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上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

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

(Stock Code: 1385)

**CONNECTED TRANSACTION
DEEMED DISPOSAL IN RELATION TO
SHARE ALLOTMENT OF A NON WHOLLY-OWNED SUBSIDIARY**

On 22 December 2016 (after trading hours of the Stock Exchange), Fukong Hualong, a non wholly-owned subsidiary of the Company and its two shareholders, which is the Company and Fudan Technology Enterprise, have entered into the Capital Increase and Share Allotment Agreement with Kangxin Investment. Pursuant to which, the Company and Fudan Technology Enterprise agreed to give up the pre-emptive rights for share subscription in the Capital Increase and Share Allotment and Kangxin Investment also agreed to subscribe and Fukong Hualong agreed to allot and issue shares.

In accordance with the Capital Increase and Share Allotment Agreement, Fukong Hualong will issue 10,000,000 shares of RMB1 each to increase its registered capital from RMB30,000,000 to RMB40,000,000. Fukong Hualong will allot and issue 10,000,000 shares at a subscription price of RMB2 each to Kangxin Investment.

Following the completion of the Capital Increase and Share Allotment Agreement, the Company's equity interest in Fukong Hualong will be decreased from 51% to 38.25%. As the Company and Kangxin Investment have entered into an agreement that will securely keep the Company's majority voting rights in the board of directors of Fukong Hualong, this Capital Increase and Share Allotment will not result in the Company's losing in its control over Fukong Hualong, therefore, Fukong Hualong will continue to be a subsidiary of the Company, and the Company will not record any gain or loss in the Company's statements of comprehensive income and other comprehensive income.

Pursuant to Rule 14.29 of the Listing Rules, the Capital Increase and Share Allotment gives rise to a deemed disposal. As all of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the deemed disposal are less than 5%, the transaction contemplated under 芽 the Capital Increase and Share Allotment Agreement exempt from shareholders' approval, reporting and announcement requirements under Chapter 14 of the Listing Rules.

Under Chapter 14A of the Listing Rules, the transaction contemplated under the Capital Increase and Share Allotment constitutes a connected transaction of the Company. As all of the applicable percentage ratios are more than 0.1% but less than 5%, the connected transaction exempt from shareholders' approval requirement but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Introduction

The board of directors (the “Board”) of Shanghai Fudan Microelectronics Group Company Limited (the “Company”) hereby announces, on 22 December 2016 (after trading hours of the Stock Exchange), Shanghai Fukong Hualong Micro-system Technology Co., Ltd (“Fukong Hualong”), a non wholly-owned subsidiary of the Company and its two shareholders, which is the Company and Shanghai Fudan Technology Enterprise Holdings Limited (“Fudan Technology Enterprise”), have entered into a capital increase and share allotment agreement (the “Capital Increase and Share Allotment Agreement”) with Zhoushanshi Kangxin Investment Partnership Enterprise (“Kangxin Investment”) regarding the increase in registered capital and share allotment of Fukong Hualong (the “Capital Increase and Share Allotment”). Pursuant to which, the Company and Fudan Technology Enterprise agreed to give up the pre-emptive rights for share subscription in the Capital Increase and Share Allotment, Kangxin Investment agreed to subscribe and Fukong Hualong agreed to allot and issue shares.

In accordance with the Capital Increase and Share Allotment Agreement, Fukong Hualong will issue 10,000,000 shares of RMB1 each to increase its registered capital from RMB30,000,000 to RMB40,000,000. Fukong Hualong will allot and issue 10,000,000 shares at a subscription price of RMB2 each to Kangxin Investment.

Capital Increase and Share Allotment Agreement

Date: 22 December 2016

Issuer: Fukong Hualong

Subscriber: Kangxin Investment

Shares subscribed: 10,000,000 shares of RMB1 each

Consideration: RMB2 per share (RMB20,000,000 in total) payable in cash within 10 days after signing the agreement

Completion date: completing all required change of business formalities within 3 months after receipt of total consideration

The subscription price was determined after arm’s length negotiations taking into consideration, among others, the unaudited net asset value of Fukong Hualong of approximately RMB9,410,000 as at 30 November 2016 and its business development and future prospects and in accordance with normal business terms.

Information of the Parties

The Company

The principal activities of the Company consist of designing, developing and selling products of application specific integrated circuits.

Fudan Technology Enterprise

Fudan Technology Enterprise is engaged in investment holding and it holds a 17.76% equity interest in the Company and is a substantial shareholder of the Company.

Fukong Hualong

Fukong Hualong is a non wholly-owned subsidiary with a 51% equity interest being held by the Company and the remaining 49% equity interest being held by Fudan Technology Enterprise. The principal activities are designing, developing and selling of micro-electronic system, integrated circuits and software; provision of investment, investment management and consultancy services; and provision of development and consultancy of micro-electronic system techniques.

The table set out below is the financial information of Fukong Hualong as adjusted and prepared in accordance with the Hong Kong Financial Reporting Standards for the years ended 31 December 2014 and 2015:

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue	13,554	8,802
Loss before tax	(35)	(4,562)
Loss for the year	(35)	(4,562)
Net assets	10,443	10,478
Net assets per share (RMB)	0.35	0.35

Kangxin Investment

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Kangxin Investment is a partnership enterprise (limited partnership) incorporated in the PRC and is engaged in project, industrial and growth enterprise investments, assets and investment management. Details of its investing partners are:

- i) Zhoushanshi Dongwei Investment Consultancy Limited, a limited company incorporation in the PRC and engaged in investment consultancy and management with 0.4% capital contribution in Kangxin Investment. Its two shareholders, namely Mr. Li Wei and Mr. Da Zhongdong, each has a 50% interest. Mr. Li Wei is the Supervisor of the Company as well as the director and general manager of Fukong Hualong. Mr. Da Zhongdong is the assistant general manager of the Company as well as the chairman of Fukong Hualong. Under Chapter 14A of the Listing Rules, Mr. Li Wei and Mr. Da Zhongdong are connected persons of the Company;
- ii) Mr. Li Wei (see details above-mentioned) holds 24.8% capital contribution in Kangxin Investment;
- iii) Mr. Da Zhongdong (see details above-mentioned) holds 29.8% capital contribution in Kangxin Investment; and
- iv) 3 existing employees of Fukong Hualong, each holds 15% capital contribution in Kangxin Investment.

Capital Structure of Fukong Hualong

Pursuant to the Capital Increase and Share Allotment Agreement, Fukong Hualong will issue 10,000,000 shares of RMB1 each, representing approximately 33.33% of the existing registered capital of Fukong Hualong of RMB30,000,000 and 25% of the registered capital of Fukong Hualong as enlarged by the issuance of new shares.

The table set out below illustrates the shareholding structure of Fukong Hualong (i) as at the date of this announcement; and (ii) immediately upon completion of the Capital Increase and Share Allotment Agreement, assuming that there will be no change in the registered capital of Fukong Hualong from the date of this announcement.

Shareholders of Fukong Hualong	As at the date of this announcement		Immediately upon completion of Capital Increase and Share Allotment Agreement	
	Number of shares of Fukong Hualong	%	Number of shares of Fukong Hualong	%
The Company	15,300,000	51.00	15,300,000	38.25
Fudan Technology Enterprise	14,700,000	49.00	14,700,000	36.75
Kangxin Investment	-	-	10,000,000	25.00
	<u>30,000,000</u>	<u>100.00</u>	<u>40,000,000</u>	<u>100.00</u>

Reasons for Capital Increase and Share Allotment

Fukong Hualong has been a great contributor to the Group's diversified IC products as its business is a complementary support to the Group's insufficiency in technical development of System-On-Chips, micro-system and software. Because of the need to enhance its technologies in satellite positioning system, Fukong Hualong resolved to increase its registered capital in order to raise additional fund to meet its long term business development and research which require substantial financial resources. As the Board intends to allocate resources in other business of the Group and has no intention to provide additional funding, through the allotment of shares to Kangxin Investment as new shareholder of Fukong Hualong, it can help to reduce the reliance of Fukong Hualong on the Group's financial support and the Group can reallocate resources on its other core business. In addition, the share allotment to the existing employees can set up a long term incentive scheme to further strength the staff loyalty, aggression and improve company's performance.

Use of Proceeds

The Capital Increase and Share Allotment will strengthen the capital base of Fukong Hualong and improve its future business development. It is estimated that the proceeds from the Capital Increase and Share Allotment amounted to approximately RMB13,000,000 will be applied for the research and development of new products; approximately RMB3,000,000 will be applied for marketing; approximately RMB1,000,000 will be applied for the establishment of related product research facilities and approximately RMB3,000,000 will be retained for daily working capital.

Financial Effect of the Capital Increase and Share Allotment to the Group

At the date of this announcement, Fukong Hualong is held as 51% equity interest by the Company as a non wholly-owned subsidiary, its financial results and financial position have been consolidated into the Company's consolidated financial statements. Following the completion of the Capital Increase and Share Allotment Agreement, the Company's equity interest in Fukong Hualong will be decreased from 51% to 38.25%. As the Company and Kangxin Investment have entered into an agreement that will securely keep the Company's majority voting rights in the board of directors of Fukong Hualong, this Capital Increase and Share Allotment will not result in the Company's losing in its control over Fukong Hualong, therefore, Fukong Hualong will continue to be a subsidiary of the Company, and the Company will not record any gain or loss in the Company's statements of comprehensive income and other comprehensive income.

Listing Rules Implications

Upon the completion of the Capital Increase and Share Allotment Agreement, the Company's equity interest in Fukong Hualong will be decreased from 51% to 38.25%, which gives rise to a deemed disposal pursuant to Rule 14.29 of the Listing Rules. As all of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the deemed disposal are less than 5%, the transaction contemplated under the Capital Increase and Share Allotment Agreement exempt from shareholders' approval, reporting and announcement requirements under Chapter 14 of the Listing Rules.

As Mr. Li Wei and Mr. Da Zhongdong are connected persons of the Company and under Chapter 14A of the Listing Rules, the transaction contemplated under the Capital Increase and Share Allotment Agreement constitutes a connected transaction of the Company. As all of the applicable percentage ratios are more than 0.1% but less than 5%, the connected transaction exempt from shareholders' approval requirement but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save for the disclosures above-mentioned, as at the date of this announcement, neither Kangxin Investment nor any of their respective associates have relationship with any Directors, chief executive or substantial shareholders of the Company.

None of the Directors has a material interest in the transactions contemplated under the Capital Increase and Share Allotment Agreement and therefore none of them is required to abstain from voting on the relevant board resolution approving the same.

The Directors (including the independent non-executive Directors) consider that the transaction contemplated under the Capital Increase and Share Allotment Agreement is (i) entered in the ordinary and usual course of the Group's business; (ii) on normal commercial terms; and (iii) fair and reasonable and in the best interests of the Company and shareholders as a whole.

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

Shanghai, the PRC, 23 December 2016

As at the date of this announcement, the Company's executive directors are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun and Ms. Cheng Junxia; non-executive directors are Ms. Zhang Qianling, Mr. Ma Zhicheng, Mr. Yao Fuli and Ms. Zhang Huajing and independent non-executive directors are Mr. Cheung Wing Keung, Mr. Guo Li, Mr. Chen Baoying and Mr. Lin Fujiang.

** For identification only*