



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)

2021

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

Non-executive Directors

Ms. Zhang Qianling
Mr. Wu Ping
Ms. Liu Huayan (appointed on 5 November 2021)
Mr. Sun Zheng (appointed on 5 November 2021)
Mr. Ma Zhicheng (resigned on 5 November 2021)
Ms. Zhang Huajing (resigned on 5 November 2021)

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Li Wing Sum, Steven *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

Mr. Shi Lei
Mr. Li Wing Sum, Steven

AUDIT COMMITTEE

Mr. Wang Pin (*Chairman*)
Mr. Guo Li
Mr. Cai Minyong

NOMINATION COMMITTEE

Mr. Cai Minyong (*Chairman*)
Mr. Guo Li
Ms. Cheng Junxia

REMUNERATION AND EVALUATION COMMITTEE

Mr. Cai Minyong (*Chairman*)
Mr. Guo Li
Ms. Cheng Junxia

STRATEGIC AND INVESTMENT COMMITTEE

Ms. Cheng Junxia (*Chairman*)
Mr. Jiang Guoxing
Mr. Shi Lei
Mr. Yu Jun
Mr. Cai Minyong (Appointed on 12 March 2021)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Mr. Jiang Guoxing (*Chairman*)
Ms. Cheng Junxia
Mr. Cao Zhongyong

SUPERVISORY COMMITTEE

Ms. Zhang Yanfeng (*Chairman*)
Mr. Ren Junyan
Ms. Tang Xiaojie (appointed on 5 November 2021)
Mr. Gu Weizhong (resigned on 5 November 2021)

AUDITOR

Ernst & Young, Certified Public Accountants (terminated on 5 November 2021)
Ernst & Young Hua Ming LLP (appointed on 5 November 2021)

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
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai, 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.cn

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 2021.

In 2021, the COVID-19 pandemic continued to ravage countries around the world, severely impacting the economy and people's livelihood. Affected by the international situation, the COVID-19 pandemic and the supply chain capacity shortage, the supply chain of global semiconductor integrated circuit industry was unstable. The “home economy” of remote office, online teaching and consumption has also accelerated the pace of transformation of global digital economy, and the commercialization of emerging technologies such as 5G/6G, artificial intelligence (AI) and the Internet of Things (IoT) have entered a boom in commercialization, the global semiconductor market still showed a certain degree of positive growth. According to the latest data from IC Insights, the total sales of global semiconductor integrated circuit market reached US\$509.8 billion in 2021, an increase of 25% compared to 2020. The chip industry in China maintained a high growth trend. In terms of economic indicators, according to statistics from China Semiconductor Industry Association (CSIA), the sales of China's integrated circuit industry from January to September 2021 were RMB685.86 billion, a year-on-year increase of 16.1%. In addition, according to statistics from China Semiconductor Industry Association IC Design Branch (ICCAD), in 2021, the industry-wide sales of semiconductor integrated circuit design industry were approximately RMB458.69 billion. The scale of chip design industry in which the Company is engaged continued to grow. According to statistics from ICCAD, the number of integrated circuit design companies in China reached 2,810 in 2021.

In 2021, the Group ushered in a number of good news. The Company completed the proposed initial public offering of A shares on 4 August 2021 and successfully listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange. The Company publicly issued a total of 120,000,000 RMB ordinary shares (A shares) with a par value of RMB0.1 per share, the issue price per share was RMB6.23, and the total amount of funds raised was RMB747,600,000; after deducting issuance expenses, the actual net amount of funds raised was RMB680,282,800. The proposed adoption of 2021 restricted share incentive plan was approved by the shareholders of the Company at the extraordinary general meeting and the class meetings held on 5 November 2021. The Company will allot and issue no more than 10,000,000 restricted shares under the incentive plan, and the total amount of funds raised will be no more than RMB180,000,000. All proceeds from the subscription of restricted shares to be issued under the incentive plan are intended to be used to supplement working capital. The assessment indicators set in the plan are challenging to a certain extent, which will help improve the Company's competitiveness and mobilize the enthusiasm of employees, ensure the realization of the Company's future development strategy and business objectives, and bring more efficient and lasting returns to shareholders. For the year ended 31 December 2021, the Group's results recorded a new high, and operating income increased by approximately 52.42% compared to last year; net profit attributable to shareholders of the parent increased by approximately 287.20%; net profit after non-recurring gains and losses attributable to shareholders of the parent increased by approximately 1,013.88%. According to the announcement of the Company dated 6 December 2021, the Company is considering a public offering and listing of Sino IC Technology Co., Ltd. (上海華嶺集成電路技術股份有限公司) (“Sino IC”), a subsidiary in which the Company has approximately 50.29% equity interests, on the Beijing Stock Exchange. If the plan is completed, the Group will obtain more funds to expand its business and further strengthen its financial resources. In addition, the prices of A shares and H shares of the Company also hit new highs during the year, bringing ideal investment returns and income to shareholders.

On 18 March 2022, the Board of Directors approved the profit distribution proposal for 2021 and proposed to distribute a cash dividend of RMB0.65 per ten shares, totaling RMB52,942,630. The proposed dividend distribution shall be submitted to the shareholders' general meeting for consideration and approval.

The Board of Directors hereby expresses our sincere gratitude to the employees who still worked hard during the pandemic and expresses our deep appreciation for the long-term valuable support and trust of the management and employees of the Group as well as the shareholders and partners of the Company.

Management Discussion and Analysis

I. DISCUSSION AND ANALYSIS OF OPERATION

In 2021, the integrated circuit industry still faced great challenges on both sides of supply and demand. On the demand side, the digital transformation of the global economy accelerated, and the development of application scenarios such as the Internet of Things, new energy vehicles, and the “home” economy greatly increased the demand for chip performance and output from channels to end users; On the supply side, due to the repeated pandemics, unstable trade environment and other factors, the stability of the supply chain was insufficient. In the face of the complex situation, the Company overcame the challenges, and achieved significant increase sales and profits. During the year of 2021, the Company achieved a 52.42% increase in operating income compared with the same period of the previous year; and realized a net profit attributable to shareholders of the listed company of approximately RMB514 million, an increase of 287.20% over the same period of the previous year; the net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses for the period amounted to approximately RMB445 million, an increase of 1015.57% over the same period of the previous year. The report on the business situation in 2021 is as follows:

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

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

1. *Product line of security and identification chips*

The product line has several sub-product series such as RFID and sensor chip (formerly “RFID and memory card chip”), smart card and security chip, and smart identification device chip. In 2021, it achieved sales revenue of approximately RMB866 million, and delivered more than 1.4 billion units of goods in total.

During the year ended 31 December 2021 (the “Reporting Period”), the product line adhered to the high-quality service route of “overall solution system” and “deeply cultivated terminal key customers” that integrates and complements sub-product lines, and achieved good results. The RFID product line combined NFC technology with PUF-based physical unclonable technology, and formed a special anti-counterfeiting chip, which has established a good and stable customer reputation in the field of anti-counterfeiting traceability of high-level conference documents, alcohol and other high-value items. On the basis of maintaining the competitiveness of in traditional industries including smart cards, contactless readers and others, our smart card and security chip, smart identification device chip has steadily expanded into new fields represented by the Internet of Things such as device security certification, communication security, and device connection. Among them, the FM1280 chip for smart cards and security chips and the FM17 series of read-write chip products for smart device chips have all successfully obtained AEC-Q100 certification, achieved breakthroughs in the fields of automotive TBOX security chips and digital keys. The research and development of key new products in this product line has been well developed. The development of ultra-high frequency RFID chips, ultra-high frequency read-write chips, and security SE chips continued to advance with expectation to be mass-produced successively.

Management Discussion and Analysis

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

(I) Stabilized the Supply Chain, Expanded New Customers, and Explored New Scenarios *(Continued)*

2. *Product line of non-volatile memory chips*

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

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

3. *Product line of smart meter chips*

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

During the Reporting Period, smart meter MCU contributed approximately 75.65% of the operating income for the product line. The Company is an early start-up enterprise in the design of MCU chips for smart meters in China, and has accumulated profound technical reserves in the field. The FM33A048(B) large-capacity smart meter MCU of the Company was rated as the “Top 100” and Independent Innovation “Top Ten” in Shanghai’s high-tech achievement transformation projects in 2020. In 2021, under the pressure of the supply chain, the product line worked hard to cooperate with customers for inspection and mass production, continued to follow up on changes in specifications such as high-protection and long-life meters, and maintained a growth trend in operating income.

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

Management Discussion and Analysis

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

(I) Stabilized the Supply Chain, Expanded New Customers, and Explored New Scenarios *(Continued)*

4. *FPGA and other products*

The Company is one of the leading companies in the field of FPGA technology in China. At present, we can provide three series of products: 10 million-gate-level FPGA chips, 100 million-gate-level FPGA chips and embedded programmable devices (PSoC). Other products are mainly including smart electrical chips and special chips for residual current protection.

FPGA and other products achieved sales revenue of approximately RMB427 million in 2021. The Company has the first domestically marketed embedded programmable PSoC, which can well meet the needs of high-speed communication, signal processing, image processing, industrial control and other application fields, and has received good market response.

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

5. *Testing Services*

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

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

Management Discussion and Analysis

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

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

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

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

During the Reporting Period, the Company applied for 47 invention patents, obtained 33 invention patents; obtained 5 utility model patents and 16 software copyright certification; and obtained 12 integrated circuit layout design registration certificates. As of the end of the Reporting Period, the Company had 212 domestic and foreign invention patents, 12 utility model patents, 3 design patents, 154 integrated circuit layout design registration certificates, and 229 computer software copyrights. The Company is applying for 232 invention patents.

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

1. Principal activities

The Company is a professional company engaged in the design, development and testing of very large integrated circuits as well as provision of system solutions to customers. The Company has established and improved product lines such as security and identification IC chips, non-volatile memory chips, smart meter ASIC chips, FPGA chips and testing services for IC products. The products are widely used in numerous fields such as finance, social security, telecommunication, household appliance, motor electronics, industrial control, signal processing, data center and artificial intelligence.

Management Discussion and Analysis

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

2. Main products and services

2.1 Security and identification IC chips

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

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

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

Management Discussion and Analysis

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

2. Main products and services *(Continued)*

2.2 Non-volatile memory chips

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

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

Product type	Product description	Application fields
EEPROM memory chips	It is mainly composed of FM24/FM25/FM93 series, supports I2C, SPI and Micro Wire interfaces, and has a storage capacity of 1Kbit-1024Kbit	Mobile phone module, smart meter, communication, home appliances, display, LCD panel, automotive electronics, computer memory strip, medical instruments, industrial control instruments, Bluetooth module, password lock, etc.
NOR Flash memory chips	It is mainly composed of FM25/FM29 series, supports SPI and general parallel interface, and has a storage capacity of 0.5Mbit-256Mbit	Network communication, IoT module, computer and peripheral products, mobile phone module, display and screen module, smart meter, security monitoring, on-board box, Ukey, automotive electronic medical instruments, chip sealing, industrial control instruments, Bluetooth module, high reliability application, etc.
SLC NAND Flash memory chips	It is mainly composed of FM25/FM9 series, supports SPI and ONFI parallel interfaces, and has a storage capacity of 1Gbit-4Gbit	Network communication, security monitoring, on-board box, automotive electronics, medical instruments, etc.

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, OPERATING MODEL OF THE COMPANY, CONDITIONS OF THE INDUSTRY AND RESEARCH AND DEVELOPMENT 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 of power consumption information measurement, automatic reading, information transmission of industrial and household users, etc.; general low-power MCU products can be applied to many fields including smart meter, smart water, gas and heat meter, smart home, Internet of Things, etc.

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

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

Management Discussion and Analysis

II. PRINCIPAL BUSINESSES, OPERATING MODEL OF THE COMPANY, CONDITIONS OF THE INDUSTRY AND RESEARCH AND DEVELOPMENT 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 upgrading cycles and large technical uncertainty. The Company is one of the leading companies in the field of FPGA technology in the PRC.

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

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

Management Discussion and Analysis

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

2. Main products and services *(Continued)*

2.5 Testing services for IC products

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

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

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

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

- (1) Due to the strong demand in the downstream application market of integrated circuit, the Company has seized the development opportunities in the industry, actively explored market and new customers, optimized the product and customer structure, and achieved growth in the operating revenue of each product line;
- (2) Benefiting from the introduction of new products and the increase of unit prices of some products, the comprehensive gross profit margin increased by 12.95 percentage points over the previous year;
- (3) To maintain and enhance the Company's core competitiveness, the Company continued to keep its strength in increase investment of research and development, with an investment amount of approximately RMB749 million for the year, representing an increase of 41.46% over the previous year;
- (4) Due to implementation of restricted share incentive scheme, the share-based payment of the Company increased to RMB14.0715 million, which is included in the recurring profit or loss, representing an increase of 974.79% over the previous year.

Management Discussion and Analysis

MAIN BUSINESS ANALYSIS

1. Analysis of Changes in Income Statement and Cash Flow Statement Related Subjects

Item	RMB0'000		
	2021	2020	Change (%)
Revenue	257,726.23	169,089.68	52.42
Cost of sales	105,892.35	91,378.33	15.88
Taxes and surcharges	1,226.31	750.05	63.50
Selling expenses	17,163.94	11,743.09	46.16
Administrative expenses	11,205.55	10,298.50	8.81
Research and development expenses	(117.17)	309.99	Not applicable
Finance expenses	69,163.73	49,054.81	40.99
Investment income	(271.36)	(20.35)	1,233.73
Asset impairment losses	(6,488.05)	(669.05)	869.73
Net cash flows from operating activities	60,220.49	21,965.27	174.16
Net cash flows from investing activities	(118,279.73)	(20,732.94)	470.49
Net cash flows from financing activities	71,880.57	(7.36)	Not applicable

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

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

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

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

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

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

Management Discussion and Analysis

MAIN BUSINESS ANALYSIS (Continued)

1. Analysis of Changes in Income Statement and Cash Flow Statement Related Subjects (Continued)

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

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

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

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

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

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

2. Status of assets and liabilities

Item	At 31 December 2021	Balance as at the end of the Reporting Period as a percentage of total assets (%)		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 (%)
		At 31 December 2021	At 31 December 2020	At 31 December 2020	At 31 December 2019	
Cash at bank and on hand	80,164.72	19.26	44,069.97	16.45	81.90	
Financial assets held for trading	39,094.81	9.39	-	-	Not applicable	
Prepayments	8,436.29	2.03	6,409.80	2.39	31.62	
Inventories	91,608.31	22.01	61,059.76	22.80	50.03	
Fixed assets	56,787.65	13.64	34,758.83	12.98	63.38	
Intangible assets	7,483.32	1.80	11,716.24	4.37	(36.13)	
Development costs	17,272.81	4.15	10,487.55	3.92	64.70	
Long-term prepaid expenses	5,737.88	1.38	2,903.99	1.08	97.59	
Contract liabilities	12,627.48	3.03	2,570.45	0.96	391.26	
Employee benefits payable	16,201.21	3.89	11,442.03	4.27	41.59	
Current portion of non-current liabilities	4,483.29	1.08	999.98	0.37	348.34	
Other current liabilities	13,277.11	3.19	10,016.10	3.74	32.56	

Management Discussion and Analysis

MAIN BUSINESS ANALYSIS *(Continued)*

2. Status of assets and liabilities *(Continued)*

Reasons for changes in cash at bank and on hand: mainly due to the fund raising from initial public offering of the Company during the Reporting Period.

Reasons for changes in financial assets held for trading: mainly due to increasing acquisitions of structured deposits by the Company during the Reporting Period.

Reasons for changes in prepayments: mainly due to expansion of the Company's operating business; tight upstream supply chain during the Reporting Period, which caused the Company to increase prepayment on purchases.

Reasons for changes in inventories: mainly due to the tight upstream supply chain during the Reporting Period, which caused the Company to increase inventory level.

Reasons for changes in fixed assets: mainly due to acquisitions of testing equipment and office premises during the Reporting Period as a result of business expansion of the Company.

Reasons for changes in intangible assets: mainly due to the amount of provision for amortisation and impairment of intangible assets, which caused the intangible assets decreased at the period end.

Reasons for changes in development costs: mainly due to amount of new R&D expenses incurred during the Reporting Period were more than the amount capitalised as intangible assets.

Reasons for changes in long-term prepaid expenses: mainly due to improvement project carried out during the Reporting Period related to office premises acquired.

Reasons for changes in contract liabilities: mainly due to increasing in downstream application market demand during the Reporting Period, which brought with increasing in contract liabilities.

Reasons for changes in employee benefits payable: mainly due to increases in number of staff and salary level during the Reporting Period.

Reasons for changes in current portion of non-current liabilities: mainly due to reclassification of the current portion of principal and interest during the Reporting Period.

Reasons for changes in other current liabilities: mainly due to receipts of grants from research activities during the Reporting Period.

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. There was no change in the Group's capital management objectives, policies or procedures in 2021 and 2020.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors believe 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 on 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 Company 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 Company 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.

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 Company 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 Company's failure to maintain continuous innovation ability.

Management Discussion and Analysis

II. OPERATIONAL RISKS

1. Risk of decline in product sales price and gross profit margin

In recent years, the integrated circuit design industry has received increasing attention from the society, market and capital, and the competition has gradually intensified. Internationally, for certain products of the Company, there exist great gaps between the Company and the leading enterprises in the same industry in the richness of product layout, the advanced level of technical indicators such as technology process and performance and the leading degree of operation scale or market share. Domestically, the number of competitors faced by each product line of the Company is also gradually increasing. If the supply and demand relationship of the industry is likely to change, it may lead to the risk of a decline in the overall profit margin level of the industry. Meanwhile, if the Company cannot take effective measures to consolidate and enhance the competitiveness of products due to advances in technology, rising labor and raw material prices, and decline in the Company's product bargaining power in the future, the main product average selling prices and comprehensive gross profit margins of the Company will also face the risk of continuous decline, which will cause the Company to be in the disadvantageous position in the fierce market competition and with reduced sustainable profitability.

2. Risks of high supplier concentration and cyclical fluctuations in capacity utilization

The Company adopts the Fabless business model, and is mainly engaged in the design and sales of integrated circuits, and entrusts wafer manufacturing, packaging and testing and other production process to professional wafer OEM manufacturers as well as packaging and testing companies to complete the OEM. Since wafer manufacturing and packaging and testing are both capital and technology-intensive industries, the industry itself is highly concentrated, and the suppliers of the Company are also highly concentrated. Due to the factors such as the impact of the COVID-19 pandemic on production, changes in international trade environment, increasing demand for chips downstream application market, and increasing inventory of integrated circuit design companies, the production capacity of global wafer OEM manufacturers has generally entered a relatively tight cycle, which has also further stimulated investment in the industry chain. If the wafer market price and the price of outsourcing processing fees fluctuate sharply, or the Company's product production is affected due to wafer supply shortages, insufficient supplier capacity, poor production management standards, etc., it will adversely affect the Company's profitability and product shipments.

3. Capacity risk caused by fluctuations in supply chain

The Company adopts the Fabless operation mode, which is relatively common in the integrated circuit design industry, and has established long-term cooperative relationships with major wafer manufacturers and packaging and testing manufacturers in the industry. With years of stable cooperation, rich product lines and growing business volume, the Company can obtain a certain capacity guarantee. Nevertheless, it is still impossible to completely eliminate supply chain risk under the Fabless model. The fluctuations occurred in the relationship between production capacity and demand in the manufacturing process of the integrated circuit industry will lead to insufficient production capacity of wafer manufacturers and packaging and testing manufacturers, and the production capacity of the products of the Company will be affected.

Management Discussion and Analysis

III. FINANCIAL RISKS

1. Risk of impairment of inventories

The inventories of the Company mainly include chips and wafers. Affected by factors such as the increasingly intensified sales competition in the chip market and the increasingly tight supply of major wafer OEM manufacturers, the Company gradually expanded the stocking scale during the reporting period in order to ensure the supply demand. At the end of the reporting period, the carrying amount of the inventories of the Company was approximately RMB916.0831 million, accounting for 30.12% of the corresponding total current assets at the end of the period. The Company 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 each period of the reporting period, the balance of inventory impairment provisions of the Company was approximately RMB93.3488 million, and the proportion of inventory impairment provisions was 9.25%. If the market demand changes in the future, the market competition intensifies, 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 Company.

2. Financial risks associated with R&D investment

The Company attaches great importance to the independent research and development of core technologies. During the reporting period, the R&D investment was approximately RMB749 million, accounting for 29.06% of the operating income 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 Company.

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

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

4. Risk of collection of trade receivables and bills receivable

At the end of the reporting period, the book balance of the trade receivables of the Company was approximately RMB469.0123 million, and the book balance of bills receivable was approximately RMB379.335 million. The total book balance of trade receivables and bills receivable accounted for 32.92% of the operating income. 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 Company may face the risk of increasing bad debt losses due to uncollectible trade receivables and bills receivable.

Management Discussion and Analysis

IV. INDUSTRY RISKS

Due to the factors such as the COVID-19, unstable international trade environment, increasing demand for chips downstream application market and increasing inventories both by pipelines and terminals, the investment in the industry has been stimulated. The integrated circuit design industry in which the Company operates is affected by fluctuations in the integrated circuit industry. If the production capacity is tight, it is not conducive to the sales expansion of the Company; if the production capacity is oversupplied, and the Company cannot maintain its technological advantages and R&D innovation capabilities, the Company will be at a disadvantage in the fierce market competition.

The Company's products are used in numerous fields such as finance, social security, anti-counterfeiting traceability, industrial control, smart electric meters and high reliability applications, and the sales cover major regions of the global economy such as Mainland China, Hong Kong and Singapore. The business development is affected by downstream application market and macroeconomic fluctuations. If the macroeconomic situation fluctuates violently in the future, resulting in a reduction in the demand for chips in the downstream application market, or there are major adverse changes in the industrial policy of the integrated circuit design industry, the development speed of the integrated circuit design industry will be restricted to a certain extent, and the Company's business development will be adversely affected.

V. MACRO-ENVIRONMENTAL RISKS

The international trade environment has a greater impact on the Company's operation. In recent years, the uncertainty of the international trade environment has increased, and anti-globalization trade has further spread. Some countries adopt trade protection measures, and the development of some industries in China has been affected to a certain extent. 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 Company.

Management Discussion and Analysis

VI. FINANCIAL INSTRUMENT RISKS

1. Credit Risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, balances of trade receivables are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is not significant. For transactions that are not settled in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval by the credit control department of the Group.

Since the Group trades with creditworthy and high credit rating banks, the related credit risk of monetary funds and bank acceptance receivables is rather low.

The credit risk of other financial assets of the Group, which comprise trade acceptance receivables, trade receivables, debt investments and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed according to customers/counterparties, geographic areas and industries. As at 31 December 2021, the Group had certain concentrations of credit risk as 33.11% (31 December 2020: 26.13%) of the Group's trade receivables were due from the five largest customers. The Group did not hold any collateral or other credit enhancements over the balances of trade receivables.

2. Liquidity risk

The Group adopts a revolving liquidity plan tool to manage the risk of capital shortage. The tool takes into account both the maturity date of its financial instruments and the expected cash flow generated by the operation of the Group.

The Group's goal is to maintain a balance between the sustainability and flexibility of financing by using various means of financing, such as bank loans and other interest-bearing loans.

Management Discussion and Analysis

VI. FINANCIAL INSTRUMENT RISKS *(Continued)*

3. Market risk

(1) *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

The Group maintained an appropriate portfolio of debts at fixed interest rates and variable interest rates to manage its interest expenses. The Company determines the ratio of fixed rate and floating-rate financial instruments according to the market environment, and maintains an appropriate portfolio of financial instruments through regular review and monitoring.

(2) *Exchange risk*

The Group is exposed to trading exchange risk. Such risk arises from operating units carrying out sales or purchases with currency other than their functional currency. Approximately 9% of sales of the Group (2020: 10%) are denominated in currency other than the functional currency of operating units, while around 12% (2020: 13%) of cost is denominated in the functional currency of operating units.

VII. OTHER SIGNIFICANT RISKS

The chip design is a technology-intensive industry, and the final chip product is highly complex. Therefore, even if the Company has adopted strict intellectual property rights protection measures and quality control measures, etc., it is still unable to completely eliminate law risks such as intellectual property rights disputes, technical authorization risks (EDA design tools, IP core authorization, etc.) and disputes caused by product quality defects.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

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

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS

- (i) According to the circular dated 18 April 2019 of the Company, concerning (of which included) the proposal of A share offering, and the circular dated 28 August 2020, concerning (of which included) proposal of amendment to the fund raising amount and investing in the projects with proceeds from initial public offering of A shares. The Company has completed the issuance of A shares on 29 July 2021. The Company made use of RMB398,806,861.98 according to the schedule to invest in research and development of programmable system-on-chip and to industrialize projects and as reserve fund for development and technology. The remaining unutilized RMB201,193,138.02 balance from fund raising will be gradually applied to the relevant projects.
- (ii) Due to the rapid business development of the Group and the growing number of employees every year, the spaces in the current office premises were no longer sufficient. The Company has entered into an agreement on 27 January 2022 to acquire office premises at a total consideration of RMB222,130,456.00 which will be settled by internal resources.

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

FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2021, the Group had pledged its fixed assets with book value amounted to RMB178,037,972.67 for the securities of bank borrowings of RMB49,800,000.00 (2020: nil).

CAPITAL STRUCTURE

On 29 July 2021, the Company completed the public issuance of 120,000,000 ordinary shares with a par value of RMB0.1 per share, and the total share capital upon the completion of the issuance was 814,502,000 shares (including the total share capital of 530,172,000 A shares and total share capital of 284,330,000 H shares).

GEARING RATIO

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

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

COMMITMENTS AND CONTINGENCIES

1. Major Commitments

	2021	2020
Contracted but not provided		
Capital commitment	264,057,272.11	4,004,586.24

2. Contingencies

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

Management Discussion and Analysis

EMPLOYEES

1. Employees status

Number of employees in the parent company	1,227
Number of employees in major subsidiaries	304
Total number of employees	1,531
Number of retired employees whose expenses are to be paid by the parent company and the subsidiaries	4

Profession Class of Profession	Number of profession
Production personnel	293
Sales personnel	270
Technical personnel	830
Financial personnel	17
Administrative personnel	121
Total	1,531

Educational Background Class of education	Number (person)
Doctor's degree	17
Master's degree	540
Undergraduate	560
2-year college and below	414
Total	1,531

Management Discussion and Analysis

EMPLOYEES *(Continued)*

2. Remuneration policy

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

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

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.

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 its H shares 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.

Management Discussion and Analysis

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. In 2021 and 2020, there was no sales to a single customer that contributed to 10% or more of the Group's revenue. 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 2021, 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. The Group does not rely on any main supplier that might lead to a significant impact on the operation.

Directors and Senior Management Biographies

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

DIRECTORS

Executive directors

Mr. Jiang Guoxing, aged 68, joined the Company in July 1998, is the Chairman of the Board and a member respectively of the Strategic and Investment Committee and 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 director of Hong Kong Huayu Technology Co. Ltd., from 1987 to 1993, the general manager and vice chairman of Shanghai Fudan Forward Science and Technology Co., Limited respectively from 1993 to 1994 and from 2007 to 2017, the chief of the Office of Research-product Industrialization and University Enterprise Management of the Fudan University from 1995 to 2007.

Mr. Shi Lei, aged 55, 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; the assistant to general manager, deputy general manager, general manager and chairman of Shanghai Commerce and Invest (Group) Corporation ("SCI") which is a substantial shareholders of the Company from 1997 to 2015.

Mr. Yu Jun, aged 54, 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. (formerly known as "Shanghai Fudan High Company"), and the Company's subsidiary namely, Sino IC Technology Co., Ltd. ("Sino IC") and an associate namely Shanghai Fukong Hualong Micro-system Technology Co., Ltd. He graduated with a Bachelor's degree in Electronics Engineering and a Master's degree in Electronics and Information Systems from the Fudan University and is a senior engineer. Mr. Yu has held positions as the deputy director, senior engineer, deputy professor, tutor and assistant tutor of the Research Institute for Integrated Circuit Designs of the Fudan University since 1990.

Ms. Cheng Junxia, aged 75, joined the Company in July 1998, is a member of the Remuneration and Evaluation Committee, the Nomination Committee, the Environmental, Social and Governance Committee and the Strategic and Investment Committee of the Company, and is also a director of the Company's subsidiary namely, Shanghai Fudan Microelectronics (Hong Kong) Limited ("Fudan Hong Kong"). She graduated in 1969 from the Fudan University with a degree in Physics. She was a professor, tutor and assistant tutor of the Fudan University and a supervisor of its Research Institute for Integrated Circuit Designs from 1969 to 2006; the director and general manager of Shanghai Fudan High Tech Company from 1995 to 2015.

Directors and Senior Management Biographies

DIRECTORS *(Continued)*

Non-executive directors

Ms. Zhang Qianling, aged 85, joined the Company in July 1998. She is also the supervisor of Sino IC. 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 and was a director of Shanghai Huahong Integrated Circuit Co. Ltd. from 1998 to 2006.

Mr. Wu Ping, aged 57, 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.

Ms. Liu Huayan, aged 50, joined the Company in November 2021. She graduated from the Shanghai University in Finance and Economics as an undergraduate and holds a Master's degree in Management, and is also an economist. She had worked as an auditor in Jiangnam Certified Public Accountants operated by the Shanghai Jiangnan Shipyard; vice chief officer of the investment banking division and internal control committee member of investment banking management of Haitong Securities Co. Ltd.; as executive director of investment banking division, vice officer of internal control, quality control officer and vice chief officer of merger and acquisition division of BOCI International Securities Co. Ltd.; as executive director and internal control committee member of the investment banking division of J.P. Morgan First Capital Securities Co., Ltd.; as managing director and investment committee member of Shang Finance Corporation. She is currently the deputy general manager of SCI.

Mr. Sun Zheng, aged 47, 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. He is currently the deputy general manager of SCI.

Independent non-executive directors

Mr. Guo Li, aged 75, joined the Company in May 2006 and is a member of the Audit Committee, the Remuneration and Evaluation Committee and the Nomination Committee of the Company. He graduated from the Department of Radio Electronics from the USTC and is a professor and doctoral supervisor, and also a senior member of China Electronics Academy and a member of China Image and Graphics Academy. He was the director of the Academic Committee of Department of Science and Technology in the University of Science and Technology of China as well as its Laboratory of Circuit and System. He has been carrying the researches in digital signal processing, digital image processing and IC design etc. and was a visiting scholar in the Department of Computer in the University of Notre Dame of the United States.

Directors and Senior Management Biographies

DIRECTORS *(Continued)*

Independent non-executive directors *(Continued)*

Mr. Cao Zhongyong, aged 63, joined the Company in June 2019 and is a member of 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; executive director of the Shanghai European and American Alumni Association; chairman of the Alumni Association of the Harvard University and a consultant of Shanghai Transportation Development Research Center.

Mr. Cai Minyong, aged 65, joined the Company in June 2019 and is a member of the Audit Committee and the Strategic and Investment 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 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 48, joined the Company in June 2019 and is the chairman of the Audit 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 partner of Shanghai Luanhai Investment Management Ltd. and the executive director of Shanghai Luanhai Puyu Investment Management Ltd.

Directors and Senior Management Biographies

SUPERVISORS

Ms. Zhang Yanfeng, aged 46, 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 61, was appointed in June 2019 and is a shareholders' representative supervisor of the Company. He received a Bachelor's degree in physics in 1983 and a Master's degree in electronics engineering in 1986 respectively from the Fudan University. Mr. Ren is a professor and tutor to doctorate students of the School of Microelectronics of the Fudan University and a member of The Institute of Electrical and Electronics Engineers ("IEEE").

Ms. Tang Xiaojie, aged 41, was appointed in June 2019 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 joined SCI in 2015 as deputy general manager of the audit department. She had worked for Shanghai Minqiang Investment (Group) Co. Ltd. as internal audit officer; HNA Group Co., Ltd. as internal audit; Industrial Bank Co. Ltd. as sales staff; Shanghai Nile Environmental Protection Technology Ltd. as accounting staff and Shanghai Dali Food Additives Co. Ltd. as accounting staff.

SENIOR MANAGEMENT

Mr. Diao Linshan, aged 55, joined the Company in January 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 52, 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. Fang Jing, aged 54, joined the Company in 2003 and is the Chief Finance Officer and Secretary to the Board of the Company, and also is the Supervisor of Sino IC and a director of 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 2021, 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 Auditor's Report on pages 58 to 63.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 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 2021.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2021.

BOARD OF DIRECTORS AND BOARD MEETING

Composition and role

During the year ended 31 December 2021, the Board has 12 members and comprises 4 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

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

- (a) Mr. Ma Zhicheng resigned as non-executive Director on 5 November 2021;
- (b) Ms. Zhang Huajing resigned as non-executive Director on 5 November 2021;
- (c) Ms. Liu Huayan appointed as non-executive Director on 5 November 2021; and
- (d) Mr. Sun Zheng appointed as non-executive Director on 5 November 2021.

The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 27 to 29, 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.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Composition and role *(Continued)*

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 2021, 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 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.

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 full Board according to the skills, knowledge and experience of the nominee for further approval. Terms of appointment of Directors of the Company is three years for one session.

Terms of Appointment of Directors

Executive Directors

Each of the four executive Directors has entered into a service contract with the Company for a term of three years which commenced on 3 June 2019 unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

Non-executive Directors

Mr. Wu Ping, who was appointed on 16 August 2019, has entered into a service contract with the Company for a term which commenced on 16 August 2019 until 2 June 2022. The remaining three non-executive directors have entered into service contracts with the Company for a term of three years which commenced on 3 June 2019 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

Each of the four independent non-executive Directors has entered into a service contract with the Company for a term of three years which commenced on 3 June 2019 unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

The Company has received written annual confirmations from the four independent non-executive Directors of their independence according to Rule 3.31 under the Listing Rules and recognised their independence.

Board meetings

The Board held four 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 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 attendance of Directors during the year ended 31 December 2021 are set out below:

Name	Information of attending board meeting					Information of attending general meeting	
	Number that should attend in the year	Number that attend in person	Number that attend in form of communications	Number that being attended by proxy	Number of absence	If not attend in person for consecutive two times	Number of attending general meeting
Jiang Guoxing	13	8	5	0	0	No	3
Shi Lei	13	8	5	0	0	No	3
Yu Jun	13	8	5	0	0	No	1
Cheng Junxia	13	8	5	0	0	No	3
Zhang Qianling	13	8	5	0	0	No	2
Wu Ping	13	8	5	0	0	No	1
Liu Huayan ^(note 1)	2	1	1	0	0	No	0
Sun Zheng ^(note 1)	2	1	1	0	0	No	0
Guo Li	13	8	5	0	0	No	1
Cao Zhongyong	13	8	5	0	0	No	3
Cai Minyong	13	8	5	0	0	No	2
Wang Pin	13	8	5	0	0	No	3
Ma Zhicheng ^(note 2)	11	7	4	0	0	No	1
Zhang Huajing ^(note 2)	11	7	4	0	0	No	1

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Board meetings *(Continued)*

Note 1: Ms. Liu Huayan and Mr. Sun Zheng were appointed as non-executive Director on 5 November 2021, therefore, during the period from 5 November 2021 to 31 December 2021, the number of attending Board meetings should be 2 and the number of attending general meetings should be zero.

Note 2: Mr. Ma Zhicheng and Ms. Zhang Huajing were no longer acting as non-executive Director with effect on 5 November 2021, therefore, during the period from 1 January 2021 to 31 December 2021, the number of attending Board meetings should be 11 and the number of attending general meetings should be 3.

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 are to review and supervise the financial reporting process and internal controls as well as risk management of the Group. The audit committee comprises three independent non-executive Directors, Mr. Wang Pin (Chairman of the committee), Mr. Guo Li and Mr. Cai Minyong. The audit committee members are well experienced with professional knowledge in management, accounting, finance, commercial and electronic industry sectors.

The Group's financial statements for the year ended 31 December 2021 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

The Audit Committee held 7 meetings during the year under review. Among which, the committee also held two 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.

2. *Nomination Committee*

The Nomination Committee now comprises two independent non-executive Directors, Mr. Cai Minyong (Chairman of the committee) and Mr. Guo Li and an executive Director, Ms. Cheng Junxia. 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 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 A.3 and A.4 of Appendix 14 of the Listing Rules.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees *(Continued)*

2. *Nomination Committee (Continued)*

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 2021, 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 Mr. Guo Li and an executive Director, Ms. Cheng Junxia. 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.

During the year under review, two meetings of the Remuneration and Evaluation Committee were held. During the meeting, the Remuneration and Evaluation Committee has considered and reviewed the remuneration of the Directors for the year ended 30 December 2021 which considered to be fair and reasonable. Have reviewed the scientific and reasonable of the 2021 restricted share incentive scheme and evaluation program.

4. *Strategic and Investment Committee*

The Strategy and Investment Committee was established on 16 October 2018 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.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees *(Continued)*

4. *Strategic and Investment Committee (Continued)*

The Strategy and Investment Committee comprises of five members and 4 of which are executive directors of the Company and the remaining member is Mr. Cai Minyong, an independent non-executive Director. Ms. Cheng Junxia is the Chairman of the committee. The Strategy and Investment Committee held two meetings during the year for the review of the investment report of the Group and the discussions of potential investment opportunities available to the Company. Had discussion on the investment in equity of Shanghai Haojun Venture Capital Partnership (Limited Partnership).

5. *Environmental, Social and Governance Committee*

The Environmental, Social and Governance Committee was established on 6 December 2021 with 3 members which includes two executive Directors, namely Mr. Jiang Guoxing (Chairman of the committee) and Ms. Cheng Junxia, and an independent non-executive Director, namely Mr. Cao Zhongyong. 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, objectively and policy of environmental, social and governance.

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

Record of number of committee meetings and Directors' attendance during the year ended 31 December 2021 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	2/2	1/1
Shi Lei	N/A	N/A	N/A	2/2	N/A
Yu Jun	N/A	N/A	N/A	2/2	N/A
Cheng Junxia	N/A	2/2	2/2	2/2	1/1
Guo Li	7/7	2/2	2/2	N/A	N/A
Cao Zhongyong	1/1 ^(note 1)	N/A	N/A	N/A	1/1
Cai Minyong	7/7	2/2	2/2	1/1 ^(note 2)	N/A
Wang Pin	7/7	N/A	N/A	N/A	N/A

Note: 1. Mr. Cao Zhongyong is not a member of the Audit Committee but attended the annual review of the continuing connected transactions of the Group.

2. Mr. Cai Minyong joined the Strategy and Investment Committee on 12 March 2021 and the number of attending meetings should be one during the period from 12 March 2021 to 31 December 2021.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

Committees *(Continued)*

5. *Environmental, Social and Governance Committee (Continued)*

During the year under review, the Chairman of the Board and non-executive Directors (including independently 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. This is to ensure that their contributions to the Board remain informed and relevant. The Company has the responsibility for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. 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 2021, all Directors have received relevant trainings and have provided their training records as follow:

Name	Training type
Mr. Jiang Guoxing	A,B
Mr. Shi Lei	A,B
Mr. Yu Jun	A,B
Ms. Cheng Junxia	A,B
Ms. Zhang Qianling	A,B
Mr. Wu Ping	A,B
Ms. Liu Huayan	A,B
Mr. Sun Zheng	A,B
Mr. Guo Li	A,B
Mr. Cao Zhongyong	A,B
Mr. Cai Minyong	A,B
Mr. Wang Pin	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

During the year, the Company Secretary has undertaken no less than 15 hours of professional training to update his skills and knowledge.

AUDITOR'S REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group has paid the following fees to the external auditor and which has been reviewed and approved by the Audit Committee:

	2021 RMB'000	2020 RMB'000
Annual audit	2,057	1,368

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Company has established an internal control department. The Company and each subsidiary have to conduct at least annually to enable the Board to perform a review on the Group's system of internal control and risk management to ensure the effective and adequate internal control system including finance, compliance control, operations and risk management. The reports and findings prepared by the internal audit team have to be circulated to the relevant committee delegated by the Board. If necessary, the internal audit team and the risk management team will submit their findings and the proposed audit plan to the Audit Committee for its approval.

A review of system of internal control and risk management has been undergone during the year under review and an internal control assessment report 2021 was prepared, details of which were set out in the Company's announcement date 18 March 2021 with headline of "Overseas Regulatory Announcement – 2021 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 18 March 2021 with headline of "Overseas Regulatory Announcement – Assurance Report of Accounting Firm on the Company's Internal Control ". The Directors considered that the Group has maintained sound and effective internal controls and risk management system.

CONSTITUTIONAL DOCUMENTS

The constitutional documents of the Company have been published both on the websites of the Stock Exchange and the Company. For the year ended 31 December 2021, the proposals (draft) of amendments to the articles of association of the Company passed at the annual general meeting and extraordinary general meeting held earlier, was effective upon the issuance of A shares and listed on the Sci-Tech Innovation Board of the Shanghai Stock Exchange on 4 August 2021, and the requisite business registration procedures relating to amendments to the articles of association were completed in order. Please refer to the announcements of the Company dated 4 August 2021 and 20 October 2021 for details.

Corporate Governance Report

SHAREHOLDERS' RIGHT

Shareholders can convene an extraordinary general meeting (“EGM”)

Shareholders requesting the convening of an extraordinary shareholders' general meeting or a class meeting of shareholders shall proceed in accordance with the procedures set forth below in accordance with the articles of association of the Company:

- (1) Shareholder(s) individually or collectively holding more than 10% of the Company's total voting shares may sign one or several written requests with the same format and content and propose that the Board convene an extraordinary general meeting or class meeting, and specify the topics of the meeting. The Board shall provide a written feedback on whether to agree to convene an extraordinary or class meeting within ten days upon receipt of the aforesaid written request. If the Board agrees to convene an extraordinary or class meeting, it will issue a notice about convening the extraordinary general meeting and the class meeting within five days after passing the resolution. If the notice modifies the original request, consent shall be obtained from the relevant shareholder. The aforesaid amount of shareholding is calculated as of the day when the relevant shareholder makes the written request.
- (2) If the Board does not agree to convene an extraordinary general meeting or provides no feedback within 10 days after receiving the request, the shareholder who individually or collectively holds more than 10% of the Company's shares has the right to propose convening an extraordinary general meeting and shall make a written request to the Supervisory Committee.
- (3) If the Supervisory Committee approves the request, it will issue a notice about convening the meeting within five days of receiving the request. If the notice modifies the proposed resolution in the original request, consent must be obtained from the relevant shareholder.
- (4) If the Board is unable or fails to perform its duties to convene general meetings, the Supervisory Committee shall convene and preside such general meetings; if the deputy chairman is unable or fails to perform his duties, more than half of the directors may elect a director to convene and act as the chairman of the meeting. If the Supervisory Committee fails to convene and preside the general meetings, the shareholders who individually or collectively hold more than 10% of the total shares of the Company for over 90 consecutive days can convene and preside over the meeting by themselves.

If any general meeting or class meeting is called by the shareholders themselves, the shares held by those shareholders shall not be less than 10% of the total shares of the Company, before announcing the resolutions of the meeting.

Corporate Governance Report

SHAREHOLDERS' RIGHT *(Continued)*

Forward a proposal at a general meeting

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 determined by 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 motion 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 motion, to notify other shareholders and to submit the said provisional proposal to the general meeting for consideration.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedure for shareholders to propose a person for election as a director

A written notice of intention to nominate a person for election as Director and a written notice of acceptance of such nomination given by such person shall be given in to the Company 7 days prior to a shareholder's meeting. The written notice shall be given in no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.

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 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.

Corporate Governance Report

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.

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 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 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company consist of designing, developing and selling products of application-specific integrated circuits. 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 4 to 26 of this annual report. This discussion forms part of this directors’ report.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2021 and the Group’s assets and liabilities at that date are set out in the financial statements on pages 64 to 67 of this report.

On 18 March 2022, the Directors have considered and passed the “Resolution of the 2021 Distribution Plan of the Company”. It was proposed to use the total share capital registered on the equity registration date for the implementation of equity distribution as the base, 10 shares will be distributed with a cash dividend of RMB0.65 (tax included) with total cash dividend amounted to RMB52,942,630, representing 10.29% of the net profits attributable to the shareholders of the parent for the year 2021.

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 194. 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 5 (30) to the financial statements.

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.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

1. On 29 July 2021, the Company raised proceeds through the public issuance of RMB dominated ordinary shares to the public, resulted in an increase of 120,000,000.00 shares.
2. On 6 December 2021, the Company implemented an employee equity incentive plan to motivate the core workforce and retain technical talents. Under the scheme, the Company has 8,934,000 outstanding share options under the Scheme as at 31 December 2021. According to the capital structure of the Company, if all the outstanding share options are exercised, 8,934,000 additional ordinary shares of the Company will be issued.

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

DISTRIBUTABLE RESERVES

According to the relevant regulations of the PRC, the Company's reserves available for distribution at 31 December 2021 amounted to RMB2,838,745,405.92.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 21.86% of the total sales for the year and sales to the largest customer included therein amounted to 5.85%. Purchases from the Group's five largest suppliers accounted for 51.18% of the total purchases for the year and purchase from the largest supplier included therein amounted to 15.97%.

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.

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 5 (25) and (27) to the financial statements.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Jiang Guoxing
Mr. Shi Lei
Mr. Yu Jun
Ms. Cheng Junxia

Non-executive directors:

Ms. Zhang Qianling
Mr. Wu Ping
Ms. Liu Huayan (appointed on 5 November 2021)
Mr. Sun Zheng (appointed on 5 November 2021)
Mr. Ma Zhicheng (resigned on 5 November 2021)
Ms. Zhang Huajing (resigned on 5 November 2021)

Independent non-executive directors:

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

The Company has received annual confirmations of independence from Mr. Guo Li, Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin, and as at the date of this report, still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

Except for Mr. Wu Ping, all other executive directors, non-executive directors and independent non-executive director have entered into a service contract with the Company which commenced on 3 June 2019 for three years, unless terminated by a three months' prior written notice to be given by either party without payment of compensation. Mr. Wu Ping has entered into a service contract with the Company which commenced on 16 August 2019 and will be expired on 2 June 2022, 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.

Report of the Directors

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. Details of remuneration of the management are set out on note 14 (3) to the financial statements.

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 to a third party.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director 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 holding company of the Company or any of the Company's subsidiaries was a party during the year.

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.

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

At 31 December 2021, the interests of the directors and supervisors of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Report of the Directors

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES (Continued)

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	8,810,000*	–	–		8,810,000	1.08
Mr. Shi Lei	8,810,000*	300,000	–		9,110,000	1.12
Mr. Yu Jun	1,400,000*	–	–		1,400,000	0.17
Ms. Cheng Junxia	700,000*	–	–		700,000	0.09
	19,720,000	300,000	–		20,020,000	
Supervisor						
Ms. Zhang Yanfeng	700,000*	–	294,000		994,000	0.12

* Pursuant to the Strategic Allotment under the A Share Offering passed in the extraordinary general meeting held on 5 July 2021, through the arrangement by the manager under a special assets management plan and in which, Mr. Jiang Guoxing holds 1,600,000 shares, Mr. Shi Lei holds 1,600,000 shares, Mr. Yu Jun holds 1,400,000 shares, Ms. Cheng Junxia holds 700,000 shares and Ms. Zhang Yanfeng holds 700,000 shares.

Long positions in H 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			
Supervisor						
Ms. Zhang Yanfeng	–	268,000	–		268,000	0.03

Save as disclosed above, as at 31 December 2021, none of the directors or supervisors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

Report of the Directors

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 2021, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions 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 Fuxin Fangao IC Technology Co. Ltd. ("Fuxin Fangao")	(1)	Directly beneficially owned	106,730,000	A shares	20.13	13.10
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(1)	Interest of corporation controlled	106,730,000	A shares	20.13	13.10
Fudan University	(1)	Interest of corporation controlled	106,730,000	A shares	20.13	13.10
Shanghai Fudan Fukong Technology Enterprise Holdings Limited ("Fudan Fukong")	(2)	Directly beneficially owned	109,620,000	A shares	20.68	13.46
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	A shares	20.68	13.46
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	A shares	20.68	13.46
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	A shares	9.84	6.40
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	66,845,110	A shares	12.61	8.21
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	A shares	12.61	8.21
Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise ("Shanghai Zhenghua")	(4)	Directly beneficially owned	34,650,000	A shares	6.54	4.25
Shanghai Shanyao Industrial Limited ("Shanghai Shanyao")	(4)	Interest of corporation controlled	34,650,000	A shares	6.54	4.25
Zhou Yufeng	(4)	Interest of corporation controlled	34,650,000	A shares	6.54	4.25
Shanghai Guonian Corporate Management Consultant Partnership Enterprise ("Shanghai Guonian")	(5)	Directly beneficially owned	29,941,470	A shares	5.65	3.68
Shanghai Danruo Investment Management Partnership Enterprise ("Shanghai Danruo")	(5)	Interest of corporation controlled	29,941,470	A shares	5.65	3.68
Dazi County Dingcheng Capital Investment Limited ("Dingcheng Capital")	(5)	Interest of corporation controlled	29,941,470	A shares	5.65	3.68
Beijing Zhongrong Dingxin Investment Management Limited ("Zhongrong Dingxin")	(5)	Interest of corporation controlled	29,941,470	A shares	5.65	3.68
Zhongrong International Trust Limited ("Zhongrong International")	(5)	Interest of corporation controlled	29,941,470	A shares	5.65	3.68
Jingwei Textile Machinery Co., Ltd. ("Jingwei Textile")	(5)	Interest of corporation controlled	29,941,470	A shares	5.65	3.68
Springs China Opportunities Master Fund ("Springs China")	(6)	Directly beneficially owned	17,088,000	H shares	6.01	2.10
Springs China Limited	(6)	Interest of corporation controlled	17,088,000	H shares	6.01	2.10
Zhao Jun	(6)	Interest of corporation controlled	17,088,000	H shares	6.01	2.10
Tenbagger Capital Management Co. Ltd.		Investment manager	14,271,000	H shares	5.02	2.05

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) Fuxin Fangao (formerly known as Shanghai Fudan High Tech Company") is a state-owned enterprise wholly owned by Fudan Asset and Fudan Asset is wholly owned by Fudan University.
- (2) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Fukong. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Fukong's interest in the Company.
- (3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben. Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben's interest in the Company. Shanghai Yikun and Zhang Yong further held the Company's interest through another controlled corporation.
- (4) Zhou Yufeng held 99% of the equity interest in Shanghai Shanyao, and Shanghai Shanyao held 99.79% of the equity interest in Shanghai Zhenghua. Accordingly, each of Shanghai Shanyao and Zhou Yufeng is deemed to be interested in Shanghai Zhenghua's interest in the Company.
- (5) Jingwei Textile holds 37.47% of the equity interest in Zhongrong International, Zhongrong International holds the entire equity interest in Zhongrong Dingxin, Zhongrong Dingxin holds the entire equity interest in Dingcheng Capital, Zhongrong Dingxin and Dingcheng Capital holds 99.9% and 0.01% respectively of the equity interest in Shanghai Danruo and Dingcheng Capital is the general partner thereof. Shanghai Danruo and Dingcheng holds 72.69% and 0.33% of the equity interest in Shanghai Guonian, respectively. Accordingly, each of Shanghai Danruo, Dingcheng Capital, Zhongrong Dingxin, Zhongrong International, Jingwei Textile is deemed to be interested in Shanghai Guonian's interest in the Company.
- (6) Spring China is beneficially owned by Spring China Limited, which is beneficially owned by Zhao Jun. Accordingly, each of Spring China Limited and Zhao Jun is deemed to be interested in Spring China's interest in the Company.

Save as disclosed above, as at 31 December 2021, no person, other than the directors and supervisors of the Company, whose interests are set out in the section headed "Directors' and supervisors' interests in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Board has full responsible for the Company's environmental, social and governance ("ESG") strategy and reporting. The Board is 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 will prepare a separate ESG report for the year ended 31 December 2021 complying with the disclosure requirements under Appendix 27 of the Listing Rules and will be published within 5 months after the year-end date on the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.fmsh.com.cn.

2021 RESTRICTED SHARE INCENTIVE SCHEME

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

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

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

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

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

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

Report of the Directors

USE OF PROCEEDS

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 Temporarily Idle Proceeds for Cash Management (關於使用暫時閒置募集資金進行現金管理的議案), which agreed the Company to use the idle proceeds for cash management under the condition that it does not affect the progress of the investment plan of the proceeds, does not affect the normal production and operation of the Company, and ensures the safety of funds. The Company can use the temporarily idle proceeds of not exceeding RMB250 million (inclusive) to purchase investment products with high security, good liquidity, and capital protection agreements (including but not limited to purchasing principal-guaranteed wealth management products, structured deposits, large deposit certificates, time deposits, call deposits and income certificates). The period of use is valid within 12 months from the date of consideration and approval by the Board of the Company. Within the aforesaid limit and period of use, the amounts can be used on a rolling basis.
3. The Proposal on Using Part of the Over-raised Proceeds to Permanently Supplement Working Capital(關於使用部分超募資金永久補充流動資金的議案), which agreed the Company to use part of the over-raised proceeds of RMB24 million for permanent supplement of working capital.

Report of the Directors

USE OF PROCEEDS *(Continued)*

II. Use of proceeds and balance of funds

As at 31 December 2021, the balance of fund raising amounted to RMB260,613,417.03, the use of proceeds and balance of funds were:

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

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

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

CHARITABLE DONATIONS

The donations by the Group for the end of the reporting period amounted to approximately RMB231,000.

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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”).

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Connected transactions

Except for the continuing connected transactions disclosed below, details of certain connected transactions of the Group are also set out in note 10 to the financial statements.

Continuing connected transactions

- (a) On 12 August 2003, the Company and Fudan University (“SFU”) entered into an agreement under which the Company was required to pay a technical and equipment support fee to SFU based on a price mutually agreed by the two parties. The Company paid a technical and equipment support fee amounted to RMB64,157.00 in 2021 (2020: RMB64,849.40).

On 23 February 2021, the Company entered into a Technology R&D Agreement with SFU and the Company paid R&D expenses of RMB2,524,721.85 in 2021 (2020: nil).

- (b) On 23 February 2021, 23 September 2021 and 30 September 2021, the Group entered into three Technical Services Agreements with SFU respectively and SFU agreed to engage the Group to perform testing services. In 2021, the Group recorded testing services income of RMB4,708,490.55 (2020: RMB2,099,056.60).
- (c) On 26 March 2021, the Company entered into a new cooperation agreement with Shanghai Fudan Communication Co., Ltd. (“Fudan Communication”). In 2021, the revenue of product sales by the Company to Fudan Communication amounted to

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. A copy of the auditor’s letter has been provided by the Company to the Hong Kong Stock Exchange.

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.

Report of the Directors

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

Ernst & Young was the auditor of the Company for the year 2020. 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. Ernst & Young Hua Ming LLP has audited the Company's financial statements for 2021 under the China Accounting Standards for Business Enterprises and fulfilled the duties of external auditor in accordance with the Listing Rules.

Ernst & Young Hua Ming LLP retires and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Jiang Guoxing
Chairman

Shanghai, the PRC
18 March 2022

Report of the Supervisory Committee

WORK REPORT OF THE SUPERVISORY COMMITTEE OF 2021

In 2021, 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 2021 is reported as follows:

I. MEETING OF THE SUPERVISORY COMMITTEE

Session No.	Date	Resolution
6th meeting of the eighth session of the Supervisory Committee	2021.03.12	Please refer to the notes
7th meeting of the eighth session of the Supervisory Committee	2021.04.19	
8th meeting of the eighth session of the Supervisory Committee	2021.08.16	
9th meeting of the eighth session of the Supervisory Committee	2021.08.27	
10th meeting of the eighth session of the Supervisory Committee	2021.09.23	
11th meeting of the eighth session of the Supervisory Committee	2021.10.28	
12th meeting of the eighth session of the Supervisory Committee	2021.12.06	

Notes:

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

1. The report of audited consolidated results for the year ended 31 December 2020
2. The internal control and risk management report
3. Confirmation of the “connected transaction of 2020”
4. The connected transactions of cooperation agreement entered in to with Fudan Communication

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

1. Considered and approved the domestic annual reports in 2018-2020

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

1. The Proposal regarding Preparation of Financial Statements in accordance with the Accounting Standards for Chinese Enterprises by the Company;
2. The Proposal regarding Change in Accounting Firms.

Report of the Supervisory Committee

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

1. The Proposal regarding 2021 Interim Report and Summary
2. The Proposal regarding Replacement of Self-raised Funds Investment in Advance with Raised Proceeds
3. The Proposal regarding Permanent Replenishing Liquidity with Partial Surplus Proceeds
4. The Proposal regarding Applying Temporarily Idle Proceeds for Cash Management
5. The Proposal regarding External Investment in Industrial Funds and Connected Transactions
6. The Proposal regarding Increase the Daily Connected Transaction Amount with Fudan Communication

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

1. Resolution on the 2021 Restricted Share Incentive Scheme (Draft) and its summary of the Company
2. Resolution on the Management Measures for Assessment for the 2021 Restricted Share Incentive Scheme
3. Resolution on the List of Participants of Restricted Shares Granted under the First Grant of 2021 Restricted Share Incentive Scheme
4. Resolution on By-election of Non-employee Supervisors of the Eighth Session of the Supervisory Committee
5. Resolution on Increasing the Amount of Daily Connected Transactions with Fudan University
6. Resolution on Using Own Funds for Cash Management

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

1. Resolution on the Third Quarterly Report of 2021

The 12th meeting of the eighth session of the Supervisory Committee has considered and approved all resolutions as follows:

1. Resolution on the Adjustments to the List of Participants and Number of Share Options Granted under the First Grant of the 2021 Restricted Share Incentive Scheme
2. Resolution on First Grant of Restricted Shares to the Participants

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.

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 share 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 Administrative Measures for Raising Proceeds by Companies Listed on the Shanghai Stock Exchange (Revised in 2013) (《上海證券交易所上市公司募集資金管理辦法(2013年修訂)》). 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. 2022 ANNUAL WORK PLAN OF THE SUPERVISORY COMMITTEE

In 2022, 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 study 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 improves the governance level for the Company to effectively play its functions.

Auditor's Report



Ernst & Young HM (2022) Shen Zi No. 60469429_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 2021, and the consolidated and company income statements for the year then ended, the consolidated and company statements of changes in shareholders' equity for the year then ended, the consolidated and company statements of cash flows for the year 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 the Company as at 31 December 2021, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

(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
<p><i>Capitalisation of development costs</i></p> <p>As of 31 December 2021, the carrying amount of development costs in the consolidated and company financial statements of Shanghai Fudan Microelectronics Group Co., Ltd. and its subsidiaries (the “Group”) was RMB172,728,127.43 and RMB175,990,898.53. 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 judgment and estimation.</p> <p>For the disclosure of the development costs capitalised, please refer to Notes III, 13 and 26 Significant accounting policies and accounting estimates, and Note V, 15 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 capitalisation of development costs.</p> <p>The audit procedures we performed include:</p> <ul style="list-style-type: none"> • Performing tests on the criteria for initial recognition of the development costs for capitalisation; • Assessing the timeliness of the commencement of amortisation when the asset was available for use; • Reviewed 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; • Compared estimated and actual results from previous years of useful economic lives and cash flows.

Auditor's Report



(III) KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for impairment of inventories</i></p> <p>As at 31 December 2021, the carrying amount of inventories in the consolidated and company financial statements of the Group was RMB916,083,064.72 and RMB913,224,523.66. The Group periodically assesses the net realizable value of its inventories and provides for inventory impairment based on the difference between the cost of the inventory category 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 made 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 judgment and estimation.</p> <p>For the disclosure of provision for impairment of inventories, please refer to Notes III, 8 and 26 Significant accounting policies and accounting estimates, and Note V, 7 and 45 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">Assessed the process, methods and assumptions used to determine the provision for inventories. These included comparing management's calculations for consistency against those used in the prior year and considering whether there was any indication of management bias.Combined with inventory monitoring procedure, tested the underlying data used by management to calculate the provision for obsolete inventories, typically an aged inventory analysis, by selecting samples to re-perform the ageing calculation;Compared the historical and subsequent sales and usage information of inventories;Tested the estimated selling prices and estimated costs to be incurred to completion and re-calculated the provision for inventories on a sampling 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**

(Project partner)

Chinese Certified Public Accountant: **Hu Qiaoyun**

Beijing, the People's Republic of China

18 March 2022

Consolidated Balance Sheet

31 December 2021

Expressed in Renminbi Yuan

ASSETS	Note V	31 December 2021	31 December 2020
Current assets			
Cash at bank and on hand	1	801,647,230.19	440,699,680.21
Financial assets held for trading	2	390,948,111.87	–
Notes receivable	3	372,363,594.25	296,716,865.58
Accounts receivable	4	451,703,130.78	439,477,415.11
Prepayments	5	84,362,851.17	64,097,974.58
Other receivables	6	18,473,721.44	11,752,036.80
Inventories	7	916,083,064.72	610,597,557.24
Other current assets	8	6,081,071.74	3,153,289.62
Total current assets		3,041,662,776.16	1,866,494,819.14
Non-current assets			
Long-term equity investments	9	75,508,769.52	70,295,724.52
Investments in other equity instruments	10	32,987,123.03	30,863,697.93
Fixed assets	11	567,876,494.59	347,588,297.16
Construction in progress	12	54,689,418.17	49,269,882.49
Right-of-use assets	13	47,942,433.91	47,676,306.58
Intangible assets	14	74,833,172.67	117,162,424.24
Development costs	15	172,728,127.43	104,875,536.15
Long-term prepaid expenses	16	57,378,801.04	29,039,916.72
Deferred tax assets	17	7,484,219.27	9,052,382.30
Other non-current assets	18	31,922,847.40	6,284,030.00
Total non-current assets		1,123,351,407.03	812,108,198.09
Total assets		4,165,014,183.19	2,678,603,017.23

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

Consolidated Balance Sheet

31 December 2021
Expressed in Renminbi Yuan

LIABILITIES AND EQUITY	Note V	31 December 2021	31 December 2020
Current liabilities			
Short-term borrowings	19	100,000.00	—
Accounts payable	20	200,262,918.53	159,595,143.92
Contract liabilities	21	126,274,826.25	25,704,513.56
Employee benefits payable	22	162,012,097.14	114,420,274.19
Taxes payable	23	15,731,095.55	18,431,196.66
Other payables	24	31,163,593.01	49,819,848.75
Current portion of non-current liabilities	25	44,832,935.50	9,999,817.43
Other current liabilities	26	132,771,061.35	100,160,988.54
Total current liabilities		713,148,527.33	478,131,783.05
Non-current liabilities			
Long-term borrowings	27	18,200,000.00	—
Lease liabilities	28	38,553,525.36	40,681,893.47
Deferred income	29	24,215,577.84	44,086,888.09
Deferred tax liabilities	17	3,994,006.16	3,651,182.41
Total non-current liabilities		84,963,109.36	88,419,963.97
Total liabilities		798,111,636.69	566,551,747.02
Shareholders' equity			
Share capital	30	81,450,200.00	69,450,200.00
Capital surplus	31	1,259,212,929.93	576,858,667.16
Other comprehensive income	32	10,509,082.70	9,336,778.97
Surplus reserves	33	40,725,100.00	35,478,142.63
Undistributed profits	34	1,748,348,393.72	1,239,128,570.38
Total equity attributable to shareholders of the parent company		3,140,245,706.35	1,930,252,359.14
Minority interests		226,656,840.15	181,798,911.07
Total shareholders' equity		3,366,902,546.50	2,112,051,270.21
Total liabilities and shareholders' equity		4,165,014,183.19	2,678,603,017.23

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 2021

Expressed in Renminbi Yuan

	Note V	2021	2020
Revenue	35	2,577,262,346.93	1,690,896,813.00
Less: Cost of sales	35	1,058,923,542.46	913,783,292.11
Taxes and surcharges	36	12,263,146.20	7,500,525.47
Selling expenses	37	171,639,406.24	117,430,872.51
Administrative expenses	38	112,055,490.71	102,984,962.47
Research and development expenses	39	691,637,283.03	490,548,110.34
Finance expenses	40	(1,171,733.58)	3,099,902.85
Including: Interest expenses		4,527,523.11	1,955,955.77
Interest income		8,431,206.09	6,290,924.01
Add: Other income	41	108,883,535.56	123,643,314.80
Investment income (loss is expressed with negative value)	42	(2,713,577.29)	(203,458.48)
Including: Investment income from associates and joint ventures		(5,526,536.20)	(203,458.48)
Profit or loss arising from changes in fair value (loss is expressed with negative value)	43	948,111.87	(1,350,110.00)
Credit impairment losses (loss is expressed with negative value)	44	(1,311,048.83)	(909,243.48)
Asset impairment losses (loss is expressed with negative value)	45	(64,880,461.60)	(6,690,544.30)
Gains on disposals of assets (loss is expressed with negative value)	46	519,205.28	(15,739.47)
Operating profit		573,360,976.86	170,023,366.32
Add: Non-operating income	47	104,975.63	279,750.57
Less: Non-operating expenses	48	16,433.13	257,149.55
Total profit:		573,449,519.36	170,045,967.34
Less: Income tax expenses	49	14,124,809.57	9,763,937.32
Net profit		559,324,709.79	160,282,030.02
Classified by continuity of operations			
Net profit from continuing operations		559,324,709.79	160,282,030.02
Classified by ownership of the equity			
Net profit attributable to shareholders of the parent company		514,466,780.71	132,867,923.11
Gains or losses of minority interests		44,857,929.08	27,414,106.91

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

Consolidated Income Statement

Year ended 31 December 2021

Expressed in Renminbi Yuan

	Note V	2021	2020
Other comprehensive income, net of tax		1,172,303.73	(2,382,446.71)
Other comprehensive income, net of tax, attributable to shareholders of the parent company	32	1,172,303.73	(2,382,446.71)
Other comprehensive income that may not be reclassified to profit or loss			
Changes in fair value of investments in other equity instruments		1,931,730.92	(926,656.69)
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign currency financial statements		(759,427.19)	(1,455,790.02)
Other comprehensive income, net of tax, attributable to minority interests	32	–	–
Total comprehensive income		560,497,013.52	157,899,583.31
Including:			
Attributable to shareholders of the parent company		515,639,084.44	130,485,476.40
Attributable to minority interests		44,857,929.08	27,414,106.91
Earnings per share	50		
Basic earnings per share		0.69	0.19
Diluted earnings per share		0.69	0.19

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

Expressed in Renminbi Yuan

2021

	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	69,450,200.00	576,858,667.16	9,336,778.97	35,478,142.63	1,239,128,570.38	1,930,252,359.14	181,798,911.07	2,112,051,270.21
II. Changes for the year								
1. Total comprehensive income	-	-	1,172,303.73	-	514,466,780.71	515,639,084.44	44,857,929.08	560,497,013.52
2. Capital contribution and withdrawal by shareholders								
(1) Issuance of A-share ordinary shares	12,000,000.00	668,282,781.80	-	-	-	680,282,781.80	-	680,282,781.80
(2) Amount of share-based payment included in owners' equity	-	14,071,480.97	-	-	-	14,071,480.97	-	14,071,480.97
3. Profit distribution								
(1) Appropriation to surplus reserve	-	-	-	5,246,957.37	(5,246,957.37)	-	-	-
III Balance at end 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

2020

	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	69,450,200.00	561,815,220.40	11,719,225.68	35,478,142.63	1,106,260,647.27	1,784,723,435.98	154,384,804.16	1,939,108,240.14
II. Changes for the year								
1. Total comprehensive income	-	-	(2,382,446.71)	-	132,867,923.11	130,485,476.40	27,414,106.91	157,899,583.31
2. Capital contribution and withdrawal by shareholders								
(1) Amount of share-based payment included in owners' equity	-	1,309,230.24	-	-	-	1,309,230.24	-	1,309,230.24
(2) Others	-	13,734,216.52	-	-	-	13,734,216.52	-	13,734,216.52
III Balance at end of year	69,450,200.00	576,858,667.16	9,336,778.97	35,478,142.63	1,239,128,570.38	1,930,252,359.14	181,798,911.07	2,112,051,270.21

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

Consolidated Statement of Cash Flows

Year ended 31 December 2021

Expressed in Renminbi Yuan

	Note V	2021	2020
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		2,879,286,349.85	1,800,348,510.60
Receipts of taxes and surcharges refunds		16,630,632.78	10,951,344.00
Cash received relating to other operating activities	51	88,307,613.17	120,631,761.56
Sub-total of cash inflows		2,984,224,595.80	1,931,931,616.16
Cash paid for goods and services		1,474,143,467.75	998,727,227.30
Cash payments to and on behalf of employees		689,916,569.09	501,590,664.26
Payments of taxes and surcharges		92,029,827.76	55,154,930.49
Cash paid relating to other operating activities	51	125,929,853.12	156,806,108.30
Sub-total of cash outflows		2,382,019,717.72	1,712,278,930.35
Net cash flows from operating activities		602,204,878.08	219,652,685.81
2. Cash flows from investing activities			
Cash received from disposal of investments		514,000,000.00	36,023,940.10
Cash received from return on investments		2,812,958.91	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		660,872.96	57,180.35
Cash received relating to other investing activities	51	2,225,150.98	4,892,954.64
Sub-total of cash inflows		519,698,982.85	40,974,075.09
Cash paid to acquire fixed assets, intangible assets and other long-term assets		564,496,903.97	228,303,485.22
Cash payments for investments		1,137,999,381.20	20,000,000.00
Sub-total of cash outflows		1,702,496,285.17	248,303,485.22
Net cash flows from investing activities		(1,182,797,302.32)	(207,329,410.13)

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

Consolidated Statement of Cash Flows

Year ended 31 December 2021

Expressed in Renminbi Yuan

	Note V	2021	2020
3. Cash flows from financing activities			
Cash received from capital contribution		696,803,773.58	–
Cash received from borrowings		167,250,104.08	–
Sub-total of cash inflow		864,053,877.66	–
Cash repayments of borrowings		117,350,104.08	–
Cash paid for distribution of dividends or profits or for interest expenses		2,191,029.83	73,558.04
Cash paid relating to other financing activities	51	25,707,026.35	–
Sub-total of cash outflows		145,248,160.26	73,558.04
Net cash flows from financing activities		718,805,717.40	(73,558.04)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(1,827,353.70)	(935,708.78)
5. Net increase in cash and cash equivalents		136,385,939.46	11,314,008.86
Add: Cash and cash equivalents at beginning of year		279,369,367.09	268,055,358.23
6. Cash and cash equivalents at end of year	52	415,755,306.55	279,369,367.09

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

Balance Sheet

31 December 2021

Expressed in Renminbi Yuan

ASSETS	Note XV	31 December 2021	31 December 2020
Current assets			
Cash at bank and on hand		531,198,432.32	181,937,338.37
Financial assets held for trading		390,948,111.87	—
Notes receivable		333,458,591.22	248,205,927.63
Accounts receivable	1	446,084,192.25	448,495,816.99
Prepayments		83,590,357.42	63,617,208.14
Other receivables	2	3,115,175.04	8,948,048.14
Inventories		913,224,523.66	610,052,123.67
Other current assets		444,878.11	1,927,985.38
Total current assets		2,702,064,261.89	1,563,184,448.32
Non-current assets			
Long-term equity investments	3	120,245,620.99	105,748,923.50
Investments in other equity instruments		26,611,443.62	24,338,819.01
Fixed assets		441,049,415.95	239,295,172.66
Construction in progress		27,126,966.12	8,788,972.01
Right-of-use assets		17,064,328.30	17,619,682.25
Intangible assets		74,833,172.67	117,162,424.24
Development costs		175,990,898.53	104,875,536.15
Long-term prepaid expenses		29,314,142.69	12,203,719.37
Other non-current assets		5,142,877.20	6,284,030.00
Total non-current assets		917,378,866.07	636,317,279.19
Total assets		3,619,443,127.96	2,199,501,727.51

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

Balance Sheet

31 December 2021

Expressed in Renminbi Yuan

LIABILITIES AND EQUITY	Note XV	31 December 2021	31 December 2020
Current liabilities			
Short-term borrowings		100,000.00	—
Accounts payable		201,228,542.50	162,960,222.16
Contract liabilities		124,745,290.02	22,108,959.16
Employee benefits payable		151,432,889.17	103,945,615.41
Taxes payable		10,966,486.24	12,269,671.87
Other payables		27,461,397.62	32,629,623.89
Current portion of non-current liabilities		37,065,328.94	4,347,535.49
Other current liabilities		100,288,476.70	70,255,888.54
Total current liabilities		653,288,411.19	408,517,516.52
Non-current liabilities			
Long-term borrowings		18,200,000.00	—
Lease liabilities		12,277,032.04	13,629,796.31
Deferred income		11,490,362.27	18,779,972.99
Deferred tax liabilities		3,991,716.54	3,650,822.85
Total non-current liabilities		45,959,110.85	36,060,592.15
Total liabilities		699,247,522.04	444,578,108.67
Owners' equity			
Share capital		81,450,200.00	69,450,200.00
Capital reserves		1,248,298,324.62	565,944,061.85
Other comprehensive income		14,120,625.68	12,188,894.76
Surplus reserves		40,725,100.00	35,478,142.63
Undistributed profits		1,535,601,355.62	1,071,862,319.60
Total equity		2,920,195,605.92	1,754,923,618.84
Total liabilities and equity		3,619,443,127.96	2,199,501,727.51

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

Income Statement

Year ended 31 December 2021

Expressed in Renminbi Yuan

	Note XV	2021	2020
Revenue	4	2,324,594,310.84	1,516,701,308.96
Less: Cost of sales	4	964,416,957.35	850,792,672.93
Taxes and surcharges		12,156,447.79	7,425,314.17
Selling expenses		164,072,002.38	109,517,608.31
Administrative expenses		75,785,176.67	67,352,402.07
Research and development expenses	5	650,305,258.46	452,022,200.67
Finance expenses		98,038.84	4,050,994.27
Including: Interest expenses		2,853,080.23	73,652.48
Interest income		5,169,347.35	3,223,374.16
Add: Other income		80,878,958.22	89,118,237.48
Investment income	6	(2,713,577.29)	(203,458.48)
Including: Investment income in associates and joint ventures		(5,526,536.20)	(203,458.48)
Gain on changes in fair value		948,111.87	–
Credit impairment losses (Losses are presented in negative numbers)		(633,212.22)	(457,796.57)
Asset impairment losses (Losses are presented in negative numbers)		(67,776,627.91)	(13,794,377.99)
Gains on disposals of assets (Losses are presented in negative numbers)		525,911.37	(18,399.17)
Operating profit		468,989,993.39	100,184,321.81
Add: Non-operating income		–	237,910.25
Less: Non-operating expenses		4,000.00	99,797.12
Total profit		468,985,993.39	100,322,434.94
Less: Income tax expenses		–	79,424.50
Net profit		468,985,993.39	100,243,010.44
Other comprehensive income, net of tax		1,931,730.92	(600,413.32)
Other comprehensive income that will not be reclassified to profit or loss			
Other equity instrument investments changes in fair value		1,931,730.92	(600,413.32)
Total comprehensive income		470,917,724.31	99,642,597.12

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

Statement of Changes in Equity

Year ended 31 December 2021
Expressed in Renminbi Yuan

2021

	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Total shareholders' equity
I. Balance at beginning of year	69,450,200.00	565,944,061.85	12,188,894.76	35,478,142.63	1,071,862,319.60	1,754,923,618.84
II. Changes for the year						
1. Total comprehensive income	-	-	1,931,730.92	-	468,985,993.39	470,917,724.31
2. Capital contribution and withdrawal by shareholders						
(1) Issuance of A-share ordinary shares	12,000,000.00	668,282,781.80	-	-	-	680,282,781.80
(2) Amount of share-based payment included in owners' equity	-	14,071,480.97	-	-	-	14,071,480.97
3. Profit distribution						
(1) Appropriation to surplus reserves	-	-	-	5,246,957.37	(5,246,957.37)	-
III. Balance at end 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

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

2020

	Share capital	Capital reserves	Other comprehensive income	Surplus reserves	Undistributed profits	Total equity
I. Balance at beginning of year	69,450,200.00	550,900,615.09	12,789,308.08	35,478,142.63	971,619,309.16	1,640,237,574.96
II. Changes for the year						
1. Total comprehensive income	-	-	(600,413.32)	-	100,243,010.44	99,642,597.12
2. Capital contribution and withdrawal by shareholders						
(1) Capital contributions by owners	-	1,309,230.24	-	-	-	1,309,230.24
(2) Others	-	13,734,216.52	-	-	-	13,734,216.52
III. Balance at end of year	69,450,200.00	565,944,061.85	12,188,894.76	35,478,142.63	1,071,862,319.60	1,754,923,618.84

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

Statement of Cash Flows

Year ended 31 December 2021

Expressed in Renminbi Yuan

	Note XV	2021	2020
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		2,633,306,323.32	1,637,138,031.50
Refund of taxes and surcharges		16,630,632.78	10,951,344.00
Cash received relating to other operating activities		69,675,883.80	76,224,817.80
Sub-total of cash inflows		2,719,612,839.90	1,724,314,193.30
Cash paid for goods and services		1,476,818,025.46	1,009,422,788.39
Cash paid to and on behalf of employees		579,176,192.54	438,969,534.10
Payments of taxes and surcharges		69,075,744.15	48,399,291.47
Cash paid relating to other operating activities		107,781,199.50	110,558,348.15
Sub-total of cash outflows		2,232,851,161.65	1,607,349,962.11
Net cash flows from operating activities		486,761,678.25	116,964,231.19
2. Cash flows from investing activities			
Cash received from disposal of investments		472,000,000.00	47,064,390.29
Cash received from return on investments		2,812,958.91	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		659,103.04	57,180.35
Cash received relating to other investing activities		699,547.22	2,459,839.45
Sub-total of cash inflows		476,171,609.17	49,581,410.09
Cash paid to acquire fixed assets, intangible assets and other long-term assets		456,440,966.17	154,977,572.94
Cash payments for investments		1,121,397,683.62	20,000,000.00
Total cash outflows from investing activities		1,577,838,649.79	174,977,572.94
Net cash flows from investing activities		(1,101,667,040.62)	(125,396,162.85)

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

Statement of Cash Flows

Year ended 31 December 2021
Expressed in Renminbi Yuan

	Note XV	2021	2020
3. Cash flows from financing activities			
Cash received from capital contribution		696,803,773.58	–
Cash received from borrowings		167,250,104.08	–
Sub-total of cash inflows		864,053,877.66	–
Cash repayments of borrowings		117,350,104.08	–
Cash paid for distribution of dividends or profits or for interest expenses		2,191,029.83	73,558.04
Cash paid relating to other financing activities		16,535,347.29	–
Sub-total of cash outflows		136,076,481.20	73,558.04
Net cash flows from financing activities		727,977,396.46	(73,558.04)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(289,223.76)	–
5. Net increase/(decrease) in cash and cash equivalents		112,782,810.33	(8,505,489.70)
Add: Cash and cash equivalents at beginning of year		141,551,283.58	150,056,773.28
6. Cash and cash equivalents at the end of year		254,334,093.91	141,551,283.58

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

Notes to Financial Statements

31 December 2021
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 (“SSE”) and the Stock Exchange of Hong Kong Limited (“SEHK”), 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 18 March, 2022.

The scope of consolidation in the consolidated financial statements is determined on the basis of control.. For changes in the current year, see Note VI.

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”).

The financial statements are presented on a going concern basis.

Except for certain financial instruments, the financial statements have been prepared under the pricing principle of historical cost. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant regulations.

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

Notes to Financial Statements

31 December 2021

Expressed in Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND 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, 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 2021 and the consolidated and parent company's operating results and cash flows of the Group for 2021.

2. Accounting period

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

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. 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.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company. The effects of all intra-group transactions between the Company and its subsidiaries and among subsidiaries on the consolidated financial statements are eliminated 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

4. Consolidated financial statements *(continued)*

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.

5. 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.

6. 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. 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 the exchange rates at the dates of the initial transactions, 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.

Notes to Financial Statements

31 December 2021

Expressed in Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

6. Foreign currency transactions and foreign currency translation *(continued)*

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.

7. 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 either (a) has transferred substantially all the risks and rewards of the financial asset, or (b) 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. Financial instruments *(continued)*

Recognition and derecognition (continued)

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 that require delivery within the period generally established by regulation or convention in the marketplace. The trade date is the date that the Group committed to purchase or sell a financial asset.

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 fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income. 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.

Notes to Financial Statements

31 December 2021

Expressed in Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. 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

The Group's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss or other financial liabilities. 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 other financial liabilities are included in the initial recognition amounts.

The subsequent measurement of financial liabilities depends on their classification:

Other financial liabilities

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. 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, and the assumption of measurement on expected credit loss, please refer to Note VIII. 3.

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.

8. 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. When the circumstances that previously caused the inventories to be written down below cost no longer exist, in which case the net realisable value of inventories becomes higher than the carrying amount, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down, and is recognised in profit or loss.

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 and finished goods.

Notes to Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

9. 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). Other comprehensive income prior to the date of the business combination is accounted for on the same basis as that used to account for direct disposal of such assets or liabilities by the investee, and shareholders' equity recognised as a result of changes in other shareholders' equity of the investee other than net profit or loss, other comprehensive income and profit distribution is transferred to profit or loss for the current period upon such disposal, of which the investment which remains long-term equity investment upon the disposal is transferred in proportion, and the investment which is converted into financial instruments upon the disposal is transferred in full. 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). The cost of combination includes the assets transferred and the liabilities incurred or assumed by the acquirer, and the fair value of equity securities issued. Other comprehensive income held prior to the date of the acquisition and recognised using the equity method is accounted for on the same basis as that used to account for direct disposal of such assets or liabilities by the investee, and shareholders' equity recognised as a result of changes in other shareholders' equity of the investee other than net profit or loss, other comprehensive income and profit distribution is transferred to profit or loss for the current period upon such disposal, of which the investment which remains long-term equity investment upon the disposal is transferred in proportion, and the investment which is converted into other equity instruments investments upon the disposal is transferred in full. 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 Group 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.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

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

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.

When equity method is adopted in accounting, the investment income and other comprehensive income shall be recognised respectively according to the share of net profit or loss and other comprehensive income realised by the investee, and the carrying amount of long-term equity investment shall be adjusted at the same time. When recognising the share of the net profit or loss of the investee, the net profit of the investee shall be adjusted and recognised on the basis of the fair value of the identifiable assets of the investee at the time of acquisition. If the accounting policies and accounting periods adopted by the investee are inconsistent with those of the Group, the financial statements of the investee shall be adjusted in accordance with the accounting policies and accounting period of the Group. The investment income and other comprehensive income shall be recognised accordingly. For transactions between the Group and associates or joint ventures, if the assets invested or sold do not constitute business, the gains and losses of internal transactions are offset by the shareholding attributable to the Group. On this basis, the investment gains or losses are recognised. However, the unrealised internal transaction losses between the Group and the investee shall not be offset if they belong to the impairment losses of the transferred assets. The carrying amount of long-term equity investment shall be reduced accordingly by calculating the portion to be enjoyed according to the profit or cash dividend declared to be distributed by the investee. The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the invested entity is reduced to zero unless the Group has incurred obligations to assume additional losses of the investee. The carrying amount of long-term equity investment shall be adjusted and included in capital reserve for other changes in the owners' equity of the investee except net profit or loss, other comprehensive income and profit distribution.

Notes to Financial Statements

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

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

Upon disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss. For a long-term equity investment accounted for using the equity method, when the Group discontinues it using the equity method due to disposal, all amounts previously recognised in other comprehensive income are accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. Equity previously recognised resulting from the investee's equity changes other than profit or loss, other comprehensive income and profit distribution is reclassified to profit or loss in its entirety. When the Group continues to use the equity method, the amounts previously recognised in other comprehensive income are accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities and reclassified to profit or loss on a pro-rata basis. Equity previously recognised resulting from the investee's equity changes other than profit or loss, other comprehensive income and profit distribution is reclassified to profit or loss on a pro-rata basis.

10. 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%	1.90%
Machinery	3-5 years	0%-5%	19.00%-33.33%
Vehicles	3-5 years	4%-5%	19.00%-32.00%
Others	3-5 years	0%-5%	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.

11. 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 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

12. Right-of-use assets

The right-of-use assets of the Group mainly include buildings.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date of the lease less any lease incentives received; any initial direct cost incurred; and 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 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.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

13. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. However, intangible assets acquired in a business combination not involving entities under common control with a fair value that can be measured reliably are recognised separately as intangible assets and initially measured at the fair value at the date of acquisition.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

The useful lives of the intangible assets are as follows:

	Useful life
Software	The shorter of the expected useful life and the authorized life
Patents	3 years

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

13. Intangible assets *(continued)*

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at least at each year end and makes adjustment if necessary.

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: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; 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); the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and 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 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

14. Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventories, deferred tax assets and financial assets, using the following methods:

The Group 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 and an intangible asset with an indefinite useful life are tested for impairment at least at each year end, irrespective of whether there is any indication that the asset may be impaired. Intangible assets that have not been ready for their intended use are tested for impairment each year.

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.

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.

15. Long-term prepaid expenses

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

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

16. 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. Benefits given by the Group to an employee's spouse, children and dependents, family members of deceased employees and other beneficiaries are also employee benefits.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

16. Employee benefits *(continued)*

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.

17. 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. 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 Group remeasures the lease liability at the present value of the changed lease payments if there is a modification, a change in the substantive fixed payments, a change in the amount expected to be payable for the guaranteed residual value, a change in the index or rate used to determine the lease payments, or a change in the evaluation result or actual exercise of the purchase option, extension option or termination option.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

18. 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 XI.

For awards that do not ultimately vest because non-market performance and service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

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.

19. 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

19. Revenue from contracts with customers *(continued)*

Contracts for sale of goods

A contract for the sale of goods between the Group and the customer usually only includes the performance obligation to transfer the integrated circuit products. 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 acceptance of goods.

Contracts for the rendering of services

A contract for the rendering of services between the Group and the customer usually includes performance obligation to provide integrated circuit testing, and the Group recognises revenue at the point of delivery of the test service results.

20. 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.

21. 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, judgment 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. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

21. 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.

22. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or expense in profit or loss, or recognised directly in equity if it relates to a transaction or event which is recognised directly in equity.

Current tax liabilities or assets arising from the current and prior periods at the amount expected to be paid by the Group or returned by the tax authority are calculated according to related tax laws.

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 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
- (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 the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (2) in respect of the deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

22. Income tax *(continued)*

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.

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.

23. Leases

Identification of leases

At inception of a contract, the Group assesses whether the 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 in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

23. Leases *(continued)*

As lessee

The general accounting treatment of the Group as a lessee is described in Note III, 12 and Note III, 17.

Lease modifications

Lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease, for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

- (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by:

- (1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or
- (2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

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 for which the value of the individual underlying asset is not more than RMB40,000 when it is new as a lease of low-value assets. If the Group subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

23. Leases *(continued)*

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.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

24. Profit distribution

The Company's cash dividends are recognized as liabilities upon approval by a general meeting of the shareholders.

25. 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. The fair value measurement is based on the presumption that the orderly transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

25. Fair value measurement *(continued)*

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 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly; Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

26. 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:

Operating leases – the Company as lessor

The Company has entered into lease agreements on its property portfolio. The Company has determined these leases to be operating leases, based on an evaluation of the terms and conditions of the agreements, that it retains all the significant risks and rewards of ownership of these properties.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

26. Significant accounting judgements and estimates *(continued)*

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics, and the judgements on whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, including when assessing the modification of the time value of money, the judgement on whether there is any significant difference from the benchmark cash flow and whether the fair value of the prepayment features is insignificant for financial assets with prepayment features, etc.

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 realizable value of its inventories and provides for inventory impairment based on the difference between the cost of the inventory category 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 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

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

26. Significant accounting judgements and estimates *(continued)*

Impairment of inventories (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in Note III, 13 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

- | | | |
|--|---|---|
| Value-added tax (VAT) | – | VAT payable is the difference between VAT output and deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% and 6% to the taxable value. |
| Urban maintenance and construction tax | – | It is levied at 7% on the turnover taxes paid. |
| Corporate income tax | – | Except for the subsidiaries subject to tax preferences described in Note IV, 2, the Company and the other subsidiaries incorporated in Mainland China is levied at 25% on the taxable profit. |

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%. During each of the Relevant Periods, the corporate income tax rate for Shanghai Fudan Microelectronics Group Co., Ltd. (HK), a subsidiary of the Group, is subject to the income tax rate of 8.25% for the first HK\$2 million assessable profit and 16.5% for the assessable profits in excess of HK\$2 million, respectively.

Fudan Microelectronics (USA) Inc., a subsidiary of the Group was subject to tax rates of 21% and 8.84% in accordance with local laws, respectively.

- | | | |
|--------------|---|---|
| Property tax | – | It is paid at 1.2% of the original value of the property after deducting 10% or 30% |
|--------------|---|---|

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. GR202031002423 and GR202031000027 respectively on November 12, 2020, 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 2021.

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.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

	2021	2020
Cash on hand	73,804.10	67,930.43
Cash at bank	801,572,420.39	440,574,472.15
Other cash and bank balances	1,005.70	57,277.63
	801,647,230.19	440,699,680.21

At 31 December 2021, the Group had no cash at bank and on hand with restricted ownership (December 31, 2020: Nil).

At 31 December 2021, the carrying amount of the currency funds deposited abroad was RMB48,989,879.44 (31 December 2020: RMB60,420,655.35).

At 31 December, 2021, the Group's non-cash and cash equivalent time deposits and accrued interest on time deposits totaled RMB385,891,923.64 (31 December, 2020: RMB161,330,313.12).

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

	2021	2020
Financial assets at fair value through current profit or loss – debt instrument investments	390,948,111.87	–

At 31 December, 2021, the debt instrument investments of RMB390,948,111.87 held by the Group were all structured deposits (31 December, 2020: Nil)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Notes receivable

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

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

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

The movement in the provision for bad debts on notes receivable is as follows:

	Opening balance	Provision	Reversal or transfer	Closing balance
2021	3,704,348.00	3,267,057.59	—	6,971,405.59
2020	1,890,300.00	1,814,048.00	—	3,704,348.00

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable

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

An ageing analysis of accounts receivable is as follows:

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

	31 December 2021				Book value
	Book balance Amount	Proportion (%)	Provision for bad debts Amount	Proportion (%)	
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales Portfolio	220,338,215.38	46.98	5,120,432.94	2.32	215,217,782.44
Industrial Sales Portfolio	208,153,293.48	44.38	10,972,724.87	5.27	197,180,568.61
Testing Services Portfolio	40,520,748.51	8.64	1,215,968.78	3.00	39,304,779.73
	469,012,257.37	100.00	17,309,126.59	3.69	451,703,130.78

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

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

The accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics are as follows:

	31 December 2021		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	169,133,882.88	–	–
1 to 5 years	51,184,332.50	9.96	5,100,432.94
Over 5 years	20,000.00	100.00	20,000.00
	220,338,215.38	2.32	5,120,432.94

	31 December 2020		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	157,598,960.66	–	–
1 to 5 years	66,003,997.43	10.00	6,600,399.74
Over 5 years	20,000.00	100.00	20,000.00
	223,622,958.09	2.96	6,620,399.74

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4. Accounts receivable *(continued)*

Accounts receivable with bad debt provision based on a combination of industrial sales amounts are as follows:

	31 December 2021		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 6 months	196,402,697.82	–	–
6-9 months	198,395.21	10.00	19,839.52
9-12 months	23,382.28	20.00	4,676.46
1-2 years	1,161,218.57	50.00	580,609.29
Over 2 years	10,367,599.60	100.00	10,367,599.60
	208,153,293.48	5.27	10,972,724.87

	31 December 2020		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 6 months	180,982,989.02	–	–
6-9 months	720,921.52	10.00	72,092.15
9-12 months	3,037,039.04	20.00	607,407.81
1-2 years	2,573,577.00	50.00	1,286,788.50
Over 2 years	11,121,670.00	100.00	11,121,670.00
	198,436,196.58	6.60	13,087,958.46

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4. Accounts receivable *(continued)*

The accounts receivable with bad debt provision based on a combination of test service payments are as follows:

	31 December 2021		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	40,503,432.51	3.00	1,215,102.98
1-2 years	17,316.00	5.00	865.80
	40,520,748.51	3.00	1,215,968.78

	31 December 2020		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	36,109,518.80	3.00	1,083,285.56
1-2 years	2,210,932.00	5.00	110,546.60
	38,320,450.80	3.12	1,193,832.16

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

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Accounts receivable (continued)

As of 31 December, 2021, the top five accounts receivable amounts are as follows:

	31 December 2021		
	Book balance	Amount proportion (%)	Provision for bad debts
The first place	78,499,476.00	16.74	–
The second place	21,373,360.00	4.56	–
The third place	18,766,000.00	4.00	–
The fourth place	18,606,781.94	3.97	–
The fifth place	18,014,716.80	3.84	–
Total	155,260,334.74	33.11	–

As of 31 December, 2020, the top five accounts receivable amounts are as follows:

	31 December 2020		
	Book balance	Amount proportion (%)	Provision for bad debts
The first place	26,804,710.00	5.82	–
The second place	26,233,620.00	5.70	–
The third place	23,606,000.00	5.13	2,360,600.00
The fourth place	22,960,190.90	4.99	–
The fifth place	20,677,918.03	4.49	–
Total	120,282,438.93	26.13	2,360,600.00

5. Prepayments

An ageing analysis of prepayments is as follows:

	31 December 2021		31 December 2020	
	Book balance	Proportion (%)	Book balance	Proportion (%)
Within 1 year	79,915,144.94	94.73	63,323,232.72	98.79
1 to 2 years	4,447,706.23	5.27	774,741.86	1.21
Total	84,362,851.17	100.00	64,097,974.58	100.00

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Prepayments *(continued)*

As of 31 December, 2021, the top five prepayment amounts are as follows:

Company	Book balance	Proportion (%)
The first place	31,381,198.44	37.20
The second place	13,020,424.81	15.43
The third place	10,207,789.50	12.10
The fourth place	5,783,495.40	6.86
The fifth place	4,177,926.00	4.95
	64,570,834.15	76.54

As of December 31, 2020, the top five prepayments amounts are as follows:

Company	Book balance	Proportion (%)
The first place	29,132,969.24	45.45
The second place	10,712,400.00	16.71
The third place	6,472,838.28	10.10
The fourth place	6,302,818.44	9.83
The fifth place	2,055,854.13	3.21
	54,676,880.09	85.30

6. Other receivables

An ageing analysis of other receivables is as follows:

	2021	2020
Within 1 year	14,298,260.06	8,083,576.54
1 to 2 years	885,586.48	793,108.98
2 to 3 years	793,108.98	473,678.95
Over 3 years	2,496,765.92	2,401,672.33
	18,473,721.44	11,752,036.80

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

Other receivables classified by nature are as follows:

	2021	2020
Deposit guarantee	16,991,100.39	3,997,313.63
Collection on behalf of payment	1,242,464.07	2,280,734.51
Reserve fund	90,021.95	493,521.95
Intermediary service fee	–	4,274,558.86
Others	150,135.03	705,907.85
	18,473,721.44	11,752,036.80

As at 31 December 2021, the management of the Group considers that no bad debt provision is required for other receivables (31 December 2020: Nil).

As of 31 December, 2021, the top five other receivable amounts are as follows:

	Closing balance	Proportion (%)	Classification	Ageing	Provision for bad debts
The first place	12,718,585.60	68.85	Deposit guarantee	Within 1 year	–
The second place	2,094,573.99	11.34	Deposit guarantee	0 to 7 years	–
The third place	737,117.50	3.99	Deposit guarantee	0 to 5 years	–
The fourth place	540,000.00	2.92	Receivables	Within 1 year	–
The fifth place	243,725.39	1.32	Deposit guarantee	2 to 4 years	–
	16,334,002.48	88.42			–

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

As of December 31, 2020, the top five other receivable amounts are as follows:

	Closing balance	Proportion (%)	Classification	Ageing	Provision for bad debts
The first place	2,830,188.68	24.08	Intermediary service fee	Within 1 year	–
The second place	2,282,363.17	19.42	Deposit guarantee	0 to 6 years	–
The third place	754,716.98	6.42	Intermediary service fee	Within 1 year	–
The fourth place	574,492.00	4.89	Deposit guarantee	2 to 4 years	–
The fifth place	566,037.74	4.82	Intermediary service fee	Within 1 year	–
	7,007,798.57	59.63			–

7. Inventories

	31 December 2021		
	Book balance	Provision for write-down of inventories	Book value
Raw materials	175,843,052.64	17,189,710.15	158,653,342.49
Work in process	502,350,897.86	30,705,167.24	471,645,730.62
Finished goods	331,237,956.71	45,453,965.10	285,783,991.61
	1,009,431,907.21	93,348,842.49	916,083,064.72

	31 December 2020		
	Book balance	Provision for write-down of inventories	Book value
Raw materials	251,526,612.46	37,401,327.79	214,125,284.67
Work in process	230,033,037.61	16,309,894.86	213,723,142.75
Finished goods	206,011,872.82	23,262,743.00	182,749,129.82
	687,571,522.89	76,973,965.65	610,597,557.24

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

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

2021

	Opening balance	Decrease			Closing balance
		Provision	Reversal	Transfer	
Raw materials	37,401,327.79	–	(20,211,617.64)	–	17,189,710.15
Work in process	16,309,894.86	25,714,370.48	(11,319,098.10)	–	30,705,167.24
Finished goods	23,262,743.00	28,748,921.77	(6,553,127.21)	(4,572.46)	45,453,965.10
	76,973,965.65	54,463,292.25	(38,083,842.95)	(4,572.46)	93,348,842.49

2020

	Opening balance	Decrease			Closing balance
		Provision	Reversal	Transfer	
Raw materials	35,726,279.80	13,838,600.19	(12,163,552.20)	–	37,401,327.79
Work in process	19,990,136.62	4,392,171.80	(8,072,413.56)	–	16,309,894.86
Finished goods	30,637,331.55	14,891,183.62	(22,255,470.83)	(10,301.34)	23,262,743.00
	86,353,747.97	33,121,955.61	(42,491,436.59)	(10,301.34)	76,973,965.65

8. Other current assets

	2021	2020
Amortized expenses	1,694,878.11	1,937,730.12
Input VAT to be verified	4,386,193.63	1,215,559.50
	6,081,071.74	3,153,289.62

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term equity investments

2021

	Changes for the year				Closing balance
	Opening balance	Increase	Investment profit or loss under the equity method	Other equity changes	
Associated companies					
Shanghai Xihongqiao Navigation Technology Co., Ltd.	2,393,689.18	-	194,229.06	-	2,587,918.24
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	49,259,701.21	-	(4,039,519.88)	-	45,220,181.33
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	18,642,334.13	-	(1,576,623.82)	-	17,065,710.31
Shanghai Haojun Venture Capital Partnership (Limited Partnership)	-	10,000,000.00	(104,621.56)	-	9,895,378.44
Spears Innovations Oy Ltd	-	739,581.20	-	-	739,581.20
	70,295,724.52	10,739,581.20	(5,526,536.20)	-	75,508,769.52

2020

	Changes for the year				Closing balance
	Opening balance	Increase	Investment profit or loss under the equity method	Other equity changes	
Associated companies					
Shanghai Xihongqiao Navigation Technology Co., Ltd.	2,344,718.32	-	48,970.86	-	2,393,689.18
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	35,030,552.68	-	494,932.01	13,734,216.52	49,259,701.21
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	19,389,695.48	-	(747,361.35)	-	18,642,334.13
	56,764,966.48	-	(203,458.48)	13,734,216.52	70,295,724.52

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Investments in other equity instruments

2021

	Changes in fair value accumulated in other comprehensive income	Dividend income in the year			The reason for being designated as financial assets at fair value through other comprehensive income
		Fair value	Equity instruments derecognized during the year	Equity instruments held	
Shanghai Fudan Communication Co., Ltd.	17,167,997.62	26,611,443.62	-	-	Non-trading
Zhejiang Jingchang Electronics Co., Ltd.	-	-	-	-	Non-trading
MuMec, Inc	(326,243.37)	-	-	-	Non-trading
Etopus Technology, Inc	-	3,187,850.00	-	-	Non-trading
ScaleFlux, Inc	-	3,187,829.41	-	-	Non-trading
	16,841,754.25	32,987,123.03	-	-	

2020

	Changes in fair value accumulated in other comprehensive income	Dividend income in the year			The reason for being designated as financial assets at fair value through other comprehensive income
		Fair value	Equity instruments derecognized during the year	Equity instruments held	
Shanghai Fudan Communication Co., Ltd.	14,895,373.01	24,338,819.01	-	-	Non-trading
Zhejiang Jingchang Electronics Co., Ltd.	-	-	-	-	Non-trading
MuMec, Inc	(326,243.37)	-	-	-	Non-trading
Etopus Technology, Inc	-	3,262,450.00	-	-	Non-trading
ScaleFlux, Inc	-	3,262,428.92	-	-	Non-trading
	14,569,129.64	30,863,697.93	-	-	

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Fixed assets

2021

	Buildings	Machinery	Vehicles	Other equipment	Total
Original book value					
Opening balance	182,635,968.86	563,442,829.60	9,380,846.21	37,836,436.93	793,296,081.60
Purchases	179,185,565.61	16,442,902.44	1,515,817.01	14,779,191.22	211,923,476.28
Transfers from construction in progress	-	105,768,576.67	-	-	105,768,576.67
Foreign currency financial statement translation	-	-	-	(3,024.95)	(3,024.95)
Disposals or retirements	-	(1,096,034.97)	(1,996,573.53)	(5,028.50)	(3,097,637.00)
Closing balance	361,821,534.47	684,558,273.74	8,900,089.69	52,607,574.70	1,107,887,472.60
Accumulated depreciation					
Opening balance	29,139,510.31	382,065,710.73	8,146,534.05	26,356,029.35	445,707,784.44
Provision	5,089,877.34	90,216,928.70	519,291.12	1,435,592.27	97,261,689.43
Foreign currency financial statement translation	-	-	-	(2,526.54)	(2,526.54)
Disposals or retirements	-	(1,052,328.39)	(1,898,863.86)	(4,777.07)	(2,955,969.32)
Closing balance	34,229,387.65	471,230,311.04	6,766,961.31	27,784,318.01	540,010,978.01
Carrying amount					
At end of year	327,592,146.82	213,327,962.70	2,133,128.38	24,823,256.69	567,876,494.59
At beginning of year	153,496,458.55	181,377,118.87	1,234,312.16	11,480,407.58	347,588,297.16

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Fixed assets (continued)

2020

	Buildings	Machinery	Vehicles	Other equipment	Total
Original book value					
Opening balance	182,635,968.86	478,530,130.27	9,380,846.21	30,817,422.27	701,364,367.61
Purchases	–	9,856,940.90	–	8,134,234.31	17,991,175.21
Transfers from construction in progress	–	75,680,551.70	–	–	75,680,551.70
Foreign currency financial statement translation	–	–	–	(7,368.42)	(7,368.42)
Disposals or retirements	–	(624,793.27)	–	(1,107,851.23)	(1,732,644.50)
Closing balance	182,635,968.86	563,442,829.60	9,380,846.21	37,836,436.93	793,296,081.60
Accumulated depreciation					
Opening balance	25,216,351.15	303,649,319.30	7,248,963.01	25,491,036.30	361,605,669.76
Provision	3,923,159.16	79,011,979.21	897,571.04	1,923,895.83	85,756,605.24
Foreign currency financial statement translation	–	–	–	(5,562.34)	(5,562.34)
Disposals or retirements	–	(595,587.78)	–	(1,053,340.44)	(1,648,928.22)
Closing balance	29,139,510.31	382,065,710.73	8,146,534.05	26,356,029.35	445,707,784.44
Carrying amount					
At end of year	153,496,458.55	181,377,118.87	1,234,312.16	11,480,407.58	347,588,297.16
At beginning of year	157,419,617.71	174,880,810.97	2,131,883.20	5,326,385.97	339,758,697.85

Fixed assets leased out under an operating lease are as follows:

	2021	2020
Machines	–	6,262,745.47

On December 31, 2021, the Group used fixed assets with a book value of RMB178,037,972.67 (December 31, 2020: Nil) as collateral to obtain long-term loans of RMB49,800,000.00 (December 31, 2020: Nil). Details See Note V.27 and Note V.53.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Construction in progress

	2021			2020		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Decoration	1,176,224.28	-	1,176,224.28	8,803,541.24	-	8,803,541.24
Equipment to be commissioned	53,513,193.89	-	53,513,193.89	40,466,341.25	-	40,466,341.25
	54,689,418.17	-	54,689,418.17	49,269,882.49	-	49,269,882.49

Changes of major construction in progress during the year ended 31 December 2021 are as follows:

	Opening balance	Addition	Transfer to fixed assets	Closing balance	Sources of funding
Decoration	8,803,541.24	9,996,020.23	(18,745,669.42)	53,892.05	Self-financing
Equipment to be commissioned	40,466,341.25	119,937,761.54	(105,768,576.67)	54,635,526.12	Self-financing
	49,269,882.49	129,933,781.77	(124,514,246.09)	54,689,418.17	

Changes of major construction in progress during the year ended 31 December 2020 are as follows:

	Opening balance	Addition	Transfer to fixed assets	Closing balance	Sources of funding
Decoration	1,683,300.00	17,027,590.90	(9,907,349.66)	8,803,541.24	Self-financing
Equipment to be commissioned	45,373,407.02	70,773,485.93	(75,680,551.70)	40,466,341.25	Self-financing
	47,056,707.02	87,801,076.83	(85,587,901.36)	49,269,882.49	

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Right-of-use assets

2021

	House and Building
Original value	
Opening balance	63,368,811.32
Increase	13,560,987.53
Foreign currency financial statement translation	(41,055.43)
Disposal	(2,407,533.03)
Closing balance	74,481,210.39
Accumulated depreciation	
Opening balance	15,692,504.74
Provision	13,282,931.12
Foreign currency financial statement translation	(29,126.35)
Disposal	(2,407,533.03)
Closing balance	26,538,776.48
Net amount	
Opening balance	47,942,433.91
Closing balance	47,676,306.58

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Right-of-use assets *(continued)*

2020

	House and Building
Original value	
Opening balance	52,185,158.76
Increase	18,650,048.76
Foreign currency financial statement translation	(62,430.69)
Disposal	(7,403,965.51)
Closing balance	63,368,811.32
Accumulated depreciation	
Opening balance	10,595,191.04
Provision	12,201,265.54
Foreign currency financial statement translation	–
Disposal	(7,103,951.84)
Closing balance	15,692,504.74
Net amount	
Opening balance	47,676,306.58
Closing balance	41,589,967.72

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Intangible assets

2021

	Land use rights	Patents	Total
Original book value			
Opening balance	57,446,702.63	436,523,782.02	493,970,484.65
Additions	26,547,126.45	–	26,547,126.45
Internal R&D	–	56,984,852.72	56,984,852.72
Closing balance	83,993,829.08	493,508,634.74	577,502,463.82
Accumulated amortisation			
Opening balance	29,359,255.64	278,280,314.20	307,639,569.84
Provision	35,096,816.30	67,550,169.16	102,646,985.46
Closing balance	64,456,071.94	345,830,483.36	410,286,555.30
Provision for impairment			
Opening balance	–	69,168,490.57	69,168,490.57
Provision	–	23,214,245.28	23,214,245.28
Closing balance	–	92,382,735.85	92,382,735.85
Carrying amount			
Closing balance	19,537,757.14	55,295,415.53	74,833,172.67
Opening balance	28,087,446.99	89,074,977.25	117,162,424.24

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Intangible assets *(continued)*

2020

	Land use rights	Patents	Total
Original book value			
Opening balance	35,029,505.31	367,678,674.66	402,708,179.97
Additions	22,417,197.32	–	22,417,197.32
Internal R&D	–	68,845,107.36	68,845,107.36
Closing balance	57,446,702.63	436,523,782.02	493,970,484.65
Accumulated amortisation			
Opening balance	10,968,553.66	230,555,704.11	241,524,257.77
Provision	18,390,701.98	47,724,610.09	66,115,312.07
Closing balance	29,359,255.64	278,280,314.20	307,639,569.84
Provision for impairment			
Opening balance	–	67,214,156.29	67,214,156.29
Provision	–	1,954,334.28	1,954,334.28
Closing balance	–	69,168,490.57	69,168,490.57
Carrying amount			
Closing balance	28,087,446.99	89,074,977.25	117,162,424.24
Opening balance	24,060,951.65	69,908,814.26	93,969,765.91

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Development costs

2021

	Opening balance	Increase	Decrease		Closing balance
			Recognised as intangible assets	Included in profit or loss	
Security and Identification chips	14,822,294.29	42,021,155.51	(3,695,964.22)	(8,131,385.42)	45,016,100.16
Non-Volatile memory	7,313,815.95	14,054,762.24	(6,862,455.27)	(761,280.33)	13,744,842.59
Smart Meter chips	26,924,713.21	10,954,420.55	(18,456,313.90)	(9,267,888.86)	10,154,931.00
FPGA and other chips	55,814,712.70	75,967,660.31	(27,970,119.33)	-	103,812,253.68
	104,875,536.15	142,997,998.61	(56,984,852.72)	(18,160,554.61)	172,728,127.43

2020

	Opening balance	Increase	Decrease		Closing balance
			Recognised as intangible assets	Included in profit or loss	
Security and identification chips	20,485,309.02	15,721,549.56	(21,384,564.29)	-	14,822,294.29
Non-Volatile memory	25,869,989.29	8,997,965.65	(27,554,138.99)	-	7,313,815.95
Smart Meter chips	26,926,058.04	27,605,727.43	(17,964,418.32)	(9,642,653.94)	26,924,713.21
FPGA and other chips	13,820,352.22	43,936,346.24	(1,941,985.76)	-	55,814,712.70
	87,101,708.57	96,261,588.88	(68,845,107.36)	(9,642,653.94)	104,875,536.15

The Group considers the commencement of capitalization of Development costs by holding a project review meeting for development expenditure projects and passing the review. The internal review meeting mainly considers whether the Company has the technical reserve to complete the development expenditure project, whether the development expenditure project can subsequently result in products, whether there is a future market for the products resulting from the development expenditure project, and whether the Company has sufficient resources to complete the development expenditure project.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Long-term prepaid expenses

2021

	Opening balance	Increase	Amortization for the year	Decrease	Closing balance
Decoration expense	29,039,916.72	38,177,044.20	(9,838,159.88)	–	57,378,801.04

2020

	Opening balance	Increase	Amortization for the year	Decrease	Closing balance
Decoration expense	31,753,358.01	10,390,543.04	(13,103,984.33)	–	29,039,916.72

17. Deferred tax assets/liabilities

Deferred income tax assets/liabilities before offsetting:

	2021		2020	
	Deductible temporary differences and deductible losses	Deferred income tax assets	Deductible temporary differences and deductible losses	Deferred income tax assets
Deferred tax assets				
Provision for impairment of assets	1,215,968.74	182,395.31	1,193,832.16	179,074.82
Government grants	44,061,715.57	6,609,257.34	55,056,915.10	8,258,537.27
Accrued expenses	283,018.87	42,452.83	155,100.00	23,265.00
Lease liabilities	32,724,692.67	4,908,703.90	32,281,822.53	4,842,273.38
Unrealised profit of intra-group transaction	1,183,711.87	177,556.78	1,300,533.19	195,079.98
	79,469,107.72	11,920,366.16	89,988,202.98	13,498,230.45

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Deferred tax assets/liabilities (continued)

	2021		2020	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Deferred tax liabilities				
Changes in fair value of investments in other equity instruments	26,611,443.62	3,991,716.54	24,338,819.01	3,650,822.85
Depreciation of fixed assets	13,876.48	2,289.62	2,179.15	359.56
Right-of-use assets	29,574,312.59	4,436,146.89	29,638,987.67	4,445,848.15
	56,199,632.69	8,430,153.05	53,979,985.83	8,097,030.56

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

	2021		2020	
	Offset amount of deferred income tax assets and liabilities at the end of the year	Remaining deferred income tax assets or liabilities after offset at the end of the year	Offset amount of deferred income tax assets and liabilities at the beginning of the year	Remaining deferred income tax assets or liabilities after offset at the beginning of the year
Deferred income tax assets	(4,436,146.89)	7,484,219.27	(4,445,848.15)	9,052,382.30
Deferred income tax liabilities	(4,436,146.89)	3,994,006.16	(4,445,848.15)	3,651,182.41

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

	31 December 2021	31 December 2020
Deductible temporary differences	407,905,616.59	359,587,403.91
Deductible losses	569,023,135.78	672,642,092.91
	976,928,752.37	1,032,229,496.82

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17. Deferred tax assets/liabilities *(continued)*

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

	2021	2020
2021	–	671,139.51
2022	1,377,988.63	1,377,988.63
2023	1,200,928.90	91,786,569.54
2024	371,334,156.51	385,870,689.81
2025	192,935,705.42	192,935,705.42
2026	2,174,356.32	–
	569,023,135.78	672,642,092.91

18. Other non-current assets

	2021	2020
Prepaid plant	26,779,970.20	–
Prepaid equipment	5,142,877.20	6,284,030.00
	31,922,847.40	6,284,030.00

19. Short-term borrowings

	2021	2020
Unsecured borrowings	100,000.00	–

At 31 December 2021, the annual interest rate for the above borrowings was 3.5% (31 December 2020: Nil).

As at 31 December 2021, the Group had no short-term borrowings that were due but not repaid (31 December 2020: Nil).

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Accounts payable

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

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

As at December 31, 2021, the Group had no significant accounts payable aged over 1 year (December 31, 2020: Nil).

21. Contract Liabilities

	2021	2020
Advances from sales of goods	126,274,826.25	25,704,513.56

22. Employee benefits payable

2021

	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	114,006,633.61	681,613,624.42	638,032,086.82	157,588,171.21
Post-employment benefits (defined contribution plan)	401,640.58	57,925,040.35	53,902,755.00	4,423,925.93
Termination benefits	12,000.00	18,200.00	30,200.00	–
	114,420,274.19	739,556,864.77	691,965,041.82	162,012,097.14

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

22. Employee benefits payable *(continued)*

2020

	Opening balance	Increase	Decrease	Closing balance
Short-term remuneration	95,816,257.86	514,462,390.68	496,272,014.93	114,006,633.61
Post-employment benefits (defined contribution plan)	4,322,213.24	4,017,392.84	7,937,965.50	401,640.58
Termination benefits	–	12,000.00	–	12,000.00
	100,138,471.10	518,491,783.52	504,209,980.43	114,420,274.19

Details of short-term compensation are as follows:

2021

	Opening balance	Increase	Decrease	Closing balance
Wages and salaries, bonus, allowances and subsidies	74,073,589.20	622,285,937.36	579,288,626.82	117,070,899.74
Staff welfare	–	6,504,836.51	6,504,836.51	–
Social insurance contributions	1,875,318.33	30,323,645.23	29,780,724.97	2,418,238.59
Including: Medical insurance	1,750,648.82	25,862,453.79	25,552,203.45	2,060,899.16
Work injury insurance	93,036.95	2,510,886.00	2,309,158.82	294,764.13
Maternity insurance	31,632.56	1,950,305.44	1,919,362.70	62,575.30
Housing funds	1,573,122.67	21,201,483.54	20,985,107.66	1,789,498.55
Labour union funds and employee education funds	36,484,603.41	1,297,721.77	1,472,790.85	36,309,534.33
	114,006,633.61	681,613,624.41	638,032,086.81	157,588,171.21

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Employee benefits payable (continued)

2020

	Opening balance	Increase	Decrease	Closing balance
Wages and salaries, bonus, allowances and subsidies	56,281,846.33	466,542,180.28	448,750,437.41	74,073,589.20
Staff welfare	–	4,905,016.01	4,905,016.01	–
Social insurance contributions	1,892,371.64	21,947,070.69	21,964,124.00	1,875,318.33
Including: Medical insurance	1,767,702.13	21,261,578.34	21,278,631.65	1,750,648.82
Work injury insurance	93,036.95	89,803.49	89,803.49	93,036.95
Maternity insurance	31,632.56	595,688.86	595,688.86	31,632.56
Housing funds	1,119,936.48	19,575,805.55	19,122,619.36	1,573,122.67
Labour union funds and employee education funds	36,522,103.41	1,492,318.15	1,529,818.15	36,484,603.41
	95,816,257.86	514,462,390.68	496,272,014.93	114,006,633.61

Details of defined contribution plans are as follows:

2021

	Opening balance	Increase	Decrease	Closing balance
Basic pensions	310,551.70	48,405,045.10	44,504,800.83	4,210,795.97
Unemployment insurance	91,088.88	9,519,995.25	9,397,954.17	213,129.96
	401,640.58	57,925,040.35	53,902,755.00	4,423,925.93

2020

	Opening balance	Increase	Decrease	Closing balance
Basic pension insurance	4,162,402.70	3,881,962.53	7,733,813.53	310,551.70
Unemployment insurance	159,810.54	135,430.31	204,151.97	91,088.88
	4,322,213.24	4,017,392.84	7,937,965.50	401,640.58

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23. Taxes payable

	2021	2020
VAT	3,668,197.40	6,995,426.31
Corporate income tax	4,212,007.07	5,820,370.09
Individual income tax	6,454,450.00	4,757,138.51
Urban maintenance and construction tax	368,433.05	489,679.84
Education surcharge	157,899.88	209,862.79
Local education surcharge	105,266.59	139,908.52
Stamp duties	23,323.51	18,810.60
Property tax	736,452.08	–
Land-use tax	5,065.97	–
	15,731,095.55	18,431,196.66

24. Other payables

	2021	2020
Payable expenses	16,112,219.75	19,223,811.81
Disability deposit	8,071,642.60	10,011,290.45
Collection and payment	3,615,080.90	3,267,889.81
Sub-projects to be paid	–	13,837,600.00
Others	3,364,649.76	3,479,256.68
	31,163,593.01	49,819,848.75

25. Current portion of non-current liabilities

	2021	2020
Current portion of long-term borrowings (Note V. 27)	31,655,540.83	–
Current portion of lease liabilities (Note V. 28)	13,177,394.67	9,999,817.43
	44,832,935.50	9,999,817.43

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

26. Other current liabilities

	2021	2020
Accrual of expenses	15,554,059.36	7,950,988.54
Government grants	101,246,500.00	92,210,000.00
Others	15,970,501.99	–
	132,771,061.35	100,160,988.54

27. Long-term borrowings

	2021	2020
Pledged borrowings	49,855,540.83	–
Less: Current portion of long-term borrowings	31,655,540.83	–
	18,200,000.00	–

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

	2021	2020
1 to 2 years	18,200,000.00	–

At 31 December 2021, the annual interest rate for the above borrowings was 3.60%-3.65% (31 December 2020: Nil).

As at 31 December 2021, RMB49,800,000.00 (31 December 2020: Nil) of the long-term borrowings were secured by fixed assets of the Group (Note V, 11), which will be repaid successively within the period from 12 July 2021 to 20 June 2024 by the Group.

28. Lease liabilities

	2021	2020
Lease liabilities	51,730,920.03	50,681,710.90
Less: Current portion of lease liabilities (Note V,26)	13,177,394.67	9,999,817.43
	38,553,525.36	40,681,893.47

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Deferred Income

2021

	Opening balance	Increase	Decrease	Closing balance
Government grants related to assets	33,542,219.43	6,076,153.96	19,118,375.22	20,499,998.17
Government grants related to revenue	10,544,668.66	49,681,227.16	56,510,316.15	3,715,579.67
	44,086,888.09	55,757,381.12	75,628,691.37	24,215,577.84

2020

	Opening balance	Increase	Decrease	Closing balance
Government grants related to assets	47,762,608.45	16,652,303.82	30,872,692.84	33,542,219.43
Government grants related to revenue	12,774,350.35	75,340,919.27	77,570,600.96	10,544,668.66
	60,536,958.80	91,993,223.09	108,443,293.80	44,086,888.09

As at 31 December 2021, the liabilities related to government grants are as follows:

	Opening balance	Increase	Transferred to other income	Closing balance	Related to assets/revenue
Chip design	18,779,972.99	44,439,931.12	51,729,541.84	11,490,362.27	Assets/revenue
Test services	23,638,755.92	10,981,000.00	23,232,867.04	11,386,888.88	Assets/revenue
Others	1,668,159.18	336,450.00	666,282.49	1,338,326.69	Assets
	44,086,888.09	55,757,381.12	75,628,691.37	24,215,577.84	

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Deferred Income (continued)

As at 31 December 2020, the liabilities related to government grants are as follows:

	Opening balance	Increase	Transferred to other income	Closing balance	Related to Assets/revenue
Chip design	29,794,654.63	64,691,120.96	75,705,802.60	18,779,972.99	Assets/revenue
Test services	28,962,363.16	25,761,881.13	31,085,488.37	23,638,755.92	Assets/revenue
Others	1,779,941.01	1,540,221.00	1,652,002.83	1,668,159.18	Assets
	60,536,958.80	91,993,223.09	108,443,293.80	44,086,888.09	

30. Share capital

2021

	Opening balance	Changes for the year			Closing balance
		Issue of new shares	Others	Total	
RMB-denominated ordinary shares	41,017,200.00	12,000,000.00	-	12,000,000.00	53,017,200.00
Foreign shares listed overseas	28,433,000.00	-	-	-	28,433,000.00
	69,450,200.00	12,000,000.00	-	12,000,000.00	81,450,200.00

On July 29, 2021, the Company raised funds by way of a public offering of RMB ordinary shares to the public, resulting in an increase in share capital of RMB12,000,000.00. V, note31

2020

	Opening balance	Changes for the year			Closing balance
		Issue of new shares	Others	Total	
RMB-denominated ordinary shares	41,017,200.00	-	-	-	41,017,200.00
Foreign shares listed overseas	28,433,000.00	-	-	-	28,433,000.00
	69,450,200.00	-	-	-	69,450,200.00

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31. Capital surplus

2021

	Opening balance	Increase	Decrease	Closing balance
Capital premium (Note 1)	545,686,818.38	668,282,781.80	–	1,213,969,600.18
Other capital surplus (Note 2)	31,171,848.78	14,071,480.97	–	45,243,329.75
	576,858,667.16	682,354,262.77		– 1,259,212,929.93

2020

	Opening balance	Increase	Decrease	Closing balance
Capital premium	545,686,818.38	–	–	545,686,818.38
Other capital surplus (Note 2)	16,128,402.02	15,043,446.76	–	31,171,848.78
	561,815,220.40	15,043,446.76		– 576,858,667.16

Note 1: On 29 July 2021, the Company raised funds by way of a public offering of RMB ordinary shares to the public, issuing a total of 12,000,000 shares with a par value of RMB0.1 each at an issue price of RMB6.23 per share, and the net proceeds raised, after deducting the expenses of the issue, amounted to RMB680,282,781.80, of which, the increase in share capital was RMB12,000. The net proceeds, net of the issue expenses, amounted to RMB680,282,781.80, of which, the share capital was increased by RMB12,000,000.00 and the capital surplus (share premium) was increased by RMB668,282,781.80.

Note 2: Movements in other capital surplus are as follows

- 1) In 2021, the Company implements an employee incentive plan and recognises expenses and other capital surplus amounting to RMB14,071,480.97 (2020: RMB1,309,230.24) in instalments over the waiting period, as detailed in Note 11.
- 2) In 2020, as a result of the capital increase by other shareholders of Shanghai Fukong Hualong Micro System Technology Co.,Ltd. (“Fukong Hualong”) to Fukong Hualong at a premium, the Company recognized its corresponding share of the new capital surplus of Fukong Hualong and RMB13,734,216.52 in proportion to the capital increase of Fukong Hualong.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

32. Other comprehensive income

Accumulated balance of other comprehensive income in the balance sheet:

2021

	1 January 2021	Increase or decrease	31 December 2021
Changes in the fair value of other equity instrument investments	11,862,651.39	1,931,730.92	13,794,382.31
Differences on translation of foreign currency financial statements	(2,525,872.42)	(759,427.19)	(3,285,299.61)
	9,336,778.97	1,172,303.73	10,509,082.70

2020

	1 January 2020	Increase or decrease	31 December 2020
Changes in the fair value of other equity instrument investments	12,789,308.08	(926,656.69)	11,862,651.39
Differences on translation of foreign currency financial statements	(1,070,082.40)	(1,455,790.02)	(2,525,872.42)
	11,719,225.68	(2,382,446.71)	9,336,778.97

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

32. Other comprehensive income *(continued)*

The movements of other comprehensive income are as follows:

2021

	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
Other comprehensive income that will not be reclassified to profit or loss						
Change in the fair value of other equity instrument investments	2,272,624.61	-	-	340,893.69	1,931,730.92	-
Other comprehensive income that may be reclassified to profit or loss						
Exchange differences on translation of foreign currency financial statements	(759,427.19)	-	-	-	(759,427.19)	-
Total	1,513,197.42	-	-	340,893.69	1,172,303.73	-

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. Other comprehensive income (continued)

2020

	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	Attributable to non-controlling interests
Other comprehensive income that will not be reclassified to profit or loss						
Change in the fair value of other equity instrument investments	218,498.16	-	-	1,145,154.85	(926,656.69)	-
Other comprehensive income that may be reclassified to profit or loss						
Exchange differences on translation of foreign currency financial statements	(1,455,790.02)	-	-	-	(1,455,790.02)	-
Total	(1,237,291.86)	-	-	1,145,154.85	(2,382,446.71)	-

33. Surplus reserve

2021

	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserves	35,478,142.63	5,246,957.37	-	40,725,100.00

2020

	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserves	35,478,142.63	-	-	35,478,142.63

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

33. Surplus reserve *(continued)*

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.

34. Undistributed profits

	2021	2020
Balance at end of the prior year	1,239,128,570.38	1,106,260,647.27
Net profit attributable to owners of the parent	514,466,780.71	132,867,923.11
Less: cash dividends declared	(5,246,957.37)	-
Balance at end of the current year	1,748,348,393.72	1,239,128,570.38

35. Revenue and costs of sales

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

Revenue is as follows:

	2021	2020
Revenue arising from the transactions with the customers	2,575,857,955.81	1,687,279,366.30
Leasing income	1,404,391.12	3,617,446.70
	2,577,262,346.93	1,690,896,813.00

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Revenue and costs of sales (continued)

Disaggregation of revenue from contracts with customers is as follows:

2021

Reporting segments	Design and sale of integrated circuits	Integrated circuit test services	Total
Place of business			
Mainland China	2,106,150,622.56	236,959,957.10	2,343,110,579.66
Others	229,430,816.66	3,316,559.49	232,747,376.15
	2,335,581,439.22	240,276,516.59	2,575,857,955.81
Main product types			
Security and identification chips	866,262,870.90	–	866,262,870.90
Non-volatile memory	721,026,182.95	–	721,026,182.95
Smart meter chips	295,785,007.36	–	295,785,007.36
FPGA and other chips	452,507,378.01	–	452,507,378.01
Integrated circuit test services	–	240,276,516.59	240,276,516.59
	2,335,581,439.22	240,276,516.59	2,575,857,955.81
Time of revenue recognition			
Revenue recognised at a certain point of time			
Sale of goods	2,335,581,439.22	–	2,335,581,439.22
Service	–	240,276,516.59	240,276,516.59
	2,335,581,439.22	240,276,516.59	2,575,857,955.81

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Revenue and costs of sales *(continued)*

Disaggregation of revenue from contracts with customers is as follows: *(continued)*

2020

Reporting segments	Design and sale of integrated circuits	Integrated circuit test services	Total
Place of business			
Mainland China	1,359,652,730.10	161,171,616.47	1,520,824,346.57
Others	163,494,418.77	2,960,600.96	166,455,019.73
	1,523,147,148.87	164,132,217.43	1,687,279,366.30
Main product types			
Security and identification chips	609,238,419.54	–	609,238,419.54
Non-volatile memory	509,345,267.30	–	509,345,267.30
Smart meter chips	180,155,350.04	–	180,155,350.04
FPGA and other chips	224,408,111.99	–	224,408,111.99
Integrated circuit test services	–	164,132,217.43	164,132,217.43
	1,523,147,148.87	164,132,217.43	1,687,279,366.30
Time of revenue recognition			
Revenue recognised at a certain point of time			
Sale of goods	1,523,147,148.87	–	1,523,147,148.87
Service	–	164,132,217.43	164,132,217.43
	1,523,147,148.87	164,132,217.43	1,687,279,366.30

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

	2021	2020
Sale of goods	22,108,959.16	12,363,457.17
Service	3,584,039.40	78,104.93
	25,692,998.56	12,441,562.10

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Revenue and costs of sales (continued)

Information about the Group's performance obligations is summarised below:

Sale of goods

Fulfill performance obligations when delivering goods to customers. Usually, the payment obligation is performed after the customer signs for the goods, and the company gives different credit arrangements to different customers.

Testing services

For existing customers, the customer usually pays the contract price after the service is completed and the customer receives the tested product; for new customers, prepayment is usually required.

36. Taxes and surcharges

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

37. Selling expenses

	2021	2020
Staff costs	119,365,419.19	80,171,740.65
Professional service fees	16,984,816.02	8,536,391.63
Office and administrative expenses	9,919,721.41	6,408,510.41
Business hospitality	7,930,265.76	7,438,803.62
Travelling expense	6,703,006.82	4,762,871.15
Advertising and marketing expenses	1,678,876.58	1,460,388.79
Rental, property management and utilities	1,148,365.77	2,732,938.92
Equity incentive expense	2,449,228.16	—
Others	5,459,706.53	5,919,227.34
	171,639,406.24	117,430,872.51

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

38. Administrative expenses

	2021	2020
Payroll	64,662,863.65	55,355,418.55
Office charges	10,673,414.97	12,994,963.04
Depreciation and amortization	11,203,887.94	14,619,808.95
Professional service fees	6,135,707.61	6,473,780.62
Business entertainment expenses	3,541,694.86	3,229,367.24
Repair charge	4,062,745.28	2,599,773.66
Travelling expense	2,638,095.44	2,309,108.86
Advertising and marketing expenses	2,771,786.96	–
Equity incentive expense	1,567,001.24	1,309,230.24
Others	4,798,292.76	4,093,511.31
	112,055,490.71	102,984,962.47

Included in the above administrative expenses are auditors' remuneration of RMB2,056,603.77 (2020: RMB1,367,924.53).

39. Research and development expenses

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Finance expenses

	2021	2020
Interest expenses	4,527,523.11	1,955,955.77
Including: Loan interest to be repaid within 5 years	2,246,570.66	73,652.48
Interest expenses of lease liabilities	2,280,952.45	1,882,303.29
Less: Interest income	8,431,206.09	6,290,924.01
Foreign exchange differences	2,357,571.03	7,180,762.39
Others	374,378.37	254,108.70
	(1,171,733.58)	3,099,902.85

41. Other income

	2021	2020
Government subsidies related to daily activities	105,617,364.70	123,028,026.46
Others (Note)	2,342,990.41	–
Refund of commission for paying individual income tax	923,180.45	615,288.34
	108,883,535.56	123,643,314.80

Note: Other subsidies mainly involve the Group's offsetting of taxable amount by 10% of the current deductible input tax amount based on the relevant policy of the Ministry of Finance, the General Administration of Taxation and the General Administration of Customs Announcement No. 39 of 2019 "Announcement on Relevant Policies for Deepening VAT Reform"

Government subsidies related to daily activities are as follows:

	2021	2020	Related to assets/revenue
Research grants	19,118,375.22	30,112,876.84	Assets
Research grants	56,266,467.10	73,580,600.96	Revenue
Other government subsidies	13,601,889.60	8,383,204.66	Revenue
VAT refundable	16,630,632.78	10,951,344.00	Revenue
	105,617,364.70	123,028,026.46	

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42. Investment income (loss is expressed with negative value)

	2021	2020
Investment income from long-term equity investments under the equity method	(5,526,536.20)	(203,458.48)
Investment income from held-for-trading financial assets during the period of holding	2,812,958.91	-
	(2,713,577.29)	(203,458.48)

43. Profit or loss arising from changes in fair value (loss is expressed with negative value)

	2021	2020
Financial assets at fair value through current profit or loss	948,111.87	-
Other non-current financial assets	-	(1,350,110.00)
	948,111.87	(1,350,110.00)

44. Credit impairment losses (loss is expressed with negative value)

	2021	2020
Impairment losses on notes receivable	(3,267,057.59)	(1,814,048.00)
Impairment losses on accounts receivable	1,956,008.76	904,804.52
	(1,311,048.83)	(909,243.48)

45. Asset impairment losses (loss is expressed with negative value)

	2021	2020
Loss from write-down of inventories	(41,666,216.32)	(4,736,210.02)
Loss from impairment of intangible assets	(23,214,245.28)	(1,954,334.28)
	(64,880,461.60)	(6,690,544.30)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

46. Gains on disposal of assets (loss is expressed with negative value)

	2021	2020
Gain on disposal of fixed assets	519,205.28	(15,739.47)

47. Non-operating income

	2021	2020	Non-recurring gains and losses of 2021
Others	104,975.63	279,750.57	104,975.63

48. Non-operating expenses

	2021	2020	Non-recurring gains and losses of 2021
Compensation from default	15,359.61	109,672.42	15,359.61
Others	1,073.52	147,477.13	1,073.52
	16,433.13	257,149.55	16,433.13

49. Income tax expenses

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Income tax expenses (continued)

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

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

50. Earnings per share

	2021 RMB/share	2020 RMB/share
Basic earnings per share		
Continuing operations	0.69	0.19
Diluted earnings per share		
Continuing operations	0.69	0.19

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.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

50. Earnings per share *(continued)*

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.

	2021	2020
Earnings		
Net profit for the year attributable to ordinary shareholders of the Company		
Continuing operation	514,466,780.71	132,867,923.11
Attributable to:		
Continuing operation	514,466,780.71	132,867,923.11
Shares		
Weighted average number of ordinary shares in issue (Note)	745,460,904.00	694,502,000.00
Dilution effect – weighted average of common Shares stock options	217,494.00	–
Weighted average number of common shares of the Company issued and outstanding (Note)	745,678,398.00	694,502,000.00

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

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

51. Notes to the statements of cash flows

	2021	2020
Cash received relating to other operating activities		
Government grants	78,141,536.96	110,701,650.66
Interest income	4,904,244.59	1,397,969.37
Others	5,261,831.62	8,532,141.53
	88,307,613.17	120,631,761.56
Cash paid relating to other operating activities		
Deposits paid	97,915,278.51	151,653,858.75
Payments of pawn money	13,837,600.00	4,895,100.00
Payment of deposits	12,993,786.76	–
Others	1,183,187.85	257,149.55
	125,929,853.12	156,806,108.30
Cash paid relating to other financing activities		
Regular Interest	2,225,150.98	4,892,954.64
	2021	2020
Other cash related to financing activities		
Listing Fees	10,790,566.05	–
Listing Fees for Subsidiaries	1,250,000.00	–
Rental and interest	13,666,460.30	–
	25,707,026.35	–

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52. 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:

	2021	2020
Net profit	559,324,709.79	160,282,030.02
Add: Provisions for asset impairment	66,191,510.43	7,599,787.78
Depreciation of fixed assets	97,261,689.43	85,756,605.24
Depreciation of right-of-use assets	13,282,931.12	12,201,265.54
Amortisation of intangible assets	102,646,985.46	66,115,312.07
Amortisation of long-term prepaid expenses	9,838,159.88	13,103,984.33
Losses from disposal of fixed assets, intangible assets and other long-term assets	(519,205.28)	15,739.47
Losses or gains on changes in fair value	(948,111.87)	1,350,110.00
Finance expenses	2,827,915.31	(4,819,396.60)
Equity Incentive Fee	14,071,480.97	1,309,230.24
Losses on investment	2,713,577.29	203,458.48
Decrease/Increase in deferred income tax assets	1,568,163.03	(1,373,711.17)
Increase in deferred income tax liabilities	1,930.06	(651.05)
Decrease in inventories	(347,151,723.80)	(26,677,436.46)
Decrease in operating receivables	(172,777,508.60)	(150,569,665.99)
Increase in operating payables	253,872,374.86	55,156,023.91
Net cash flows from operating activities	602,204,878.08	219,652,685.81

Significant investing and financing activities not involving cash:

	2021	2020
Right-to-use assets acquired by assuming lease liabilities	13,560,987.53	18,650,048.76

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

52. Supplementary Information of statements of cash flows *(continued)*

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

Net change in cash and cash equivalents:

	2021	2020
Cash at the end of the year	415,755,306.55	279,369,367.09
Less: Cash at the beginning of the year	279,369,367.09	268,055,358.23
Net increase in cash and cash equivalents	136,385,939.46	11,314,008.86

(2) Cash and cash equivalents

	2021	2020
Cash	415,755,306.55	279,369,367.09
Including: Cash on hand	73,804.10	67,930.43
Bank deposits on demand	415,680,496.75	279,244,159.03
Other currency funds on demand	1,005.70	57,277.63
Closing balance of cash and cash equivalents	415,755,306.55	279,369,367.09

53. Assets with restricted ownership or use right

	2021	2020	
Notes receivable	–	7,014,778.29	Note 1
Fixed assets	178,037,972.67	–	Note 2
	178,037,972.67	7,014,778.29	

Note 1: As at 31 December 2021, the Group had no endorsed but outstanding bank acceptance bills (31 December 2020: RMB7,014,778.29).

Note 2: As at 31 December 2021, fixed assets with a carrying value of RMB178,037,972.67 (31 December 2020: Nil) have been used to obtain collateral for bank borrowings.

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

54. Monetary Items Denominated in Foreign Currency

	2021			2020		
	Original currencies	Exchange rate	RMB equivalent	Original currencies	Exchange rate	RMB equivalent
Cash and bank balances						
US\$	22,763,289.51	6.3757	145,131,904.93	11,737,790.19	6.5249	76,587,907.21
HK\$	12,002,873.09	0.8176	9,813,549.04	12,510,642.80	0.84164	10,529,457.41
NT\$	1,210,106.00	0.2296	277,840.34	969,625.00	0.2321	225,049.96
S\$	34,493.07	4.7179	162,734.85	38,372.87	4.9314	189,231.97
Accounts receivable						
US\$	7,108,062.65	6.3757	45,318,875.04	9,361,148.19	6.5249	61,080,555.82
HK\$	4,109,626.77	0.8176	3,360,030.85	5,108,057.41	0.84164	4,299,145.44
Accounts payable						
US\$	3,376,343.16	6.3757	21,526,551.09	661,593.80	6.5249	4,316,833.39
HK\$	986,138.24	0.8176	806,266.63	276,861.47	0.84164	233,017.69

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.

VI. CHANGES IN CONSOLIDATION SCOPE

1. Newly Established Subsidiaries

On 20 December 2021, Sino Ic Technology Co., Ltd., a subsidiary of the Group, subscribed the entire capital contribution of RMB30 million to establish Shanghai Hualingshenci Integrated Circuit Co., Ltd. (with a registered capital of RMB30 million), which received its business license on 20 December 2021. As of December 31, 2021, the Group has not yet made actual capital contributions and Hualingshenci has not yet commenced operations.

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in significant subsidiaries

The Company's significant subsidiaries are as follows:

	Main business site	Place of registration	Business nature	Registered capital	Shareholding ratio (%)	
					Direct	Indirect
Subsidiaries acquired through establishment or investment						
Sino Ic Technology Co., Ltd.	Shanghai	Shanghai	IC products testing	RMB226,800,000	50.29	-
Shanghai Fudan Microelectronics (HK) Ltd.	Hong Kong	Hong Kong	sale of IC products	HK\$30,400,000	100.00	-
Shenzhen Fudan Microelectronics Company Ltd.	Shenzhen	Shenzhen	sale of IC products	RMB5,000,000	100.00	-
Beijing Fudan Microelectronics Technology Co., Ltd.	Beijing	Beijing	sale of IC products	RMB10,000,000	100.00	-

Note : The Company and its subsidiaries are all company system enterprise.

The subsidiaries with significant minority interests are listed below:

2021

	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.	49.71%	44,799,857.19	-	227,245,263.31

2020

	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.	49.71%	27,742,264.74	-	182,445,406.12

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VII. INTERESTS IN OTHER ENTITIES *(continued)*

1. Interests in significant subsidiaries *(continued)*

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

	Sino Ic Technology Co., Ltd.
2021	
Current assets	310,155,296.16
Non-current assets	246,247,460.67
Total assets	556,402,756.83
Current liabilities	59,770,778.04
Non-current liabilities	39,490,028.86
Total liabilities	99,260,806.90
Revenue	284,425,885.87
Net profit	90,122,424.45
Total comprehensive income	90,122,424.45
Net cash flows from operating activities	153,200,326.95
	Sino Ic Technology Co., Ltd.
2020	
Current assets	287,267,031.28
Non-current assets	204,047,305.46
Total assets	491,314,336.74
Current liabilities	72,053,299.93
Non-current liabilities	52,241,511.33
Total liabilities	124,294,811.26
Revenue	191,685,348.25
Net profit	55,808,217.14
Total comprehensive income	55,808,217.14
Net cash flows from operating activities	98,155,718.56

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity in joint ventures and associates

	Main business site	Place of registration	Business nature	Registered capital	Shareholding ratio (%)		
					Direct	Indirect	
Associated Companies							
Shanghai Xihongqiao Navigation Technology Co., Ltd.	Shanghai	Shanghai	Satellite navigation	RMB30,000,000	10.00	-	Equity method
Shanghai Fudan-Holding 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	Chip design	EUR1,000,000	10.00	-	Equity method

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

Shanghai Fudan-Holding 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 following table presents the financial information of the above companies adjusted for differences in accounting policies and reconciled to the carrying amounts of the Group's financial statements:

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VII. INTERESTS IN OTHER ENTITIES *(continued)*

2. Equity in joint ventures and associates *(continued)*

2020

	Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.
Current assets	112,656,387.31	68,231,429.31
Non-current assets	16,010,502.66	18,489,571.46
Total assets	128,666,889.97	86,721,000.77
Current liabilities	5,359,117.02	5,200,460.65
Non-current liabilities	8,830,000.00	–
Total liabilities	14,189,117.02	5,200,460.65
Equity attributable to owners of the parent company	114,477,772.95	81,520,540.12
Share of net assets based on percentage of shareholding	24,326,526.75	16,304,108.03
Adjustments	24,933,174.46	2,338,226.10
Carrying amounts of investments	49,259,701.21	18,642,334.13
Operating income	46,513,981.50	–
Net profit	8,079,398.53	(3,736,806.77)
Total comprehensive income	8,079,398.53	(3,736,806.77)

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VII. INTERESTS IN OTHER ENTITIES *(continued)*

2. Equity in joint ventures and associates *(continued)*

The following table presents summarized financial information on joint ventures and associates that are not material to the Group:

	2021	2020
Associates		
Total carrying value of investments	3,327,499.44	2,393,689.18
The total number of the following items based on shareholding ratio		
Net profit	194,229.06	48,970.86
Other comprehensive income	–	–
Total comprehensive income	194,229.06	48,970.86

VIII. FINANCIAL INSTRUMENTS AND RELATED RISKS

1. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of 2021 and 2020 are as follows:

31 December 2021

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income		Total
			Required by the standard	Designated	
Cash and bank balances	–	801,647,230.19	–	–	801,647,230.19
Financial assets held for trading	390,948,111.87	–	–	–	390,948,111.87
Notes receivable	–	372,363,594.25	–	–	372,363,594.25
Accounts receivable	–	451,703,130.78	–	–	451,703,130.78
Other receivables	–	18,473,721.44	–	–	18,473,721.44
Other equity instruments investments	–	–	–	32,987,123.03	32,987,123.03
	390,948,111.87	1,644,187,676.66	–	32,987,123.03	2,068,122,911.56

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VIII. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

1. Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of 2021 and 2020 are as follows: (continued)

31 December 2021 (continued)

Financial liabilities

	Financial liabilities at amortized cost
Short-term borrowings	100,000.00
Accounts payable	200,262,918.53
Other payables	31,163,593.01
Non-current liabilities due within one year	44,832,935.50
Long-term borrowings	18,200,000.00
Lease liabilities	38,553,525.36
	333,112,972.40

31 December 2020

Financial assets

	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income		Total
		Required by the standard	Designated	
Cash and bank balances	440,699,680.21	–	–	440,699,680.21
Notes receivable	296,716,865.58	–	–	296,716,865.58
Accounts receivable	439,477,415.11	–	–	439,477,415.11
Other receivables	11,752,036.80	–	–	11,752,036.80
Other equity instruments investments	–	–	30,863,697.93	30,863,697.93
	1,188,645,997.70	–	30,863,697.93	1,219,509,695.63

Financial liabilities

	Financial liabilities at amortized cost
Accounts payable	159,595,143.92
Other payables	49,819,848.75
Non-current liabilities due within one year	9,999,817.43
Lease liabilities	40,681,893.47
	260,096,703.57

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

2. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2021, the Company didn't endorsed suppliers any bank acceptance for settlement of accounts payable (31 December 2020: RMB7,014,778.29). The Group is of the opinion that the Group retains nearly all the risks and rewards, including default risk related to it. Therefore, such accounts payable and related accounts payable settled will continuously be recognized in full. Subsequent to the endorsement, 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

On 31 December 2021, carrying value of the bank acceptance endorsed to suppliers for settlement of accounts payable amounted to RMB15,702,190.06 (31 December 2020: RMB25,166,025.55). On 31 December 2021, the bank acceptance is due within 1 to 2 months. If acceptance banks dishonored the notes, endorses shall have the right to turn to the Group for recourse ("Continuous Involvement") according to the Law of Bill. The Group considered that substantially all the risks and rewards of the notes have been transferred. Therefore, the Group has derecognised carrying amounts of the notes and the related accounts payable that have been settled. The maximum loss and the undiscounted cash flow of Continuous Involvement and repurchase are equal to the carrying amounts of the notes. The Group believes that the fair value of Continuous Involvement is insignificant.

In 2021, the Group did not recognise gains or losses on the date of its transfer. The Group 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 period.

3. Financial instruments risks

The Group is exposed to various types of risks from financial instruments in day-to-day operation, mainly including credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate). The major financial instruments of the Group primarily include cash and bank balances, equity investments, borrowings, notes receivables, accounts receivable and accounts payable, etc. Risks in connection with such financial instruments, and the risk management strategies adopted by the Group to mitigate such risks are 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.

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

3. Financial instruments risks *(continued)*

Credit risk (continued)

Since counterparties of cash and bank balances, 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 commercial acceptance notes receivables, accounts receivable, borrowings and other receivables, etc. Credit risk from 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 recognized third parties with good credit standing, no guarantee is required. Credit risk concentration is managed based on customer/counterparty, geographical region and industry sector. As at 31 December 2021, the Group is exposed to certain credit risk concentration, as 33.11% (31 December 2020: 26.13%) 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. When determining whether credit risk is increased significantly after initial recognition, the Group will consider obtaining reasonable information with supporting basis without paying extra cost or efforts, including qualitative and quantitative analysis over the historical data of the Group, external credit risk ratings and forward-looking information. Based on a single financial instrument or group of financial instruments with similar credit risk characteristics, the Group will determine estimated changes in default risks of financial instruments during the period of existence, by comparing the default risk of financial instruments on the balance sheet date and that upon initial recognition.

When one or more of the following quantitative and qualitative standards is triggered, credit risk in connection with financial instrument is increased significantly:

- (1) For quantitative standards, the probability of default in the remaining existence period after the reporting date is increased to a certain proportion as compared with that upon initial recognition;
- (2) For qualitative standards, there are significant adverse changes in operation or financial position of debtors and early-warning customer list;
- (3) For upper limit indicator, the debtor's contractual payments (including principal and interest) are more than 30 days overdue.

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

3. Financial instruments risks *(continued)*

Credit risk (continued)

Definition of credit-impaired assets

To determine whether there is credit impairment, the defining standards adopted by the Group are consistent with the objective of internal credit risk management for related financial instruments, by reference to the quantitative and qualitative indicators. When debtors are evaluated for credit impairment, the following factors will be taken into account:

- (1) significant financial difficulty of issuers or debtors
- (2) breach of contract by debtors, such as default or overdue payment in interest or principal repayment;
- (3) a concession granted by the creditor to the debtor due to economic or contractual considerations related to the debtor's financial difficulty, which will not be granted under any other circumstances;
- (4) possible bankruptcy or other financial reorganization of the debtors;
- (5) disappearance of an active market for the financial asset due to financial difficulty of the issuer or the debtor;
- (6) purchase or creation of a financial asset at significant discount reflecting the fact of credit loss.

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

Parameters for measurement of expected credit losses

Impairment loss provision for different assets is measured based on 12 months or the whole existence period depending on whether there is a significant increase in credit risk and whether credit impairment is provisioned. Key parameters for measurement of expected credit losses include default probability, loss rate and risk exposure. The Group will take into account qualitative analysis on historical statistical data, such as counterparty rating, way of guarantee and types of collateral and way of repayment, etc. and forward-looking information to build default probability, loss rate and risk exposure model.

Relevant definitions are as follows:

- (1) Default probability refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. Default probability of the Group is adjusted based on the migration rate model with reference to forward-looking information to reflect the debtor's default probability under the current macroeconomic environment;

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VIII. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

3. Financial instruments risks (continued)

Credit risk (continued)

Parameters for measurement of expected credit losses (continued)

Relevant definitions are as follows: (continued)

- (2) Loss rate is the expectation made for the degree of estimated loss suffered by the Group. The loss rate varies depending on the counterparty rating, method and priority for recourse and way of guarantee. Loss rate is the percentage of estimated loss of risk exposure, and calculated based on a period of next 12 months or the whole period of existence;
- (3) Risk exposure is the amount that the Group should be compensated in the next 12 months or the remaining existence period upon default.

Forward-looking information will be involved in both the evaluation of significantly increased credit risk and the calculation of expected credit losses. By analysis of historical data, the Group identified the key economic indicators affecting the credit risk and the expected credit loss of each business type

Refer to Notes V, 3,4 and 6 for the information on Group's credit risk exposure from notes receivable, accounts receivable, and other receivables.

Liquidity risk

The Group uses a revolving liquidity planning tool to manage the risk of funding shortfalls. This tool considers both the maturity of its financial instruments and the expected cash flows generated from the Group's operations.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of financing including bank borrowings and other interest-bearing borrowings.

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

2021

	Within 1 year	1 to 3 years	Over 3 years	Total
Short-term borrowings	101,045.21	–	–	101,045.21
Accounts payable	200,262,918.53	–	–	200,262,918.53
Other receivables	31,163,593.01	–	–	31,163,593.01
Non-current liabilities due within one year	48,143,536.49	–	–	48,143,536.49
Long-term borrowings	–	18,922,060.00	–	18,922,060.00
Lease liabilities	–	32,331,678.37	16,865,972.14	49,197,650.51
	279,671,093.24	51,253,738.37	16,865,972.14	347,790,803.75

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VIII. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

3. Financial instruments risks (continued)

Liquidity risk (continued)

2020

	Within 1 year	1 to 3 years	Over 3 years	Total
Accounts payable	159,595,143.92	–	–	159,595,143.92
Other receivables	49,819,848.75	–	–	49,819,848.75
Non-current liabilities due				
within one year	13,278,119.69	–	–	13,278,119.69
Lease liabilities	–	20,631,884.44	20,050,009.03	40,681,893.47
	222,693,112.36	20,631,884.44	20,050,009.03	263,375,005.83

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's policy is to manage its interest cost using a mix of fixed and variable rate debts to avoid interest rate risks. 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.

2021

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss (RMB0'000)	Increase/ (decrease) in other comprehensive income (RMB0'000)	Increase/ (decrease) in total shareholders' equity (RMB0'000)
RMB	50	(212,075.00)	–	(212,075.00)
RMB	(50)	212,075.00	–	212,075.00

As of 31 December, 2020, the Group had no long-term liabilities with floating interest rates and therefore is not exposed to the above interest rate risk.

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

3. Financial instruments risks *(continued)*

Market risk (continued)

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. Approximately 9% (2020: 10%) of the Group's sales are denominated in a currency other than the reporting currency of the operating unit in which the sales occur, while approximately 12% (2020: 13%) of costs are denominated in a currency other than the reporting currency of the operating unit in which costs occur.

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

2021

	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	5%	7,078,303.56	628,550.49	7,706,854.05
RMB appreciates against USD	(5%)	(7,078,303.56)	(628,550.49)	(7,706,854.05)
RMB depreciates against HKD	5%	516,336.34	2,071,199.56	2,587,535.90
RMB appreciates against HKD	(5%)	(516,336.34)	(2,071,199.56)	(2,587,535.90)

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VIII. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

3. Financial instruments risks (continued)

Market risk (continued)

Exchange rate risk (continued)

2020

	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	5%	5,618,946.46	289,582.57	5,908,529.03
RMB appreciates against USD	(5%)	(5,618,946.46)	(289,582.57)	(5,908,529.03)
RMB depreciates against HKD	5%	2,287,590.53	1,335,873.75	3,623,464.28
RMB appreciates against HKD	(5%)	(2,287,590.53)	(1,335,873.75)	(3,623,464.28)

4. 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 2021 and 2020.

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 as at the end of 2021 and 2020 is as follows:

	2021	2020
Total assets	4,165,014,183.19	2,678,603,017.23
Total liabilities	798,111,636.69	566,551,747.02
Debt-to-asset ratio	19.16%	21.15%

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IX. DISCLOSURE OF FAIR VALUE

1. Assets and liabilities measured at fair value

2021

	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	–	390,948,111.87	–	390,948,111.87
Financial assets designed at fair value through other comprehensive income				
Other equity instrument investments	–	–	32,987,123.03	32,987,123.03
	–	390,948,111.87	32,987,123.03	423,935,234.90

2020

	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 designed at fair value through other comprehensive income				
Other equity instrument investments	–	–	30,863,697.93	30,863,697.93
	–	–	30,863,697.93	30,863,697.93

IX. DISCLOSURE OF FAIR VALUE *(continued)*

2. Fair value valuation

Fair Value of Financial Instruments

Management has assessed the cash and bank balances, notes receivable, accounts receivable, other receivables, short-term borrowings, accounts payable, other payables, non-current liabilities due within one year, etc., which approximate to their carrying amounts due to the short residual term of these instruments.

The financial department of the Group, headed by the financial manager, is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The financial manager directly reports to the Chief Financial Officer. As at each balance sheet date, the financial department analyses the change in value of financial instruments and determines the major inputs applied in the valuation. The valuation is subject to review and approval by the Chief Financial Officer.

The fair values of financial assets and liabilities are determined as per the amount for which an asset could be exchanged, or a liability could be settled, between knowledgeable, willing parties in an arm's length transaction, instead of the amount under forced sale or under liquidation. The following methods and assumptions are used to estimate the fair value.

The fair values of long-term borrowings 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. As of 31 December 2021, the non-performance risk associated with long-term borrowings was assessed as insignificant.

The fair values of non-listed equity instrument investments are estimated using discounted valuation model, and the assumptions adopted are not supported by observable market prices or interest rates. The Group needs to make estimation for the expected future cash flows (including expected future dividend and disposal income). 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.

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IX. DISCLOSURE OF FAIR VALUE *(continued)*

3. Unobservable Inputs

The following is an overview of significant unobservable inputs for the measurement of level-3 fair value:

	Fair value at year end	Valuation technique(s)	Unobservable inputs	Range (Weighted average)
Equity instruments investments	2021: 26,611,443.62	Cash Flow	Perpetual growth rate	2021: 2.3%
	2020: 24,338,819.01	Discount Method		2020: 3.0%
			Discount rate	2021: 14%
				2020: 14%
			Liquidity discount	2021: 20%
				2020: 20%
			Non-controlling interest discount	2021: 15%
				2020: 15%

X. 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

Please refer to Note VII, 2.

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

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
Shanghai Poyang Equity Investment Management Co., Ltd.	Subsidiary of associated companies

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

	Notes	2021	2020
Fudan University	(1) a	2,588,878.85	64,849.40
Shanghai Fudan Science PARK Co., Ltd.	(1) b	1,213,414.79	1,102,709.51
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	(1) c	1,329,513.17	(1,220,705.60)
		5,131,806.81	(53,146.69)

Sales of goods and services to related parties

	Notes	2021	2020
Fudan University	(1) d	4,708,490.55	2,099,056.60
Shanghai Fudan Communication Co., Ltd.	(1) e	119,449,206.21	25,323,219.48
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	(1) f	1,090,490.95	2,361,592.92
Spear Innovations Oy Ltd	(1) g	1,878,324.21	–
		127,126,511.92	29,783,869.00

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

5. Major transactions between the Group and related parties *(continued)*

(2) Lease of related parties

As a lessee

	Notes	Lease asset type	2021 Rental fee	2020 Rental fee
Shanghai Fudan Science Park Co., Ltd.	(1)b	Office	1,072,413.14	1,340,516.50

(3) Transfer of related party assets

	Notes	Transaction content	2021	2020
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.		Transfer of fixed assets	–	53,097.35

(4) Co-Investment

During the year, the Group invested in Shanghai Haojun Venture Capital Partnership (Limited Partnership) jointly with Shanghai Poyang Equity Investment Management Co., Ltd. with a capital contribution of RMB25,000,000.00, of which RMB10,000,000.00 has been paid as at 31 December 2021.

(5) Other major related party transactions

	Note	2021	2020
Compensation of key management personnel	(2)a	17,382,114.31	16,071,918.52

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

5. Major transactions between the Group and related parties *(continued)*

(5) Other major related party transactions *(continued)*

Notes:

(1) Related party transactions of goods and services

(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 2021, the Company incurred technical equipment support fees of RMB64,157.00 (2020: RMB64,849.40).

On 23 February, 2021, the Company signed the contract of technology development with Fudan University, the Company's major shareholder. In 2021, the Company incurred technology development fees of RMB2,524,721.85 (2020: Nil).

(b) On 1 July, 2019, the Company signed the contract of housing lease with Shanghai Fudan Science PARK Co., Ltd. In 2021, the Company incurred lease expenses of RMB1,072,413.14 (2020: RMB1,340,516.50) and property fees of RMB1,213,414.79 (2020: RMB1,102,709.51) under the lease contract.

(c) On 20 April, 2020, the Company signed the contract of technology development with Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd. According to the contract, the Company needs to pay Fudan-Holding Hualong the technology development fee. In 2021, the Company incurred technology development fees of RMB1,329,513.17.

(d) On 23 February, 2021, 23 September, 2021 and 30 September, 2021, the Group signed three contracts of technical service with Fudan University. Fudan University entrusts the Group to provide testing services. In 2021, the Group realized test service income of RMB4,708,490.55 (2020: RMB2,099,056.60).

(e) On 26 March, 2021, the Company signed the product sales contract with Shanghai Fudan Communications Co., Ltd. ("Fudan Communications"). In 2021, the Company's realized sales revenue of RMB119,449,206.21 from sales of goods to Fudan Communications (2020: RMB25,323,219.48).

(f) On 28 May, 2021, 20 June, 2021, 21 June, 2021, 7 July, 2021 and 10 September, 2021, the Group and Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd. signed product sales contracts and entrusted testing processing contract. In 2021, the Group realized sales revenue of RMB1,090,490.95 from sales of goods and services to Fudan-Holding Hualong (2020: RMB2,361,592.92).

(g) On 24 June, 2021, the Company signed the product sales contract with Spear Innovations Oy Ltd. In 2021, the Company's realized sales revenue of RMB1,878,324.21 from sales of goods to Spear Innovations Oy Ltd (2020: Nil).

In addition to related-party transactions with associates, the above-mentioned other major transactions between the Group and related parties 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 Shanghai Stock Exchange Sci-Tech Innovation Board Listing Rules.

(2) Other major related transactions

(a) In 2021, the Group incurred total remuneration of key management personnel (including in money, physical form and other forms) of RMB17,382,114.31 (2020: RMB16,071,918.52).

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

6. Receivable balances from related parties

(1) *Accounts receivable*

	2021		2020	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	252,080.00	7,562.40	–	–

(2) *Other receivables*

	2021		2020	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Shanghai Fudan Science PARK Co., Ltd.	187,672.30	–	328,365.98	–

(3) *Notes receivable*

	2021		2020	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Shanghai Fudan Communication Co., Ltd.	50,400,601.93	–	–	–

Receivables from related parties are interest free, unsecured and with no fixed maturity date.

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

7. Payment balances from related parties

(1) *Contract liabilities*

	2021	2020
Fudan University	23,400.00	2,075,471.69
Shanghai Fudan Communication Co., Ltd.	42,566,917.60	2,394,825.00
	42,590,317.60	4,470,296.69

(2) *Other payables*

	2021	2020
Shanghai Fudan Science PARK Co., Ltd.	211,482.49	–
Fudan University	84,800.00	–
	296,282.49	–

Payables to related parties are interest free, unsecured and with no fixed maturity date.

XI. SHARE-BASED PAYMENT

1. Overview

	2021	2020
Total amount of each equity instrument granted	160,812,000.00	–
Exercise price of outstanding share options at the end of the year	RMB18.00 per share	–
Remaining contractual term of outstanding share options at the end of the year	5 years	–

	2021	2020
Total services received from employees in exchange for share-based payments	14,071,480.97	1,309,230.24

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XI. SHARE-BASED PAYMENT *(continued)*

1. Overview *(continued)*

Of which, equity-settled share-based payments were as follows:

	2021	2020
Accumulated amount of equity-settled share-based payments charged to capital surplus	16,769,507.92	2,698,026.95
Total expense recognized for equity-settled share-based payments	14,071,480.97	1,309,230.24

2. Share-based payment plans

In order to motivate and retain the Company's core workforce and technical expertise, the Company implemented an employee equity subscription plan (the "Employee Equity Subscription Plan") by way of a private offering of domestic shares through four partnership platforms. Eligible subscribers under the Employee Equity Subscription Plan include the Company's corporate department heads, core management, senior technical experts and project leaders.

(1) 2018 Share Incentive Plan

On 12 December, 2018 (the "Grant Date"), the Company issued 35,172,000 domestic shares to eligible subscribers through a non-public offering at a subscription price of RMB5.73 per share in accordance with the relevant provisions of the Employee Equity Subscription Plan. The lock-up period of this employee equity subscription plan starts from the date of grant and ends on the date of expiration of the 3-year service period, which begins on the date of completion of the commercial and industrial change registration of this equity subscription.

The total fair value of the shares granted under this employee share subscription plan is RMB205,756,200.00. The Company calculated the services acquired during the lock-up period based on the difference between the total fair value of the shares granted on the grant date and the total issue price (RMB201,535,560.00) of RMB4,220,640 and included it in the corresponding period cost or expense, with a corresponding increase in capital surplus of RMB1,320,080.21 in 2021 (2020: RMB1,309,230.24).

The fair value of the shares granted under the Employee Equity Subscription Plan on the date of grant is determined by the market approach, adjusted for liquidity restrictions on the basis of the Company's share price.

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XI. SHARE-BASED PAYMENT *(continued)*

2. Share-based payment plans *(continued)*

(2) 2021 Share Incentive Plan

The Company implemented a restricted stock plan (the “Plan”) 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 and senior management, whom the Board of Directors considers to be in need of incentives. The Plan is valid for a maximum period of 60 months from the date of grant of the restricted shares to the date when all the restricted shares granted to the incentive recipients vest or lapse.

The total number of underlying shares involved in this plan during the entire validity period does not exceed 20.00% of shares of the company in aggregate at the time of submitting this plan to the shareholders’ meeting. The cumulative number of shares of the Company granted to any one incentive recipient under this Plan during the entire validity period does not exceed 1.00% of the total number of shares of the Company.

The grant price of the initial grant of restricted stock is RMB18.00 per share, i.e. after meeting the grant conditions and vesting conditions, the incentive recipients can purchase additional A shares of common stock of the Company issued to the incentive recipients at a price of RMB18.00 per share. The pricing method of the restricted stock grant price under this plan is self-pricing.

The fair value of the restricted stock plan granted in 2021 is RMB296,742,810.00 (2020: Nil), of which the Group recognized share option expenses of RMB12,751,400.76 in 2021 (2020: Nil).

The fair value of equity-settled restricted stock plan granted at the grant date has been estimated using the Black-Scholes option pricing model, taking into account the terms and conditions of the share options granted. The following table presents the input variables for the model used:

	First vesting period	Second vesting period	Third vesting period	Fourth vesting period
Dividend Ratio (%)	0.25	0.25	0.25	0.25
Historical volatility (%)	35.0845	40.4499	38.0941	38.7671
Risk-free interest rate (%)	2.2550	2.5364	2.6240	2.6907
Expected maturity of share options (years)	1.00	2.00	3.00	4.00
Weighted average share price (RMB)	32.37	32.92	33.45	34.12

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XI. SHARE-BASED PAYMENT *(continued)*

2. Share-based payment plans *(continued)*

(2) 2021 Share Incentive Plan *(continued)*

The fair value does not take into account the other characteristics of the share options granted.

The Plan is valid for five years from the date of restricted stock grant. The restricted stock granted 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 stock during the exercise period in accordance with the exercise price determined in the Plan.

As at 31 December, 2021, the Company had 8,934,000.00 restricted stock issued and outstanding under the Plan. Based on the capital structure of the Company, if all the restricted stock issued and outstanding are exercised, 8,934,000 additional ordinary shares of the Company will be issued, increasing the share capital by RMB893,400.00 and the share premium by RMB159,918,600.00 of the Company (before deduction of issue expenses).

As at the date of approval of these financial statements, the Company had 8,934,000.00 share options issued and outstanding under the Plan, accounting for approximately 1.10% of the Company's shares in issue on that date.

XII. COMMITMENTS AND CONTINGENCIES

1. Significant Commitments

	2021	2020
Contracted, but not provided for:		
Capital commitments	264,057,272.11	4,004,586.24

2. Contingencies

As at the balance sheet date, the Group had no significant contingencies that should be disclosed.

XIII. EVENTS AFTER THE BALANCE SHEET DATE

- On 27 January, 2022, the Company entered into an agreement with TianYu Eco-Environment Co., Ltd. to purchase Room 101-701, Building 12, and Room 101-501, Building 15 located at Lane 1688, Guoquan North Road, Yangpu District, Shanghai and the land use rights within the occupation area of the above buildings, with a total construction area of 6,772.27 square meters, at a transaction price of RMB222,130,456.00. The above properties will be used as office building of the Company.
- On 28 March, 2022, the thirty-second meeting of the eighth session of the Board of Directors of the Company held to approve the profit distribution proposal of the year 2021, distributing cash dividends of RMB52,942,630.00 (i.e., cash dividends of RMB0.065 per share).

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XIV. 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”);
- (2) The provision of testing services for IC products segment (“Testing segment”).

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.

2021

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

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XIV. OTHER SIGNIFICANT EVENTS *(continued)*

1. Segment reporting *(continued)*

Operating segment (continued)

2020

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

Other information

Products and services

Revenue from external transactions

	2021	2020
Security and identification IC	866,262,870.90	609,238,419.54
Non-volatile memory	721,026,182.95	509,345,267.30
Smart meter IC	295,785,007.36	180,155,350.04
FPGA and other IC	452,507,378.01	224,408,111.99
IC test services	240,276,516.59	164,132,217.43
Lease income	1,404,391.12	3,617,446.70
	2,577,262,346.93	1,690,896,813.00

Geographic information

Revenue from external transactions

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

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XIV. OTHER SIGNIFICANT EVENTS *(continued)*

1. Segment reporting *(continued)*

Other information (continued)

Geographic information (continued)

Total non-current assets

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

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

Major customers information

In 2021, no customer individually accounted for 10% or more of the Group's revenue (2020: Nil).

2. Leases

(1) As a lessor

The Group used some idle machinery and equipment for leasing for a period of 3 years, forming an operating lease. According to the lease contract, the rental is subject to annual adjustment based on the market rental conditions. In 2021, the Group generated revenue of RMB1,404,391.12 (2020: RMB3,617,446.70) due to the leasing of machinery and equipment. Refer to Note V, 36.

Operating leases

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

	2021	2020
Rental income	1,404,391.12	3,617,446.70

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

	2021	2020
Within 1 year, inclusive	–	1,590,172.43

For fixed assets leased out, see Note V.12.

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XIV. OTHER SIGNIFICANT EVENTS *(continued)*

2. Leases *(continued)*

(2) *As a lessee*

	2021	2020
Interest expense of lease liabilities	2,278,071.57	2,450,148.21
Short-term lease expenses with simplified treatment recognized in profit or loss	1,492,608.78	92,286.68
Lease expenses of low-value assets (other than short-term leases) with simplified treatment recognized in profit or loss	148,000.00	19,769.91
Total cash outflow related to leases	15,307,069.08	15,948,988.79

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, 13; for simplified treatment of short-term leases and leases of low-value assets, see Note III, 23; and for lease liabilities, see Note V, 28.

3. Directors', supervisors' and Chief Executive's remuneration

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

	2021	2020
Fees	127,800.00	108,000.00
Salaries, allowances and benefits in kind	8,797,232.58	8,758,433.25
Pension scheme contributions and social welfare	113,339.52	15,765.12
	9,038,372.10	8,882,198.37

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XIV. OTHER SIGNIFICANT EVENTS *(continued)*

3. Directors', supervisors' and Chief Executive's remuneration *(continued)*

(1) Remuneration of independent non-executive director

	2021	2020
Mr. Guo Li	42,600.00	36,000.00
Mr. Cao Zhongyong	42,600.00	36,000.00
Mr. Cai Minyong	–	–
Mr. Wang Pin	42,600.00	36,000.00
	127,800.00	108,000.00

(2) Remuneration of directors, non-executive directors and supervisors

2021

	Salaries, allowances and benefits in kind	Pension scheme contributions and social welfare	Total
Executive directors:			
Mr. Jiang Guoxing	300,000.00	–	300,000.00
Mr. Shi Lei	3,568,841.29	56,669.76	3,625,511.05
Mr. Yu Jun	2,696,800.00	–	2,696,800.00
Ms. Cheng Junxia	1,308,191.29	–	1,308,191.29
	7,873,832.58	56,669.76	7,930,502.34
Non-executive directors:			
Ms. Zhang Qianling	–	–	–
Mr. Wu Ping	–	–	–
Ms. Liu Huayan	–	–	–
Mr. Sun Zheng	–	–	–
	–	–	–
Supervisors:			
Ms. Zhang Yanfeng	880,800.00	56,669.76	937,469.76
Ms. Tang Xiaokoe	–	–	–
Mr. Ren Junyan	42,600.00	–	42,600.00
	923,400.00	56,669.76	980,069.76
	8,797,232.58	113,339.52	8,910,572.10

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XIV. OTHER SIGNIFICANT EVENTS *(continued)*

3. Directors', supervisors' and Chief Executive's remuneration *(continued)*

(2) Remuneration of directors, non-executive directors and supervisors *(continued)*

2020

	Salaries, allowances and benefits in kind	Pension scheme contributions and social welfare	Total
Executive directors:			
Mr. Jiang Guoxing	300,000.00	–	300,000.00
Mr. Shi Lei	3,565,491.29	7,882.56	3,573,373.85
Mr. Yu Jun	2,693,250.00	–	2,693,250.00
Ms. Cheng Junxia	1,284,491.29	–	1,284,491.29
	7,843,232.58	7,882.56	7,851,115.14
Non-executive directors:			
Ms. Zhang Qianling	–	–	–
Mr. Wu Ping	–	–	–
Mr. Ma Zhicheng	–	–	–
Ms. Zhang Huajing	–	–	–
	–	–	–
Supervisors:			
Ms. Zhang Yanfeng	879,200.67	7,882.56	887,083.23
Ms. Gu Weizhong	–	–	–
Mr. Ren Junyan	36,000.00	–	36,000.00
	915,200.67	7,882.56	923,083.23
	8,758,433.25	15,765.12	8,774,198.37

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XIV. OTHER SIGNIFICANT EVENTS *(continued)*

3. Directors', supervisors' and Chief Executive's remuneration *(continued)*

(3) Five highest paid employees

The five highest paid employees during the year included 2 directors (2020: 2 directors), details of whose remuneration are set out in Note XIV, 3(2). Details of the remuneration of the remaining three (2020: three) highest paid employees who are neither a director nor supervisor of the Group are as follows:

	2021	2020
Salaries, allowances and benefits in kind	5,211,997.60	5,337,117.70
Pension scheme contributions and social welfare	56,669.76	7,882.56
	5,268,667.36	5,345,000.26

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	2021	2020
HK\$1,000,000 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	3	2
	3	3

XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

1. Accounts receivable

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

An ageing analysis of accounts receivable is as follows:

	2021	2020
Within 1 year	399,444,199.69	388,732,430.76
Over 1 year	61,926,952.80	79,197,276.27
	461,371,152.49	467,929,707.03
Less: Provision for bad debts	15,286,960.24	19,433,890.04
	446,084,192.25	448,495,816.99

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

1. Accounts receivable (continued)

	31 December 2021				
	Book balance Amount	Amount proportion (%)	Provision for bad debts Amount	Proportion of provision (%)	Book value
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales					
Portfolio	220,338,215.38	47.76	5,120,433.25	2.32	215,217,782.13
Industrial Sales Portfolio	204,013,262.63	44.22	10,166,526.99	4.98	193,846,735.64
Related party portfolio in the scope of consolidation	37,019,674.48	8.02	-	-	37,019,674.48
	461,371,152.49	100.00	15,286,960.24	3.31	446,084,192.25

	31 December 2020				
	Book balance Amount	Amount proportion (%)	Provision for bad debts Amount	Proportion of provision (%)	Book value
Accounts receivable for which bad debt allowance is provided by portfolio of credit risk characteristics					
Highly Reliable Product Sales					
Portfolio	223,622,958.09	47.79	6,620,399.74	2.96	217,002,558.35
Industrial Sales Portfolio	193,357,051.14	41.32	12,813,490.30	6.63	180,543,560.84
Related party portfolio in the scope of consolidation	50,949,697.80	10.89	-	-	50,949,697.80
	467,929,707.03	100.00	19,433,890.04	4.15	448,495,816.99

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XV. 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 sales of highly reliable products are as follows:

	31 December 2021		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	169,133,882.88	–	–
1 to 5 years	51,184,332.50	9.96	5,100,433.25
Over 5 years	20,000.00	100.00	20,000.00
	220,338,215.38	2.32	5,120,433.25

	31 December 2020		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	157,598,960.66	–	–
1 to 5 years	66,003,997.43	10.00	6,600,399.74
Over 5 years	20,000.00	100.00	20,000.00
	223,622,958.09	2.96	6,620,399.74

Accounts receivable with bad debt provision based on a combination of industrial sales amounts are as follows:

	31 December 2021		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 6 months	193,068,864.84	–	–
6-9 months	198,395.21	10.00	19,839.52
9-12 months	23,382.28	20.00	4,676.46
1-2 years	1,161,218.57	50.00	580,609.28
Over 2 years	9,561,401.73	100.00	9,561,401.73
	204,013,262.63	4.98	10,166,526.99

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

1. Accounts receivable (continued)

	31 December 2020		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 6 months	176,425,811.74	–	–
6-9 months	720,921.52	10.00	72,092.15
9-12 months	3,037,039.04	20.00	607,407.81
1-2 years	2,078,577.00	50.00	1,039,288.50
Over 2 years	11,094,701.84	100.00	11,094,701.84
	193,357,051.14	6.63	12,813,490.30

Accounts receivable with bad debt provision based on a combination of amounts from related parties within the scope of consolidation are as follows:

	31 December 2021		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	37,019,674.48	–	–

	31 December 2020		
	Estimated gross carrying amount at default	Expected credit loss ratio (%)	Lifetime expected credit loss
Within 1 year	50,949,697.80	–	–

The movements in provision for bad debts of accounts receivable are as follows:

	Opening balance	Provision	Others	Reversal or transfer	Write-off	Closing balance
2021	19,433,890.04	–	–	(2,633,845.37)	(1,513,084.43)	15,286,960.24
2020	20,790,141.47	–	–	(1,356,251.43)	–	19,433,890.04

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

2. Other receivables

An ageing analysis of other receivables is as follows:

	2021	2020
Within 1 year	1,303,113.95	7,374,571.57
1 to 2 years	380,278.20	298,712.82
2 to 3 years	298,712.82	1,274,763.75
Over 3 years	1,133,070.07	–
	3,115,175.04	8,948,048.14
Less: Provision for bad debts	–	–
	3,115,175.04	8,948,048.14

Other receivables classified by nature are as follows:

	2021	2020
Deposit guarantee	1,921,965.15	1,899,232.82
Others	1,119,687.94	2,280,734.51
Reserve fund	73,521.95	493,521.95
Intermediary service fee	–	4,274,558.86
	3,115,175.04	8,948,048.14

As at 31 December 2021, the management of the Group considers that no bad debt provision is required for other receivables (31 December 2020: Nil).

3. Long-term equity investments

	2021	2020
Subsidiaries	70,409,607.13	60,386,373.44
Associated companies	49,836,013.86	45,362,550.06
	120,245,620.99	105,748,923.50

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

Subsidiaries

2021

	Opening balance	Increase	Decrease	Closing balance	Provision
Sino Ic Technology Co.,Ltd. SHANGHAI FUDAN MICROELECTRONICS (HK) LIMITED	25,146,906.64	-	-	25,146,906.64	-
Shenzhen Fudan Microelectronics Co., Ltd.	27,343,300.49	12,919,400.00	-	40,262,700.49	-
Beijing Fudan Micro-Electronic Technology Co., Ltd.	5,000,000.00	-	-	5,000,000.00	-
	10,000,000.00	-	-	10,000,000.00	10,000,000.00
	67,490,207.13	12,919,400.00	-	80,409,607.13	10,000,000.00

2020

	Opening balance	Increase	Decrease	Closing balance	Provision
Sino Ic Technology Co.,Ltd. SHANGHAI FUDAN MICROELECTRONICS (HK) LIMITED	25,146,906.64	-	-	25,146,906.64	-
Shenzhen Fudan Microelectronics Co., Ltd.	27,343,300.49	-	-	27,343,300.49	-
Beijing Fudan Micro-Electronic Technology Co., Ltd.	5,000,000.00	-	-	5,000,000.00	-
	10,000,000.00	-	-	10,000,000.00	7,103,833.69
	67,490,207.13	-	-	67,490,207.13	7,103,833.69

Provision for impairment of long-term equity investments:

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

Subsidiaries (continued)

2021

	Opening balance	Increase	Decrease	Closing balance
Beijing Fudan Micro-Electronic Technology Co., Ltd.	7,103,833.69	2,896,166.31	–	10,000,000.00

2020

	Opening balance	Increase	Decrease	Closing balance
Beijing Fudan Micro-Electronic Technology Co., Ltd.	–	7,103,833.69	–	7,103,833.69

Associated companies

2021

	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.	2,393,689.18		194,229.06	–	2,587,918.24
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	24,326,526.75		(4,039,519.88)	–	20,287,006.87
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	18,642,334.13		(1,576,623.82)	–	17,065,710.31
Shanghai Haojun Venture Capital Partnership (Limited Partnership)	–	10,000,000.00	(104,621.56)	–	9,895,378.44
	45,362,550.06	10,000,000.00	(5,526,536.20)	–	49,836,013.86

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

3. Long-term equity investments (continued)

Associated companies (continued)

2020

	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.	2,344,718.32	–	48,970.86	–	2,393,689.18
Shanghai Fudan-Holding Hualong Microsystem Technology Co., Ltd.	10,097,378.22	–	494,932.01	13,734,216.52	24,326,526.75
Shanghai Fudan Sci-Tech. Park Venture Investment Co., Ltd.	19,389,695.48	–	(747,361.35)	–	18,642,334.13
	31,831,792.02	–	(203,458.48)	13,734,216.52	45,362,550.06

4. Revenue and cost of sales

	2021		2020	
	Revenue	Cost	Revenue	Cost
Primary business	2,299,310,227.56	954,239,081.50	1,496,408,654.50	845,686,041.84
Other businesses	25,284,083.28	10,177,875.85	20,292,654.46	5,106,631.09
	2,324,594,310.84	964,416,957.35	1,516,701,308.96	850,792,672.93

Operation revenue is as follows:

	2021	2020
Revenue from contracts with customers	2,324,594,310.84	1,516,701,308.96

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

4. Revenue and cost of sales (continued)

The breakdown of operating revenue is as follows:

2021

Reporting segments	Design and sales of integrated circuits
Place of business	
Mainland China	2,106,150,622.56
Others	218,443,688.28
	2,324,594,310.84
Main product types	
Security and identification chips	865,870,474.63
Non-volatile memory	710,433,670.00
Smart meter chips	295,785,007.36
FPGA and other chips	452,505,158.85
	2,324,594,310.84
Timing of revenue recognition	
Revenue recognised at a point in time	
Sale of goods	2,324,594,310.84

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

4. Revenue and cost of sales (continued)

The breakdown of operating revenue is as follows: (continued)

2020

Reporting segments	Design and sales of integrated circuits
Place of business	
Mainland China	1,357,643,406.31
Others	159,057,902.65
	1,516,701,308.96
Main product types	
Security and identification chips	608,807,163.94
Non-volatile memory	504,629,372.72
Smart meter chips	180,155,350.04
FPGA and other chips	223,109,422.26
	1,516,701,308.96
Timing of revenue recognition	
Revenue recognised at a point in time	
Sale of goods	1,516,701,308.96

Revenue recognized in the current year included in the opening carrying value of contract liabilities is as follows:

	2021	2020
Sale of goods	22,108,959.16	12,363,457.17

Information on the Company's fulfillment of obligations

Sale of products

Fulfill performance obligations when delivering goods to customers. Usually, the goods are sent first, and the contract price is paid after confirmation by the customer.

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XV. NOTES TO KEY ITEMS OF THE COMPANY FINANCIAL STATEMENTS

(continued)

5. Research and development expenses

	2021	2020
Staff costs	361,730,690.16	277,907,002.49
Material costs	120,542,020.74	72,259,274.15
Depreciation and amortisation	124,286,979.87	87,025,770.24
Professional service fee	26,748,156.23	5,621,560.76
Office expenses	4,405,321.44	7,728,541.99
Travel expenses	1,342,001.17	1,285,225.57
Equity incentive fee	9,628,492.10	–
Others	1,621,596.75	194,825.47
	650,305,258.46	452,022,200.67

6. Investment income

	2021	2020
Investment income from long-term equity investments under equity method	(5,526,536.20)	(203,458.48)
Investment income during the holding period of financial assets held for trading	2,812,958.91	–
	(2,713,577.29)	(203,458.48)

Supplementary Information to Financial Statements

31 December 2021

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1. STATEMENT OF NON-RECURRING PROFIT OR LOSS

	Amount in 2021
Gains or losses on disposal of non-current assets, including the write-off of the provision for impairment of assets	519,205.28
Government grants charged to profit or loss for the current period (other than government grants which are closely related to corporate business and granted based on a fixed amount or a fixed quantity unified by the state on an ongoing basis)	88,986,731.92
Except for the effective hedging activities related to the Group'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	3,761,070.78
Non-operating income and expenses other than aforesaid items	88,542.50
Other profit or loss item under the definition of non-recurring profit or loss	3,266,170.86
	96,621,721.34
Effect of income tax	(14,493,618.36)
	(11,864,395.44)
	70,263,707.54

The Group recognized non-recurring profit and loss items in accordance with the provisions of "Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Public Securities – Non-recurring Profit and Loss" (CSRC Announcement [2008] No. 43).

Notes to Financial Statements

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2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2021

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	20.77	0.69	0.69
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	17.93	0.60	0.60

2020

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	7.15	0.19	0.19
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	2.15	0.06	0.06

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
TOTAL ASSETS	4,165,014	2,678,603	2,459,127	2,546,328	2,207,356
TOTAL LIABILITIES	(798,112)	(566,552)	(520,019)	(437,488)	(436,080)
MINORITY INTERESTS	(226,657)	(181,799)	(154,385)	(165,512)	(154,234)
	3,140,245	1,930,252	1,784,723	1,943,328	1,617,042

	For the year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
RESULTS					
REVENUE	2,577,262	1,690,897	1,472,839	1,409,630	1,398,230
NET PROFIT/(LOSS)	559,325	160,282	(148,961)	129,352	228,069
ATTRIBUTABLE TO:					
SHAREHOLDERS OF THE PARENT					
COMPANY	514,467	132,868	(161,936)	107,482	212,122
MINORITY INTERESTS	44,858	27,414	12,975	21,870	15,947
EARNINGS/(LOSS) PER SHARE					
BASIC (RMB)	0.69	0.19	(0.23)	0.16	0.34
DILUTED(RMB)	0.69	N/A	N/A	N/A	N/A

* The financial summary for the years ended 31 December 2018 to 2021 are extracted from consolidated financial statements prepared under Accounting Standards for Business Enterprises. The financial summary for the year ended 31 December 2017 is extracted from consolidated financial statements prepared under the Hong Kong Financial Reporting Standards.