, an independent non-executive Director, has been appointed as the member of the Nomination Committee and Remuneration and Evaluation Committee of the Company; and Mr. Cai Minyong, an independent non-executive Director, has been appointed as the member of the Environmental, Social and Governance Committee of the Company.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees *(Continued)*

During the year, the Chairman of the Board and independent non-executive Directors held one meeting without presence of executive Directors, to discuss and review the performance of the executive Directors and management and the adequacy and effectiveness of risk management and internal control systems to safeguard the interests of the Group. Taking the opportunity of meeting, improvement suggestions on the development of strategies and policies of the Group were sought from the Directors who attended the meeting.

During the year, the independent non-executive Directors also held meeting with external auditor without the presence of executive Directors, to discuss audit fees, issues arising from the audit process and matters of concern, and any other matters raised by external auditor.

Directors' training

All Directors have participated in continuous professional development to develop and refresh their knowledge and skills in order to ensure their contributions to the Board remain informed and relevant. The Group has the responsibility for arranging and funding suitable training and placing an appropriate emphasis on the roles, functions and duties of director of a listed company. The Group also provides Directors with seminars regularly, to provide and update the Listing Rules as amended from time to time, the changes in company laws, the amendments to the accounting standards, and materials including corporate governance and references of non-compliance cases.

During the year ended 31 December 2023, all Directors have received relevant trainings and have provided their training records as follow:

Name	Training type
<i>Executive Directors:</i>	
Jiang Guoxing	A, B
Shi Lei	A, B
Yu Jun	A, B
Cheng Junxia (resigned on 29 December 2023)	A, B
<i>Non-executive Directors:</i>	
Zhang Qianling	A, B
Wu Ping	A, B
Sun Zheng	A, B
Liu Huayan (resigned on 11 July 2023)	A, B
<i>Independent non-executive Directors:</i>	
Cao Zhongyong	A, B
Cai Minyong	A, B
Wang Pin	A, B
Zou Fuwen	A, B

Notes:

- A. Attending conference/forum/seminar/workshop
- B. Reading relevant articles and information relating to the business, economy, directors' duties and corporate governance

Corporate Governance Report

COMPANY SECRETARY

Mr. Chong Hing Cheong, an external service provider, has been appointed as the company secretary of the Company. The primary contact person of Mr. Chong Hing Cheong at the Company is Ms. Fang Jing, the Chief Financial Officer and Secretary of the Board.

During the year, Mr. Chong Hing Cheong has undertaken no less than 15 hours of professional training to update his skills and knowledge.

AUDITOR'S REMUNERATION

The statement of the auditor of the Company about their reporting responsibilities on the Group's financial statements for the year ended 31 December 2023 is set out in the section headed "Auditors' Report" of this report. During the year under review, the Group has paid the following fees to the external auditor:

	2023 RMB'000	2022 RMB'000
Audit fee	2,870	2,830

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Company has established an internal control department. The Company and its subsidiaries have to conduct review on the internal control and risk management system at least once annually. The Board monitors the effectiveness of the Company's internal control and risk management system through internal audit procedures and risk management policies which include the function of finance, compliance control, operations and risk management. The reports and findings prepared by the internal audit team and the risk management team have to be circulated to the relevant committee delegated by the Board. The internal audit team and the risk management team may also submit their findings and the proposed audit plan to the Audit Committee for its approval if necessary.

A review of system of internal control and risk management has been undergone during the year and an internal control assessment report 2023 was prepared, details of which were set out in the Company's announcement date 25 March 2024 with headline of "Overseas Regulatory Announcement – 2023 Internal Control Assessment Report". Besides, the Company also engaged its external auditor, Ernst & Young Hua Ming LLP to carry out assurance reporting on the effectiveness of the internal control over the financial reporting and the relevant report was set out in the Company's announcement date 25 March 2024 with headline of "Overseas Regulatory Announcement – Assurance Report on the Company's Internal Control". The Directors considered that the Group has maintained sound and effective internal controls and risk management system.

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board will continue to assess the effectiveness of risk management and internal controls by considering reviews and recommendations made by the Audit Committee, senior management and internal control department.

The Company has developed its disclosure policy which provides a comprehensive guide to the Company's Directors, Supervisors, senior management, officers and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Corporate Governance Report

CONSTITUTIONAL DOCUMENTS

The Company has approved the adoption of the amended Articles of Association at the annual general meeting of the Company held on 2 June 2023 in order to reflect the changes of the Company Law of the People's Republic of China, Law of the People's Republic of China on Securities, Guidelines on the Articles of Association of Listed Companies, the Listing Rules and other relevant regulations; comply with the core shareholder protection standards for issuer as set out in Appendix A1 of the Listing Rules; and in conjunction with the actual situation such as the change in share capital after the implementation of the A Share Restricted Share Incentive Scheme of the Company. An up-to-date version of the amended Articles of Association is available on the Company's website and the Stock Exchange's website.

The Company proposed amendments to its Articles of Association at the forthcoming annual general meeting.

SHAREHOLDERS' RIGHT

The Board and management shall ensure Shareholders' rights and all Shareholders are treated equally and fairly. Pursuant to the articles of association of the Company, shareholder(s) individually or collectively holding 10% or more of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the Supervisory Committee of the Company, to require an extraordinary general meeting to be called by the Board or the Supervisory Committee for the transaction of any business specified in such requisition.

At general meetings of the Company, the Board, the Supervisory Committee, and shareholder(s) individually or jointly holding more than 3% of the Company's shares shall have the right to propose motions to the Company. The content of a proposal shall be under the terms of reference of the general meeting, have definite topics and specific issues for resolution, and shall comply with the provisions of the laws, regulations and the Articles of Association.

Shareholder(s) individually or jointly holding more than 3% of the Company's shares may submit a written provisional resolution to the convener 10 days before a general meeting is convened; the convener shall issue a supplementary notice of general meeting within two days after receipt of the said provisional resolution, to notify other shareholders and to submit the said provisional proposal to the general meeting for consideration.

To safeguard the shareholder interests and rights, a separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company, the Stock Exchange and the Shanghai Stock Exchange after each general meeting.

Detailed procedures for the shareholders to convene an extraordinary general meeting, putting forward proposals at a general meeting and proposing a person for election as a Director are also available in the Articles of Association of the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary by mail or emails:

Address For H Shareholders: Flat 6, 5/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong

Address For A Shareholders: No. 220, Handan Road, Shanghai, People's Republic of China

Email: ir@fmsh.com.cn

Corporate Governance Report

SHAREHOLDERS' RIGHT *(Continued)*

Shareholders may also make enquiries with the Board at the general meetings of the Company. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings. The Board and management are dedicated to meeting and communicating with shareholders at the annual general meeting of the Group.

SHAREHOLDERS' RELATIONS

The Company has been publishing all of its announcements including annual, interim reports and quarterly reports, and inside information in time in accordance with the Listing Rules in order to provide financial information of the Group to shareholders. In addition to the post of spokesman established to liaise with shareholders and institutional investors, the Company also provides the most updated information on its website to maintain a different communication channel with its shareholders. Besides, significant issues were put as separate proposed resolutions in the annual general meeting, at the same time, Chairman of the Board, the executive Directors, the non-executive Directors (including independent non-executive Directors) and the Company's external auditor have presented in the annual general meeting of the Company to communicate and answer to the questions raised by shareholders. The Shareholders' communication policy is regularly reviewed to ensure its effectiveness during the Reporting Period. The Company has evaluated the various channels of communication with shareholders and their implementation and believes that the Shareholders' communication policy remains appropriate and effective.

DIVIDEND POLICY

The Company adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

According to the Articles of Association of the Company and subject to the laws, regulations and supervisory requirements in force at the time, the Company shall distribute dividend by cash which not less than 10% of the distributable profits achieved in the year. The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend on a number of factors, including but not limited to:

- (i) the Group's actual and expected financial performance;
- (ii) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;
- (iii) retained earnings and distributable reserves of the Company and each of the members of the Group;
- (iv) the Group's liquidity position;
- (v) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- (vi) any other factors that the Board deems relevant.

The Board has complete discretion on whether to pay a dividend, subject to Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group. The Board may also consider the recommendation of declaring interim dividends from time to time.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

Report of the Directors

The Directors present their report and the audited financial statements of Shanghai Fudan Microelectronics Group Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group engaged in the design, development and testing of very large integrated circuits as well as provision of system solutions to customers. There were no significant changes in the nature of the Group’s principal activities during the year.

Further discussion and analysis of these activities, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group’s business, can be found in the Management Discussion and Analysis set out on pages 5 to 24 of this annual report. This discussion forms part of this report of the directors.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2023 and the Group’s assets and liabilities at that date are set out in the financial statements on pages 71 to 74 of this report.

On 22 March 2024, the Directors have considered and passed the “Resolution of the 2023 Distribution Plan”. It was proposed to use the total share capital registered on the equity registration date for the base of implementation of equity distribution, every 10 ordinary shares will be distributed with a cash dividend of RMB1.00 (tax included) with total cash dividend amounted to RMB81,906,040, representing 11.38% of the net profits attributable to the shareholders of the parent company for the year 2023. During the year, the Company paid a cash dividend of RMB1.35 (tax included) for every 10 ordinary shares to all shareholders regarding to the 2022 Distribution Plan with total cash dividend amounted to RMB110,248,627.50 (tax included) being distributed.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of annual general meeting (“AGM”), the Register of Members of H Shares of the Company will be closed from Wednesday, 22 May 2024 to Tuesday, 28 May 2024 (both days inclusive) and during which no transfer of H Shares will be effected.

For holders of H shares whose names appear on the Register of Members of the Company as at 28 May 2024 shall be entitled to attend the AGM. To be qualified to attend the AGM, all transfers of H Shares accompanied by the relevant share certificates must be lodged at the Company’s Share Registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 21 May 2024.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 180. This summary does not form part of the audited financial statements.

SHARE CAPITAL

A summary of movements in the Company’s share capital is set out in note V (33) to the financial statements.

Report of the Directors

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 (the "PRC") which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

ISSUANCE, PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 19 December 2023, the Company issued 2,403,900 new A Shares ordinary shares pursuant to the 2021 A Shares Restricted Share Incentive Scheme, with issue price of RMB17.8 per share and increment of share capital RMB240,390.00 with a premium of RMB42,549,030.00. The closing price of the A Shares on 23 September 2021, being the date on which the Board approved the Incentive Scheme and the terms of issue were fixed, was RMB38.80 per A Share. Total funds raised and the actual net proceeds is RMB42,789,420, the net price to of each share is RMB17.8. According to the proposed use of proceeds under the 2021 A Shares Restricted Share Incentive Scheme, the proceeds of which were used as daily working capital in 2023. At 31 December 2023, the Company's outstanding restricted shares under the 2021 A Shares Restricted Share Incentive Scheme were 4,914,100 (further details are set out in the circular dated 20 October 2021, and the Company's overseas regulatory announcements dated 5 November 2021, 6 December 2021, 28 October 2022, 7 December 2022, 15 December 2022, 19 December 2023 and 26 December 2023). According to the capital structure of the Company, if all the outstanding restricted shares are vested, 4,914,100 additional A Shares ordinary shares of the Company will be issued. Save as disclosed above and in note V, 33 of the notes to financial statements of this annual report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

DISTRIBUTABLE RESERVES

According to the relevant regulations of the PRC, the Company's reserves available for distribution at 31 December 2023 amounted to RMB3,200,007,316.38 (At 31 December 2022: RMB2,585,585,605.81).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 36.42% of the total revenue for the year and sales to the largest customer included therein amounted to 22.56%. Purchases from the Group's five largest suppliers accounted for 69.27% of the total purchases for the year and purchase from the largest supplier included therein amounted to 33.76%.

Except for Mr. Yu Jun, the executive director of the Company, holds approximately 1.19% equity interest of Shanghai Fudan Communication Co., Ltd. through his spouse and Shanghai Fudan Fukong Technology Enterprise Holdings Limited* (上海復旦復控科技產業控股有限公司), a substantial shareholder of the Company, holds approximately 33.84% equity interest of Shanghai Fudan Communication Co., Ltd., none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

KEY RISKS AND UNCERTAINTIES

Details of the Group's key risks and uncertain factors for the end of the reporting period are set out in the section headed "Management Discussion and Analysis" of this report.

Report of the Directors

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as of the end of the reporting period are set out in note V (22) and (30) to the financial statements.

DIRECTORS' AND SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out in the section headed "Directors and Supervisors and Senior Management Biographies" of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the directors have entered into a service contract with the Company for terms of three years, unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

No director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. The remuneration of all Directors and Supervisors is subject to regular monitoring by the Remuneration and Evaluation Committee to ensure that their salaries and compensation levels are appropriate. The Group determines the remuneration of the Directors and Supervisors with reference to the industry's remuneration standards and in line with the Group's business development, taking into account the qualifications, experience and contributions of the Directors and Supervisors to ensure that the level of remuneration is sufficient to attract and retain Directors and Supervisors without excessive payment of emoluments. Details of remuneration of the management are set out on note XVI (2) to the financial statements.

REMUNERATION PAYABLE TO SENIOR MANAGEMENT

For the year ending 31 December 2023, the remuneration payable to the 1 member of senior management fell within the range of HK\$1,000,001 to HK\$1,500,000, the remuneration payable to the 2 members of senior management fell within the range of HK\$1,500,001 to HK\$2,000,000, the remuneration payable to the 2 members of senior management fell within the range of HK\$2,000,001 to HK\$2,500,000.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, incurred by directors and officers to third parties.

DIRECTORS' AND SUPERVISOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director or superior nor a connected entity of a director or superior had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party during the year.

Report of the Directors

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF DIRECTORS AND SUPERVISORS AND CHIEF EXECUTIVES

At 31 December 2023, the interests or short positions of the directors and supervisors and chief executives of the Company in the share capital and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Companies contained in the Listing Rules, were as follows:

Long positions in A shares of the Company:

	Number of issued shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation			
Directors						
Mr. Jiang Guoxing	7,210,000	–	–	7,210,000	0.88	
Mr. Shi Lei	7,210,000	–	–	7,210,000	0.88	
Mr. Yu Jun	522,546	–	–	522,546	0.06	
	14,942,546	–	–	14,942,546		
Supervisor						
Ms. Zhang Yanfeng	–	–	220,500	220,500	0.03	

Save as disclosed above, as at 31 December 2023, none of the directors and supervisors and chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Companies contained in the Listing Rules.

Report of the Directors

RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF DIRECTORS AND SUPERVISORS

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 supervisor or their respective spouse 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 or supervisors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

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

At 31 December 2023, so far as any Directors are aware, the interests owned by the following parties in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Part XV of the SFO or were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

Long positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Fudan Fukong Technology Enterprise Holdings Limited ("Fudan Fukong")	(1)	Directly beneficially owned	109,620,000	A shares	20.50	13.38
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(1)	Interest of corporation controlled	109,620,000	A shares	20.50	13.38
Bailian Group Company Limited ("Bailian Group")	(1)	Interest of corporation controlled	109,620,000	A shares	20.50	13.38
Shanghai Fuxin Fangao IC Technology Co. Ltd. ("Fuxin Fangao")	(2)	Directly beneficially owned	106,730,000	A shares	19.96	13.03
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(2)	Interest of corporation controlled	106,730,000	A shares	19.96	13.03
Fudan University	(2)	Interest of corporation controlled	106,730,000	A shares	19.96	13.03
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	39,182,011	A shares	7.33	4.78
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	42,814,525	A shares	8.01	5.23
Zhang Yong	(3)	Interest of corporation controlled	42,814,525	A shares	8.01	5.23
Tenbagger Capital Management Co. Ltd.		Investment manager	19,912,000	H shares	7.00	2.43

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Long positions in shares of the Company: *(Continued)*

Notes:

- (1) 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.
- (2) Fuxin Fangao is a state-owned enterprise wholly owned by Fudan Asset and Fudan Asset is wholly owned by Fudan University.
- (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.

Save as disclosed above, as at 31 December 2023, no person, other than the directors and supervisors of the Company, whose interests are set out in the section headed "Interests and short positions in shares and underlying shares and debentures of directors and supervisors and chief executives" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be disclosed to the Company under Part XV of the SFO or to be recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Environmental, Social and Governance (the "ESG") Committee is the management and supervisor of the ESG system and responsible for the reporting to the Board matters relating to ESG issues of the Group, and monitoring the formulation and implementation of vision, strategy, objectively and policy of ESG. The Board has full responsibility of the Group's ESG strategy and reporting and responsible for evaluating and determining related risks of ESG, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Company prepared a separate ESG report for the year ended 31 December 2023 complying with the disclosure requirements under Appendix of the Listing Rules and will be published at the same time as the publication of this annual report on the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.fmsh.com.

2021 A SHARES RESTRICTED SHARE INCENTIVE SCHEME

The Company implemented the 2021 A Shares Restricted Share Incentive Scheme (the "Scheme") on 6 December 2021 (the "Grant Date") for the purpose of motivating and rewarding persons who contribute to the operations of the Group. Eligible persons include those persons, other than directors, chief executive and substantial shareholders of the Company, whom the Board of Directors considers to be in need of incentives. The Scheme is valid for a maximum period of 60 months from the date of grant of the A Shares restricted shares (the "Restricted Shares") to the date when all the Restricted Shares granted to the incentive recipients vest or lapse. As at 31 December 2023, the remaining life of the Scheme is 3 years.

Report of the Directors

2021 A SHARES RESTRICTED SHARE INCENTIVE SCHEME *(Continued)*

The total number of underlying shares involved in this Scheme during the entire validity period is 10,000,000 shares, which does not exceed 20.00% of shares of the Company in aggregate at the time of submitting this scheme to the shareholders' meeting, which represent 1.22% of the issued shares at the date of this annual report. The cumulative number of shares of the Company granted to any one incentive recipient and the maximum entitlement of each incentive recipient under this Scheme during the entire validity period does 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 incentive recipients 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. Grant price was adjusted to RMB17.8 per Share after distribution of cash dividend to shareholder in 2022 and 2023. The pricing method for the Restricted Shares grant price under the Scheme is self-pricing. 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. The Participants who have fulfilled the attribution conditions shall pay the funds for the subscription of the Restricted Shares into the account designated by the Company according to the Company's requirements. Participants who have not paid the funds within the period stipulated by the Company shall be deemed to have waived his/her right to subscribe for the Restricted Shares.

The Company did not grant any Restricted Shares during the year 2023 (2022: 1,066,000 shares), of which the Group recognized share option expenses of RMB124,693,682.06 in the year (2022: RMB149,507,188.22).

Report of the Directors

2021 A SHARES RESTRICTED SHARE INCENTIVE SCHEME (Continued)

Movements of restricted shares for the year

Name or category of participants	Grant date	Number of restricted shares				As at 31 December 2023 (Share)	Vesting period	Vesting price
		As at 1 January 2023 (Share)	Granted (Share)	Vested (Share)	Lapsed (Share)			
Employee (total 570 employee)	6/12/2021 and 28/10/2022	7,537,750	-	2,403,900	219,750	4,914,100	8/12/2024 to 7/12/2026	RMB17.8
Total		7,537,750	-	2,403,900	219,750	4,914,100		

On 19 December 2023, there were 2,403,900 Restricted Shares vested with vesting price RMB17.8 per share, the closing price of the A Shares immediately before the vesting date is RMB39.87. During the year, there were 219,750 Restricted Shares lapsed which the original vesting price is RMB17.8 per share.

At the beginning and the end of the year, the number of Restricted Shares that may be granted under the Scheme is zero. The number of shares that may be issued in respect of the Restricted Shares granted under the Scheme during the year divided by the weighted average number of shares of the relevant class in issue for the year is 0.91%.

The Scheme is valid for five years from the date of grant of the restricted shares. The granted Restricted Shares of the First Grant will be exercised in four batches of 25%, 25%, 25% and 25% of the exercise ratio from the date of grant, after a 12-month exercise restriction period, provided that the exercise conditions are met, and the incentive recipients can exercise the Restricted Shares during the exercise period in accordance with the exercise price determined in the Scheme. The granted Restricted Shares of the Reservation Grant will be exercised in three batches of 30%, 30% and 40% of the exercise ratio from the date of grant, after a 12-month exercise restriction period, provided that the exercise conditions are met, and the incentive recipients can exercise the restricted shares during the exercise period in accordance with the exercise price determined in the Scheme.

As at 31 December 2023, the Company had 4,914,100 Restricted Shares issued and outstanding under the Scheme, which represented approximately 0.6% of the Company's issued shares at that date. Based on the capital structure of the Company, if all the Restricted Shares issued and outstanding are exercised, 4,914,100 additional ordinary shares of the Company will be issued, increasing the share capital by RMB491,410 and the share premium by RMB86,979,570 of the Company (before deduction of issue expenses).

Report of the Directors

2021 A SHARES RESTRICTED SHARE INCENTIVE SCHEME (Continued)

Performance targets

The performance assessment requirements of the First Grant will be evaluated on an annual basis for the 4 financial years of 2021 to 2024 at the Group level, and the achievement of performance assessment target of the participants for each year. The performance assessment objectives of the First Grant according to the 2021 A Shares Restricted Share Incentive Scheme are set out below:

Performance assessment requirements at the Group level:

Tranche		Performance Assessment Target A, Company vesting factor 100%	Performance Assessment Target B, Company vesting factor 80%
Restricted Shares granted for the First Grant	First vesting	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 vesting	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 vesting	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 vesting	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.

Report of the Directors

2021 A SHARES RESTRICTED SHARE INCENTIVE SCHEME (Continued)

Performance targets (Continued)

The performance assessment requirements of the Reserved Grant will be evaluated on an annual basis for the 3 financial years of 2022 to 2024 at the Group level, and the achievement of performance assessment target of the participants for each year. The performance assessment objectives of the Reserve Grant according to the 2021 A Shares Restricted Share Incentive Scheme are set out below:

Performance assessment requirements at the Group level:

Tranche		Performance Assessment Target A, Company vesting factor 100%	Performance Assessment Target B, Company vesting factor 80%
Restricted Shares granted for the Reserved Grant	First vesting	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 vesting	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 vesting	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 Group; “sales profit margin” means audited revenue after deducting cost of sales of the Group.

Report of the Directors

2021 A SHARES RESTRICTED SHARE INCENTIVE SCHEME (Continued)

Performance targets (Continued)

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 two levels: "pass" and "fail". The corresponding vesting situations are as follows:

Assessment standards	Pass	Fail
Individual Vesting Coefficient	100%	0%

If the Group's performance reaches performance assessment target, the number of restricted shares can be vested attributable to the participant in the current year = the number of shares can be vested of the individual for the year × the company vesting factor × the individual vesting coefficient.

If the restricted shares that the belong to the participant for the current period cannot be vested or cannot be fully vested due to assessment reasons, the restricted shares shall become invalid and shall not be deferred to the next year.

USE OF PROCEEDS

- A. On 28 October 2022, the subsidiary of the Company, Sino IC, completed public offering and listing on the Beijing Stock Exchange. Sino IC offered to the public 40,000,000 RMB ordinary shares, with aggregate nominal value RMB40,000,000, for an issuance price of RMB13.50 per share. The total amount raised was RMB540,000,000 and the actual net proceeds after deducting issuing expenses (tax not inclusive) was RMB507,600,000 which the proceeds were invested in the IC testing industrialisation project and the construction of research and development center project in year 2022 and 2023.

As at 31 December 2023, all of the fund raised were fully utilized according to the intentions previously disclosed by the Company, the use of proceeds and balance of funds were:

	RMB
Net Proceeds received on 28/9/2022	507,600,000.00

Report of the Directors

USE OF PROCEEDS (Continued)

From 28/9/2022 to 31/12/2022

Proposed use of Proceeds	Original allocation of the Proceeds RMB	Replacement of Self-raised Funds invested in advance RMB	Used from 28/9/2022 to 31/12/2022 RMB	Received from 28/9/2022 to 31/12/2022 RMB	Unused Proceeds up to 31/12/2022 RMB
IC testing industrialisation project	420,845,283.02	–	(200,734,995.00)	–	220,110,288.02
Construction of research and development center project	86,754,716.98	(86,754,716.98)	–	–	–
Interest income net of charges	–	–	–	2,082,491.91	2,082,491.91
Total	507,600,000.00	(86,754,716.98)	(200,734,995.00)	2,082,491.91	222,192,779.93

From 1/1/2023 to 31/12/2023

Proposed use of Proceeds	Unused Proceeds as at 1/1/2023 RMB	Used from 1/1/2023 to 31/12/2023 RMB	Unused Proceeds up to 31/12/2023 RMB
IC testing industrialisation project	220,110,288.02	(220,110,288.02)	–
Interest income net of charges	2,082,491.91	(2,082,491.91)	–
Total	222,192,779.93	(222,192,779.93)	–

- B. On 19 December 2023, the Company issued 2,403,900 new A Shares pursuant to the 2021 A Shares Restricted Share Incentive Scheme. The issue price is RMB17.8 per share. The total amount raised and the actual net proceeds after deducting issuing expenses were RMB42,789,420. According to the proposed use of proceeds of the A Shares Restricted Share Incentive Scheme, the proceeds of which were used as daily working capital in 2023.

Report of the Directors

USE OF PROCEEDS *(Continued)*

C. For year 2021, the Company had its first initial public offering of A shares in the 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 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 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, which the proposal was approved by the second extraordinary general meeting in 2021.

II. On 15 August 2022, the Board has approved:

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 RMB160 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 27 August 2022 to 26 August 2023. Within the aforesaid limit and period of use, the amounts can be used on a rolling basis.

Report of the Directors

USE OF PROCEEDS (Continued)

III. On 17 January 2023, the Board has approved:

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, which the proposal was approved by the 2022 annual general meeting.

IV. Use of proceeds and balance of funds

As at 31 December 2023, all of the fund raised (except the surplus funds raised, income from cash management of fund raising and interest income) were fully utilized according to the intentions previously disclosed by the Company, the use of proceeds and balance of funds were:

							RMB
Net Proceeds received on 29/7/2021							680,282,781.80
From 29/7/2021 to 31/12/2021							
Proposed use of proceeds	Original allocation of the Proceeds RMB	Utilisation of the Surplus Funds		Replacement of Self-raised Funds invested in advance RMB	Used from 29/7/2021 to 31/12/2021 RMB	Received from 29/7/2021 to 31/12/2021 RMB	Unused Proceeds up to 31/12/2021 RMB
		Raised for Permanent Replenishment of Working Capital (approved by EGM on 5/11/2021) RMB					
SOPC Chips R&D and Industrialization Project Development and Technology Reserve Funds	300,000,000.00	-	(300,000,000.00)		-	-	-
Surplus Funds Raised	80,282,781.80	(24,000,000.00)			(24,245,561.98)	-	201,193,138.02
Permanent supplement of working capital	-	24,000,000.00			(24,000,000.00)	-	-
Income from cash management of fund raising	-	-			-	1,662,931.51	1,662,931.51
Interest income net of charges	-	-			-	1,474,565.70	1,474,565.70
Total	680,282,781.80	-	(374,561,300.00)		(48,245,561.98)	3,137,497.21	260,613,417.03

Report of the Directors

USE OF PROCEEDS (Continued)

IV. Use of proceeds and balance of funds (Continued)

From 1/1/2022 to 31/12/2022

Proposed use of proceeds	Unused Proceeds as at 1/1/2022 RMB	Used from 1/1/2022 to 31/12/2022 RMB	Received from 1/1/2022 to 31/12/2022 RMB	Unused Proceeds up to 31/12/2022 RMB
Development and Technology Reserve Funds	201,193,138.02	(105,503,449.60)	–	95,689,688.42
Surplus Funds Raised	56,282,781.80	–	–	56,282,781.80
Income from cash management of fund raising	1,662,931.51	–	4,889,007.84	6,551,939.35
Interest income net of charges	1,474,565.70	–	973,546.95	2,448,112.65
Total	260,613,417.03	(105,503,449.60)	5,862,554.79	160,972,522.22

From 1/1/2023 to 31/12/2023

Proposed use of Proceeds	Unused Proceeds as at 1/1/2023 RMB	Utilisation of the Surplus Funds Raised for Permanent Replenishment of Working Capital (approved by AGM on 2/6/2023)		Received from 1/1/2023 to 31/12/2023 RMB	Unused Proceeds up to 31/12/2023* RMB
		Unused Proceeds as at 1/1/2023 RMB	Used from 1/1/2023 to 31/12/2023 RMB		
Development and Technology Reserve Funds	95,689,688.42	–	(95,689,688.42)	–	–
Surplus Funds Raised	56,282,781.80	(24,000,000.00)	–	–	32,282,781.80
Permanent supplement of working capital	–	24,000,000.00	(24,000,000.00)	–	–
Income from cash management of fund raising	6,551,939.35	–	–	1,518,345.61	8,070,284.96
Interest income net of charges	2,448,112.65	–	(691,600.00)	567,247.01	2,323,759.66
Total	160,972,522.22	–	(120,381,288.42)	2,085,592.62	42,676,826.42

* The Company will keep the expected timetable to use the unutilized Surplus Funds Raised, income from cash management of fund raising and interest income balance before 31 December 2025 as supplement of work capital. The utilisation of Surplus Funds Raised is subject to the approval of the shareholders in general meeting.

CHARITABLE DONATIONS

The Group incurred expenses of approximately RMB443,809 for public welfare expenditure up to the end of the Reporting Period.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transactions

- (a) On 12 August 2003, the Company signed a service contract with Fudan University (“SFU”) which is the Company’s substantial shareholder. According to the contract, the Company needs to pay SFU technical equipment support fees based on a price mutually agreed upon by both parties. In 2023, the Group incurred technical equipment support fees of RMB69,856.42 (2022: Nil).
- (b) On 12 December 2022, the Company entered into a technology research and development agreement with SFU, with total contract amount of RMB1,000,000. According to the contract, the Company needs to pay SFU technical services fees based on a price mutually agreed upon by both parties. In 2023, the Group paid technical services fees of RMB388,349.52 (2022: RMB1,747,572.81).
- (c) On 12 December 2022, the Company entered into a technical service contract with Shanghai Fudan Communication Co., Ltd. (“Fudan Communication”), with total contract amount of RMB2,500,000. The substantial shareholder of the Company, Shanghai Fudan Fukong Technology Enterprise Holdings Limited (“Fudan Fukong”), holds approximately 33.84% of the issued share capital of Fudan Communication, which Fudan Communication is a controlled company of Fudan Fukong. Mr. Yu Jun, the executive director of the Company, holds approximately 1.19% equity interest of Fudan Communication through his spouse. In 2023, the Group incurred technical service fees amounted to RMB943,396.22 (2022: RMB1,179,245.28)
- (d) On 16 December 2022, 27 April 2023 and 22 November 2023, the Company entered into 3 technical service contract with SFU, with total contract amount of RMB160,000. SFU appointed the Group to provide technical services and testing services. In 2023, the Group recorded service income of RMB150,943.40 (2022: RMB74,528.31).
- (e) On 26 March 2021, the Company entered into a new products sales agreement with Fudan Communication to appoint Fudan Communication as the qualified agent to sell the reconfigurable devices and memory IC chips manufactured by the Company, with total contract amount of RMB1,050,000,000. The Company will set product sales guide prices of the products based on the principle of product costs and related expenses plus a certain profit. Fudan Communication shall purchase relevant products from the Company at the prices, policies and terms which are consistent with other agents and uniformly formulated by the Company. Meanwhile, Fudan Communication shall not sell the relevant products at a price higher than the prices of the product sales guide. Payment will be made before the delivery of the products to Fudan Communication’s designated location. No credit period will be provided. In 2023, the revenue of product sales by the Company to Fudan Communication amounted to RMB262,333,742.14 (2022: RMB236,196,208.03)

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young Hua Ming LLP, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming LLP have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Listing Rules 14A.56. Nothing has come to the auditor's attention that causes the auditor to believe that such continuing connected transactions:

- (a) have not been approved by the Board;
- (b) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
- (c) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) have exceeded the annual cap as set by the Company.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

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.

DIRECTORS' AND SUPERVISOR'S INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors or supervisors 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.

Report of the Directors

CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix C1 of the Listing Rules throughout the accounting period covered by this annual report.

A report on the principal corporate governance practices adopted by the Company is set out in the section headed “Corporate Governance Report” of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There was no significant events subsequent to 31 December 2023 which may materially affect the Group’s operating and financial performance as at the date of this report.

AUDITOR

Having considered and resolved to unify the preparation of financial statements of the Company under the China Accounting Standards for Business Enterprises in the 24th board meeting of the 8th session, the Board proposed to terminate the engagement of Ernst & Young as external auditor and replaced by Ernst & Young Hua Ming LLP as the auditor for 2021.

The consolidated financial statements for the year ended 31 December 2023 have been audited by Ernst & Young Hua Ming LLP which will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint Ernst & Young Hua Ming LLP and to authorise the directors to fix its remuneration will be proposed at the forthcoming annual general meeting

ON BEHALF OF THE BOARD

Jiang Guoxing

Chairman

Shanghai, the PRC

22 March 2024

Report of the Supervisory Committee

WORK REPORT OF THE SUPERVISORY COMMITTEE OF 2023

In 2023, the supervisory committee of Shanghai Fudan Microelectronics Group Company Limited (hereinafter referred to as the “Company”), in strict compliance with the requirements of the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the STAR Market of the Shanghai Stock Exchange (hereinafter referred to as the “Listing Rules of the STAR Market”), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”), the Articles of Association, the Rules of Procedures of the Supervisory Committee and other relevant laws and regulations, regulatory documents and the policies of the Company, earnestly performed the duties of the Supervisory Committee conferred by the shareholders, diligently carried out various work, and promoted the sustainable, healthy and stable development of the Company. The main work of the Supervisory Committee in 2023 is reported as follows:

I. MEETING OF THE SUPERVISORY COMMITTEE

Session No.	Date	Resolution
6th meeting of the ninth session of the Supervisory Committee	2023.01.17	Refer to notes
7th meeting of the ninth session of the Supervisory Committee	2023.03.21	
8th meeting of the ninth session of the Supervisory Committee	2023.04.28	
9th meeting of the ninth session of the Supervisory Committee	2023.08.28	
10th meeting of the ninth session of the Supervisory Committee	2023.10.30	
11th meeting of the ninth session of the Supervisory Committee	2023.12.19	

Notes:

The 6th meeting of the ninth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Considered and passed the resolution on the “Use of Part of the surplus funds raised to replenish working capital permanently”

The 7th meeting of the ninth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Related to the work report of the supervisory committee of 2022
2. Related to the final account report of 2022
3. Resolution related to the annual report of 2022 and its summary
4. Resolution related to the internal control evaluation report of 2022
5. Resolution related to the profit distribution plan of 2022
6. Resolution related to the special report on the deposit and use of funds raised in 2022
7. Resolution related to the re-appointment of overseas and domestic auditor of 2023
8. Resolution related to the remuneration of Directors and Supervisors of 2023
9. Resolution related to the purchase of liability insurance for Directors, Supervisors and Senior Management
10. Resolution related to the application for the consolidated credit facility for 2023
11. Resolution related to the provision for impairment of assets by the Company for the year 2022

Report of the Supervisory Committee

The 8th meeting of the ninth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Resolution related to the proposal in relation to the satisfaction of the conditions for the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors of the Company
2. Resolution related to the proposal on the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors of the Company
 - 2.01 Type of securities to be issued
 - 2.02 Size of the Issuance
 - 2.03 Par value and issue price
 - 2.04 Bonds term
 - 2.05 Bond rate
 - 2.06 Term and method of principal and interest payment
 - 2.07 Conversion period
 - 2.08 Determination and adjustment of the conversion price
 - 2.09 Terms of downward adjustment to conversion price
 - 2.10 Method for determining the number of A Shares for conversion
 - 2.11 Terms of redemption
 - 2.12 Terms of sale back
 - 2.13 Entitlement to dividend upon conversion
 - 2.14 Method of the Issuance and target subscribers
 - 2.15 Subscription arrangement for the existing A Shareholders
 - 2.16 Relevant matters of the bondholders' meeting
 - 2.17 Use of proceeds
 - 2.18 Management and deposit account for proceeds raised
 - 2.19 Guarantee
 - 2.20 Rating
 - 2.21 Validity period of the Issuance plan
3. Resolution related to the proposal in relation to the plan of the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors of the Company
4. Resolution related to the proposal in relation to the Demonstration and Analysis Report regarding the Plan for the Issuance of A Share Convertible Corporate Bonds to Non Specific Investors of the Company
5. Resolution related to the proposal in relation to the feasibility report on the use of proceeds raised from the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors of the Company

Report of the Supervisory Committee

6. Resolution related to the proposal in relation to the remedial measures and undertakings from related entities in relation to dilutive impact of immediate returns by the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors of the Company
7. Resolution related to the proposal in relation to the formulation of shareholder return program for next three years (years 2023-2025) of the Company
8. Resolution related to the proposal in relation to the formulation of Rules for Meetings of Holders of A Share Convertible Corporate Bond of the Company
9. Resolution related to the proposal in relation to the report on the use of proceeds previously raised by the Company
10. Resolution related to the proposal in relation to the Authorisations to the Board and its authorised persons by the Shareholders' General Meetings to deal with the matters relating to the Issuance of A Share Convertible Corporate Bonds to Non-Specific Investors at their absolute discretion
11. Resolution related to the First Quarterly Report 2023
12. Resolution related to the Company's 2020 Annual Audit Report

The 9th meeting of the ninth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Resolution related to 2023 interim report and summary
2. Resolution related to cash management using private funds
3. Resolution related to the use of temporarily idle proceeds for cash management
4. Resolution related to the report on the utilisation of the Company's previous proceeds
5. Special report on the deposit and actual use of proceeds for the half year of 2023
6. Resolution related to the application for new consolidated credit facility for 2023

The 10th meeting of the ninth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Resolution related to 2023 third quarterly report

The 11th meeting of the ninth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Resolution related to the compliance with vesting conditions for the second vesting period of the first grant portion of the Company's 2021 Restricted Share Incentive Scheme
2. Resolution related to the compliance with vesting conditions for the first vesting period of the reserved grant portion of the Company's 2021 Restricted Share Incentive Scheme
3. Resolution related to the cancellation of part of the granted and unvested restricted shares
4. Resolution related to adjust the grant price of the 2021 Restricted Share Incentive Scheme

Report of the Supervisory Committee

II. DAILY WORK OF THE SUPERVISORY COMMITTEE

During the Reporting Period, in strict accordance with the requirements of the Company Law, the Securities Law, the listing rules of Shanghai Stock Exchange and Hong Kong Stock Exchange, the Articles of Association, and the rules of procedure of the Supervisory Committee and relevant laws and regulations, and based on the principle of good faith, the Supervisory Committee has earnestly its supervisory duties from the perspective of safeguarding the interests of the Company and the rights and interests of all shareholders.

(I) The Company's operation in accordance with the law

During the Reporting Period, the Supervisors of the Company attended the Company's general meetings and Board meetings and supervised the convening, holding and voting procedures and resolution matters of the general meetings and Board meetings, the implementation of the resolutions of the general meetings by the Board and the performance of the Company's Directors and senior management.

The Supervisory Committee is of the opinion that: the Company is able to operate in accordance with the law, the operation of the Board is standardized and the business decisions are scientific and reasonable, and the resolutions of the general meetings are conscientiously implemented; the Directors and senior management of the Company are conscientiously performing their duties, and there is no abuse of authority, damage to the interests of the Company or infringement of the rights and interests of the Shareholders and the Company's employees.

(II) Inspection of the Company's financial situation

During the Reporting Period, the Supervisory Committee conducted an inspection of the Company's financial system and financial position, and considered the Company's periodic reports seriously.

The Supervisory Committee is of the opinion that: the Company had sound financial system, standardized financial management, good financial condition, and no illegal occupation of Company assets and capital loss. The Company's financial report truly, accurately and completely reflected the Company's financial situation, operating results and cash flow. No breach of confidentiality was found by those involved in the preparation and consideration of periodic reports.

(III) Related (connected) Transactions of the Company

During the Reporting Period, the Supervisory Committee supervised the related (connected) transactions of the Company.

The Supervisory Committee is of the opinion that: during the Reporting Period, the review procedures for the related (connected) transactions of the Company are in compliance with the relevant laws, regulations, normative documents and the Articles of Association. The terms of the transactions are fair and reasonable, and are in the interests of the Company and its shareholders as a whole, and no related (connected) transactions have been found to harm the interests of the Company.

Report of the Supervisory Committee

(IV) Use of share proceeds

During the Reporting Period, the Supervisory Committee supervised and audited the use of proceeds by the Company.

The Supervisory Committee is of the opinion that: the Company has disclosed the deposit, use and management of the raising proceeds of the Company in a timely, true, accurate and complete manner in accordance with the relevant laws and regulations such as the Supervisory Guidelines for Listed Companies No. 2 – Supervisory Requirements on the Management and Use of Proceeds Raised by Listed Companies (《上市公司監管指引第2號—上市公司募集資金管理和使用的監管要求》). There is no violation of the management of raising proceeds. The exchange of and replenishment of working capital by raising proceeds, and cash management have fulfilled the necessary review procedures and information disclosure obligations in accordance with the requirements of relevant laws and regulations. The use of raising proceeds by the Company is consistent with what has been disclosed, and there is no violation of regulations.

(V) Implementation of Internal Control

During the Reporting Period, the Supervisory Committee supervised the implementation of the internal control of the Company.

The Supervisory Committee is of the opinion that: according to the Basic Standards of Corporate Internal Control and its ancillary guidelines and other internal control supervision requirements, together with the Company's internal control system and evaluation methods, and based on the daily supervision and special supervision of internal control, the evaluation on the effectiveness of the Company's internal control during the Reporting Period is true, accurate and complete, and there are no false records, misleading statements or major omissions. The Company has maintained effective internal control in all major aspects in accordance with the requirements of the enterprise internal control standard system and related regulations.

III. 2024 ANNUAL WORK PLAN OF THE SUPERVISORY COMMITTEE

In 2024, the Supervisory Committee will continue to strictly implement the “Company Law”, “Securities Law”, the listing rules of Shanghai and Hong Kong and the “Articles of Association” and other relevant regulations with the sense of responsibility for all shareholders, faithfully and diligently performs the functions of the Supervisory Committee, strengthens its own knowledge and supervision, promotes the perfection of corporate governance structure and the standardized operation of operation and management, maintains the legitimate rights and interests of the Company and shareholders, and enhance the governance standards of the Company for effective functioning.



Ernst & Young HM (2024) Shen Zi No. 70011746_B01
Shanghai Fudan Microelectronics Group Co., Ltd.

To all Shareholders of Shanghai Fudan Microelectronics Group Co., Ltd.

(I) OPINION

We have audited the accompanying financial statements of Shanghai Fudan Microelectronics Group Co., Ltd. which comprise the consolidated and company balance sheets as at 31 December 2023, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity, the consolidated and company statements of cash flows for the year then ended and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial positions of Shanghai Fudan Microelectronics Group Co., Ltd. as at 31 December 2023, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

(II) BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with *China Code of Ethics for Certified Public Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(III) KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



(III) KEY AUDIT MATTERS *(continued)*

Key audit matter

How our audit addressed the key audit matter

Capitalisation of development costs

As of 31 December 2023, the carrying amounts of development costs in the consolidated and company financial statements of Shanghai Fudan Microelectronics Group Co., Ltd. and its subsidiaries (the "Group") were RMB456,108,580.08 and RMB456,108,580.08, respectively. Expenditure incurred in developing new products is capitalised and deferred upon meeting the criteria as described in Accounting Standards for Business Enterprises No. 6 – Intangible Assets. The balances and transactions of deferred development costs were material to the financial statements and management exercised judgement and made estimation in determining the eligibility of the costs for capitalisation, the useful commercial lives and impairment, if any, of the capitalised development costs. Therefore, auditing the Group's capitalisation of development costs involved complex auditor judgement and estimation.

For the disclosure of the development costs capitalised, please refer to Notes III, 15 and 27 Material accounting policies and significant estimates, Notes V, 17 Notes to key items of the consolidated financial statements and Note VI, Development costs.

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Group's accounting for capitalisation of development costs.

The audit procedures we performed include:

- Performing tests on the criteria for initial recognition;
- Assessing the timeliness of the commencement of amortisation when the asset was available for use;
- Reviewing the assumptions and methodologies used by management in estimating the useful economic lives and performing impairment assessment on the deferred development costs by focusing on the estimates surrounding future economic cash flows; and
- Comparing estimated useful economic lives and cash flows with actual results from previous years.



(III) KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for write-down of inventories to net realisable value ("NRV")</i></p> <p>As at 31 December 2023, the carrying amounts of inventories in the consolidated and company financial statements of the Group were RMB3,177,370,636.58 and RMB3,199,864,157.44, respectively. Thereinto, the balance of provision for write-down of inventories to NRV were RMB286,674,627.06 and RMB286,233,743.55, respectively. The Group periodically assesses the net realizable value of its inventories and makes provisions for inventory based on the difference between the cost of the inventory and the net realizable value. When estimating the net realizable value of inventories, management considers the purpose for which the inventories are held, as well as the age of the inventories, their storage status, historical consumption data and future use or sales as the basis for estimation.</p> <p>The balance of inventories was material to the financial statements and management exercised estimation in determining the write-down of inventories to net realisable value. Therefore, auditing the Group's provision for impairment of inventories involved complex auditor judgement and estimation.</p> <p>For the disclosure of provision for impairment of inventories, please refer to Notes III, 9 and 27 Material accounting policies and significant estimates, and Notes V, 8 and 48 Notes to key items of the consolidated financial statements.</p>	<p>We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Group's accounting for provision for impairment of inventories.</p> <p>The audit procedures we performed include:</p> <ul style="list-style-type: none"> Assessing the process, methods and assumptions used to determine the provision for inventories by checking management's calculations against those used in the prior year and assessing whether there was any indication of management bias; Combining with inventory monitoring procedure, testing the underlying data used by management to calculate the provision for obsolete inventories, typically the inventory aging analysis, by re-performing the ageing calculation on a sample basis; Comparing the historical and subsequent sales and usage information of inventories; and Testing the estimated selling prices and estimated costs to be incurred to completion and re-calculating the provision for inventories on a sample basis.



(IV) OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The management of the Company is responsible for the other information. The other information comprises all of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

(V) RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

(VI) AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



(VI) AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation (including the disclosures), structure and contents of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



(VI) AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP

Chinese Certified Public Accountant: **Meng Dong**

(Engagement partner)

Chinese Certified Public Accountant: **Wang Li Xin**

Beijing, the People's Republic of China

22 March 2024

Consolidated Balance Sheet

31 December 2023
Expressed in Renminbi Yuan

ASSETS	Note V	31 December 2023	31 December 2022
Current assets			
Cash at bank and on hand	1	1,003,337,496.96	1,190,828,339.52
Financial assets held for trading	2	30,213,750.00	80,167,958.90
Notes receivable	3	390,946,203.95	252,144,057.13
Accounts receivable	4	929,619,309.54	730,204,276.92
Receivable financing	5	156,656,371.19	81,708,392.03
Prepayments	6	110,682,041.34	474,702,228.34
Other receivables	7	23,871,720.59	20,352,381.01
Inventories	8	3,177,370,636.58	1,483,264,548.04
Other current assets	9	114,586,140.71	13,728,762.53
Total current assets		5,937,283,670.86	4,327,100,944.42
Non-current assets			
Long-term equity investments	10	42,519,687.82	42,508,902.76
Other equity investments	11	35,465,034.27	33,902,315.43
Investment properties	12	–	122,687,909.50
Fixed assets	13	1,115,454,318.00	694,446,705.71
Construction in progress	14	480,656,568.13	193,776,441.01
Right-of-use assets	15	33,859,418.43	41,886,980.15
Intangible assets	16	143,276,878.80	85,750,633.28
Development costs	17	456,108,580.08	316,521,697.31
Long-term prepaid expenses	18	64,086,240.91	66,244,507.84
Deferred tax assets	19	4,129,192.02	3,243,844.60
Other non-current assets	20	98,511,297.07	182,817,172.08
Total non-current assets		2,474,067,215.53	1,783,787,109.67
Total assets		8,411,350,886.39	6,110,888,054.09

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Balance Sheet

31 December 2023

Expressed in Renminbi Yuan

LIABILITIES AND EQUITY	Note V	31 December 2023	31 December 2022
Current liabilities			
Short-term borrowings	22	893,860,090.54	54,000,000.00
Accounts payable	23	235,756,887.78	201,182,480.44
Contract liabilities	24	57,567,549.49	210,402,283.73
Employee benefits payable	25	251,118,256.79	192,340,093.25
Taxes payable	26	13,936,835.09	10,735,058.29
Other payables	27	182,230,721.48	72,335,632.38
Current portion of non-current liabilities	28	72,340,225.85	15,181,384.65
Other current liabilities	29	172,510,566.20	147,699,399.83
Total current liabilities		1,879,321,133.22	903,876,332.57
Non-current liabilities			
Long-term borrowings	30	530,063,719.49	–
Lease liabilities	31	21,710,718.02	33,162,705.60
Deferred income	32	14,682,715.04	16,548,141.05
Deferred tax liabilities	19	3,870,791.48	4,131,496.92
Total non-current liabilities		570,327,944.03	53,842,343.57
Total liabilities		2,449,649,077.25	957,718,676.14
Shareholders' equity			
Share capital	33	81,906,040.00	81,665,650.00
Capital surplus	34	1,782,726,457.49	1,622,905,978.93
Other comprehensive income	35	16,123,727.63	13,684,518.28
Surplus reserves	36	40,953,020.00	40,832,825.00
Undistributed profits	37	3,381,266,932.48	2,772,141,379.40
Total equity attributable to owners of the parent		5,302,976,177.60	4,531,230,351.61
Minority interests		658,725,631.54	621,939,026.34
Total shareholders' equity		5,961,701,809.14	5,153,169,377.95
Total liabilities and shareholders' equity		8,411,350,886.39	6,110,888,054.09

The financial statements have been signed by the following persons:

Legal representative:

Principal in charge of accounting:

Head of accounting department:

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Income Statement

Year ended 31 December 2023

Expressed in Renminbi Yuan

	Note V	2023	2022
Revenue	38	3,536,259,423.60	3,538,908,884.94
Less: Cost of sales	38	1,371,667,976.42	1,250,271,225.31
Taxes and surcharges	39	8,272,565.61	24,560,276.91
Selling expenses	40	251,742,037.01	222,818,922.72
Administrative expenses	41	157,935,778.03	138,935,477.14
Research and development expenses	42	1,010,597,572.06	735,419,692.61
Finance expenses	43	15,701,504.77	(7,753,839.50)
Including: Interest expenses	43	27,985,971.22	4,354,699.62
Interest income	43	15,544,504.78	14,813,114.77
Add: Other income	44	173,899,040.96	106,915,037.93
Investment income loss	45	4,488,302.27	(1,674,356.94)
Including: Income from investments in associates and joint ventures	45	(239,042.91)	(8,129,075.27)
Fair value gains	46	(1,398,871.91)	1,866,476.71
Credit impairment losses	47	(13,630,536.85)	1,109,908.97
Impairment losses of assets	48	(133,519,476.99)	(162,804,292.45)
Gains on disposal of non-current assets	49	1,236,606.63	1,329,678.22
Operating profit		751,417,053.81	1,121,399,582.19
Add: Non-operating income	50	433,800.91	111,404.79
Less: Non-operating expenses	51	–	300.00
Profit before income taxes		751,850,854.72	1,121,510,686.98
Less: Income tax expenses	52	2,992,107.44	4,245,922.69
Net profit		748,858,747.28	1,117,264,764.29
Classified by continuity of operations			
Net profit from continuing operations		748,858,747.28	1,117,264,764.29
Classified by ownership of the equity			
Net profit attributable to owners of the parent		719,494,375.58	1,076,843,340.68
Gains or losses of minority interests		29,364,371.70	40,421,423.61

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Income Statement

Year ended 31 December 2023

Expressed in Renminbi Yuan

	Note V	2023	2022
Other comprehensive income, net of tax	35	2,439,209.35	3,175,435.58
Other comprehensive income, net of tax, attributable to shareholders of the parent company		2,439,209.35	3,175,435.58
Other comprehensive income that may not be reclassified to profit or loss			
Changes in fair value of other equity investments		1,116,462.83	777,913.54
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign currency financial statements		1,322,746.52	2,397,522.04
Other comprehensive income, net of tax, attributable to minority interests	35	–	–
Total comprehensive income		751,297,956.63	1,120,440,199.87
Including:			
Attributable to owners of the parent		721,933,584.93	1,080,018,776.26
Attributable to minority interests		29,364,371.70	40,421,423.61
Earnings per share	53		
Basic earnings per share	53	0.88	1.32
Diluted earnings per share	53	0.87	1.31

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

Expressed in Renminbi Yuan

2023

	Attributable to owners of the parent							Total shareholders' equity
	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Sub-total	Minority interests	
I. Balance at beginning of year	81,665,650.00	1,622,905,978.93	13,684,518.28	40,832,825.00	2,772,141,379.40	4,531,230,351.61	621,939,026.34	5,153,169,377.95
II. Changes for the year								
1. Total comprehensive income	-	-	2,439,209.35	-	719,494,375.58	721,933,584.93	29,364,371.70	751,297,956.63
2. Capital contribution and withdrawal by shareholders								
(1) Issuance of A-share ordinary shares	240,390.00	42,549,030.00	-	-	-	42,789,420.00	-	42,789,420.00
(2) Amount of share-based payment included in owners' equity	-	117,271,448.56	-	-	-	117,271,448.56	7,422,233.50	124,693,682.06
3. Profit distribution								
(1) Appropriation to surplus reserve	-	-	-	120,195.00	(120,195.00)	-	-	-
(2) Distribution to owners	-	-	-	-	(110,248,627.50)	(110,248,627.50)	-	(110,248,627.50)
III. Balance at end of year	81,906,040.00	1,782,726,457.49	16,123,727.63	40,953,020.00	3,381,266,932.48	5,302,976,177.60	658,725,631.54	5,961,701,809.14

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

Expressed in Renminbi Yuan

2022

	Attributable to owners of the parent						Minority interests	Total shareholders' equity
	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Sub-total		
I. Balance at beginning of year	81,450,200.00	1,259,212,929.93	10,509,082.70	40,725,100.00	1,748,348,393.72	3,140,245,706.35	226,656,840.15	3,366,902,546.50
II. Changes for the year								
1. Total comprehensive income	-	-	3,175,435.58	-	1,076,843,340.68	1,080,018,776.26	40,421,423.61	1,120,440,199.87
2. Capital contribution and withdrawal by shareholders								
(1) Issuance of A-share ordinary shares	215,450.00	38,425,507.50	-	-	-	38,640,957.50	530,418,583.02	569,059,540.52
(2) Amount of share-based payment included in owners' equity	-	149,709,721.06	-	-	-	149,709,721.06	-	149,709,721.06
3. Profit distribution								
(1) Appropriation to surplus reserve	-	-	-	107,725.00	(107,725.00)	-	-	-
(2) Distribution to owners	-	-	-	-	(52,942,630.00)	(52,942,630.00)	-	(52,942,630.00)
4. Transfer within equity								
(1) Others	-	175,557,820.44	-	-	-	175,557,820.44	(175,557,820.44)	-
III. Balance at end of year	81,665,650.00	1,622,905,978.93	13,684,518.28	40,832,825.00	2,772,141,379.40	4,531,230,351.61	621,939,026.34	5,153,169,377.95

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

Expressed in Renminbi Yuan

	Note V	2023	2022
1. Cash flows from operating activities			
Cash receipts from the sale of goods and the rendering of services		3,369,318,345.69	3,829,273,378.78
Receipts of taxes and surcharges refunds		17,735,836.78	58,069,775.06
Other cash receipts relating to operating activities	54	194,802,805.87	66,264,412.08
Total cash inflows from operating activities		3,581,856,988.34	3,953,607,565.92
Cash payments for goods and services		3,146,905,891.31	2,407,204,691.13
Cash payments to and on behalf of employees		842,789,139.22	826,549,990.41
Payments of all types of taxes and surcharges		78,376,142.66	186,077,346.55
Other cash payments relating to operating activities	54	221,952,428.67	212,490,067.42
Total cash outflows from operating activities		4,290,023,601.86	3,632,322,095.51
Net cash flows from operating activities	55	(708,166,613.52)	321,285,470.41
2. Cash flows from investing activities			
Cash receipts from disposal of investments	54	787,000,000.00	1,146,259,800.00
Cash receipts from return on investments		3,282,682.17	6,454,718.33
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		2,367,301.35	2,528,091.94
Cash receipts relating to other investing activities	54	3,686,505.28	7,769,636.95
Total cash inflows from investing activities		796,336,488.80	1,163,012,247.22
Cash payments to acquire fixed assets, intangible assets and other long-term assets	54	850,933,264.22	782,526,753.65
Cash payments for investments	54	677,000,000.00	513,000,000.00
Total cash outflows from investing activities		1,527,933,264.22	1,295,526,753.65
Net cash flows from investing activities		(731,596,775.42)	(132,514,506.43)

The accompanying notes to financial statements form an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

Expressed in Renminbi Yuan

	Note V	2023	2022
3. Cash flows from financing activities			
Cash proceeds from investments by others		42,789,420.00	575,814,257.50
Including: Cash receipts from capital contributions from non-controlling interests of subsidiaries		–	530,418,583.02
Cash receipts from borrowings		1,679,287,589.77	78,569,230.20
Total cash inflows from financing activities		1,722,077,009.77	654,383,487.70
Cash repayments of borrowings		253,268,238.91	73,669,230.20
Cash payments for distribution of dividends or profit and interest expenses		136,932,887.08	55,133,885.75
Other cash payments relating to financing activities	54	21,605,178.34	20,993,509.81
Total cash outflows from financing activities		411,806,304.33	149,796,625.76
Net cash flows from financing activities		1,310,270,705.44	504,586,861.94
4. Effect of foreign exchange rate changes on cash and cash equivalents		2,130,734.78	11,173,813.21
5. Net increase in cash and cash equivalents	55	(127,361,948.72)	704,531,639.13
Add: Cash and cash equivalents at beginning of year	55	1,120,286,945.68	415,755,306.55
6. Cash and cash equivalents at end of year	55	992,924,996.96	1,120,286,945.68

The accompanying notes to financial statements form an integral part of these financial statements.

Company Balance Sheet

31 December 2023
Expressed in Renminbi Yuan

ASSETS	Note XVII	31 December 2023	31 December 2022
Current assets			
Cash at bank and on hand		717,310,460.37	680,733,206.51
Financial assets held for trading		30,213,750.00	80,167,958.90
Notes receivable		382,505,361.75	236,424,721.49
Accounts receivable	1	915,611,576.16	690,793,776.30
Receivables financing		122,477,874.90	73,301,943.39
Prepayments		109,889,821.02	473,146,424.02
Other receivables	2	7,796,801.03	4,839,855.49
Inventories		3,199,864,157.44	1,480,135,764.37
Other current assets		65,445,534.03	759,429.46
Total current assets		5,551,115,336.70	3,720,303,079.93
Non-current assets			
Long-term equity investments	3	132,759,364.48	132,677,564.53
Other equity investments		24,919,218.92	27,526,636.02
Investment properties		–	122,687,909.50
Fixed assets		701,363,748.06	511,061,173.99
Construction in progress		44,512,201.05	30,792,034.96
Right-of-use assets		14,603,824.06	14,293,613.60
Intangible assets		145,685,657.34	85,445,571.92
Development costs		456,108,580.08	319,784,468.41
Long-term prepaid expenses		42,074,476.14	46,899,190.10
Other non-current assets		89,934,412.54	803,874.28
Total non-current assets		1,651,961,482.67	1,291,972,037.31
Total assets		7,203,076,819.37	5,012,275,117.24

The accompanying notes to financial statements form an integral part of these financial statements.

Company Balance Sheet

31 December 2023

Expressed in Renminbi Yuan

LIABILITIES AND EQUITY	Note XVII	31 December 2023	31 December 2022
Current liabilities			
Short-term borrowings		893,860,090.54	54,000,000.00
Accounts payable		266,940,953.56	218,480,732.01
Contract liabilities		54,999,960.89	208,945,883.83
Employee benefits payable		237,982,894.09	178,831,572.88
Taxes payable		13,069,716.06	10,593,506.93
Other payables		57,067,183.98	35,884,287.10
Current portion of non-current liabilities		62,287,031.73	5,424,494.65
Other current liabilities		144,602,332.93	117,787,219.89
Total current liabilities		1,730,810,163.78	829,947,697.29
Non-current liabilities			
Long-term borrowings		530,063,719.49	–
Lease liabilities		8,299,474.53	10,056,349.03
Deferred income		3,905,302.43	8,725,902.31
Deferred tax liabilities		3,868,253.69	4,128,995.40
Total non-current liabilities		546,136,750.14	22,911,246.74
Total liabilities		2,276,946,913.92	852,858,944.03
Owners' equity			
Share capital		81,906,040.00	81,665,650.00
Capital reserves		1,590,711,665.24	1,436,433,553.18
Other comprehensive income		12,551,863.83	14,898,539.22
Surplus reserves		40,953,020.00	40,832,825.00
Undistributed profits		3,200,007,316.38	2,585,585,605.81
Total equity		4,926,129,905.45	4,159,416,173.21
Total liabilities and equity		7,203,076,819.37	5,012,275,117.24

The accompanying notes to financial statements form an integral part of these financial statements.

Company Income Statement

Year ended 31 December 2023

Expressed in Renminbi Yuan

	Note XVII	2023	2022
Revenue	4	3,322,252,619.43	3,312,532,626.72
Less: Cost of sales	4	1,303,393,697.60	1,160,870,397.60
Taxes and surcharges		7,745,972.41	24,356,976.82
Selling expenses		240,928,342.57	215,811,608.03
Administrative expenses		96,603,846.03	88,894,684.75
Research and development expenses	5	943,805,650.68	695,468,621.72
Finance expenses		19,171,126.04	(4,468,687.83)
Including: Interest expenses		26,645,019.72	2,183,783.43
Interest income		11,029,632.05	9,921,008.59
Add: Other income		145,594,996.98	88,897,247.30
Investment income	6	3,113,827.75	(1,937,356.62)
Including: Income from investments in associates and joint ventures		81,799.95	(7,994,756.46)
Fair value gains		(1,398,871.91)	1,866,476.71
Credit impairment losses		(13,796,514.33)	1,373,570.76
Impairment losses of assets		(131,497,759.52)	(137,871,117.99)
Gains on disposal of non-current assets		12,170,870.00	19,106,759.40
Operating profit		724,790,533.07	1,103,034,605.19
Profit before income taxes		724,790,533.07	1,103,034,605.19
Less: Income tax expenses		–	–
Net profit		724,790,533.07	1,103,034,605.19
Other comprehensive income, net of tax		(2,346,675.39)	777,913.54
Other comprehensive income that will not be reclassified to profit or loss			
Other equity investments changes in fair value		(2,346,675.39)	777,913.54
Total comprehensive income		722,443,857.68	1,103,812,518.73

The accompanying notes to financial statements form an integral part of these financial statements.

Company Statement of Changes in Equity

Year ended 31 December 2023
Expressed in Renminbi Yuan

2023

	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Total shareholders' equity
I. Balance at beginning of year	81,665,650.00	1,436,433,553.18	14,898,539.22	40,832,825.00	2,585,585,605.81	4,159,416,173.21
II. Changes for the year						
1. Total comprehensive income	-	-	(2,346,675.39)	-	724,790,533.07	722,443,857.68
2. Capital contribution and withdrawal by shareholders						
(1) Issuance of A-share ordinary shares	240,390.00	42,549,030.00	-	-	-	42,789,420.00
(2) Amount of share-based payment included in owners' equity	-	111,729,082.06	-	-	-	111,729,082.06
3. Profit distribution						
(1) Appropriation to surplus reserves	-	-	-	120,195.00	(120,195.00)	-
(2) Distribution to owners	-	-	-	-	(110,248,627.50)	(110,248,627.50)
III. Balance at end of year	81,906,040.00	1,590,711,665.24	12,551,863.83	40,953,020.00	3,200,007,316.38	4,926,129,905.45

The accompanying notes to financial statements form an integral part of these financial statements

2022

	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Total shareholders' equity
I. Balance at beginning of year	81,450,200.00	1,248,298,324.62	14,120,625.68	40,725,100.00	1,535,601,355.62	2,920,195,605.92
II. Changes for the year						
1. Total comprehensive income	-	-	777,913.54	-	1,103,034,605.19	1,103,812,518.73
2. Capital contribution and withdrawal by shareholders						
(1) Issuance of A-share ordinary shares	215,450.00	38,425,507.50	-	-	-	38,640,957.50
(2) Amount of share-based payment included in owners' equity	-	149,709,721.06	-	-	-	149,709,721.06
3. Profit distribution						
(1) Appropriation to surplus reserves	-	-	-	107,725.00	(107,725.00)	-
(2) Distribution to owners	-	-	-	-	(52,942,630.00)	(52,942,630.00)
III. Balance at end of year	81,665,650.00	1,436,433,553.18	14,898,539.22	40,832,825.00	2,585,585,605.81	4,159,416,173.21

The accompanying notes to financial statements form an integral part of these financial statements.

Company Statement of Cash Flows

Year ended 31 December 2023

Expressed in Renminbi Yuan

	2023	2022
1. Cash flows from operating activities		
Cash receipts from the sale of goods and the rendering of services	3,125,658,704.28	3,615,873,624.69
Receipts of taxes and surcharges refunds	11,638,410.54	41,052,254.53
Other cash receipts relating to operating activities	165,644,759.73	54,647,773.10
Total cash inflows from operating activities	3,302,941,874.55	3,711,573,652.32
Cash payments for goods and services	3,219,130,307.65	2,400,280,445.86
Cash paid to and on behalf of employees	705,102,839.37	722,535,252.26
Payments of all types of taxes and surcharges	66,160,674.20	174,897,715.88
Other cash payments relating to operating activities	199,068,753.53	186,992,852.91
Total cash outflows from operating activities	4,189,462,574.75	3,484,706,266.91
Net cash flows from operating activities	(886,520,700.20)	226,867,385.41
2. Cash flows from investing activities		
Cash receipts from disposal of investments	297,000,000.00	1,028,259,800.00
Cash receipts from return on investments	1,587,364.79	6,057,399.84
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	24,728,057.91	2,507,737.95
Cash receipts relating to other investing activities	3,686,505.28	5,799,071.72
Total cash inflows from investing activities	327,001,927.98	1,042,624,009.51
Cash paid to acquire fixed assets, intangible assets and other long-term assets	478,834,805.32	389,387,168.82
Cash payments for investments	187,000,000.00	513,000,000.00
Total cash outflows from investing activities	665,834,805.32	902,387,168.82
Net cash flows from investing activities	(338,832,877.34)	140,236,840.69

The accompanying notes to financial statements form an integral part of these financial statements.

Company Statement of Cash Flows

Year ended 31 December 2023

Expressed in Renminbi Yuan

	2023	2022
3. Cash flows from financing activities		
Cash proceeds from investments by others	42,789,420.00	38,640,957.50
Cash receipts from borrowings	1,679,287,589.77	78,569,230.20
Total cash inflows from financing activities	1,722,077,009.77	117,210,187.70
Cash repayments of borrowings	253,268,238.91	73,669,230.20
Cash payments for distribution of dividends or profit and interest expenses	136,932,887.08	55,133,885.75
Other cash payments relating to financing activities	10,865,417.88	6,398,806.35
Total cash outflows from financing activities	401,066,543.87	135,201,922.30
Net cash flows from financing activities	1,321,010,465.90	(17,991,734.60)
4. Effect of foreign exchange rate changes on cash and cash equivalents	1,349,259.34	6,745,227.26
5. Net increase in cash and cash equivalents	97,006,147.70	355,857,718.76
Add: Cash and cash equivalents at beginning of year	610,191,812.67	254,334,093.91
6. Cash and cash equivalents at the end of year	707,197,960.37	610,191,812.67

The accompanying notes to financial statements form an integral part of these financial statements.

Notes to Financial Statements

Year ended 31 December 2023

Expressed in Renminbi Yuan

I. GENERAL INFORMATION

Shanghai Fudan Microelectronics Group Co., Ltd. (the “Company”) established on 10 July, 1998 is a joint stock limited liability company incorporated in Shanghai, the People’s Republic of China. The RMB ordinary shares (A-share) and H shares issued by the Company were listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited, respectively. The registered address of the Company is No. 220, Handan Road, Shanghai.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) include the design, development and sale of integrated circuit products; and integrated circuit product testing services.

The financial statements have been approved by a resolution of the Board of Directors of the Company on 22 March 2024.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises – Basic Standards” promulgated by the Ministry of Finance and the specific accounting standards, application guidelines, interpretations and other relevant regulations subsequently announced and revised (collectively “Accounting Standards for Business Enterprises” or “ASBEs”). In addition, the financial statements also disclose relevant financial information in accordance with the Rules for the Disclosure and Reporting of Information of Companies Offering Securities to the Public No. 15 – General Provisions for Financial Reporting.

The financial statements are presented on a going concern basis.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Group has 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, provision for write-down of inventories, depreciation of fixed assets, amortization of intangible assets, eligibility of the development costs for capitalisation and recognition and measurement of revenue.

1. Declaration of compliance with ASBEs

The financial statements are prepared by the Group in compliance with the Accounting Standards for Business Enterprises, and give a true and complete view of the consolidated and parent company’s financial positions of the Group as at 31 December 2023 and the consolidated and parent company’s operating results and cash flows of the Group for 2023.

2. Accounting period

The Group adopts the Gregorian calendar year as its accounting year, commencing from 1 January to 31 December each year.

Notes to Financial Statements

Year ended 31 December 2023
Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

3. Functional currency

The Company's functional and presentation currency is Renminbi ("RMB"). The currency unit is RMB Yuan.

Each subsidiary or associate of the Group determines its own functional currency based on the primary economic environment in which it operates. In the preparation of the financial statements, their functional currencies are translated into RMB.

4. Determination method and selection basis

	Criteria
Important construction in progress	Individual projects under construction accounts for more than 5% of total assets
Significant cash related to investment activities	Individual investment activity accounts for more than 10% of the total amounts of relevant activities and is greater than RMB50 million
Significant capitalized research and development projects	Individual development expenditures accounts for more than 10% of the carrying amount of development expenditures and is greater than RMB40 million
Significant joint ventures and associates	The carrying amount of individual long-term equity investment accounts for more than 5% of the Group's net assets and is greater than RMB50 million
Significant non-wholly owned subsidiary	The minority interests of individual subsidiary accounts for more than 5% of the Group's net assets and is greater than RMB50 million
Others	Accounting for more than 10% of the carrying amount of the relevant account and is greater than RMB20 million

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

5. Consolidated financial statements

The scope of the consolidated financial statements, which include the financial statements of the Company and all of its subsidiaries, is determined on the basis of control. A subsidiary is an entity that is controlled by the Company. An investor controls an investee if and only if the investor has all the following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

If the accounting policies or the accounting period of a subsidiary are different from those of the Company, necessary adjustments are made to the subsidiary's financial statements based on the Company's own accounting policies or accounting period in preparing the consolidated financial statements. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount is still allocated against minority shareholders' interests.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated cash flow statement, and continue to be consolidated until the date such control ceases. While preparing the consolidated financial statements, the Group shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party, and their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated cash flow statement, as appropriate.

The Group reassesses whether or not it controls an investee if any change in facts and circumstances indicates that there are changes to one or more of the three elements of control.

6 Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments held by the Group, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to Financial Statements

Year ended 31 December 2023
Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

7. Foreign currency transactions and foreign currency translation

The Group translates foreign currency transactions into its functional currency.

Foreign currency transactions are initially recorded, on initial recognition in the functional currency using the spot exchange rates prevailing at the dates of transactions. Monetary items denominated in foreign currencies are translated at the spot exchange rates ruling at the balance sheet date, however, capital contributions in foreign currency by investors are recorded using the spot exchange rates prevailing at the dates of transactions. Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of those relating to foreign currency borrowings specifically for the construction and acquisition of qualifying assets, which are capitalised in accordance with the guidance for capitalisation of borrowing costs. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate on initial recognition, and the amount denominated in the functional currency is not changed. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The resulting exchange differences are recognised in profit or loss or other comprehensive income depending on the nature of the non-monetary items.

For foreign operations, the Group translates their functional currency amounts into RMB when preparing the financial statements as follows: as at the balance sheet date, the assets and liabilities are translated using the spot exchange rate at the balance sheet date, and equity items other than “undistributed profit” are translated at the spot exchange rates at the dates of transactions; revenue and expense items in profit or loss are translated using the average exchange rates for the period during which the transactions occur. The resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss. If the disposal only involves a portion of a particular foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss on a pro-rata basis.

Foreign currency cash flows and the cash flows of foreign subsidiaries are translated using the spot exchange rates for the period during which the cash flows occur. The effect of exchange rate changes on cash is separately presented as an adjustment item in the statement of cash flows.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

8. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated balance sheet) when:

- (1) the rights to receive cash flows from the financial asset have expired; or
- (2) the Group has transferred its rights to receive cash flows from the financial asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and (i) either has transferred substantially all the risks and rewards of the financial asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the financial asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets under contracts whose terms require delivery within the time frame generally established by regulation or convention in the marketplace concerned. The trade date is the date that the Group committed to purchase or sell a financial asset.

Notes to Financial Statements

Year ended 31 December 2023

Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

8. Financial instruments (continued)

Classification and measurement of financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them: financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. All affected related financial assets will be reclassified only if the Group changes its business model for managing financial assets.

Financial assets are measured at fair value on initial recognition, but accounts receivable or notes receivable arising from the sale of goods or rendering of services that do not contain significant financing components or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component due within one year, are initially measured at the transaction price.

For financial assets at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss, and transaction costs relating to other financial assets are included in the initial recognition amounts.

The subsequent measurement of financial assets depends on their classification as follows:

Debt investments measured at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met: the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Equity investments at fair value through other comprehensive income

The Group can elect to classify irrevocably its equity investments which are not held for trading as equity investments designated at fair value through other comprehensive income. Only the relevant dividend income (excluding the dividend income explicitly recovered as part of the investment cost) is recognised in profit or loss. Subsequent changes in the fair value are included in other comprehensive income, and no provision for impairment is made. When the financial asset is derecognised, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

8. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Financial assets at fair value through profit or loss

The financial assets other than the above financial assets measured at amortised cost and financial assets at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Such financial assets are subsequently measured at fair value with net changes in fair value recognised in profit or loss.

After an enterprise designates a financial asset as a financial assets at fair value through profit or loss at initial recognition, it cannot be reclassified as other types of financial assets; other types of financial assets cannot be redesignated as financial assets at fair value through profit or loss after initial recognition.

Classification and measurement of financial liabilities

Except for financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, the Group's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss or financial liabilities at amortised cost. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss, and transaction costs relating to financial liabilities at amortized cost are included in the initial recognition amounts.

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities at amortized cost

After initial recognition, such financial liabilities are measured at amortised cost using the effective interest method.

Impairment of financial instruments

Based on the expected credit losses ("ECLs"), the Group recognises an allowance for ECLs for the financial assets measured at amortised cost.

For trade receivables and contract assets that do not contain a significant financing component, the Group applies the simplified approach to recognise a loss allowance based on lifetime ECLs.

Except for financial assets which apply the simplified approach as mentioned above, the Group assesses whether the credit risk has increased significantly since initial recognition at each balance sheet date. If the credit risk has not increased significantly since initial recognition (stage 1), the loss allowance is measured at an amount equal to 12-month ECLs by the Group and the interest income is calculated according to the carrying amount and the effective interest rate; if the credit risk has increased significantly since initial recognition but are not credit-impaired (stage 2), the loss allowance is measured at an amount equal to lifetime ECLs by the Group and the interest income is calculated according to the carrying amount and the effective interest rate; if such financial assets are credit-impaired after initial recognition (stage 3), the loss allowance is measured at an amount equal to lifetime ECLs by the Group and the interest income is calculated according to the amortised cost and the effective interest rate. If the credit risk of financial instruments is low at the balance sheet date, the Group assumes that the credit risk has not increased significantly since initial recognition.

Notes to Financial Statements

Year ended 31 December 2023

Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

8. Financial instruments (continued)

Impairment of financial instruments (continued)

The Group assesses the expected credit losses of financial instruments on an individual and collective basis. Considering the credit risk characteristics of different customers, the Group divides the accounts receivable into a combination of sales of high-reliability products, a combination of sales of industrial products, and a combination of test services, combined with aging analysis to evaluate the expected credit losses of financial instruments.

For the disclosure of the Group's criteria on the significant increase in credit risk, the definition of credit impaired assets, please refer to Note IX. 2.

The Group measures expected credit losses on a financial instrument in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

When the Group no longer reasonably expects to collect all or part of the contractual cash flows of the financial asset, the Group directly writes down the carrying amount of the financial asset.

Offsetting of financial instruments

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet.

Transfer of financial assets

A financial asset is derecognised when the Group has transferred substantially all the risks and rewards of the asset to the transferee. A financial asset is not derecognised when the Group retains substantially all the risks and rewards of the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it either (i) derecognises the financial asset and recognises the assets and liabilities created in the transfer when it has not retained control of the asset; or (ii) continues to recognise the transferred asset to the extent of the Group's continuing involvement, in which case the Group also recognises an associated liability.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the guarantee amount.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

9. Inventories

Inventories comprise raw materials, work in progress, and finished goods.

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is determined by using the weighted average method. Turnover materials include low value consumables and packing materials, which are on the immediate write-off basis.

The Group adopts a perpetual inventory system.

At the balance sheet date, inventories are stated at the lower of cost and net realisable value. The inventories are written down below cost to net realisable value and the write-down is recognised in profit or loss if the cost is higher than the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The provision is made by item for raw materials, while provision for work in process and finished goods is made based on inventory aging analysis on collective basis.

10. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries and associates.

A long-term equity investment is initially measured at its initial investment cost on acquisition. For a business combination involving entities under common control, the initial investment cost of the long-term equity investment is the carrying amount of the absorbing party's share of the owner's equity of the party being absorbed on the consolidated financial statements of the ultimate controller. The difference between the initial investment cost and the carrying amount of the consideration paid for the combination shall be adjusted against capital reserve (where the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings). The initial investment cost of the long-term equity investment is the cost of acquisition for a business combination not under common control (for a business combination not under common control achieved in stages, the initial investment cost is measured at the carrying amount of the equity investments in the acquiree before the acquisition date plus the additional investment cost incurred on the acquisition date). For a long-term equity investment acquired other than through a business combination, the initial investment cost is determined as follows: if acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; if acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued.

For a long-term equity investment where the Company can exercise control over the investee, the long-term investment is accounted for using the cost method in the Company's individual financial statements. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Notes to Financial Statements

Year ended 31 December 2023
Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

10. Long-term equity investments *(continued)*

Under the cost method, the long-term equity investment is measured at its initial investment cost. When additional investment is made or the investment is recouped, the cost of long-term equity investment is adjusted accordingly. Cash dividends or profit distributions declared by the investee are recognised as investment income in profit or loss.

The equity method is adopted when the Group has joint control, or exercises significant influence over the investee. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control with other parties over those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, after it has acquired a long-term equity investment, the Group recognises its share of the investee's profit or loss, as well as its share of the investee's other comprehensive income, as investment income or loss and other comprehensive income, and adjusts the carrying amount of the investment accordingly. The Group recognises its share of the investee's profit or loss after making appropriate adjustments to the investee's profit or loss based on the fair value of the investee's identifiable assets at the acquisition date, using the Group's accounting policies and periods. Unrealised profits and losses from transactions with its joint ventures and associates are eliminated to the extent of the Group's investments in the associates or joint ventures (except for assets that constitute a business) (However, any loss arising from such transactions which are attributable to an impairment loss shall be recognised at its entirety). The carrying amount of the investment is reduced based on the Group's share of any profit distributions or cash dividends declared by the investee. The Group's share of losses of the investee is recognised to the extent that the carrying amount of the investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has the obligations to assume further losses. The Group's share of the investee's equity changes, other than those arising from the investee's profit or loss, other comprehensive income or profit distribution, is recognised in the Group's equity, and the carrying amount of the long-term equity investment is adjusted accordingly.

Notes to Financial Statements

Year ended 31 December 2023

Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

11. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both.

An investment property is measured initially at cost. If the economic benefits relating to an investment property will probably flow in and the cost can be reliably measured, subsequent costs incurred for the property are included in the cost of the investment property. Otherwise, subsequent costs are recognised in profit or loss as incurred.

The Group uses the cost model for the subsequent measurement of its investment properties.

Depreciation is calculated using the straight-line method for investment properties. The useful lives, estimated residual value rates and annual depreciation rates of each category of investment properties are as follows:

	Useful life	Estimated residual value rate	Annual depreciation rate
Buildings	36.67 years	5.00%	2.59%

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each year end, and make adjustments if necessary.

12. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset if it is probable that the associated economic benefits will flow to the Group and its costs can be reliably measured, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditures shall be recognised in the profit or loss for the period in which they are incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Depreciation is calculated using the straight-line method. The useful lives, estimated residual value rates and annual depreciation rates of each category of the fixed assets are as follows:

	Useful life	Estimated residual value rate	Annual depreciation rate
Buildings	50 years	5.00%	1.90%
Machinery	3-5 years	0%-5.00%	19.00%-33.33%
Vehicles	3-5 years	4.00%-5.00%	19.00%-32.00%
Electronic and other equipment	3-5 years	0%-5.00%	19.00%-33.33%

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each year end, and make adjustments if necessary.

Notes to Financial Statements

Year ended 31 December 2023
Expressed in Renminbi Yuan

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

13. Construction in progress

The cost of construction in progress is measured at actual cost, including all necessary construction expenditures incurred during the construction period and other and other relevant expenditures.

An item of construction in progress is transferred to fixed assets or long-term deferred expenditures when the asset is ready for its intended use.

14. Borrowing costs

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. The amounts of other borrowing costs incurred are recognised as an expense in the period in which they are incurred.

The capitalisation of borrowing costs commences only when the expenditures for the asset and the borrowing costs have been incurred; and the activities that are necessary to acquire, construct or produce the asset for its intended use or sale have been undertaken.

Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced gets ready for its intended use or sale. Any borrowing costs subsequently incurred are recognised in profit or loss.

During the capitalisation period, the amount of interest eligible for capitalisation for each accounting period shall be determined as follows: where funds are borrowed specifically, the amount of interest eligible for capitalisation is the actual interest costs incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; where funds are borrowed generally, the amount of interest eligible for capitalisation is determined by applying a weighted average interest rate on the general borrowings to the weighted average of the excess of the cumulative expenditures on the asset over the expenditures on the asset funded by the specific borrowings.

15. Intangible assets

The intangible assets are amortised using the straight-line method over their useful lives. The useful lives are as follows:

	Useful life	Basis
Software	3-5years	Shorter of the expected useful life and the authorised life
Patents	3 years	Expected period that will generate best economic benefits

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

15. Intangible assets *(continued)*

The Group classifies the expenditures on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase is recognised in profit or loss as incurred. Expenditure on the development phase is capitalised only when the Group can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits (among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset); (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) the ability to measure reliably the expenditure attributable to the intangible asset during the development phase. Expenditure on the development phase which does not meet these above criteria is recognised in profit or loss when incurred.

The Group's specific criteria for classifying expenditures in the research phase and development phase of internal research and development projects is: the research phase is the phase of original planned investigations and research activities to acquire and understand scientific or new technical knowledge; the development phase is the phase of applying research results or other knowledge to a plan or design in order to produce a new or substantially improved product prior to commercial production or use. According to whether the research and development ("R&D") projects meet the capitalization conditions, the Group's R&D projects can be classified into capitalized R&D projects and expensed R&D projects. The Group's capitalized R&D projects are based on the project approval review as the node to divide the research stage and development stage. The research stage is before the project approval review, and the relevant R&D investment is included in the current profit and loss; after the project approval review and the satisfaction of the capitalization criteria of the R&D expenditure, the project enters the development stage, and the relevant R&D investment can be included in the development expenditure.

16. Impairment of assets

Determines the impairment of assets, other than the impairment of inventories, deferred tax assets and financial assets, using the following methods. Assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset and performs impairment testing. Goodwill arising from a business combination, an intangible asset with an indefinite useful life and an intangible asset reaching the working condition for its intended use are tested for impairment at least at each year end, irrespective of whether there is any indication that the asset may be impaired.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis unless it is not possible to estimate the recoverable amount of the individual asset, in which case the recoverable amount is determined for the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

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III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

16. Impairment of assets (continued)

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount by the Group. The reduction in the carrying amount is treated as an impairment loss and recognised in profit or loss. A provision for impairment loss of the asset is recognised accordingly.

Once the above impairment loss is recognised, it cannot be reversed in subsequent accounting periods.

17. Long-term prepaid expenses

Long-term prepaid expenses are amortised using the straight-line method as follows:

Amortisation period	
Office lease and plant decoration	Shorter of the lease term and the remaining useful life of the lease assets

18. Employee benefits

Employee benefits refer to all forms of consideration or compensation other than share-based payments given by the Group in exchange for services rendered by employees or for termination of employment. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

Short-term remuneration

During the accounting period in which the employees render services, the Group recognises the short-term employee compensation payable as liabilities and includes the same into relevant asset costs or expenses according to the object which benefits from the services rendered by employees.

Post-employment benefits (defined contribution plan)

The employees of the Group in mainland China are required to participate in the pension insurance and unemployment insurance scheme administered by the local government. The Group's subsidiary in Hong Kong operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries. The subsidiary's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Termination benefits

The Group provides termination benefits to employees and recognises an employee benefits liability for termination benefits, with a corresponding charge to profit or loss, at the earlier of when the Group can no longer withdraw the offer of those benefits resulting from an employment termination plan or a curtailment proposal and when the Group recognises costs involving the payment of termination benefits.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

19. Provisions

An obligation related to a contingency shall be recognised by the Group as a provision when the obligation is a present obligation of the Group and it is probable that an outflow of economic benefits from the Group will be required to settle the obligation, together with a reliable estimate can be made of the amount of the obligation, except for contingent considerations and contingent liabilities assumed in a business combination not involving entities under common control.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money as a whole. Provisions are reviewed and adjusted appropriately at each balance sheet date to reflect the current best estimate.

20. Share-based payments

A share-based payment is classified as either an equity-settled share-based payment or a cash-settled share-based payment. An equity-settled share-based payment is a transaction in which the Group receives services and uses shares or other equity instruments as consideration for settlement.

An equity-settled share-based payment in exchange for services received from employees is measured at the fair value of the equity instruments granted to the employees. If such equity-settled share-based payment could vest immediately, related costs or expenses at an amount equal to the fair value on the grant date are recognised, with a corresponding increase in capital reserves; if such equity-settled share-based payment could not vest until the completion of services for a vesting period, or until the achievement of a specified performance condition, the Group at each balance sheet date during the vesting period recognises the services received for the current period as related costs and expenses, with a corresponding increase in capital reserves, at an amount equal to the fair value of the equity instruments at the grant date, based on the best estimate of the number of equity instruments expected to vest. The fair value of equity instruments has been determined by the Black-Scholes option pricing model, see Note XII.

Where the terms of an equity-settled share-based award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled share-based award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Notes to Financial Statements

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III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

21. Revenue from contracts with customers

Revenue from contracts with customers is recognised when the Group has fulfilled its performance obligations in the contracts, that is, when the customer obtains control of relevant goods or services. Control of relevant goods or services refers to the ability to direct the use of the goods, or the provision of the services, and obtain substantially all of the remaining benefits from the goods or services.

Contracts for sale of goods

The revenue is recognised at the point in time when the customer obtains control of relevant goods based on the following indicators, which include: a present right to payment for goods, the transfer of significant risks and rewards of ownership of goods, the transfer of legal title to goods, the transfer of physical possession of goods, the customer's acknowledgement/acceptance of goods.

Contracts for the rendering of services

The Group recognises revenue at the point of delivery of the test service results.

22. Contract liabilities

The Group presents contract liabilities depending on the relationship between the satisfaction of its performance obligations and the customer's payment in the balance sheet.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration or an amount of consideration is due from the customer, such as an amount of consideration that an entity has received before the transfer of the promised goods or services.

23. Government grants

Government grants are recognised when all attaching conditions can be complied with and the grant can be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a nonmonetary asset, it is measured at fair value; if fair value cannot be reliably determined, it is measured at a nominal amount.

Government grants shall be recognised as government grants related to assets where long-term assets are built or otherwise developed in accordance with the requirements of government documents. If there are no specific requirements of government documents, judgement shall be exercised based on the basic conditions required for the grants. Government grants shall be recognised as government grants related to assets where the building or otherwise development of long-term assets is considered as the basic condition; otherwise, they shall be recognised as government grants related to income.

A government grant related to income is accounted for as follows: (i) if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and released in profit or loss or offset against related expenses over the periods in which the related costs are recognised; or (ii) if the grant is a compensation for related expenses or losses already incurred, it is recognised immediately in profit or loss or offset against relevant expenses.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

23. Government grants *(continued)*

A government grant relating to an asset shall be offset against the carrying amounts of relevant assets, or recognised as deferred income and amortised in profit or loss over the useful life of the related asset by annual instalments in a systematic and rational way (however, a government grant measured at a nominal amount is recognised directly in profit or loss). Where the assets are sold, transferred, retired or damaged before the end of their useful lives, the rest of the remaining deferred income is released to profit or loss for the period in which the relevant assets are disposed of.

24. Deferred tax

Deferred tax is provided using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the tax bases and the carrying amounts of the items, which have a tax base according to related tax laws but are not recognised as assets and liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (1) when the taxable temporary difference arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax losses and any unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax losses and unused tax credits can be utilised, except:

- (1) when the deductible temporary difference arises from an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- (2) in respect of the deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised in the future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, in accordance with the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the liabilities.

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III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

24. Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the balance sheet date and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

25. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

The Group recognises lease liabilities and right-of-use assets, except for short-term leases and leases of low-value assets.

Right-of-use assets

At the commencement date of the lease, the Group recognises a right-of-use asset. Right-of-use assets are initially measured at cost. The cost of the right-of-use asset comprises: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date of the lease less any lease incentives received; (iii) any initial direct cost incurred; and (iv) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The Group remeasures the lease liability for the revision to the lease payments and adjusts the carrying amount of the right-of-use assets accordingly. The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

Lease liabilities

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

25. Leases *(continued)*

As lessee (continued)

Lease liabilities (continued)

In calculating the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss, except those in the costs of the related asset as required. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred, except those in the costs of the related asset as required.

After the commencement date of the lease, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the Group remeasures the lease liability at the present value of revised lease payments upon a change in any of the following: in-substance fixed payments, the amounts expected to be payable under residual value guarantees, the index or rate used to determine lease payments, or the assessment or exercise of the purchase option, the renewal option or the option to terminate the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease of the individual underlying asset with low value, when new, as a lease of low-value assets. The Group does not recognise the right-of-use assets and lease liabilities for equipment short-term leases and low-value assets. The Group recognises lease payments on short-term leases and leases of low-value assets in the costs of the related asset or profit or loss on a straight-line basis.

As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

As lessor of an operating lease

Rental income under an operating lease is recognised on a straight-line basis over the lease term, through profit or loss. Variable lease payments that are not included in the measurement of lease receivables are charged to profit or loss as incurred. Initial direct costs are capitalised and recognised over the lease term on the same basis as rental income, through profit or loss.

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III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

26. Fair value measurement

The Group measures its financial assets held for trading and equity investments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date; Level 2 inputs are inputs other than Level 1 inputs that are directly or indirectly observable for the underlying asset or liability; Level 3 inputs are unobservable inputs for the underlying asset or liability.

For assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at each balance sheet date.

27. Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities at the balance sheet date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements which have a significant effect on the amounts recognised in the financial statements:

Consolidation of entities in which the Group holds half or less than half of the voting rights

The Group considers that it controls Sino IC Technology Co., Ltd. even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Sino IC Technology Co., Ltd. with a 42.75% equity interest. The remaining equity shares in Sino IC Technology Co., Ltd. are widely held by many other shareholders. Since the date of acquisition, there has been no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

27. Significant accounting judgements and estimates (continued)

Judgements (continued)

Business models

The classification of financial assets at initial recognition depends on the Group's business model for managing financial assets. When determining the business model, the Group considers the methods to include evaluation and report financial asset performance to key management, the risks affecting the performance of financial assets and the risk management, and the manner in which the relevant management receives remuneration. When assessing whether the objective is to collect contractual cash flows, the Group needs to analyse and judge the reason, timing, frequency and value of the sale before the maturity date of the financial assets.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the future accounting periods, are described below.

Impairment of financial instruments

The Group uses the expected credit loss model to assess the impairment of financial instruments. The Group is required to perform significant judgement and estimation and take into account all reasonable and supportable information, including forward-looking information. When making such judgements and estimates, the Group infers the expected changes in the debtor's credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors. The different estimates may impact the impairment assessment, and the provision for impairment may also not be representative of the actual impairment loss in the future.

Impairment of inventories

The Group periodically assesses the net realisable value of its inventories and provides for inventory impairment based on the difference between the cost of the inventory category and the net realisable value. When estimating the net realisable value of inventories, management considers the purpose for which the inventories are held, as well as future use or sales as the basis for estimation. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the inventories and write-down of inventories in the period in which such estimates have been changed.

Impairment of non-current assets other than financial assets (other than goodwill)

The Group assesses whether there are any indications of impairment for all non-current assets other than financial assets at the balance sheet date. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such an indication exists. Other non-current assets other than financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or asset group exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from it. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the assets. When the calculations of the present value of the future cash flows expected to be derived from an asset or asset group are undertaken, management must estimate the expected future cash flows from the asset or asset group and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements

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III. MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

(continued)

27. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The Group uses the market approach to determine the fair value of its investments in unlisted equity securities. This requires the Group to identify comparable listed companies, select market multipliers, estimate liquidity discounts, etc. and is therefore subject to uncertainty.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in Note III, 15 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash flows from the assets, discount rates to be applied and the expected period of benefits.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Lessee's incremental borrowing rate

If the interest rate implicit in the lease cannot be readily determined, the Group measures the lease liability at the present value of the lease payments discounted using the lessee's incremental borrowing rate. According to the economic environment, the Group takes the observable interest rate as the reference basis for determining the incremental borrowing rate, then adjusts the observable interest rate based on its own circumstances, underlying assets, lease terms and amounts of lease liabilities to determine the applicable incremental borrowing rate.

Useful life of intangible assets

The Group's management determines the useful lives of intangible assets based on an assessment of the expected useful lives or expected pattern of consumption of future economic benefits embodied in the assets. The determination of a reasonable useful life requires directors' estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the intangible assets and the amortisation expenses in the period in which such estimates have been changed.

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IV. TAXES

1. Major Categories of Tax and Tax Rate

	Tax Basis	Tax Rate
Value-added tax (VAT)	VAT payable is the difference between VAT output and deductible VAT input for the current period.	13.00% or 6.00%
Urban maintenance and construction tax	VAT actually paid	7.00%
Corporate income tax	Taxable income	29.84%, 25.00%, 16.5% or 15%
Property tax	It is paid at 1.2% of the original value of the property after deducting 30% or 10%.	1.20%

Subjects of different corporate income tax rates are as follows:

	Income tax rate
Shanghai Fudan Microelectronics Group Co., Ltd.	15.00%
Sino IC Technology Co., Ltd.	15.00%
Shanghai Fudan Microelectronics (HK) Co., Ltd.	Shanghai Fudan Microelectronics (HK) Co., Ltd has been registered in Hong Kong SAR since 2018. In accordance with the Inland Revenue (Amendment) (No.3) Ordinance 2018, under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019, the first Hong Kong Dollar (“HK\$”) 2,000,000 of assessable profits of a qualifying entity is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.
Fudan Microelectronics (USA) Inc	Subject to US federal corporate income tax rate of 21% and 8.84% in accordance with local laws

All other PRC entities under the Group are subject to corporate income tax at a rate of 25%.

2. Tax Preference

According to “Corporate Income Tax Law of the People’s Republic of China” and “Measures for Administration of the Recognition of High-tech Enterprises”, the preferential income tax rate of 15% is applicable to high-new technology enterprises. The Company and Sino IC, a subsidiary of the Group, obtained the high-tech enterprise certificates No. GR202331003224 and GR202331002511 respectively on 2023, which are valid for three years. Accordingly, the Company and Sino IC will pay corporate income tax at a reduced rate of 15% for the year 2023.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on the VAT Policy for Software Products (Finance and Taxation [2011] No. 100), the Company’s software products enjoy the policy of immediate refund of VAT.

Notes to Financial Statements

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

	2023	2022
Cash on hand	20,211.41	45,887.35
Cash at bank	1,003,017,285.55	1,190,782,452.17
Others	300,000.00	–
Total	1,003,337,496.96	1,190,828,339.52
Including cash at bank deposited overseas	32,983,826.23	21,150,180.78
Minus: Time deposits	10,000,000.00	70,000,000.00
Accrued interest on time deposits	112,500.00	541,393.84
Cash at bank with restricted ownership	300,000.00	–
Cash and cash equivalents	992,924,996.96	1,120,286,945.68

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for term time deposits vary from 7 days to 12 months depending on the cash requirements of the Group and the Group earns interest income according to the respective time deposit rates.

2. Financial assets held for trading

	2023	2022
Financial assets at fair value through current profit or loss		
Structured deposits	30,213,750.00	80,167,958.90

3. Notes receivable

	2023	2022
Bank acceptance bills	22,231,659.30	44,206,905.70
Commercial acceptance bills	376,305,047.42	212,028,645.42
	398,536,706.72	256,235,551.12
Less: Impairment allowance	7,590,502.77	4,091,493.99
Total	390,946,203.95	252,144,057.13

Notes to Financial Statements

Year ended 31 December 2023

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

3. Notes receivable (continued)

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

	Termination of confirmation	Non-termination confirmation
Bank acceptance bills	–	2,101,398.24
Commercial acceptance bill	–	69,953,438.00

The movement in the impairment allowance on notes receivable is as follows:

	Opening balance	Provision	Reversal or transfer	Closing balance
2023	4,091,493.99	3,499,008.78	–	7,590,502.77

4. Accounts receivable

An aging analysis of accounts receivable recognized by invoice date is as follows:

	2023	2022
Within 1 year	775,315,910.07	688,650,408.23
1 to 2 years	159,934,313.88	45,143,732.53
2 to 3 years	12,708,380.25	5,857,596.33
3 to 4 years	1,850,998.95	1,307,312.70
4 to 5 years	707,935.67	996,764.59
Over 5 years	2,915,437.53	4,711,864.53
	953,432,976.35	746,667,678.91
Less: Impairment allowance	23,813,666.81	16,463,401.99
Total	929,619,309.54	730,204,276.92

Notes to Financial Statements

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Accounts receivable (continued)

2023

	Book balance		Impairment allowance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable for which impairment allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	765,073,292.23	80.25	17,308,068.45	2.26	747,765,223.78
Industrial Sales Portfolio	144,571,248.29	15.16	5,191,945.28	3.59	139,379,303.01
Testing Services Portfolio	43,788,435.83	4.59	1,313,653.08	3.00	42,474,782.75
Total	953,432,976.35	100.00	23,813,666.81	2.50	929,619,309.54

2022

	Book balance		Impairment allowance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable for which impairment allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	462,229,531.89	61.90	4,980,898.80	1.08	457,248,633.09
Industrial Sales Portfolio	235,327,373.81	31.52	10,002,872.63	4.25	225,324,501.18
Testing Services Portfolio	49,110,773.21	6.58	1,479,630.56	3.01	47,631,142.65
Total	746,667,678.91	100.00	16,463,401.99	2.20	730,204,276.92

Notes to Financial Statements

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Accounts receivable (continued)

At 31 December 2023, the accounts receivable for which impairment allowance is provided by portfolio of credit risk characteristics are as follows:

	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Highly Reliable Product Sales Portfolio			
Within 1 year	591,992,607.76	–	–
1 to 5 years	173,080,684.47	10.00	17,308,068.45
Total	765,073,292.23	2.26	17,308,068.45
Industrial Sales Portfolio			
Within 6 months	136,048,034.05	–	–
6 to 9 months	2,450,538.14	9.80	240,253.81
9 to 12 months	1,036,294.29	20.00	207,258.86
1 to 2 years	583,898.40	50.00	291,949.20
Over 2 years	4,452,483.41	100.00	4,452,483.41
Total	144,571,248.29	3.59	5,191,945.28
Testing Services Portfolio			
Within 1 year	43,788,435.83	3.00	1,313,653.08
Total	953,432,976.35	2.50	23,813,666.81

The movements on the impairment allowance in relation to the accounts receivable are as follows:

	Opening balance	Provision	Recovery or reversal	Written-off	Closing balance
2023	16,463,401.99	10,131,528.07	–	(2,781,263.25)	23,813,666.81

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

4. Accounts receivable (continued)

At 31 December 2023, the top five accounts receivable amounts are as follows:

	Book balance	Amount proportion (%)	Impairment allowance
The first place	90,802,520.90	9.52	5,131,437.09
The second place	64,082,700.00	6.72	55,400.00
The third place	56,920,340.00	5.97	1,455,260.00
The fourth place	51,132,160.00	5.36	–
The fifth place	47,431,760.00	4.97	541,000.00
Total	310,369,480.90	32.54	7,183,097.09

5. Receivable financing

	2023	2022
Bank acceptance bills	156,656,371.19	81,708,392.03

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

	Termination of confirmation	Non-termination confirmation
Bank acceptance bills	87,882,785.18	–

6. Prepayments

An ageing analysis of prepayments is as follows:

	2023		2022	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	102,405,656.15	92.52	467,802,626.73	98.55
1 to 2 years	8,276,385.19	7.48	6,899,601.61	1.45
Total	110,682,041.34	100.00	474,702,228.34	100.00

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6. Prepayments (continued)

At 31 December 2023, the largest five prepayment amounts are as follows:

	Closing balance	Proportion of total closing balance of prepayments
The first place	52,062,926.43	47.04
The second place	24,081,180.00	21.76
The third place	8,406,333.81	7.60
The fourth place	5,680,930.69	5.13
The fifth place	3,790,370.33	3.42
Total	94,021,741.26	84.95

7. Other receivables

An ageing analysis of other receivables is as follows:

	2023	2022
Within 1 year	7,330,670.95	4,327,386.87
1 to 2 years	606,447.88	14,111,987.13
2 to 3 years	14,063,186.62	498,246.07
Over 3 years	1,871,415.14	1,414,760.94
Total	23,871,720.59	20,352,381.01

Other receivables classified by nature are as follows:

	2023	2022
Deposit guarantee	17,913,309.84	17,443,458.91
Collection on behalf of payment	233,429.83	1,139,096.00
Reserve fund	54,000.00	54,000.00
Others	5,670,980.92	1,715,826.10
Total	23,871,720.59	20,352,381.01

At 31 December 2023, the management of the Group considers that no impairment allowance is required for other receivables.

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(continued)

7. Other receivables (continued)

At 31 December 2023, the largest five other receivable amounts are as follows:

	Closing balance	Proportion (%)	Classification	Ageing	Provision for bad debts, Closing Balance
The first place	13,870,561.12	58.10	Deposit guarantee	2 to 3 years	-
The second place	4,199,304.50	17.59	Tax refund receivable	Within 1 year	-
The third place	1,379,282.29	5.78	Deposit guarantee	Within 1 year	-
The fourth place	737,117.50	3.09	Deposit guarantee	Over 5 years	-
The fifth place	410,701.67	1.72	Equipment refund receivable	Within 1 year	-
Total	20,596,967.08	86.28			-

8. Inventories

	31 December 2023			31 December 2022		
	Gross carrying amount	Provision for write-down of inventories	Carrying amount	Gross carrying amount	Provision for write-down of inventories	Carrying amount
Raw materials	1,241,540,354.30	32,442,666.58	1,209,097,687.72	336,443,161.24	35,803,055.12	300,640,106.12
Work in process	1,164,562,548.46	124,086,341.03	1,040,476,207.43	832,093,996.87	89,816,100.19	742,277,896.68
Finished goods	1,050,375,438.76	130,145,619.45	920,229,819.31	522,486,575.22	82,140,029.98	440,346,545.24
Costs to fulfil a contract	7,566,922.12	-	7,566,922.12	-	-	-
Total	3,464,045,263.64	286,674,627.06	3,177,370,636.58	1,691,023,733.33	207,759,185.29	1,483,264,548.04

The movements in provision for write-down of inventories are as follows:

	Opening balance	Provision	Reversal	Foreign currency translation	Closing balance
Raw materials	35,803,055.12	(1,642,687.10)	(1,717,701.44)	-	32,442,666.58
Work in process	89,816,100.19	44,255,556.42	(9,985,315.58)	-	124,086,341.03
Finished goods	82,140,029.98	77,919,263.69	(29,916,721.46)	3,047.24	130,145,619.45
Total	207,759,185.29	120,532,133.01	(41,619,738.48)	3,047.24	286,674,627.06

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

9. Other current assets

	2023	2022
Input VAT to be credited	90,408,645.29	2,949,529.95
Prepaid income tax	19,352,576.08	6,559,875.16
Expenses to be amortised	877,628.59	775,523.42
Others	3,947,290.75	3,443,834.00
Total	114,586,140.71	13,728,762.53

10. Long-term equity investments

	Opening balance	Changes for the year			Foreign currency translation	Closing balance	Provision
		Increase	Investment profit or loss under the equity method	Other equity changes			
Associated companies							
Shanghai Xihongqiao Navigation Technology Co., Ltd.	3,534,127.27	-	(126,248.06)	-	-	3,407,879.21	-
Shanghai Fukong Hualong Microsystem Technology Co., Ltd.	37,009,469.14	-	424,388.17	-	-	37,433,857.31	(24,933,174.46)
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	16,632,738.69	-	7,601.65	-	-	16,640,340.34	-
Shanghai Haojun Venture Capital Partnership (Limited Partnership)	9,598,096.76	-	(223,941.81)	-	-	9,374,154.95	-
Spear Innovations Oy Ltd.	667,645.36	-	(320,842.86)	-	249,827.97	596,630.47	-
Total	67,442,077.22	-	(239,042.91)	-	249,827.97	67,452,862.28	(24,933,174.46)

Impairment provisions for long-term equity investments:

	Opening balance	Increase	Decrease	Closing balance
Shanghai Fukong Hualong Microsystem Technology Co., Ltd.	24,933,174.46	-	-	24,933,174.46

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

11. Other equity investments

	2023	2022
Shanghai Fudan Communication Co., Ltd.	24,919,218.92	27,526,636.02
Shenglianke (Shanghai) Technology Co., Ltd. (Note)	9,342,300.16	–
ScaleFlux, Inc	1,203,515.19	3,187,829.41
Etopus Technology, Inc (Note)	–	3,187,850.00
Zhejiang Jingchang Electronics Co., Ltd.	–	–
MuMec, Inc	–	–
Total	35,465,034.27	33,902,315.43

Note: In 2017, Fudan Microelectronics (USA) Inc, a subsidiary of the Group, invested 1,010,101 shares of Etopus Technology Inc. (referred to as “Etopus”) at \$0.495 per share, with the interests of 1.97%. In 2023, pursuant to Etopus’ restructuring plan and related agreements, Fudan Microelectronics (USA) Inc. purchased 1.09% of Etopus’ interests in Shenglianke (Shanghai) Technology Co., Ltd. by using its’ 1.97% interests in Etopus. Fudan Microelectronics (USA) Inc holds 1.09% interests of Shenglianke (Shanghai) Technology Co., Ltd. after the completion of share transfer.

	Gain included in other comprehensive income for the year	Loss included in other comprehensive income during the year	Accumulated gain	Accumulated loss	Dividend income	Reasons for being designated as at fair value through other comprehensive income
Shanghai Fudan Communication Co., Ltd.	–	2,346,675.39	12,551,863.83	–	–	Non-trading
Shenglianke (Shanghai) Technology Co., Ltd.	5,800,973.03	–	5,800,973.03	–	–	Non-trading
ScaleFlux, Inc	–	2,337,834.81	–	2,337,834.81	–	Non-trading
Zhejiang Jingchang Electronics Co., Ltd.	–	–	–	–	–	Non-trading
MuMec, Inc	–	–	–	326,243.37	–	Non-trading
Total	5,800,973.03	4,684,510.20	18,352,836.86	2,664,078.18	–	

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

12. Investment properties

Subsequent measurement adopting the cost model:

	Buildings
Cost	
Opening balance	125,119,202.98
Transfer out	(125,119,202.98)
Closing balance	–
Accumulated depreciation and amortisation	
Opening balance	2,431,293.48
Depreciation and amortisation provided during the year	1,795,825.49
Transfer out	(4,227,118.97)
Closing balance	–
Carrying amount	
At end of year	–
At beginning of year	122,687,909.50

The above investment properties are all located in Mainland China and are used for operating commercial leasing. The Group's property ownership certificate has a remaining useful life of 37 years and can be used for medium and long-term leasing, which has been transferred out and changed as self-use in July 2023.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

13. Fixed assets

	Buildings	Machinery	Vehicles	Electronic and other equipment	Total
Cost					
Opening balance	424,289,593.73	836,803,005.84	9,104,671.09	61,523,402.82	1,331,720,673.48
Purchases	–	6,226,731.87	880,957.58	92,551,337.80	99,659,027.25
Transfers from investment properties	125,119,202.98	–	–	–	125,119,202.98
Transfers from construction in progress	–	300,663,727.58	–	43,006,542.64	343,670,270.22
Foreign currency translation	–	–	–	1,626.22	1,626.22
Disposals or retirements	–	(2,900,550.00)	(1,118,226.77)	(584,724.59)	(4,603,501.36)
Closing balance	549,408,796.71	1,140,792,915.29	8,867,401.90	196,498,184.89	1,895,567,298.79
Accumulated depreciation					
Opening balance	39,883,949.47	562,063,707.00	6,939,465.04	28,386,846.26	637,273,967.77
Depreciation provided during the year	11,710,980.23	113,275,564.84	734,335.23	17,100,561.02	142,821,441.32
Transfers from investment properties	4,227,118.97	–	–	–	4,227,118.97
Foreign currency translation	–	–	–	1,326.43	1,326.43
Disposals or retirements	–	(2,586,011.25)	(1,064,395.43)	(560,467.02)	(4,210,873.70)
Closing balance	55,822,048.67	672,753,260.59	6,609,404.84	44,928,266.69	780,112,980.79
Carrying amount					
At end of year	493,586,748.04	468,039,654.70	2,257,997.06	151,569,918.20	1,115,454,318.00
At beginning of year	384,405,644.26	274,739,298.84	2,165,206.05	33,136,556.56	694,446,705.71

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

14. Construction in progress

	2023			2022		
	Gross carrying amount	Impairment provision	Carrying amount	Gross carrying amount	Impairment provision	Carrying amount
Decoration	50,305,392.30	-	50,305,392.30	17,711,167.99	-	17,711,167.99
Buildings	318,191,859.32	-	318,191,859.32	-	-	-
Equipment to be commissioned	112,159,316.51	-	112,159,316.51	176,065,273.02	-	176,065,273.02
Total	480,656,568.13	-	480,656,568.13	193,776,441.01	-	193,776,441.01

Changes of major construction in progress are as follows:

	Integrated Circuit Technology R&D and Industrial Application Base Project
Budget	800,000,000.00
Opening balance	84,340,906.09
Addition	499,527,361.78
Transfer to fixed assets	(231,388,256.37)
Closing balance	352,480,011.50
Sources of funding	Self-financing
The proportion of project investment in the budget	73%

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

15. Right-of-use assets

	Buildings
Cost	
Opening balance	80,302,250.07
Addition	7,167,488.74
Foreign currency translation	(496,239.52)
Closing balance	86,973,499.29
Accumulated depreciation	
Opening balance	38,415,269.92
Depreciation provided during the year	15,043,342.27
Foreign currency translation	(344,531.33)
Closing balance	53,114,080.86
Carrying amount	
At end of year	33,859,418.43
At beginning of year	41,886,980.15

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

16. Intangible assets

	Use rights of software	Patents	Total
Cost			
Opening balance	106,279,489.06	536,299,535.72	642,579,024.78
Purchases	68,551,005.17	–	68,551,005.17
Transfers from development expenditures	–	94,356,543.29	94,356,543.29
Disposals	(40,878,042.56)	–	(40,878,042.56)
Closing balance	133,952,451.67	630,656,079.01	764,608,530.68
Accumulated amortisation			
Opening balance	80,215,291.16	381,732,882.03	461,948,173.19
Depreciation provided during the year	37,384,137.33	54,954,848.75	92,338,986.08
Disposal	(40,823,069.68)	–	(40,823,069.68)
Closing balance	76,776,358.81	436,687,730.78	513,464,089.59
Provision for impairment			
Opening balance	–	94,880,218.31	94,880,218.31
Provision	–	12,987,343.98	12,987,343.98
Closing balance	–	107,867,562.29	107,867,562.29
Carrying amount			
At end of year	57,176,092.86	86,100,785.94	143,276,878.80
At beginning of year	26,064,197.90	59,686,435.38	85,750,633.28

At 31 December 2023, intangible assets recognized through internal development accounts for 65.86% of the carrying amounts.

Impairment indication exist as the sales did not reach the expectation and impairment test were performed for the following patents of the R&D projects, which attribute to design and sale of integrated circuits.

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16. Intangible assets (continued)

The recoverable amount was determined by the present value of the future cash flows expected to be derived:

	Gross carrying amount	Recoverable amount	Provision for impairment	Forecasted years	Key parameters
Certain storage and security chip technology	14,806,885.38	1,819,541.40	12,987,343.98	3-5 years	Administrative expenses rate: 2.89% Selling expenses rate: 7.05% Return on working capital: 3.45% Discount rate: 13-15%

17. Development expenditures

Refer to Note VI, Development costs.

18. Long-term prepaid expenses

	Opening balance	Increase	Amortization for the year	Closing balance
Leasing office and office decoration expense	66,244,507.84	14,481,115.97	16,639,382.90	64,086,240.91

19. Deferred tax assets/liabilities

Deferred income tax assets/liabilities before offsetting:

	2023		2022	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Deferred tax assets				
Government grants	32,399,312.61	4,859,896.89	37,048,571.14	5,557,285.67
Lease liabilities	21,935,504.10	3,290,325.62	30,767,898.55	4,615,184.78
Share-based payments	12,964,600.00	1,944,690.00	–	–
Provision for impairment of assets	2,028,497.57	304,274.63	1,635,010.00	245,251.50
Accrued expenses	1,485,550.00	222,832.50	1,407,094.70	211,064.21
Deductible losses	–	–	3,980,140.89	597,021.13
Unrealised profit of intra-group transaction	–	–	1,746,221.13	261,933.17
Total	70,813,464.28	10,622,019.64	76,584,936.41	11,487,740.46

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(continued)

19. Deferred tax assets/liabilities (continued)

	2023		2022	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Deferred tax liabilities				
Changes in fair value of other equity investments	24,919,218.92	3,868,253.69	27,526,636.02	4,128,995.40
Deduction for innovation investment of high-tech enterprises	23,968,662.99	3,595,299.45	28,328,314.20	4,249,247.13
Right-of-use assets	18,418,629.75	2,762,794.46	26,630,991.51	3,994,648.73
Unrealised profit of intra-group transaction	898,224.73	134,733.71	–	–
Depreciation of fixed assets	15,380.55	2,537.79	15,160.73	2,501.52
Total	68,220,116.94	10,363,619.10	82,501,102.46	12,375,392.78

Deferred income tax assets or liabilities presented at net amount after offsetting:

	2023		2022	
	Offset amount	Remaining amount after offset	Offset amount	Remaining amount after offset
Deferred income tax assets	(6,492,827.62)	4,129,192.02	(8,243,895.86)	3,243,844.60
Deferred income tax liabilities	(6,492,827.62)	3,870,791.48	(8,243,895.86)	4,131,496.92

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(continued)

19. Deferred tax assets/liabilities (continued)

Deductible temporary differences and deductible losses that are not recognised as deferred income tax assets:

	2023	2022
Deductible temporary differences	851,560,703.54	748,895,105.85
Deductible tax losses	23,806,921.41	42,440,501.86
Total	875,367,624.95	791,335,607.71

Deductible losses that are not recognised as deferred income tax assets will expire in the following years:

	2023	2022
2023	–	1,200,928.90
2024	208,183.96	2,593,017.71
2025	27,753.07	29,374,661.89
2026	873,924.24	2,174,356.32
2027	11,515,124.37	7,097,537.04
2028	11,181,935.77	–
Total	23,806,921.41	42,440,501.86

20. Other non-current assets

	2023	2022
Prepayment of production capacity deposit	72,246,260.00	–
Prepayment of purchase equipment	23,900,356.69	22,687,579.80
Rental deposit	2,364,680.38	2,364,680.38
Prepayment of purchase factory	–	133,899,851.00
Prepayment of purchase public rental housing	–	23,865,060.90
Total	98,511,297.07	182,817,172.08

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21. Assets with restricted ownership

2023

	Gross carrying amount	Carrying amount	Restricted type	Restricted situation
Cash at bank and on hand	300,000.00	300,000.00	Deposit	
Notes receivable	72,054,836.24	72,054,836.24	Pledge	Note 1
Total	72,354,836.24	72,354,836.24		

2022

	Gross carrying amount	Carrying amount	Restricted type	Restricted situation
Notes receivable	4,000,000.00	4,000,000.00	Pledge	Note 1
Fixed assets	173,447,600.91	173,447,600.91	Mortgage	Note 2
Total	177,447,600.91	177,447,600.91		

Note 1: At 31 December 2023, the Group endorsed bills receivable that undue with a carrying amount of RMB29,093,136.24 (31 December 2022: Nil) and discounted bills receivable that undue with a carrying amount of RMB42,961,700.00 (31 December 2022: RMB4,000,000.00).

Note 2: At 31 December 2022, fixed assets with a carrying amount of RMB173,447,600.91 was mortgaged to obtain long-term borrowings. The related borrowings were repaid in advance in 2022 and the mortgage was released.

22. Short-term borrowings

	2023	2022
Unsecured borrowings	850,898,390.54	50,000,000.00
Discounted bills receivable	42,961,700.00	4,000,000.00
Total	893,860,090.54	54,000,000.00

At 31 December 2023, the interest rates of unsecured borrowings were ranged from 2.5% to 3.1% (31 December 2022: 2.8%) and the discount rate of bills receivable was 2.8% (31 December 2022: 1.3%).

At 31 December 2023, according to the borrowings agreements, the above short-term borrowings were repayable within one year, and the Group had no short-term borrowings due but outstanding (31 December 2022: Nil).

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23. Accounts payable

An aging analysis of accounts payable recognized by invoice date is as follows:

	2023	2022
Within 1 year	209,303,850.23	187,918,075.41
1 to 2 years	17,542,109.49	13,264,405.03
Over 2 years	8,910,928.06	–
Total	235,756,887.78	201,182,480.44

At 31 December 2023, the Group had no material accounts payable aged over 1 year.

24. Contract Liabilities

	2023	2022
Advances from sales of goods and testing fee	57,567,549.49	210,402,283.73

At the balance sheet date, the total transaction price apportioned to the remaining performance obligations will be recognized as revenue within one year as the related services are rendered and the sale of goods progresses.

At 31 December 2023, the Group had no material contractual liabilities aged more than 1 year.

The amount and reasons for the significant change in the carrying amount of contract liabilities during the year:

	Change in the carrying amount	Reason for change
Shanghai Fudan Communication Co., Ltd.	27,180,679.82	Recognized revenue during the year

25. Employee benefits payable

	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	187,115,902.82	948,194,120.39	891,220,224.64	244,089,798.57
Post-employment benefits (defined contribution plan)	5,224,190.43	73,267,404.48	71,463,136.69	7,028,458.22
Total	192,340,093.25	1,021,461,524.87	962,683,361.33	251,118,256.79

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(continued)

25. Employee benefits payable (continued)

Details of short-term employee benefits are as follows:

	Opening balance	Increase	Decrease	Closing balance
Wages and salaries, bonus, allowances and subsidies	145,592,764.22	860,449,926.35	804,747,279.65	201,295,410.92
Staff welfare	–	3,449,978.42	3,449,978.42	–
Social insurance contributions	3,241,879.92	49,146,369.98	48,459,723.20	3,928,526.70
Including: Medical insurance	2,790,330.01	47,337,662.54	46,576,284.89	3,551,707.66
Work injury insurance	312,192.42	1,540,088.73	1,584,922.22	267,358.93
Maternity insurance	139,357.49	268,618.71	298,516.09	109,460.11
Housing funds	2,028,448.55	33,696,307.83	32,887,219.16	2,837,537.22
Labour union funds and employee education funds	36,252,810.13	1,451,537.81	1,676,024.21	36,028,323.73
Total	187,115,902.82	948,194,120.39	891,220,224.64	244,089,798.57

Details of defined contribution plans are as follows:

	Opening balance	Increase	Decrease	Closing balance
Basic pensions	4,986,819.40	71,089,763.98	69,341,558.90	6,735,024.48
Unemployment insurance	237,371.03	2,177,640.50	2,121,577.79	293,433.74
Total	5,224,190.43	73,267,404.48	71,463,136.69	7,028,458.22

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

26. Taxes payable

	2023	2022
Individual income tax	10,503,955.56	7,952,129.32
Property tax	1,139,619.61	1,042,086.75
VAT	1,165,400.78	792,819.31
Stamp duty	692,106.37	569,375.47
Urban maintenance and construction tax	69,234.74	371,564.49
Land-use tax	7,082.95	7,082.95
Corporate income tax	359,435.08	–
Total	13,936,835.09	10,735,058.29

27. Other payables

	2023	2022
Payables related to purchase assets	161,654,429.45	57,591,981.23
Collection and payment	7,192,378.24	3,903,219.18
Others	13,383,913.79	10,840,431.97
Total	182,230,721.48	72,335,632.38

On 31 December 2023, the Group had no significant other payables aged over one year.

28. Current portion of non-current liabilities

	2023	2022
Current portion of long-term borrowings (Note V. 30)	55,240,000.00	–
Current portion of lease liabilities (Note V. 31)	17,100,225.85	15,181,384.65
Total	72,340,225.85	15,181,384.65

29. Other current liabilities

	2023	2022
Government grants	126,306,648.74	101,583,000.00
Endorsed bills receivable	29,093,136.24	–
Accrued expense	10,176,481.41	19,767,122.35
Output tax to be transferred	6,934,299.81	26,349,277.48
Total	172,510,566.20	147,699,399.83

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

30. Long-term borrowings

	2023	2022
Unsecured borrowings	585,303,719.49	–
Less: Due within 1 year (Note V. 28)	55,240,000.00	–
Total	530,063,719.49	–

On 31 December 2023, the interest rates on the above borrowings ranged from 2.70% to 3.45% per annum.

The expiration dates of long-term borrowings (excluding the portion due within one year) are analysed as follows:

	2023	2022
1 to 2 years	530,063,719.49	–

31. Lease liabilities

	2023	2022
Lease liabilities	38,810,943.87	48,344,090.25
Less: Due within 1 year	17,100,225.85	15,181,384.65
Total	21,710,718.02	33,162,705.60

32. Deferred Income

	Opening balance	Increase	Decrease	Closing balance
Government grants	16,548,141.05	154,699,376.54	156,564,802.55	14,682,715.04

33. Share capital

	Opening balance	Changes for the year			Closing balance
		Issue of new shares	Others	Subtotal	
RMB-denominated ordinary shares	53,232,650.00	240,390.00	–	240,390.00	53,473,040.00
Foreign shares listed overseas	28,433,000.00	–	–	–	28,433,000.00
Total	81,665,650.00	240,390.00	–	240,390.00	81,906,040.00

Details of movements in share capital during the year refer to Note V, 34.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

34. Capital surplus

	Opening balance	Increase	Decrease	Closing balance
Capital premium (Note 1)	1,322,349,375.18	135,072,213.00	–	1,457,421,588.18
Other capital surplus (Note 2)	300,556,603.75	117,271,448.56	92,523,183.00	325,304,869.31
Total	1,622,905,978.93	252,343,661.56	92,523,183.00	1,782,726,457.49

Note 1: At 19 December 2023, the Company issued a 2,403,900 ordinary shares with par value of RMB0.1 each at a vesting price of RMB17.8 per share to the incentive recipients who met the vesting conditions of the second vesting period and the retaining of the first vesting period of the first grant portion of the 2021 Restricted Stock Incentive Plan, raising net proceeds of RMB42,789,420.00, of which Increase in share capital of RMB240,390.00 and increase in capital surplus of RMB42,549,030.00. The second vesting period of the first grant has been completed, the first vesting period of other relevant capital reserves that transferred to relevant equity premium amount to RMB92,523,183.00.

Note 2: Except for the above transfer of capital reserves to equity premium, other movements in other capital surplus are as follows:

- 1) In 2023, the Company implements an employee incentive plan and recognises expenses and other capital surplus amounting to RMB111,729,082.06 in instalments over the waiting period, as detailed in Note XII.
- 2) Sino IC Technology Co., Ltd. (“Sino IC”) implemented an employee incentive plan in 2023. Sino IC recognised expenses and other capital surplus amounting to RMB12,964,600.00, capital reserves of RMB5,542,366.50 were recognised at the Group level.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

35. Other comprehensive income

Accumulated balance of other comprehensive income in the balance sheet:

2023

	1 January 2023	Increase or decrease	31 December 2023
Changes in the fair value of other equity investments	14,572,295.85	1,116,462.83	15,688,758.68
Differences on translation of foreign currency financial statements	(887,777.57)	1,322,746.52	434,968.95
Total	13,684,518.28	2,439,209.35	16,123,727.63

2022

	1 January 2022	Increase or decrease	31 December 2022
Changes in the fair value of other equity investments	13,794,382.31	777,913.54	14,572,295.85
Differences on translation of foreign currency financial statements	(3,285,299.61)	2,397,522.04	(887,777.57)
Total	10,509,082.70	3,175,435.58	13,684,518.28

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

35. Other comprehensive income (continued)

Other comprehensive income Amount:

2023

	Amount before tax	Less: Previously included in other comprehensive income to profit or loss	Less: Reclassified from other comprehensive income to retained earnings	Less: Income tax	Attributable to owners of the parent after tax	Attributable to non-controlling interests after tax
Change in the fair value of other equity investments	1,377,204.54	-	-	260,741.71	1,116,462.83	-
Exchange differences on translation of foreign currency financial statements	1,322,746.52	-	-	-	1,322,746.52	-
Total	2,699,951.06	-	-	260,741.71	2,439,209.35	-

2022

	Amount before tax	Less: Previously included in other comprehensive income to profit or loss	Less: Reclassified from other comprehensive income to retained earnings	Less: Income tax	Attributable to owners of the parent after tax	Attributable to non-controlling interests after tax
Change in the fair value of other equity investments	915,192.40	-	-	137,278.86	777,913.54	-
Exchange differences on translation of foreign currency financial statements	2,397,522.04	-	-	-	2,397,522.04	-
Total	3,312,714.44	-	-	137,278.86	3,175,435.58	-

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

36. Surplus reserve

	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserves	40,832,825.00	120,195.00	–	40,953,020.00

According to the provisions of the Company Law and the Company's Articles of Association, the Company appropriates 10% of the net profit to the statutory surplus reserves. Where the accumulated amount of the surplus reserves reaches 50% or more of the Company's registered capital, further appropriation is not required.

After the appropriation to the statutory surplus reserves, the Company may appropriate the discretionary surplus reserves. When approved, the discretionary surplus reserves can be used to make up for accumulated losses or converted to the paid-in capital.

37. Undistributed profits

	2023	2022
Balance at beginning of year	2,772,141,379.40	1,748,348,393.72
Net profit attributable to owners of the parent	719,494,375.58	1,076,843,340.68
Less: Withdrawal of statutory surplus reserve	120,195.00	107,725.00
Distributions to owners (Note)	110,248,627.50	52,942,630.00
Balance at end of the current year	3,381,266,932.48	2,772,141,379.40

Note: According to the resolution of 2022 Annual General Meeting of shareholders held on 2 June 2023, the Company distributed a cash dividend of RMB1.35 (tax included) for every 10 ordinary shares to all shareholders regarding to the 2022 Distribution Plan with total cash dividend amounted to RMB110,248,627.50 (tax included) based on the total share capital of 816,656,500 shares on 31 December 2022.

38. Revenue and costs of sales

	2023		2022	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	3,524,386,886.82	1,362,081,367.46	3,510,573,053.08	1,241,292,662.24
Other operations	11,872,536.78	9,586,608.96	28,335,831.86	8,978,563.07
Total	3,536,259,423.60	1,371,667,976.42	3,538,908,884.94	1,250,271,225.31

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

38. Revenue and costs of sales (continued)

The breakdown of revenue is as follows:

2023

Reporting segments	Design and sale of integrated circuits	Integrated circuit test services	Total
Type of major products			
Security and identification chips	862,638,795.64	–	862,638,795.64
Non-volatile memory	1,072,193,991.40	–	1,072,193,991.40
Smart meter chips	273,770,814.68	–	273,770,814.68
FPGA and other chips	1,139,456,334.02	–	1,139,456,334.02
Integrated circuit test services	–	184,872,103.05	184,872,103.05
Rental income	2,817,384.81	510,000.00	3,327,384.81
Total	3,350,877,320.55	185,382,103.05	3,536,259,423.60
Place of business			
Mainland China	3,134,718,846.29	177,101,157.68	3,311,820,003.97
Others	216,158,474.26	8,280,945.37	224,439,419.63
Total	3,350,877,320.55	185,382,103.05	3,536,259,423.60
Timing of revenue recognition			
At a point in time	3,350,877,320.55	185,382,103.05	3,536,259,423.60

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

38. Revenue and costs of sales (continued)

2022

Reporting segments	Design and sale of integrated circuits	Integrated circuit test services	Total
Type of major products			
Security and identification chips	976,052,956.98	–	976,052,956.98
Non-volatile memory	940,310,039.15	–	940,310,039.15
Smart meter chips	594,579,681.69	–	594,579,681.69
FPGA and other chips	803,149,655.86	–	803,149,655.86
Integrated circuit test services	–	218,619,100.28	218,619,100.28
Rental income	6,197,450.98	–	6,197,450.98
Total	3,320,289,784.66	218,619,100.28	3,538,908,884.94
Place of business			
Mainland China	3,157,441,563.99	209,134,158.97	3,366,575,722.96
Others	162,848,220.67	9,484,941.31	172,333,161.98
Total	3,320,289,784.66	218,619,100.28	3,538,908,884.94
Timing of revenue recognition			
At a point in time	3,320,289,784.66	218,619,100.28	3,538,908,884.94

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

38. Revenue and costs of sales (continued)

The breakdown of operating costs for the year is as follows:

Reporting segments	Design and sale of integrated circuits	Integrated circuit test services	Total
Type of major products			
Security and identification chips	553,079,789.42	–	553,079,789.42
Non-volatile memory	383,354,187.42	–	383,354,187.42
Smart meter chips	165,902,299.65	–	165,902,299.65
FPGA and other chips	180,002,891.33	–	180,002,891.33
Integrated circuit test services	–	85,128,571.04	85,128,571.04
Rental income	3,884,408.60	315,828.96	4,200,237.56
Total	1,286,223,576.42	85,444,400.00	1,371,667,976.42
Place of business			
Mainland China	1,122,819,527.98	81,082,726.97	1,203,902,254.95
Others	163,404,048.44	4,361,673.03	167,765,721.47
Total	1,286,223,576.42	85,444,400.00	1,371,667,976.42

Revenue recognised that was included in contract liabilities at the beginning of the year:

	2023	2022
Sale of goods	208,970,783.24	124,745,290.02
Service	1,431,500.49	195,844.44
Total	210,402,283.73	124,941,134.46

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

39. Taxes and surcharges

	2023	2022
Urban maintenance and construction tax	940,966.23	11,890,251.53
Education surcharge	–	4,412,697.46
Local education surcharge	–	2,941,798.29
Property tax	4,376,763.26	1,835,094.13
Land use tax	29,184.70	13,001.82
Vehicle and vessel tax	8,990.00	10,020.00
Stamp duty	2,916,661.42	3,457,413.68
Total	8,272,565.61	24,560,276.91

40. Selling expenses

	2023	2022
Staff costs	163,550,774.60	143,863,996.41
Expense for incentive plan	27,874,561.14	30,483,239.99
Professional service fees	9,128,883.74	16,102,197.50
Entertainment expenses	9,080,755.14	8,292,873.07
Office and administrative expenses	14,123,911.57	6,373,792.12
Travelling expense	9,096,398.98	4,858,732.44
Rental, property management and utilities	795,525.11	1,269,095.20
Advertising and marketing expenses	3,866,363.00	1,134,022.87
Others	14,224,863.73	10,440,973.12
Total	251,742,037.01	222,818,922.72

41. Administrative expenses

	2023	2022
Staff costs	84,656,294.98	80,020,517.91
Depreciation and amortization	11,242,470.34	17,018,568.41
Office and administrative expenses	18,813,063.63	11,140,501.81
Repair charge	5,912,397.95	5,477,408.30
Professional service fees	8,298,362.04	4,943,110.97
Expense for incentive plan	6,899,395.75	2,745,712.21
Entertainment expenses	2,545,143.73	1,954,629.13
Advertising and marketing expenses	2,576,495.70	1,412,793.11
Travelling expense	2,571,950.62	1,342,072.83
Others	14,420,203.29	12,880,162.46
Total	157,935,778.03	138,935,477.14

The forementioned administrative expenses included the annual audit fee paid to Ernst & Young Hua Ming LLP and its subsidiaries, amounting to RMB2,870,000.00. (2022: RMB2,830,000.00).

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

42. Research and development expenses

	2023	2022
Staff costs	567,047,623.09	418,839,734.93
Material and proceeding costs	181,512,576.47	125,150,466.01
Expense for incentive plan	69,814,425.09	93,728,472.47
Depreciation and amortisation	130,900,553.56	67,828,247.23
Professional service fee	50,094,984.53	20,668,756.06
Office and administrative expenses	3,567,292.63	2,378,849.85
Travelling expense	2,364,173.57	623,146.36
Others	5,295,943.12	6,202,019.70
Total	1,010,597,572.06	735,419,692.61

43. Finance expenses

	2023	2022
Interest expenses	27,985,971.22	4,354,699.62
<i>Including: Loan interest to be repaid within 5 years</i>	25,828,718.75	1,335,714.92
<i>Interest expenses of lease liabilities</i>	2,157,252.47	3,018,984.70
Less: Interest income	15,544,504.78	14,813,114.77
Foreign exchange differences	3,001,319.26	1,768,911.55
Others	258,719.07	935,664.10
Total	15,701,504.77	(7,753,839.50)

44. Other income

	2023	2022
Government grants related to the ordinary course of business	172,435,645.24	105,806,450.17
Fees refunded for individual income tax withheld	1,463,395.72	1,108,587.76
Total	173,899,040.96	106,915,037.93

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

45. Investment income

	2023	2022
Investment income from long-term equity under the equity method	(239,042.91)	(8,129,075.27)
Investment income from financial instruments held for trading	4,727,345.18	6,454,718.33
Total	4,488,302.27	(1,674,356.94)

46. Fair value gains

	2023	2022
Financial assets held for trading	(1,398,871.91)	1,866,476.71

47. Credit impairment losses

	2023	2022
Impairment loss for notes receivable	(3,499,008.78)	2,879,911.60
Impairment loss for accounts receivable	(10,131,528.07)	(1,770,002.63)
Total	(13,630,536.85)	1,109,908.97

48. Impairment losses of assets

	2023	2022
Loss for write-down of inventories	(120,532,133.01)	(135,373,635.53)
Impairment loss for intangible assets	(12,987,343.98)	(2,497,482.46)
Impairment loss for long-term equity investments	–	(24,933,174.46)
Total	(133,519,476.99)	(162,804,292.45)

49. Gains on disposal of non-current assets

	2023	2022
Gain or loss on disposal of fixed assets	1,236,606.63	1,329,678.22

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50. Non-operating income

	2023	2022	Non-recurring gains and losses of 2023
Others	433,800.91	111,404.79	433,800.91

51. Non-operating expenses

	2023	2022	Non-recurring gains and losses of 2023
Others	–	300.00	–

52. Income tax expenses

	2023	2022
Current income tax expenses	3,877,454.86	5,336.12
Deferred income tax expenses	(885,347.42)	4,240,586.57
Total	2,992,107.44	4,245,922.69

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

	2023	2022
Profit before income tax	751,850,854.72	1,121,510,686.98
Tax at the applicable tax rate	112,777,628.21	168,226,603.05
Effect of different tax rates for subsidiaries	(1,832,425.78)	(1,333,257.11)
Costs, expenses and losses not deductible for tax	3,835,266.49	4,704,899.77
Super deduction of research and development expenses	(143,915,550.02)	(116,406,048.21)
Tax losses utilised from previous periods	(6,829,738.85)	(90,967,921.59)
Unrecognised deductible temporary differences and tax losses	38,956,927.39	44,371,796.98
Others	–	(4,350,150.20)
Income tax expense	2,992,107.44	4,245,922.69

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

53. Earnings per share

	2023 RMB/share	2022 RMB/share
Basic earnings per share		
Continuing operations	0.88	1.32
Diluted earnings per share		
Continuing operations	0.87	1.31

Basic earnings per share is calculated by dividing net income for the net profit for the year attributable to the Company's common stockholders by the weighted-average number of common shares issued and outstanding. The number of newly issued common shares is determined by calculating from the month following the issuance of shares.

The numerator of diluted earnings per share is determined by using the net income for the net profit for the year attributable to the Company's common shareholders, adjusted for (1) interest on dilutive potential common shares recognized as an expense in the net profit for the year; (2) income or expense to be incurred upon conversion of dilutive potential common shares; and (3) the income tax effect related to the above adjustments.

The denominator of diluted earnings per share is equal to the sum of (1) the weighted-average number of common shares of the parent outstanding for basic earnings per share; and (2) the weighted-average number of common shares that would have been added assuming the conversion of dilutive potential common shares into common shares.

In calculating the weighted average number of common shares added by the conversion of dilutive potential common shares into outstanding common shares, dilutive potential common shares issued in prior periods are assumed to be converted at the beginning of the current period; dilutive potential common shares issued in the current period are assumed to be converted on the date of issuance.

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

	2023	2022
Earnings		
Net profit for the year attributable to ordinary shareholders of the Company		
Continuing operation	719,494,375.58	1,076,843,340.68
Shares		
Weighted average number of ordinary shares in issue	816,735,532.00	814,681,542.00
Dilution effect – weighted average of common Shares		
Stock options	6,082,601.00	6,686,339.00
Weighted average number of common shares of the Company issued and outstanding	822,818,133.00	821,367,881.00

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54. Notes to the statements of cash flows

(1) Cash related to operating activities

	2023	2022
Other cash receipts relating to operating activities		
Government grants	180,901,615.41	56,982,777.72
Interest income	12,687,890.46	9,134,207.62
Others	1,213,300.00	147,426.74
Total	194,802,805.87	66,264,412.08

	2023	2022
Other cash payments relating to operating activities		
Cash-paid expenses	221,285,665.43	209,440,263.32
Payments of deposits	469,850.93	2,845,150.06
Others	196,912.31	204,654.04
Total	221,952,428.67	212,490,067.42

(2) Cash related to investing activities

	2023	2022
Cash received relating to significant investment activities		
Collection of structured deposits	727,000,000.00	323,259,800.00
Collection of time deposits	60,000,000.00	823,000,000.00
	787,000,000.00	1,146,259,800.00

Cash payments related to significant investment activities		
Cash payments to acquire fixed assets, intangible assets and other long-term assets	850,933,264.22	782,526,753.65
Investment of structured deposits	677,000,000.00	513,000,000.00
	1,527,933,264.22	1,295,526,753.65

Other cash payments relating to financing activities		
Interest income earned on time deposits	3,686,505.28	7,769,636.95

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

54. Notes to the statements of cash flows (continued)

(3) Cash related to financing activities

	2023	2022
Other cash payments related to financing activities		
Payments to rental and interest	18,857,887.59	15,488,792.83
Payments to issuance fees related to convertible bonds	2,747,290.75	–
Payments to listing fees	–	5,504,716.98
Total	21,605,178.34	20,993,509.81

The changes in various liabilities arising from financing activities are as follows:

	Opening balance	Increase		Decrease		Closing balance
		Cash changes	Non-cash changes	Cash changes	Non-cash changes	
Other payables	–	–	3,947,290.75	2,747,290.75	–	1,200,000.00
Short-term borrowing	54,000,000.00	925,752,342.30	–	85,892,251.76	–	893,860,090.54
Long-term borrowings (including portion of due within one year)	–	753,535,247.47	25,828,718.75	194,060,246.73	–	585,303,719.49
Lease liabilities (including portion of due within one year)	48,344,090.25	–	9,324,741.21	18,857,887.59	–	38,810,943.87
Total	102,344,090.25	1,679,287,589.77	39,100,750.71	301,557,676.83	–	1,519,174,753.90

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Year ended 31 December 2023
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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

55. Supplementary Information of statements of cash flows

(1) *Supplementary information of statements of cash flows:*

Reconciliation of net profit to net cash flows from operating activities:

	2023	2022
Net profit	748,858,747.28	1,117,264,764.29
Add: Provisions for asset impairment	133,519,476.99	162,804,292.45
Depreciation of investment property	1,795,825.49	2,431,293.48
Depreciation of fixed assets	134,039,191.66	109,376,083.01
Depreciation of right-of-use assets	15,043,342.27	15,172,556.23
Amortisation of intangible assets	92,338,986.08	51,661,617.89
Amortisation of long-term prepaid expenses	16,639,382.90	14,775,016.97
Losses on disposal of fixed assets, intangible assets and other long-term assets	(1,236,606.63)	(1,329,678.22)
Fair value losses	1,398,871.91	(1,866,476.71)
Finance expenses	22,597,625.00	(12,498,020.74)
Expense for incentive plan	106,878,729.61	128,429,651.12
Investment losses	(4,488,302.27)	1,674,356.94
Provisions for credit impairment	13,630,536.85	(1,109,908.97)
Decrease in deferred income tax assets	(885,347.42)	4,240,374.67
Increase in deferred income tax liabilities	(260,705.44)	211.90
Decrease in inventories	(1,814,641,268.79)	(681,591,826.12)
Decrease in operating receivables	(239,195,029.46)	(735,797,538.29)
Increase in operating payables	65,799,930.45	147,648,700.51
Net cash flows from operating activities	(708,166,613.52)	321,285,470.41

Significant non-cash investing and financing activities:

	2023	2022
Right-to-use assets acquired by assuming lease liabilities	7,167,488.74	9,082,978.35

Net change in cash and cash equivalents:

	2023	2022
Cash at the end of the year	992,924,996.96	1,120,286,945.68
Less: Cash at the beginning of the year	1,120,286,945.68	415,755,306.55
Net increase in cash and cash equivalents	(127,361,948.72)	704,531,639.13

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

55. Supplementary Information of statements of cash flows (continued)

(2) Composition of cash and cash equivalents

	2023	2022
Cash	992,924,996.96	1,120,286,945.68
Including: Cash on hand	20,211.41	45,887.35
Bank deposits on demand	992,904,785.55	1,120,241,058.33
Closing balance of cash and cash equivalents	992,924,996.96	1,120,286,945.68

56. Monetary Items Denominated in Foreign Currency

	Original currencies	Exchange rate	RMB equivalent
Cash and bank balances			
US\$	22,376,112.71	7.0827	158,483,293.49
HK\$	9,996,552.56	0.9062	9,059,075.86
NT\$	297,191.00	0.2305	68,502.53
S\$	25,796.54	5.3772	138,713.15
Won₩	2,383,566.00	0.0055	13,142.73
Accounts receivable			
US\$	6,709,888.21	7.0827	47,524,125.26
Other non-current assets			
US\$	10,200,384.00	7.0827	72,246,259.75
Accounts payable			
US\$	7,808,701.28	7.0827	55,306,688.56

The significant foreign operating entities in the Group's consolidated financial statements are Fudan Microelectronics (Hong Kong) Limited and Fudan Microelectronics (USA) Inc., both of which are denominated in Hong Kong dollars and United States dollars, respectively, with their principal places of operation in Hong Kong and the United States, respectively.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

57. Leases

(1) As a lessee

	2023	2022
Interest expense of lease liabilities	2,157,252.47	3,018,984.70
Short-term lease expenses with simplified treatment recognized in profit or loss	5,002,143.43	1,532,453.28
Lease expenses of low-value assets (other than short-term leases) with simplified treatment recognized in profit or loss	659,552.36	186,352.40
Total cash outflow related to leases	24,519,583.38	17,207,598.51

The leased assets leased to the Group include buildings used in the operations, which are usually leased for a period of 3 to 5 years. The lease contracts usually stipulate that the Group cannot sublease the leased assets, and some of the lease contracts require the Group to maintain a certain level of financial indicators. A few of the lease contracts contain article for renewal options.

Other lease information

For right-of-use assets, see Note V, 15; for simplified treatment of short-term leases and leases of low-value assets, refer to Note III, 25; and for lease liabilities, refer to Note V, 31, Note IX, 2.

(2) As a Lessor

Operating leases

Profit or losses related to operating leases are presented as follows:

	2023	2022
Rental income	3,327,384.81	6,197,450.98

According to the lease contract with the lessee, the minimum lease receivables for non-cancelable leases are as follows:

	2023	2022
Within 1 year, inclusive	–	6,250,768.85
1 to 2 years, inclusive	–	2,070,981.00
Total	–	8,321,749.85

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VI. DEVELOPMENT COSTS

The classification by nature is as follows (excluding amortisation of self-developed intangible assets):

	2023	2022
Staff costs	684,390,018.96	555,175,789.61
Material and processing costs	246,782,017.82	112,141,469.67
Expense for incentive plan	89,614,409.42	119,473,873.14
Depreciation and amortisation	84,727,954.48	40,460,094.48
Professional service fee	70,748,778.09	47,758,023.11
Office and administrative expenses	3,567,292.63	2,378,849.85
Others	9,755,677.98	8,713,664.94
Total	1,189,586,149.38	886,101,764.80
Including: Expensed R&D expenditures	938,736,446.31	670,744,810.49
Capitalised R&D expenditures	250,849,703.07	215,356,954.31

The development expenditures of R&D projects eligible for capitalization are as follows:

	Opening balance	Increase	Decrease		Closing balance
			Recognised as intangible assets	Included in profit or loss	
Security and Identification chips	58,851,886.12	69,177,329.32	(17,244,213.61)	–	110,785,001.83
Non-Volatile memory	41,842,215.17	19,362,937.52	(20,736,083.74)	(1,317,394.03)	39,151,674.92
Smart Meter chips	24,091,133.08	17,498,169.79	–	(15,588,882.98)	26,000,419.89
FPGA and other chips	191,736,462.94	144,811,266.44	(56,376,245.94)	–	280,171,483.44
Total	316,521,697.31	250,849,703.07	(94,356,543.29)	(16,906,277.01)	456,108,580.08

The Group had no material capitalised R&D projects.

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

The Company's subsidiaries are as follows:

	Main business site	Place of registration	Type of Company	Business nature	Registered and paid capital	Shareholding ratio (%)	
						Direct	Indirect
Subsidiaries acquired through establishment or investment							
Sino IC Technology Co., Ltd. ("Sino IC") Note 1	Shanghai, PRC	Shanghai, PRC	Company Limited by Shares	IC products testing	RMB226,800,000	42.75	-
Shanghai Fudan Microelectronics (HK) Ltd.	Hong Kong, PRC	Hong Kong, PRC	Private Company Limited by Shares	Investment and sale of IC products	HK\$30,400,000	100.00	-
Fudan Microelectronics (USA) Inc	USA	USA	Non-public Company	Sale of IC products	US\$5,000,000	100.00	-
Shenzhen Fudan Microelectronics Company Ltd.	Shenzhen, PRC	Shenzhen, PRC	Limited Liability Company	Sale of IC products	RMB5,000,000	100.00	-
Beijing Fudan Microelectronics Technology Co., Ltd.	Beijing, PRC	Beijing, PRC	Limited Liability Company	Sale of IC products	RMB10,000,000	100.00	-
Shanghai Fuwei Xunjie Digital Technology Co., Ltd. Note 2	Shanghai, PRC	Shanghai, PRC	Company Limited by Shares	Technology services and development	RMB50,000,000	40.85	-

The Company and its subsidiaries are all corporate enterprises. As of 31 December 2023, the Company and its subsidiaries had no debt securities in issue.

Note 1: The Company originally held 50.29% shares of Sino IC. On 28 October 2022, additional shares of Sino IC were issued to the public and the Company's shares of Sino IC was reduced to 42.75%. Management believes that the Company still has control over Sino IC because the Company is the largest single shareholder of Sino IC and the other shares are widely held by numerous other shareholders.

Note 2: The Company has entered into a concert party agreement with another shareholder of Fuwei Xunjie (holding 15% shares of Fuwei Xunjie), which stipulates that in exercising the voting rights of Fuwei Xunjie shareholders' meeting and board of directors' motions, the other party guarantees to be consistent with the Company in exercising the voting rights, and through the agreement arrangement is able to exercise control over Fuwei Xunjie's financial and operating decisions and include Fuwei Xunjie in the scope of consolidation.

The subsidiaries with significant minority interests are listed below:

	Percentage of minority shareholding	Profit or loss attributable to minority shareholders	Dividend paid to minority shareholders	Accumulated equity attributable to minority shareholders
				at the end of the year
Sino IC Technology Co., Ltd.	57.25%	42,858,814.87	-	620,547,733.53

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VII. INTERESTS IN OTHER ENTITIES *(continued)*

1. Interests in subsidiaries *(continued)*

The following table lists the main financial information of the above-mentioned subsidiary. The information represents amount before intragroup offsetting:

Sino IC Technology Co., Ltd.

	2023	2022
Current assets	407,527,666.12	569,437,448.64
Non-current assets	912,104,142.51	576,029,260.97
Total assets	1,319,631,808.63	1,145,466,709.61
Current liabilities	180,815,921.16	87,985,560.26
Non-current liabilities	23,134,234.85	29,626,655.45
Total liabilities	203,950,156.01	117,612,215.71
Revenue	315,489,626.61	275,493,855.32
Net profit	74,862,558.72	69,867,260.95
Total comprehensive income	74,862,558.72	69,867,260.95
Net cash flows from operating activities	172,368,356.89	148,227,008.38

2. Equity in joint ventures and associates

	Main business site	Place of registration	Business nature	Registered capital	Shareholding ratio (%)		Accounting Method
					Direct	Indirect	
Associated Companies							
Shanghai Xihongqiao Navigation Technology Co., Ltd.	Shanghai	Shanghai	Satellite navigation	RMB30,000,000	10.00	-	Equity method
Shanghai Fukong Hualong Microsystem Technology Co., Ltd.	Shanghai	Shanghai	IC design	RMB72,000,000	21.25	-	Equity method
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	Shanghai	Shanghai	Equity investment	RMB100,000,000	20.00	-	Equity method
Shanghai Haojun Venture Capital Partnership (Limited Partnership)	Shanghai	Shanghai	Equity investment	RMB106,000,000	23.58	-	Equity method
Spear Innovations Oy Ltd	Pori, Finland	Pori, Finland	IC design	EUR1,000,000	10.00	-	Equity method

In accordance with the company's articles of Shanghai Xihongqiao Navigation Technology Co., Ltd. and Spear Innovations Oy Ltd., the Company holds one of the seven and one of the five board seats respectively, and the Company is able to participate in its major business decisions, and therefore has significant influence on it.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity in joint ventures and associates (continued)

Shanghai Fukong Hualong Microsystem Technology Co., Ltd., Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd., and Shanghai Haojun Venture Capital Partnership (Limited Partnership), are significant associates of the Group, and are engaged in IC design, sales and equity investment as strategic partners of the Group, and are accounted for using the equity method and the investments are strategic to the Group's activities.

The aggregate financial information of joint ventures and associates that are not material are as follows:

	2023	2022
Associated Companies		
The total book value of the investment	42,519,687.82	42,508,902.76
The total amount calculated by the percentage of shareholdings		
Net profit	(239,042.91)	(8,129,075.27)
Other comprehensive income	249,827.97	62,382.97
Total comprehensive income	10,785.06	(8,066,692.30)

VIII. GOVERNMENT GRANTS

At 31 December 2023, the liabilities in relation to government subsidies were as follows:

	Opening balance	increase	Charge to other income	Closing balance	Related to assets/income
Deferred income	12,167,055.33	53,725,271.71	53,176,923.47	12,715,403.57	Related to assets
Deferred income	4,381,085.72	100,974,104.83	103,387,879.08	1,967,311.47	Related to income
Total	16,548,141.05	154,699,376.54	156,564,802.55	14,682,715.04	

No government grants were returned during the year.

Government grants recognized in profit or loss are as follows:

	2023	2022
Government grants related to assets		
Recognised in other income	53,176,923.47	11,239,782.84
Government grants related to income		
Recognised in other income	119,258,721.77	94,566,667.33
Total	172,435,645.24	105,806,450.17

IX. FINANCIAL INSTRUMENTS AND RELATED RISKS

1. Financial instruments by category

On 31 December 2023, financial assets at fair value through profit or loss amounted to RMB30,213,750.00 (31 December 2022: RMB80,167,958.90), which was mainly presented in financial assets held for trading; financial assets at fair value through other comprehensive income amounted to RMB192,121,405.46 (31 December 2022: RMB115,610,707.46), which was mainly presented in receivables financing and other equity investments; financial assets at amortised cost amounted to RMB2,422,385,671.42 (31 December 2022: RMB2,193,529,054.58), which was mainly presented in cash at bank and on hand; notes receivable; accounts receivable, other receivables and other non-current assets; and financial liabilities at amortised cost amounted to RMB1,935,962,363.16 (31 December 2022: RMB375,862,203.07), which was mainly presented in short-term borrowings, accounts payable, other payables, current portion of non-current liabilities, long-term borrowings and lease liabilities.

2. Financial instruments risks

The Group faces risks from various financial instruments in its daily activities, mainly including credit risk, liquidity risk and market risk. The Group's risk management policy in this regard is summarized as follows:

Credit risk

The Group only has trade with recognized third party with good credit standing. Based on the Group's policies, customers who conduct credit transaction will be subject to credit review. In addition, the Group will continuously monitor balance of accounts receivable to ensure that the Group will not be exposed to significant risk of bad debts.

Since counterparties of cash at bank and on hand, bank acceptance notes receivables and structured deposits are banks with good reputation and high credit ratings, credit risk arising from these financial instruments is insignificant.

Other financial assets of the Group include accounts receivable from sales and other receivables, etc. Credit risk of such financial assets is from default of counterparties, and its maximum risk exposure is equivalent to the carrying amount of such instruments.

The Group's maximum credit risk exposure at each balance sheet date is the total amount charged to customers less the amount of impairment allowances.

Since the Group only trades with recognised third parties with good credit standing, no guarantee is required. Credit risk concentration is managed based on customer/counterparty, geographical region and industry sector. At 31 December 2023, the Group was exposed to certain credit risk concentration, as 32.54% (31 December 2022: 35.77%) of accounts receivables are from top five customers. The Group does not hold any security or other credit increment over the balances of accounts receivable.

Criteria for judging significant increases in credit risk

The Group will evaluate whether credit risk in connection with financial instruments is increased significantly from initial recognition on each balance sheet date. The Group's main criterion for judging a significant increase in credit risk is that the number of overdue days exceeds 30 days, or one or more of the following indicators change significantly: the debtor's operating environment, internal and external credit ratings, and actual or expected operating results are significantly adverse changes, etc.

Notes to Financial Statements

Year ended 31 December 2023
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IX. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

2. Financial instruments risks (continued)

Credit risk (continued)

Definition of credit-impaired assets

The main criterion for the Group to determine that credit impairment has occurred is that the number of overdue days exceeds 90 days. However, in some cases, if internal or external information shows that full recovery may not be possible before considering any credit enhancement held. The Group will also treat the contract amount as credit-impaired.

Credit impairment of financial assets may be a joint result of multiple events, rather than a single identifiable event.

Credit risk exposure

Refer to Notes V 3,4,5 and 7 for the information on Group's credit risk exposure from notes receivable, accounts receivable, receivable financing and other receivables.

Liquidity risk

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of financing. The Group finances its operations through funds generated from operations and borrowings.

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

2023

	Within 1 year	1 to 3 years	Over 3 years	Total
Short-term borrowings	905,126,699.01	–	–	905,126,699.01
Accounts payable	235,756,887.78	–	–	235,756,887.78
Other payables	182,230,721.48	–	–	182,230,721.48
Current portion of non-current liabilities	75,466,449.13	–	–	75,466,449.13
Long-term borrowings	–	554,182,172.09	–	554,182,172.09
Lease liabilities	–	20,126,287.67	2,561,735.37	22,688,023.04
Total	1,398,580,757.40	574,308,459.76	2,561,735.37	1,975,450,952.53

2022

	Within 1 year	1 to 3 years	Over 3 years	Total
Short-term borrowings	55,404,333.33	–	–	55,404,333.33
Accounts payable	201,182,480.44	–	–	201,182,480.44
Other payables	72,335,632.38	–	–	72,335,632.38
Current portion of non-current liabilities	17,283,958.98	–	–	17,283,958.98
Lease liabilities	–	31,253,360.27	4,096,037.02	35,349,397.29
Total	346,206,405.13	31,253,360.27	4,096,037.02	381,555,802.42

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Year ended 31 December 2023

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IX. FINANCIAL INSTRUMENTS AND RELATED RISKS *(continued)*

2. Financial instruments risks *(continued)*

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates primarily relates to the floating-rate long-term liabilities of the Group. The Group manages interest rate risk by closely monitoring changes in interest rates and regularly reviewing borrowings.

The Group determines the ratio of fixed-rate and floating-rate financial instruments according to the market environment and maintains an appropriate financial instruments portfolio through regular review and monitoring.

The table below demonstrates a sensitivity analysis of interest rate risk, which reflects the impact on net profit or loss (through the impact on floating-rate borrowings) and net other comprehensive income after tax when a reasonably possible change in interest rates occurs, with all other variables held constant.

2023

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income	Increase/ (decrease) in total shareholders' equity
RMB	50	(2,929,018.60)	–	(2,929,018.60)
RMB	(50)	2,929,018.60	–	2,929,018.60

Exchange rate risk

The Group is exposed to exchange rate risk on a transactional basis. Such risk arises from sales or purchases made by operating entities with currencies other than their reporting currency.

The following table presents a sensitivity analysis of exchange rate risk, reflecting the impact that a reasonable and probable change in the United States dollar exchange rates, with all other variables remain constant, would have on net profit or loss.

Notes to Financial Statements

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IX. FINANCIAL INSTRUMENTS AND RELATED RISKS *(continued)*

2. Financial instruments risks *(continued)*

Market risk (continued)

Exchange rate risk (continued)

2023

	Exchange rate Increase/ (decrease)	Net profit or loss Increase/ (decrease)	Other comprehensive income, net of tax Increase/ (decrease)	Total shareholders' equity Increase/ (decrease)
RMB depreciates against USD	1%	2,001,528.54	105,458.38	2,106,986.92
RMB appreciates against USD	(1%)	(2,001,528.54)	(105,458.38)	(2,106,986.92)
RMB depreciates against HKD	1%	69,947.03	–	69,947.03
RMB appreciates against HKD	(1%)	(69,947.03)	–	(69,947.03)

3. Capital management

The key objective of the Group's capital management is to ensure the Group's ability to operate on a going concern basis and maintain healthy capital ratios so as to support business growth and maximise shareholder value.

The Group manages its capital structure and makes adjustments in response to changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not constrained by any external mandatory requirements on capital. There was no change in the Group's capital management objectives, policies or procedures in 2023 and 2022.

The Group manages its capital with the debt-to-asset ratio, which refers to total liabilities divided by total assets. The debt-to-asset ratio of the Group at the balance sheet date is as follows:

	2023	2022
Total assets	8,411,350,886.39	6,110,888,054.09
Total liabilities	2,449,649,077.25	957,718,676.14
Debt-to-asset ratio	29.12%	15.67%

Notes to Financial Statements

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IX. FINANCIAL INSTRUMENTS AND RELATED RISKS *(continued)*

4. Transfers of financial assets

At 31 December 2023, the transfer of financial assets were as follows:

Type of transfer	The category of the transferred financial assets	Carrying amount	Derecognition	Judgement basis for derecognition
Endorsement	Bank Acceptance Bill	87,882,785.18	Derecognition	Transferred substantially all the risks and rewards
Discounting	Commercial Acceptance Bills	42,961,700.00	Non derecognition	Retains substantially all of its risks and rewards
Endorsement	Commercial Acceptance Bills	26,991,738.00	Non derecognition	Retains substantially all of its risks and rewards
Endorsement	Bank Acceptance Bill	2,101,398.24	Non derecognition	Retains substantially all of its risks and rewards
Total		159,937,621.42		

At 31 December 2023, the following financial assets were derecognized as a result of transfers:

Type of transfer	Carrying amount of the derecognized financial assets	Income or loss related to the derecognition
Notes receivable	87,882,785.18	–

Transferred financial assets that are not derecognised in their entirety

At 31 December 2023, the Group has no bank acceptance bills that have been discounted to the banks (31 December 2022: RMB4,000,000.00). The Group discounted certain commercial acceptance bills with a carrying amount of RMB42,961,700.00 (31 December 2022: Nil). Commercial acceptance bills endorsed by the Group during the year amounted to RMB26,991,738.00 (31 December 2022: Nil). The Group is of the opinion that the Group retains nearly all the risks and rewards, including default risks related to it. Therefore, the amount obtained from discounting bank acceptance bills (the carrying value) will be recognised as financial liability charged to short-term borrowing and other current liability. Subsequent to discounting or endorsing, the Group will no longer retain use right, including the rights for selling, transferring or pledging such assets to other third parties.

Transferred financial assets that are derecognised in their entirety in which continuing involvement exists

At 31 December 2023, the Group endorsed certain bills receivable accepted by banks (the “Derecognised Bills”) to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of RMB87,882,785.18 (31 December 2022: RMB36,113,749.15). The Derecognised Bills had a maturity of 3 to 6 months at 31 December 2023. In accordance with the Law of Negotiable Instruments, the holders of the Derecognised Bills may exercise the right of recourse against the Group, liable for the Derecognised Bills regardless of the order of precedence (the “Continuing Involvement”). In the opinion of the Company, the Company has transferred substantially all the risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Company’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Company, the fair values of the Company’s Continuing Involvement in the Derecognised Bills are not significant.

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IX. FINANCIAL INSTRUMENTS AND RELATED RISKS *(continued)*

4. Transfers of financial assets *(continued)*

Transferred financial assets that are derecognised in their entirety in which continuing involvement exists (continued)

In 2023, the Company did not recognise gains or losses on the date of its transfer. The Company had no current or accumulated income or expense related to Continuous Involvement of financial assets which had been derecognised. Endorsement is recorded evenly during the year.

X. FAIR VALUE

1. Assets and liabilities measured at fair value

2023

	Inputs used in the measurement of fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Continuous fair value measurement				
Financial assets held for trading				
Financial assets measured at fair value through profit or loss				
Debt instruments	-	30,213,750.00	-	30,213,750.00
Financial assets designed at fair value through other comprehensive income				
Receivables financing	-	156,656,371.19	-	156,656,371.19
Financial assets designed at fair value through other comprehensive income				
Other equity investments	-	-	35,465,034.27	35,465,034.27
Total	-	186,870,121.19	35,465,034.27	222,335,155.46

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X. FAIR VALUE *(continued)*

1. Assets and liabilities measured at fair value *(continued)*

2022

	Inputs used in the measurement of fair value			Total
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
Continuous fair value measurement				
Financial assets held for trading				
Financial assets measured at fair value through profit or loss				
Debt instruments	–	80,167,958.90	–	80,167,958.90
Financial assets designed at fair value through other comprehensive income				
Receivables financing	–	81,708,392.03	–	81,708,392.03
Financial assets designed at fair value through other comprehensive income				
Other equity investments	–	–	33,902,315.43	33,902,315.43
Total	–	161,876,350.93	33,902,315.43	195,778,666.36

2. Level 2 fair value measurement

The fair values of investments in debt instruments and receivables for financing are determined by discounting the future cash flows using market yields currently available for other financial instruments with similar contractual terms, credit risk and remaining term as the discount rate. At 31 December 2023, the non-performance risk associated with investments in debt instruments and receivables for financing was assessed to be insignificant.

3. Level 3 fair value measurement

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the Finance Director. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the Finance Director.

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Year ended 31 December 2023
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X. FAIR VALUE (continued)

3. Level 3 fair value measurement (continued)

The fair values of non-listed equity instrument investments are estimated using discounted valuation model, latest financing price and a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. Discounted valuation model requires the Group to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares; Market-based valuation model requires the Group to determine comparable listed companies based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to sales multiple, for each comparable company identified for market-based valuation model. They are adjusted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The Group believes that the fair values and changes thereof estimated by valuation technique are reasonable and also the most appropriate values at the balance sheet date. For the fair value of unlisted equity instrument investments, the Group estimates the potential impact of using other reasonable and possible assumptions as inputs to the valuation model.

Below is a summary of significant unobservable inputs of fair value measurements within Level 3:

	Fair value at 31 December 2023		
	Valuation techniques	Unobservable inputs	
Non-listed equity instrument investments	35,465,034.27	Discounted valuation model Market multiplier model Recent Financing Price model	Perpetual growth rate, discount rate, liquidity discount, minority interest discount Average price-to-sales ratio of comparable companies and revenue of investee
	Fair value at 31 December 2022		
	Valuation techniques	Unobservable inputs	
Non-listed equity instrument investments	33,902,315.43	Discounted valuation model Market multiplier model	Perpetual growth rate, discount rate, liquidity discount, minority interest discount Average price-to-sales ratio of comparable companies and revenue of investee

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Parent of the Company

The shareholding structure of the Company is dispersed, with no single shareholder holding more than 20% of the shares or determine a majority of the board of directors during the reporting period. Since no party can determine and exercise substantial influence, the Company has no actual controller.

2. Subsidiaries

For details of the subsidiaries of the Company, please refer to Note VII, 1.

3. Joint ventures and associates

In addition to the important joint ventures and associates disclosed in Note VII, 2, other joint venture and associate that has transactions with the Group is as follows:

Related party relationships

Shanghai Puyang Equity Investment Management Co., Ltd. Subsidiary of associated enterprises

4. Other related parties

Related party relationships

Fudan University	Shareholder who indirectly holds more than 5% of the Company's shares
Shanghai Fudan Communication Co., Ltd.	Company in which related natural persons serve as directors
Shanghai Fudan Science Park Co., Ltd.	Company in which related natural persons serve as directors (No longer a related party after September 2022)

Notes to Financial Statements

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties

(1) *Related party transactions of goods and services*

Purchase of goods and services from related parties transaction content

	Notes	Transaction content	2023	Approved transaction limit	Exceeded the transaction limit or not	2022
Fudan University	(1)a	Technical Service Fee	69,856.42	NA	NA	-
Fudan University	(1)a	Receipts of services	388,349.52	NA	NA	1,747,572.81
Shanghai Fudan Communication Co., Ltd.	(1)b	Purchase of goods and receipts of services	943,396.22	NA	NA	2,064,201.03
Shanghai Fudan Science Park Co., Ltd.	(1)c		-			1,603,983.07
			1,401,602.16			5,415,756.91

Sales of goods and services to related parties transaction content

	Notes	Transaction content	2023	2022
Fudan University	(1)d	Provision of labor services	150,943.40	74,528.31
Shanghai Fudan Communication Co., Ltd.	(1)e	Sales of goods	262,333,742.14	236,196,208.03
Spears Innovations Oy Ltd	(1)f	Sales of goods	5,405,695.20	1,756,730.92
			267,890,380.74	238,027,467.26

(2) *Other major related party transactions*

	2023	2022
Compensation of key management personnel	22,874,594.99	20,036,627.04

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties *(continued)*

(3) Notes

(1) Transactions of goods and services with related parties

- (a) On 12 August 2003, the Company signed a contract with Fudan University, the Company's major shareholder. According to the contract, the Company needs to pay Fudan University the technical equipment support fee based on the price negotiated by both parties. In 2023, technical equipment support expenses amounted to RMB69,856.42 (2022: Nil).

On 12 December 2022, the Company signed the contract of technology development with Fudan University, the Company's major shareholder. According to the contract, the Company needs to pay Fudan University technology service fees. In 2023, technical service fees amounted to RMB388,349.52 (2022: RMB1,747,572.81).

- (b) On 12 December 2022, the Company signed a technical service contract with Shanghai Fudan Communication Co., Ltd., according to which the Company was required to pay technical service fees to Shanghai Fudan Communication Co., Ltd. In 2023, technical service fees amounted to RMB943,396.22 (2022: RMB1,179,245.28).

On 7 November 2022, the Company signed a chip procurement contract with Shanghai Fudan Communication Co., Ltd. In 2023, there's no purchase from Shanghai Fudan Communication Co., Ltd. (2022: RMB884,955.75).

- (c) On 1 July 2019, the Company signed a housing lease contract with Shanghai Fudan Science and Technology Park Co., Ltd. Shanghai Fudan Science and Technology Park Co., Ltd. was not a related party of the Group since September 2022, and the lease fee and property fee from January to September 2022 amounted to RMB835,851.40 and RMB768,131.67, respectively.

- (d) On 16 December 2022, 27 April 2023 and 22 November 2023, the Group signed three technical service contracts with Fudan University. Fudan University entrusts the Group to provide technical services and testing services. In 2023, the Group provided labor services of RMB150,943.40. (2022: RMB74,528.31).

- (e) On 26 March 2021, the Company signed a product sales contract with Shanghai Fudan Communication Co., Ltd. In 2023, sales of goods to Shanghai Fudan Communication Co., Ltd. amounted to RMB262,333,742.14 (2022: RMB236,196,208.03).

- (f) On 28 March 2023, 23 March 2023 and 28 August 2023, the Company signed product sales contracts with Spear Innovations Oy Ltd. In 2023, sales of goods to Spear Innovations Oy Ltd. amounted to RMB5,405,695.20 (2022: RMB1,756,730.92).

Note: In addition to the connected transactions with the associated companies, the other major transactions of the Group with related parties mentioned above also partially constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules and connected transactions as defined in Chapter 7 of the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of the Shanghai Stock Exchange.

Notes to Financial Statements

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties *(continued)*

(3) Notes *(continued)*

(2) Other major related party transactions

During the year, the total remuneration (including in money, physical form and other forms) of the key management personnel of the Company incurred by the Group was RMB22,874,594.99 (2022: RMB20,036,627.04).

6. Amounts due from/to related parties

(1) Amounts due from

Related parties		2023		2022	
		Outstanding balance	Impairment allowance	Outstanding balance	Impairment allowance
Notes receivable	Shanghai Fudan Communication Co., Ltd.	51,966,569.40	-	72,023,108.64	-
Accounts receivable	Spear Innovations Oy Ltd	-	-	819,176.25	-
Receivables financing	Shanghai Fudan Communication Co., Ltd.	-	-	445,000.00	-

(2) Amounts due to

Related parties		2023	2022
Contract liabilities	Fudan University	20,707.96	23,400.00
	Shanghai Fudan Communication Co., Ltd.	14,515,916.28	47,117,153.60
	Spear Innovations Oy Ltd	5,241.35	-
		14,541,865.59	47,140,553.60
Other payables	Fudan University	194,174.76	1,747,572.81
	Shanghai Fudan Communication Co., Ltd.	471,698.11	1,179,245.28
		665,872.87	2,926,818.09
Account payables	Shanghai Fudan Communication Co., Ltd.	-	1,000,000.00

Amounts due from/to related parties are interest-free and unsecured.

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XII. SHARE-BASED PAYMENT

On 6 December 2021 (the “First Grant Date”), the Company’s Board of Directors passed the “2021 Restricted Stock Incentive Plan” (hereinafter referred to as the “Option Incentive Plan”) for the purpose of motivating and rewarding persons who contribute to the operations of the Group. Eligible persons include those persons, other than directors and senior management, whom the Board of Directors considers to be in need of incentives. This plan is valid for 5 years, starting from the date of grant of restricted shares. The restricted stocks granted for the first time will be exercised in four batches according to the exercise ratio of 25%, 25%, 25% and 25% after a 12-month exercise restriction period starting from the first grant date, provided that the exercise conditions are met. The reserved restricted stocks will be divided into three batches according to the exercise ratio of 30%, 30% and 40% after a 12-month exercise restriction period starting from the reserved grant date, provided that the exercise conditions are met.

On 10 May 2023, 29 May 2023 and 25 December 2023, Sino IC’s board of directors passed “Motion of 2023 Stock Option Incentive Plan (Draft)”, “Adjustment of 2023 Stock Option Incentive Plan” and “Motion of Reserved Stock Option Plan Granted to Incentive Recipients “. Stock Options were granted to incentive recipients under this plan, the vesting period are 12 months, 24 months and 36 months after the first grant, the vesting period are 12 months and 24 months after the first grant for the reserved stock option. 40%, 30% and 30% of the stocks option granted for the first time will be vested yearly starting from the first vesting period. 50% and 50% of the reserved stock option granted will be vested yearly starting from the first vesting period. Sino IC granted the stock option and reserved stock option on 29 May 2023 and 25 December 2023 respectively.

The various equity instruments granted are as follows:

	Granted this year Quantity (0.01 million shares)	Exercise this year Quantity (0.01 million shares)	Unlocked this year Quantity (0.01 million shares)	Expired this year Quantity (0.01 million shares)
Management personnel	323.00	4.25	4.25	5.36
R&D personnel	225.00	182.74	182.74	20.09
Salesman	142.00	53.40	53.40	7.69
Production personnel	105.00	–	–	1.29
Total	795.00	240.39	240.39	34.43

The various equity instruments outstanding for the Company at the end of the year are as follows:

	Exercise price	Other equity instruments Remaining duration of the contract
Salesman	RMB17.80/share	3 years
Management personnel	RMB17.80/share	3 years
R&D personnel	RMB17.80/share	3 years

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XII. SHARE-BASED PAYMENT *(continued)*

The various equity instruments issued by Sino IC, the subsidiary of the Company, at the end of the year are as follows:

	Range of exercise price	Other Equity Instruments Remaining duration of the contract
Management personnel	RMB5.43/Share	Within 48 months from the date of the first grant and within 36 months from the date of grant of the reserved stock option
R&D personnel	RMB5.43/Share	Within 48 months from the date of the first grant and within 36 months from the date of grant of the reserved stock option
Salesman	RMB5.43/Share	Within 48 months from the date of the first grant and within 36 months from the date of grant of the reserved stock option
Production personnel	RMB5.43/Share	Within 48 months from the date of the first grant and within 36 months from the date of grant of the reserved stock option

The Company's equity-settled share-based payments details are as follows:

	2023
Method for determining the fair value of equity instruments on the date of grant	Black-Scholes option pricing model
Important parameters of fair value of equity instruments on grant date	Dividend Ratio, historical volatility, Risk-free interest rate, weighted average share price
Basis for determining the quantity of exercisable equity instruments	Best estimation based on achievements of prescribed performance condition and assessment of the grantee's performance during the vesting period
Reasons for significant differences between this year's estimates and last year's estimates	Nil
Accumulated amounts recorded in the capital reserves for the equity-settled share-based payments	RMB278,208,311.04

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Year ended 31 December 2023

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XII. SHARE-BASED PAYMENT *(continued)*

The Sino IC's equity-settled share-based payments details are as follows:

	2023
Method for determining the fair value of equity instruments on the date of grant	Option pricing model
Important parameters of fair value of equity instruments on grant date	Dividend Ratio, expected volatility, Risk-free interest rate, expected duration
Basis for determining the quantity of exercisable equity instruments	At each balance sheet date during the vesting period, best estimation based on subsequent information, including performance assessment results etc.. Adjust the expected of quantity of exercisable equity instruments
Accumulated amounts recorded in the capital reserves for the equity-settled share-based payments	RMB12,964,600.00

Expense relating to Share-based payment incurred during the year are as follows:

	Expense relating to equity-settled share-based payments
Production personnel	1,344,100.00
Salesman	27,874,561.14
Management personnel	7,542,971.04
R&D personnel	87,932,049.88
Total	124,693,682.06

XIII. COMMITMENTS AND CONTINGENCIES

1. Significant Commitments

	2023	2022
Capital commitments	202,947,261.42	204,494,238.41

For lease commitments as a lessee, refer to Note V, 57.

Notes to Financial Statements

Year ended 31 December 2023

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XIV. COMMITMENTS AND CONTINGENCIES

2. Contingencies

As at the balance sheet date, the Group had no significant contingencies that should be disclosed.

XV. EVENTS AFTER THE BALANCE SHEET DATE

On 22 March 2024, the fourteenth meeting of the ninth session of the Board was held to approve the profit distribution proposal for the year 2023 to distribute cash dividends of RMB81,906,040.00 (i.e. cash dividends of RMB0.1 per share).

XVI. OTHER SIGNIFICANT EVENTS

1. Segment reporting

Operating segment

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

- (1) The design, development and sale of IC products segment (“Design segment”): Production of security and identification chips, non-volatile memory, smart meter chips, FPGAs and other chips, etc.
- (2) The provision of testing services for IC products segment (“Testing segment”: IC chip and IC product testing services.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss before tax. The segment profit/loss before tax is measured consistently with the Group’s profit/loss of continuing operation.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

2023

	Design segment	Testing segment	Offsets between segments	Consolidation
Sales to external customers	3,350,877,320.55	185,382,103.05	–	3,536,259,423.60
Intersegment sales	–	130,107,523.56	(130,107,523.56)	–
Loss from investments in joint ventures and associates	239,042.91	–	–	239,042.91
Assets impairment loss	133,519,476.99	–	–	133,519,476.99
Depreciation and amortisation	138,598,074.16	100,930,735.42	29,110,168.48	268,638,978.06
Total profit before tax	706,248,069.67	77,363,051.78	(31,760,266.73)	751,850,854.72
Income tax	4,764,040.01	2,500,493.06	(4,272,425.63)	2,992,107.44
Total assets	7,128,640,710.76	1,319,631,808.63	(36,921,633.00)	8,411,350,886.39
Total liabilities	2,282,620,554.24	203,950,156.01	(36,921,633.00)	2,449,649,077.25
Long-term equity investments in joint ventures and associates	42,519,687.82	–	–	42,519,687.82
Capital expenditure	487,043,775.58	620,917,401.57	(22,221,323.64)	1,085,739,853.51

Notes to Financial Statements

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XVI. OTHER SIGNIFICANT EVENTS *(continued)*

1. Segment reporting *(continued)*

Operating segment (continued)

Note: Capital expenditures include investment properties, fixed assets, construction in progress, right-of-use assets, intangible assets, development expenditures, long-term deferred expenses and other non-current asset expenditures.

2022

	Design segment	Testing segment	Offsets between segments	Consolidation
Sales to external customers	3,320,289,784.66	218,619,100.28	–	3,538,908,884.94
Intersegment sales	–	56,874,755.04	(56,874,755.04)	–
Loss from investments in joint ventures and associates	8,129,075.27	–	–	8,129,075.27
Assets impairment loss	162,804,292.45	–	–	162,804,292.45
Depreciation and amortisation	113,732,265.77	79,684,301.81	–	193,416,567.58
Total profit	1,044,270,275.62	74,471,328.17	2,929,933.03	1,121,671,536.82
Income tax	5,336.12	4,443,217.38	(202,630.81)	4,245,922.69
Total assets	4,961,230,529.35	1,149,715,956.74	(58,432.00)	6,110,888,054.09
Total liabilities	835,915,645.30	121,861,462.84	(58,432.00)	957,718,676.14
Long-term equity investments in joint ventures and associates	42,508,902.76	–	–	42,508,902.76
Capital expenditure	508,335,862.88	411,720,789.83	–	920,056,652.71

Other information

Geographic information

Refer to Note V, 38 for more details relating to revenue by place of business, products and service.

Total Non-current assets

	2023	2022
Mainland China	2,433,021,501.27	1,745,341,002.45
Others	1,451,487.97	1,299,947.19
Total	2,434,472,989.24	1,746,640,949.64

Non-current assets are attributable to the area in which the asset is located, excluding financial assets and deferred tax assets.

Major customers information

In 2023, the Group's revenue of RMB797,639,612.21 (generating revenue equal to or exceeding 10% of the Group's revenue) was derived from a single customer group. (2022: RMB438,971,141.68).

Notes to Financial Statements

Year ended 31 December 2023
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XVI. OTHER SIGNIFICANT EVENTS *(continued)*

2. Remuneration of key management personnel

The remuneration of directors, supervisors and Chief Executive disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2023	2022
Fees	600,012.00	600,012.00
Salaries, allowances and benefits in kind	7,561,645.31	7,761,524.63
Bonus	2,231,298.08	2,095,593.03
Pension scheme contributions	135,815.04	125,187.84
Total	10,528,770.43	10,582,317.50

(1) Remuneration of independent non-executive director

Director's emoluments paid to independent non-executive directors during the year were as follows:

	2023	2022
Mr. Cao Zhongyong	200,004.00	200,004.00
Mr. Wang Pin	200,004.00	200,004.00
Ms. Zou Fuwen	200,004.00	116,669.00
Mr. Guo Li	–	83,335.00
Mr. Cai Minyong	–	–
Total	600,012.00	600,012.00

(2) Remuneration of executive directors, non-executive directors and supervisors 2023

	Salaries, allowances and benefits in kind	Bonus	Pension scheme contributions and social welfare	Total
Executive directors:				
Mr. Jiang Guoxing	–	450,000.00	–	450,000.00
Mr. Shi Lei	3,202,344.76	762,500.00	67,907.52	4,032,752.28
Mr. Yu Jun	2,208,764.40	570,000.00	–	2,778,764.40
Ms. Cheng Junxia	1,126,057.96	275,000.00	–	1,401,057.96
Total	6,537,167.12	2,057,500.00	67,907.52	8,662,574.64

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XVI. OTHER SIGNIFICANT EVENTS *(continued)*

2. Remuneration of key management personnel *(continued)*

(2) Remuneration of executive directors, non-executive directors and supervisors *(continued)*

2023 *(continued)*

	Salaries, allowances and benefits in kind	Bonus	Pension scheme contributions and social welfare	Total
Non-executive directors:				
Ms. Zhang Qianling	-	-	-	-
Mr. Wu Ping	-	-	-	-
Ms. Liu Huayan	-	-	-	-
Mr. Sun Zheng	-	-	-	-
Total	-	-	-	-
Supervisors:				
Ms. Zhang Yanfeng	824,474.19	173,798.08	67,907.52	1,066,179.79
Ms. Tang Xiaojie	-	-	-	-
Me. Ren Junyan	200,004.00	-	-	200,004.00
	1,024,478.19	173,798.08	67,907.52	1,266,183.79
Total	7,561,645.31	2,231,298.08	135,815.04	9,928,758.43

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XVI. OTHER SIGNIFICANT EVENTS *(continued)*

2. Remuneration of key management personnel *(continued)*

(2) Remuneration of executive directors, non-executive directors and supervisors *(continued)*

2022

	Salaries, allowances and benefits in kind	Bonus	Pension scheme contributions and social welfare	Total
Executive directors:				
Mr. Jiang Guoxing	–	300,000.00	–	300,000.00
Mr. Shi Lei	3,293,362.06	762,500.00	62,593.92	4,118,455.98
Mr. Yu Jun	2,366,980.00	570,000.00	–	2,936,980.00
Ms. Cheng Junxia	1,125,457.96	275,593.03	–	1,401,050.99
Total	6,785,800.02	1,908,093.03	62,593.92	8,756,486.97
Non-executive directors:				
Ms. Zhang Qianling	–	–	–	–
Mr. Wu Ping	–	–	–	–
Ms. Liu Huayan	–	–	–	–
Mr. Sun Zheng	–	–	–	–
Total	–	–	–	–
Supervisors:				
Ms. Zhang Yanfeng	775,720.61	187,500.00	62,593.92	1,025,814.53
Ms. Tang Xiaojie	–	–	–	–
Me. Ren Junyan	200,004.00	–	–	200,004.00
	975,724.61	187,500.00	62,593.92	1,225,818.53
Total	7,761,524.63	2,095,593.03	125,187.84	9,982,305.50

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XVI. OTHER SIGNIFICANT EVENTS *(continued)*

2. Remuneration of key management personnel *(continued)*

(3) Five highest paid employees

The five highest paid employees during the year included 2 directors (2022: 2 directors), details of whose remuneration are set out in Note XVI, 2(2). Details of the remuneration of the remaining three highest paid employees who are neither a director nor supervisor of the Group are as follows:

	2023	2022
Salaries, allowances and benefits in kind	7,523,891.80	6,119,663.89
Pension scheme contributions	67,907.52	125,187.84
Total	7,591,799.32	6,244,851.73

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	2023	2022
HK\$1,000,000 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	3	3
Total	3	3

XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

1. Accounts receivable

An ageing analysis of accounts receivable recognised by invoice date is as follows:

	2023	2022
Within 1 year	760,088,192.68	648,075,645.05
Over 1 year	177,243,397.21	56,921,902.68
	937,331,589.89	704,997,547.73
Less: Impairment allowance	21,720,013.73	14,203,771.43
Total	915,611,576.16	690,793,776.30

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XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

1. Accounts receivable (continued)

2023

	Book balance		Impairment allowance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable for which impairment allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	765,073,292.23	81.62	17,308,068.45	2.26	747,765,223.78
Industrial Sales Portfolio	141,385,985.11	15.08	4,411,945.28	3.12	136,974,039.83
Related party portfolio in the scope of consolidation	30,872,312.55	3.30	-	-	30,872,312.55
Total	937,331,589.89	100.00	21,720,013.73	2.32	915,611,576.16

2022

	Book balance		Impairment allowance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable for which impairment allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	462,229,531.89	66.56	4,980,898.80	1.08	457,248,633.09
Industrial Sales Portfolio	227,958,545.99	32.33	9,222,872.63	4.05	218,735,673.36
Related party portfolio in the scope of consolidation	14,809,469.85	2.10	-	-	14,809,469.85
Total	704,997,547.73	100.00	14,203,771.43	2.01	690,793,776.30

Accounts receivable with bad debt provision based on a combination of sales of highly reliable products are as follows:

	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	591,992,607.76	-	-
1 to 5 years	173,080,684.47	10.00	17,308,068.45
Total	765,073,292.23	2.26	17,308,068.45

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XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

1. Accounts receivable (continued)

Accounts receivable with bad debt provision based on a combination of industrial sales amounts are as follows:

	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 6 months	133,690,770.87	—	—
6 to 9 months	2,402,538.14	10.00	240,253.81
9 to 12 months	1,036,294.29	20.00	207,258.86
1 to 2 years	583,898.40	50.00	291,949.20
Over 2 years	3,672,483.41	100.00	3,672,483.41
Total	141,385,985.11	3.12	4,411,945.28

Accounts receivable with bad debt provision based on a combination of amounts from related parties within the scope of consolidation are as follows:

	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	30,872,312.55	—	—

The movements in impairment allowance of accounts receivable are as follows:

	Opening balance	Provision	Recovery or reversal	Written-off	Closing balance
2023	14,203,771.43	10,297,505.55	—	2,781,263.25	21,720,013.73

Notes to Financial Statements

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XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

2. Other receivables

An ageing analysis of other receivables is as follows:

	2023	2022
Within 1 year	5,780,915.95	2,305,340.81
1 to 2 years	58,944.44	728,607.67
2 to 3 years	192,625.50	395,646.07
Over 3 years	1,764,315.14	1,410,260.94
	7,796,801.03	4,839,855.49
Less: Impairment allowance on other receivables	–	–
Total	7,796,801.03	4,839,855.49

Book balance of other receivables are classified as follows:

	2023	2022
Deposit guarantee	2,420,346.82	2,014,659.59
Collection and payment	233,429.83	1,139,096.00
Reserve fund	54,000.00	54,000.00
Others	5,089,024.38	1,632,099.90
Total	7,796,801.03	4,839,855.49

3. Long-term equity investments

	2023	2022
Subsidiaries	90,836,307.13	90,836,307.13
Associated companies	41,923,057.35	41,841,257.40
Total	132,759,364.48	132,677,564.53

Notes to Financial Statements

Year ended 31 December 2023

Expressed in Renminbi Yuan

XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

Subsidiaries

2023

	Opening balance	Increase	Decrease	Closing balance	Provision
Sino IC Technology Co., Ltd.	25,146,906.64	-	-	25,146,906.64	-
Shanghai Fudan Microelectronics (HK) Limited	40,262,700.49	-	-	40,262,700.49	-
Shenzhen Fudan Microelectronics Co., Ltd.	5,000,000.00	-	-	5,000,000.00	-
Beijing Fudan Micro-Electronic Technology Co., Ltd.	10,000,000.00	-	-	10,000,000.00	10,000,000.00
Shanghai Fuwei Xunjie Digital Technology Co., Ltd.	20,426,700.00	-	-	20,426,700.00	-
Total	100,836,307.13	-	-	100,836,307.13	10,000,000.00

Provision for impairment of long-term equity investments:

2023

	Opening balance	Increase	Decrease	Closing balance
Beijing Fudan Micro-Electronic Technology Co., Ltd.	10,000,000.00	-	-	10,000,000.00

Notes to Financial Statements

Year ended 31 December 2023
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VII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

Associated companies

2023

	Opening balance	Changes for the year			Closing balance
		Increase	Investment profit or loss under the equity method	Other equity changes	
Shanghai Xihongqiao Navigation Technology Co., Ltd.	3,534,127.27	-	(126,248.06)	-	3,407,879.21
Shanghai Fukong Hualong Microsystem Technology Co., Ltd.	12,076,294.68	-	424,388.17	-	12,500,682.85
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	16,632,738.69	-	7,601.65	-	16,640,340.34
Shanghai Haojun Venture Capital Partnership (Limited Partnership)	9,598,096.76	-	(223,941.81)	-	9,374,154.95
Total	41,841,257.40	-	81,799.95	-	41,923,057.35

4. Revenue and Cost of Sales

	2023		2022	
	Revenue	Cost	Revenue	Cost
Primary business	3,308,386,899.40	1,293,950,948.07	3,283,724,006.75	1,150,912,519.68
Other businesses	13,865,720.03	9,442,749.53	28,808,619.97	9,957,877.92
Total	3,322,252,619.43	1,303,393,697.60	3,312,532,626.72	1,160,870,397.60

Notes to Financial Statements

Year ended 31 December 2023

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XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

4. Revenue and Cost of Sales (continued)

The breakdown of operating revenue from contract with customers is as follows:

2023

Reporting segments	Design and sales of integrated circuits
Main product types	
Security and identification chips	863,034,567.89
Non-volatile memory	1,066,718,417.91
Smart meter chips	275,068,683.71
FPGA and other chips	1,113,349,831.99
Rental income	4,081,117.93
Total	3,322,252,619.43

2022

Reporting segments	Design and sales of integrated circuits
Main product types	
Security and identification chips	975,445,941.52
Non-volatile memory	937,593,216.75
Smart meter chips	594,579,681.69
FPGA and other chips	798,716,335.78
Rental income	6,197,450.98
Total	3,312,532,626.72

The breakdown of operating costs for the year is as follows:

Reporting segments	Design and sale of integrated circuits
Main product types	
Security and identification chips	558,935,617.11
Non-volatile memory	392,163,467.21
Smart meter chips	168,719,763.50
FPGA and other chips	179,690,441.18
Rental income	3,884,408.60
Total	1,303,393,697.60

Notes to Financial Statements

Year ended 31 December 2023
Expressed in Renminbi Yuan

XVII. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

4. Revenue and Cost of Sales (continued)

Revenue recognised in the current year included in the opening carrying value of contract liabilities is as follows:

	2023	2022
Sale of goods	208,945,883.83	124,745,290.02

5. Research and development expenses

	2023	2022
Staff costs	523,640,151.98	392,535,949.79
Material and proceeding costs	179,391,794.71	117,260,441.74
Depreciation and amortisation	115,825,363.49	65,275,116.36
Professional service fee	50,094,984.53	20,668,756.06
Office and administrative expenses	3,567,292.63	2,378,849.85
Travel expenses	2,364,173.57	623,146.36
Expense for incentive plan	66,206,225.09	93,728,472.47
Others	2,715,664.68	2,997,889.09
Total	943,805,650.68	695,468,621.72

6. Investment income/(loss)

	2023	2022
Income/(loss) on long-term equity investment under the equity method	81,799.95	(7,994,756.46)
Investment income from financial instruments held for trading	3,032,027.80	6,057,399.84
Total	3,113,827.75	(1,937,356.62)

Supplementary Information to Financial Statements

Year ended 31 December 2023

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1. STATEMENT OF NON-RECURRING PROFIT OR LOSS

	Amount
Gains or losses on disposal of non-current assets, including the write-off of the provision for impairment of assets	1,236,606.63
Government grants charged to profit or loss for the current period (except for those which are closely related to the normal operation of a company, comply with the provisions of state policies, are enjoyed under specific standards, and have a continuing impact on the profits and losses of the Company).	156,564,802.55
Except for the effective hedging activities related to the Company's ordinary operation, profit or loss arising from changes in the fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and investment income from the disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments	3,328,473.27
Non-operating income and expenses other than aforesaid items	433,800.91
	161,563,683.36
Effect of income tax	(2,183,969.58)
Effect of non-controlling interests (net of tax)	(12,377,565.93)
Total	147,002,147.85

The Group recognized non-recurring profit and loss items in accordance with “Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profits and Losses (Revised in 2023)” (Announcement [2023] No. 65 of the China Securities Regulatory Commission (CSRC)).

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	14.68	0.88	0.87
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	11.68	0.70	0.70

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
TOTAL ASSETS	8,411,351	6,110,888	4,165,014	2,678,603	2,459,127
TOTAL LIABILITIES	(2,449,649)	(957,719)	(798,112)	(566,552)	(520,019)
MINORITY INTERESTS	(658,726)	(621,939)	(226,657)	(181,799)	(154,385)
	5,302,976	4,531,230	3,140,245	1,930,252	1,784,723

RESULTS

	For the year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
REVENUE	3,536,259	3,538,909	2,577,262	1,690,897	1,472,839
NET PROFIT/(LOSS)	748,859	1,117,265	559,325	160,282	(148,961)
ATTRIBUTABLE TO:					
SHAREHOLDERS OF THE PARENT					
COMPANY	719,495	1,076,843	514,467	132,868	(161,936)
MINORITY INTERESTS	29,364	40,421	44,858	27,414	12,975
EARNINGS/(LOSS) PER SHARE					
BASIC (RMB)	0.88	1.32	0.69	0.19	(0.23)
DILUTED(RMB)	0.87	1.31	0.69	N/A	N/A