2006
Annual Report

上海復旦微電子股份有限公司
Shanghai Fudan Microelectronics Company Limited*

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

(Stock Code: 8102)

*for identification only

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TO ALL SHAREHOLDERS:

I am pleased to present the annual report of Shanghai Fudan Microelectronics Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

FINANCIAL RESULTS

In the year under review, the Group has recorded desirable growth both in revenue and profit. The consolidated revenue was RMB276,171,000, increased by 31% as compared to the previous year; the profit after tax was RMB21,976,000 and earnings per share attributable to shareholders of the parent amounted to RMB3.38 cents, represents a growth of 1.62 time as compared to the last year. The board of directors do not recommend the payment of a dividend in respect of the year.

OBJECTIVE

The Group keeps integrated circuit ("IC") design as its long term core business. The Group aims at a leading position in the IC design industry of the PRC and with a view to becoming a world-class application specific IC design and a diversified IC card products company, the Group will continue its adoption of "fabless" mode of operation and to train up more professional staff for the research and development of new high technological products.

PROSPECTS

Following the rapid changes in technologies, the functions of IC have increasingly widened. In this connection, the IC design industry has been regarded as a major and preferential industry to be developed by most of advanced countries. At present, the IC products that are domestically designed and manufactured and designed attributable to a small portion of the global related market; the domestic IC market still relies on imported products. Accordingly, the Group believes that its core business will continue to gain benefits in view of these favourable factors. To ensure the maintenance of a stable growth, the Group will apply addition resources in enhancing the existing products and the research and development of more new products, and with strengthen in its cost control and market competitiveness, a continuous growth is anticipated in the coming year.

APPRECIATION

On behalf of the board of directors, I would like to thank our shareholders, directors, customers, suppliers, business associates and all the Group's staff for their unfailing supports and trust.

Jiang Guoxing
Chairman

Shanghai, the People's Republic of China
22 March 2007

BUSINESS REVIEW

During the year under review, the global market demands for IC and IC card chips have been increasing, especially the ongoing surge in demand of domestic market in the PRC where its economy has a continuous growth. Being benefited from the Mainland China market and with the launch of new high-tech products that were well received by the market, the Group recorded a growth of 31% in its turnover during the year and was able to keep an overall gross profit of 25%.

During the year, the Group has continued its exploration on the market base of the existing products, and with the vision of endless innovation, has enhanced the major product lines of IC cards, Radio Frequency Identification ("RFID") electronic labels, Electrically Erasable Programmable Read-Only Memory ("EEPROM") and consumer electronics. Furthermore, in view of the global trend on integration of mobile payment, RFID electronic label and mobile terminal, and based on the Group's accumulated experience in the technology of contactless mobile payment and mobile phone chips together with established market influence, the Group has announced a technique of Smart Mobile Application Platform ("SMAP") that would be compatible with international standard. Mobile phone samples equipped with the first SMAP solution specialised for various applications like contactless mobile payment system and fake detection have recently been launched into the market for trial testing and feedbacks. In addition, RFID electronic labels developed by the Group are readily available for marketing.

Details of the performance of the Group's business segments during the year are as follows:

IC Card

IC card chips are the core products of the Group. These products have achieved a considerable increase in sales as compared with last year and following the growth in consumer electronics products like mobile multi-media chips, have generated a diversified cluster effect. At present, the Group's self-developed contactless application specific IC card chips are well accredited by the market and widely applied to public transportation and railway system, and have been the major source of the Group's sales and profit.

Power Electronics

The Group's self-developed power electronics products like earth leakage current detector circuit and multi-fee power control meter have gained market acceptance with rather stable market shares and sales trend. The earth leakage current detector circuit has achieved a leading position in the market with a good contribution to the Group's results.

Motor and Mobile Electronics

The Group's motor and mobile electronic products maintained steady market shares. As this product category is not our major spot, the Group has applied little resources just to fulfil market demands.

Telecommunication Electronics

The market of telecommunication is mature and highly competitive with comparatively low contribution. The Group has slowed down the related research and development with a view to keep its existing supply.

Consumer Electronics

Since its launch in the market last year, the Group's multimedia processors chip that applied for mobile phone has been saleable with substantial growth in the year. In addition, the EEPROM products have recorded considerable sales. Both products contributed to the growth in overall turnover and have become major product lines of the Group.

IC Testing

Following the growth in IC market, the results of IC testing business were satisfactory. The revenue during the year increased by approximately 21% with a long term contribution made to the Group.

FINANCE REVIEW

For the year ended 31 December 2006, the Group's recorded a revenue amounted to approximately RMB276,171,000 (2005: RMB211,211,000), a growth of approximately 31% as compared to the previous year. The audited profit attributable to shareholders of the parent was approximately RMB21,098,000 represents an increase of 162% as compared to RMB8,037,000 of last year. The basic earnings per share was RMB3.38 cents (2005: RMB1.29 cents).

The Group continued to record a growth in revenue during the year. The sale of contactless IC card chips which is a major revenue item, had a considerable increase following the penetration into the markets of public transportation and government projects. Newly released consumer electronics IC chips were well accepted by the market and thus recorded with substantial increase in sales. Sales in power electronics chips were also satisfactory. Overall gross profit rate maintained at the reasonable level of 25% as last year.

In other income and gains, despite the significant increase in bank interest income as a result of rise in savings interest rate, during the year, the Group did not have any income derived from royalty fee (2005: 2,044,000); rental income ceased as lease property has changed to self-occupied (2005: RMB404,000); furthermore, value added tax refund sharply decreased to RMB263,000 (2005: RMB1,054,000). These are primarily factors for the drop in other income and gains in the year.

In relation to expenses, despite the increase in turnover, the selling and distribution costs have slightly decreased as compared with previous year as products were in maturity phases. As a result of salaries and allowances increment and price fluctuation, administrative expenses increased by 10% over the last year and were still under control. Other operating expenses have dropped significantly by 23% when compared with last financial year; a major component of which, the research and development costs were effectively under control; in addition, more grants were received from government authorities; provision for bad and doubtful debt increased consequent to sales growth and on the contrary, a reversal of RMB475,000 on provision stock impairment (2005: impairment of RMB3,740,000) was recorded due to implementation of improved stock control.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

There was no material change in the subsidiaries of the Group during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group has no material investment plan at present and still actively keeps looking for strategic cooperation.

TECHNOLOGICAL COOPERATION

During the year, the Group still co-operated with the IC Engineering Technology Centre and the ASIC System Laboratory jointly operated with the Shanghai Fudan University and the University of Science & Technology of China respectively, and has been enjoying their advanced and superior technological supports.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2006, net assets of the Group amounted to approximately RMB254,465,000 (2005: RMB234,552,000); current assets amounted to approximately RMB265,700,000 (2005: RMB259,760,000), of which approximately RMB143,006,000 (2005: RMB136,633,000) were cash and bank deposits.

The Group's financial resources have been generated internally to meet its operation needs. The Group's financial resources and liquidity are in healthy status and enable the Group to meet its daily business operation and present development.

As at 31 December 2006, except a deposit of RMB2,417,000 (2005: RMB1,639,000) pledged as security for letters of credit and project tenders issued by the Company, the Group has not pledged its assets to any third parties (2005: nil).

CAPITAL STRUCTURE

During the year, the Company has repurchased certain of its H shares on the Stock Exchange and details are set out in note 23 to the financial statements. Except as disclosed, the Company's capital has no change and only comprises of ordinary shares.

GEARING RATIO

As at 31 December 2006, the Group's current liabilities amounted to approximately RMB75,691,000 (2005: RMB89,234,000) and non-current liabilities of approximately RMB384,000 (2005: RMB3,615,000). The net assets value per share of the Group was approximately RMB0.42 (2005: RMB0.38). The Group's ratio of current liabilities over current assets was approximately 28.5% (2005: 34.4%) and the gearing ratio was approximately 29.9% (2005: 39.6%) on the basis of total liabilities over net assets. As at 31 December 2006, the Group and the Company had no bank or other borrowings (2005: nil).

INTEREST AND FOREIGN EXCHANGE RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. As most of the Group's transactions are denominated either in RMB or Hong Kong dollars or US dollars, exchange rates of such currencies have been stable over the past years, therefore, it is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The Group has maintained a conservative policy on management of interest and foreign exchange risk. In order to minimize the risk of interest and foreign exchange, most of the Group's deposits are in RMB with different fixed periods and rates to cover the cash flows of its business operations and fluctuation in interest rates. During the reporting period, the fluctuations in foreign exchange have no material effect on the Group's operations and cash flows.

CREDIT RISK

The Group's sales are made to several major customers and there is concentration of credit risks. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitments amounted to approximately RMB6,308,000 (2005: RMB170,000). The capital commitments relate primarily to acquisitions of land and buildings and plant and equipment, repurchase of H shares and capital contribution for a new subsidiary.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no contingent liabilities (2005: nil).

USE OF CAPITAL AND FUNDING

The Group currently has a stable financial position with sufficient working capital which will be applied for research and development of new products and identifying of cooperative partners as appropriate.

STAFF

As at 31 December 2006, the Group employed approximately 301 (2005: 314) staff. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend.

The total staff costs of the Group charged to the income statement for the year ended 31 December 2006 amounted to approximately RMB23,613,000 (2005: RMB21,737,000).

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zhang Qianling
Mr. He Lixing
Mr. Shen Xiaozu

Independent Non-executive Directors

Mr. Leung Tin Pui
Mr. Cheung Wing Keung *FCCA, CPA*
Mr. Guo Li

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

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

COMPLIANCE OFFICER

Mr. Wang Su

AUTHORISED REPRESENTATIVES

Mr. Shi Lei
Mr. Wang Su

AUDIT COMMITTEE

Mr. Leung Tin Pui *(Chairman)*
Mr. Cheung Wing Keung
Mr. Guo Li

SUPERVISORS' COMMITTEE

Mr. Li Wei
Mr. Ding Shengbiao
Mr. Xu Lenian

REMUNERATION COMMITTEE

Mr. Leung Tin Pui *(Chairman)*
Mr. Cheung Wing Keung

NOMINATION COMMITTEE

Mr. Leung Tin Pui *(Chairman)*
Mr. Cheung Wing Keung
Mr. Wang Su

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Flat 12, 7/F., East Ocean Centre
98 Granville Road, Tsimshatsui East
Kowloon

SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Shanghai Pudong Development Bank
Shanghai branch

Industrial and Commercial Bank of China
Shanghai branch

STOCK CODE

8102

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 53, joined the Company in July 1998, is the Chairman of the Company. Mr. Jiang is a professor grade senior engineer and graduated with a degree in computer science from Shanghai Fudan University (Fudan University). He is the managing director of Shanghai Fudan Enterprise Development Company Limited and Shanghai Fudan Venture Capital Limited, chairman of Shanghai Fudan Water Works Technology Limited and Shanghai Fudan Technology Zone (UK) Limited, companies invested by Shanghai Fudan University. He is also the non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the GEM.

Mr. Shi Lei, aged 40, joined the Company in July 1998, is the Managing Director of the Company. He is an senior economist and graduated with a bachelor degree in management from China University of Technology and a Master's degree in management from Shanghai Fudan University. Prior to that, Mr. Shi was the deputy manager in the Development Division of Shanghai Agricultural Investments Company and the general manager of Pacific Business Trust Company.

Mr. Yu Jun, aged 39, joined the Company in July 1998, is the Deputy Managing Director of the Company. He has a Master's degree and is a senior engineer. Mr. Yu is the deputy director of the Research Institute for Integrated Circuit Designs of Fudan University, and has extensive knowledge and experience in the design of integrated circuits and systems. He was previously the chief engineer of Shanghai Fudan High Tech Company.

Ms. Cheng Junxia, aged 60, joined the Company in July 1998, is the Chief Engineer of the Company. She is a professor at Fudan University and has extensive knowledge and experience in the design and manufacture of integrated circuits. She was previously the general manager of Fudan High Tech and the director of the Research Institute for Integrated Circuit Designs of Fudan University.

Mr. Wang Su, aged 53, joined the Company in July 1998, is the Financial Controller and a member of the nomination committee of the Company. He is also an accountant. He was previously a fund manager as well as the deputy manager of the Finance Department of Shanghai Commerce and Invest (Group) Corporation and the financial controller of Shanghai Pacific Commercial Trust Company Limited.

Non-executive directors

Ms. Zhang Qianling, aged 70, joined the Company in July 1998, is a principal professor and tutor to doctorate students at Fudan University. She is a distinguished academic on the study of integrated circuits and a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of Fudan University.

Mr. He Lixing, aged 72, joined the Company in July 1998, is a senior economist. He was previously the chief economist of Shanghai Commerce and Investment and director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government.

Mr. Shen Xiaozu, aged 57, is a senior economist. He joined the Company in July 1998 and was previously the assistant to the general manager of Shanghai Commerce and Invest (Group) Corporation, the deputy general manager Shanghai Xinlian Real Estate Company, the deputy general manager of Shanghai General Electric Machinery Corporation and the headmaster of Shanghai Mechanical Engineering Industrial College.

Independent non-executive directors

Mr. Leung Tin Pui, aged 61, joined the Company in July 2000 and is also the chairman of the audit committee, the remuneration committee and nomination committee of the Company. Mr. Leung was the Vice-president of The Hong Kong Polytechnic University from 1995 to 2006 and was previously the Head and Professor of Department of Mechanical Engineering and Dean of Engineering. Professor Leung is keen on public services; he was the President of the Hong Kong Institution of Engineers and the Hong Kong Association for the Advancement of Science and Technology. Mr. Leung is also a member of several advisory boards of the Government of the Hong Kong Special Administrative Region. Professor Leung was awarded by the Hong Kong Government Justice of Peace and awarded the Bronze Bauhinia Star.

Mr. Cheung Wing Keung, aged 41, joined the Company in April 2004 and is also a member of the audit committee, the remuneration committee and nomination committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years' working experience in auditing, accounting, corporate management and consultancy. He has worked in accounting firms and the Hong Kong Inland Revenue Department and has held senior positions in certain Hong Kong's private group companies.

Mr. Guo Li, aged 60, joined the Company in May 2006 and is a professor and doctoral supervisor. He is a senior member of China Electronics Academy and a member of China Image and Graphics Academy. He is now the director of the Academic Committee of Department of Science and Technology in the University of Science and Technology as well as its Laboratory of Circuit and System. Mr. Guo has been carrying the researches in digital signal processing, image processing and IC design etc. and was a visiting scholar in the Department of Computer in the University of Notre Dome in the United States.

SUPERVISORS

Mr. Li Wei, aged 35, joined the Company in July 1998, is the Technical Officer of the Company. He has a Master's degree. Mr. Li specializes in integrated circuit design, and has conducted in-depth research on the coding and integrated protocol bases.

Mr. Ding Shengbiao, aged 44, joined the Company in July 1998, is the Chief Economist of the Company. He has a bachelor degree and is an economist. He was previously the manager of the Loans Department of the Shanghai Interbank Loan Centre of the People's Bank of China, and the division head of the Planning Department of the People's Bank of China, Shanghai Branch.

Mr. Xu Lenian, aged 55, joined the Company in July 1998, is the chairman of Shanghai Pacific Business Trust Company, and the general manager of Shanghai Commerce and Invest (Group) Corporation. He has post-secondary qualification and is a senior economist. He was the head of the International Affairs Department and General Affairs Department of China Agricultural Bank Pudong branch.

SENIOR MANAGEMENT

Mr. Li Wei, (see personal details set out in the paragraph headed "Supervisors" above).

Mr. Ding Shengbiao, (see personal details set out in the paragraph headed "Supervisors" above).

Mr. Ma Fubin, aged 39, is the Operation Officer of the Company. He joined the Company in October 1999 and holds a Master's degree in business administration and is a certified public accountant of the PRC. Before joining the Company, he has worked in Zhejiang Province Village Development Investment Group Limited as assistant to investment manager.

Ms. Ji Lanhua, aged 56, joined the Company in July 1998, is the Production Officer of the Company, and has a bachelor degree. She was engaged in the design and development of the Company's motorcycle ignition controller circuits and telephone transmission circuits. Ms. Ji is very experienced in the design and sales of integrated circuits. She was previously the sales manager of Fudan High Tech.

Mr. Li Wing Sum Steven, aged 50, joined the Company in July 2000, the Qualified Accountant and Company Secretary of the Company. He has over 25 years' experience in auditing, accounting, taxation and financial management. He has worked in an international accounting firm and been employed as group financial controller of a listed company in Hong Kong and a multi-national organization. He is a fellow member respectively of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). In the opinion of the directors, the Company has complied with the code provisions set out in the CCGP throughout the year.

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 Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

BOARD OF DIRECTORS AND BOARD MEETING

BOARD OF DIRECTORS

The Board comprises five executive Directors, three non-executive directors and three independent non-executive directors. 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 10 to 12, 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 in this report.

The Board comprises of chairman, executive directors, non-executive directors and independent non-executive directors and has been disclosed in all the Company's announcements, circulars and newsletters.

BOARD MEETINGS

The board of Directors held four full board meetings in each year and meets as and when required. During the financial year ended 31 December 2006, the attendances of the directors at the board meetings are as follows:

Directors	**Number of attendance**
Mr. Jiang Guoxing	2/4
Mr. Shi Lei	4/4
Mr. Yu Jun	4/4
Ms. Cheng Junxia	4/4
Mr. Wang Su	3/4
Ms. Zhang Qianling	2/4
Mr. He Lixing	4/4
Mr. Shen Xiaozu	4/4
Mr. Leung Tin Pui	4/4
Mr. Cheung Wing Keung	3/4
Mr. Guo Li (appointed on 19 May 2006)	2/2
Mr. Xu Juyan (retired on 19 May 2006)	1/2
Mr. Cheng Xiaohong (resigned on 8 November 2006)	1/3

The Directors will receive details of agenda items for decision and minutes of committee meetings 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.

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 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. In addition, the Board also comprises of independent non-executive directors who can provide the Board with independent judgements, knowledge and experience.

Non-Executive Directors

The three non-executive directors have entered into service contracts with the Company with effect from 19 July 2006 for a term of 3 years and shall continue thereafter unless and until terminated in accordance with the terms of her service contract or by either party giving to the other not less than 3 calendar months' prior notice in writing.

The three independent non-executive directors, Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li, have entered into service contracts with the Company for one year commencing from 19 July 2006, 27 May 2006 and 19 May 2006, respectively and expire at the forthcoming annual general meeting to be held on or about May 2007 and are subject to termination by either party giving no less than one month's written notice.

The Company has received annual confirmations of independence from the three independent non-executive directors in accordance with Rule 5.09 of the GEM Listing Rules and considers them to be independent.

Remuneration of Directors

The Company has set up a remuneration committee and the members of which are the independent non-executive directors Mr. Leung Tin Pui and Mr. Cheung Wing Keung.

The roles and functions of the remuneration 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 committee also considers factors such as salaries of comparable companies, time commitment and responsibilities of the directors, employment conditions within the Group and performance.

During the period under review, a meeting of the remuneration committee was held in May 2006 and details of the attendance are as follows:

Committee member	**Number of attendance**
Mr. Leung Tin Pui	1/1
Mr. Cheung Wing Keung	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and considers that the existing terms of employment contracts of the executive Directors are fair and reasonable.

Nomination, Election and Re-election of Directors

Subject to article 87 of the Company's articles of association, directors shall be elected at the shareholders' general meeting each for a term of not more than 3 years and one-third of the directors shall retire from office at the annual general meeting. Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every 3 years; and that any director appointed as an addition or to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after his appointment.

The Company has established a nomination committee which comprises the independent non-executive directors Mr. Leung Tin Pui and Mr. Cheung Wing Keung and an executive director Mr. Wang Su. The main roles and functions of the nomination committee included the appointment and removal of directors, reviews the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship. The Committee also identifies suitable candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

The Nomination Committee has held a meeting during the year under review as following.

Committee member	**Number of attendance**
Mr. Leung Tin Pui	1/1
Mr. Cheung Wing Keung	1/1
Mr. Wang Su (appointed on 21 March 2006)	0/0

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, except the statutory audit fee, the Group has not paid fees to the external auditors for any other non-audit services.

Audit Committee

The audit committee comprises three independent non-executive directors, Mr. Leung Tin Pui (Chairman), Mr. Cheung Wing Keung and Mr. Guo Li. All of them are well experienced in management, accounting, finance and electronics industry.

The audit committee held 4 meetings during the year under review and details of its attendance are as follows:

Committee member	Number of attendance
Mr. Leung Tin Pui	4/4
Mr. Cheung Wing Keung	4/4
Mr. Guo Li (appointed on 19 May 2006)	2/2
Mr. Xu Juyan (retired on 19 May 2006)	2/2

Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

The Audit Committee meets the external auditors at least once a year to discuss issues concerning the audits. The Audit Committee reviews the quarterly results, interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Group's quarterly results, interim and annual reports.

Internal Control

The Company and its subsidiaries have to conduct a review of its system of internal control once a year to ensure the effective and adequate internal control system including finance, 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 will submit their findings and the proposed audit plan to the Audit Committee for its approval. A review of system of internal control has been undergone during the year under review.

Shareholders' Relations

The Company has made announcements of all its annual, interim and quarterly reports in time in accordance with the GEM Listing Rules. In addition to the post of spokesman established to liaise with shareholders, the Company also provides the most updated information on its website to maintain a different communication channel with its shareholders. Besides, all executive directors have presented in the annual general meeting of the Company to communicate and answer to the questions raised by shareholders and significant issues were put as separate proposed resolutions.

Voting By Poll

The Company informs the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures.

Report of the Directors

The directors present their report and the audited financial statements of Shanghai Fudan Microelectronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of designing, developing and selling products of application-specific integrated circuits. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 79.

The directors do not recommend the payment of a dividend in respect of the year.

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 80. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 23 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its H shares on The Hong Kong Stock Exchange Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. Further details of these transactions are set out in note 23 to the financial statements.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

According to the relevant regulations in the PRC, the amount of retained profits available for distribution is the lower of the amount determined under PRC accounting standards and the amount determined under Hong Kong Financial Reporting Standards ("HKFRSs"). At 31 December 2006, the Company's reserves available for distribution amounted to RMB3,060,007. In addition, the Company's share premium account, in the amount of RMB170,455,000 may be distributed in the form of a future capitalisation issue.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 44% of the total sales for the year and sales to the largest customer included therein amounted to 24%. Purchases from the Group's five largest suppliers accounted for 73% of the total purchases for the year and purchases from the largest supplier included therein amounted to 24%.

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 customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

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

Non-executive directors:

Mr. Chen Xiaohong (resigned on 8 November 2006)
Ms. Zhang Qianling
Mr. He Lixing
Mr. Shen Xiaozu

Independent non-executive directors:

Mr. Leung Tin Pui
Mr. Cheung Wing Keung
Mr. Guo Li (appointed on 19 May 2006)
Mr. Xu Juyan (retired on 19 May 2006)

In accordance with article 87 of the Company's amended articles of association, with effect from 19 May 2006, directors shall be elected at the general meeting each for a term of not more than three years. One-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office at the annual general meeting ("AGM"). Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years.

The Company has received annual confirmations of independence from Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li, and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT's BIOGRAPHIES

Biographical details of the directors of the Company and of 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

Each of the executive directors and non-executive directors has entered into a service contract with the Company for a term of three years commencing on 19 July 2006 which will continue thereafter unless terminated by three months' prior written notice to be given by either party without payment of compensation.

Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li, who are the independent non-executive directors and audit committee members of the Company, have signed letters of appointment with the Company for a period of one year commencing from 19 July 2006, 27 May 2006 and 19 May 2006, respectively until the forthcoming AGM in or about May 2007 and are subject to termination by either party giving no less than one month's written notice.

No director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

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', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares 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 pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in domestic shares of the Company:

	Number of issued shares held, capacity and nature of interest					Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust *(Note)*	Total	
Directors						
Mr. Jiang Guoxing	7,210,000	–	–	1,442,300	8,652,300	1.39
Mr. Shi Lei	7,210,000	–	–	12,980,000	20,190,000	3.24
Mr. Yu Jun	–	–	–	10,961,530	10,961,530	1.76
Ms. Cheng Junxia	–	–	–	8,076,920	8,076,920	1.29
Mr. Wang Su	–	–	–	7,211,530	7,211,530	1.16
Ms. Zhang Qianling	–	–	–	1,733,650	1,733,650	0.28
Mr. He Lixing	–	–	–	1,442,300	1,442,300	0.23
Mr. Shen Xiaozu	–	–	–	1,442,300	1,442,300	0.23
	14,420,000	–	–	45,290,530	59,710,530	9.58
Supervisors						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.97
Mr. Ding Shengbiao	–	–	–	7,211,530	7,211,530	1.16
Mr. Xu Lenian	–	–	–	865,380	865,380	0.14
	–	–	–	14,134,600	14,134,600	2.27

Note:

These shares are held by the Staff Shareholding Association of the Company (the "SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("University Laboratory") and Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Mr. Chen Xiaohong, who resigned on 8 November 2006 as a non-executive director of the Company, still held 7,211,530 of the Company's domestic shares as an ex-employee through the trust of SSAC as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, none of the directors, supervisors or chief executive had registered an interest or short position in 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 Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

At 31 December 2006, 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 domestic shares of the Company:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
SSAC		Directly beneficially owned	144,230,000	23.13
Shanghai Fudan High Tech Company	*(1)*	Directly beneficially owned	106,730,000	17.11
SCI	*(2)*	Directly beneficially owned and through a controlled corporation	95,200,000	15.27

Notes:

(1) Shanghai Fudan High Tech Company is a state-owned enterprise wholly owned by Shanghai Fudan University.

(2) SCI is a state-owned enterprise wholly owned by the Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 domestic shares are held in its own name, 34,620,000 domestic shares are held by a wholly-owned subsidiary of SCI, Shanghai Pacific Commercial Trust Company Limited, and 14,420,000 domestic shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Ltd. The 46,160,000 domestic shares held in its own name represent approximately 7.40% of the registered share capital of the Company.

Save as disclosed above, as at 31 December 2006, no person, other than the directors, supervisors and chief executive of the Company, whose interests are set out in the section headed "Directors', supervisors' and chief executive's interests and short positions in shares and underlying shares" 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.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group are set out in note 26 to the financial statements.

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 GEM Listing Rules.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 27 to the financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the accounting period covered by the annual report.

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

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises the three independent non-executive directors of the Company, Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li. The Company's and the Group's financial statements for the year ended 31 December 2006 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made. The audit committee held four meetings during 2006.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Jiang Guoxing
Chairman

Shanghai, the People's Republic of China
22 March 2007

Independent Auditors' Report

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To the shareholders of Shanghai Fudan Microelectronics Company Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Shanghai Fudan Microelectronics Company Limited set out on pages 28 to 79, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
REVENUE	*5*	**276,171**	211,211
Cost of sales		**(205,989)**	(157,393)
Gross profit		**70,182**	53,818
Other income and gains	*5*	**4,667**	7,341
Selling and distribution costs		**(7,436)**	(7,914)
Administrative expenses		**(24,981)**	(22,795)
Other expenses		**(16,023)**	(20,788)
PROFIT BEFORE TAX	*6*	**26,409**	9,662
Tax	*9(a)*	**(4,433)**	(1,272)
PROFIT FOR THE YEAR		**21,976**	8,390
Attributable to:			
Equity holders of the parent		**21,098**	8,037
Minority interests		**878**	353
		21,976	8,390
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	*11*	**3.38 cents**	1.29 cents

Consolidated Balance Sheet

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**56,790**	57,976
Intangible assets	*13*	**8,543**	9,280
Available-for-sale investments	*15*	**4,500**	4,500
Total non-current assets		**69,833**	71,756
CURRENT ASSETS			
Inventories	*16*	**65,293**	56,306
Trade and bills receivables	*17*	**51,417**	63,179
Prepayments, deposits and other receivables	*18*	**4,984**	3,642
Held-to-maturity investments	*19*	**1,000**	–
Pledged deposits	*20*	**2,417**	1,639
Cash and cash equivalents	*20*	**140,589**	134,994
Total current assets		**265,700**	259,760
CURRENT LIABILITIES			
Trade and bills payables	*21*	**50,508**	66,629
Other payables and accruals	*22*	**20,906**	22,281
Tax payable	*9(b)*	**4,277**	324
Total current liabilities		**75,691**	89,234
NET CURRENT ASSETS		**190,009**	170,526
TOTAL ASSETS LESS CURRENT LIABILITIES		**259,842**	242,282

Consolidated Balance Sheet

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**259,842**	242,282
NON-CURRENT LIABILITIES			
Long term payables	*22*	**–**	2,737
Deferred tax liabilities	*9(c)*	**384**	878
Total non-current liabilities		**384**	3,615
Net assets		**259,458**	238,667
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*23*	**62,364**	62,435
Reserves	*24*	**192,101**	172,117
		254,465	234,552
Minority interests		**4,993**	4,115
Total equity		**259,458**	238,667

Jiang Guoxing
Director

Shi Lei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Attributable to equity holders of the parent									
	Issued share capital	**Share premium account**	**Treasury shares**	**Statutory surplus reserve**	**Statutory public welfare fund**	**Exchange fluc-tuation reserve**	**Retained profits/ (accu-mulated losses)**	**Total**	**Minority interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 23)	*(Note 24)*	*(Note 24)*	*(Note 24)*	*(Note 24)*					
At 1 January 2005	62,435	170,717	–	179	89	20	(6,675)	226,765	1,179	227,944
Exchange realignment and total income and expenses for the year recognised directly in equity	–	–	–	–	–	(250)	–	(250)	–	(250)
Profit for the year	–	–	–	–	–	–	8,037	8,037	353	8,390
Total income and expenses for the year	–	–	–	–	–	(250)	8,037	7,787	353	8,140
Deemed disposal of equity interest in a subsidiary	–	–	–	–	–	–	–	–	2,583	2,583
Transfer from retained profits	–	–	–	93	47	–	(140)	–	–	–
At 31 December 2005 and beginning of year	62,435	170,717	–	272	136	(230)	1,222	234,552	4,115	238,667
Exchange realignment and total income and expenses for the year recognised directly in equity	–	–	–	–	–	(629)	–	(629)	–	(629)
Profit for the year	–	–	–	–	–	–	21,098	21,098	878	21,976
Total income and expenses for the year	–	–	–	–	–	(629)	21,098	20,469	878	21,347
Repurchase of shares	(71)	(262)	(223)	–	–	–	–	(556)	–	(556)
Transfer from retained profits	–	–	–	2,997	–	–	(2,997)	–	–	–
Transfer of statutory public welfare fund to statutory surplus reserve	–	–	–	136	(136)	–	–	–	–	–
At 31 December 2006	**62,364**	**170,455**	**(223)**	**3,405**	**–**	**(859)**	**19,323**	**254,465**	**4,993**	**259,458**

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	**2006 RMB'000**	2005 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**26,409**	9,662
Adjustments for:			
Interest income	*5*	**(2,348)**	(1,479)
Loss on disposal of items of property, plant and equipment	*6*	**23**	46
Loss on deemed disposal of equity interest in a subsidiary	*6*	**–**	2,583
Depreciation	*6*	**10,231**	11,186
Amortisation of deferred development costs	*6*	**3,372**	3,201
Impairment of available-for-sale investments	*6*	**–**	747
		37,687	25,946
Increase in inventories		**(8,987)**	(18,819)
(Increase)/decrease in trade and bills receivables		**11,762**	(28,406)
(Increase)/decrease in prepayments, deposits and other receivables		**(2,062)**	2,882
Increase/(decrease) in trade and bills payables		**(16,121)**	45,591
Increase/(decrease) in other payables and accruals		**(1,375)**	7,478
Cash generated from operations		**20,904**	34,672
Hong Kong profits tax paid		**(889)**	(57)
PRC tax paid		**(64)**	–
Net cash inflow from operating activities		**19,951**	34,615
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with original maturity of over three months when acquired		**(23,014)**	(19,000)
Interest received		**2,290**	1,164
Purchases of items of property, plant and equipment		**(11,805)**	(4,313)
Proceeds from disposal of items of property, plant and equipment		**–**	9
Receipt of government grants		**1,594**	1,055
Additions to intangible assets		**(4,229)**	(5,908)
Purchases of held-to-maturity investments		**(1,000)**	–
Purchases of available-for-sale investments		**–**	(500)
Proceeds from disposal of an associate		**–**	241
Net cash outflow from investing activities		**(36,164)**	(27,252)

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Net cash outflow from investing activities		**(36,164)**	(27,252)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	*23*	**(556)**	–
Net cash outflow from financing activities		**(556)**	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(16,769)**	7,363
Cash and cash equivalents at beginning of year		**98,633**	91,672
Effect of foreign exchange rate changes, net		**128**	(402)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**81,992**	98,633
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	**58,565**	57,363
Cash and bank balances pledged for bank facilities	*20*	**2,417**	1,639
Time deposits with original maturity of less than three months when acquired	*20*	**21,010**	39,631
		81,992	98,633

Balance Sheet

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**43,405**	46,352
Intangible assets	13	**8,041**	7,392
Investments in subsidiaries	14	**16,428**	16,428
Available-for-sale investments	15	**4,500**	4,500
Total non-current assets		**72,374**	74,672
CURRENT ASSETS			
Inventories	16	**50,759**	41,613
Due from subsidiaries	14	**5,000**	8,067
Trade and bills receivables	17	**39,414**	43,086
Prepayments, deposits and other receivables	18	**4,472**	3,335
Pledged deposits	20	**2,417**	1,639
Cash and cash equivalents	20	**102,798**	101,261
Total current assets		**204,860**	199,001
CURRENT LIABILITIES			
Due to subsidiaries	14	**244**	365
Trade and bills payables	21	**22,856**	33,870
Other payables and accruals	22	**13,255**	11,341
Tax payable		**2,425**	–
Total current liabilities		**38,780**	45,576
NET CURRENT ASSETS		**166,080**	153,425
NET ASSETS		**238,454**	228,097
EQUITY			
Issued capital	23	**62,364**	62,435
Reserves	24	**176,090**	165,662
TOTAL EQUITY		**238,454**	228,097

Jiang Guoxing
Director

Shi Lei
Director

1. CORPORATE INFORMATION

Shanghai Fudan Microelectronics Company Limited (the "Company") is a limited liability company incorporated in Shanghai, the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 220 Handan Road, Shanghai, the PRC. The Company has established a place of business in Hong Kong, which is located at Flat 12, 7/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon.

The principal activities of the subsidiaries are the provision of testing services for integrated circuit ("IC") products; designing, developing and selling IC testing software and products; production of probe cards; as well as the provision of research and consultancy services of IC technology.

The Company's principal activities have not changed during the year and consist of designing, developing and selling products of application-specific IC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and revised standards and interpretation above has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

(Continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKRFSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKRFS 7 may result in new or amended disclosures, these new and revised HKRFSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,

 (i) controls, is controlled by, or is under common control with, the Group;

 (ii) has an interest in the Group that gives it significant influence over the Group; or

 (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.9%
Machinery and office equipment	19%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Construction in progress represents machinery and other items of property, plant and equipment under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

The useful lives of intangible assets of the Group are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Changes in the expected useful life or expected pattern of consumption of future economic benefits embodies in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected commercial lives of the underlying products, not exceeding three years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivative are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the settlement date, that is the date that the assets are being delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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 derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- where the deferred tax liability 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

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences 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,

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the assets and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, in the period in which services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) royalty fee income, when the significant risks and rewards of ownership have been transferred to the licensee, under assignment of rights for a fixed fee or non-refundable guarantee under a non-cancelable contract which permit the licensee to exploit those rights freely and the licensor has no remaining obligations to perform; and

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Pension schemes

The employees of the Company and its subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Company and its subsidiary are required to contribute 22.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Pension schemes *(Continued)*

The Group's subsidiary in Hong Kong operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's subsidiary's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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. 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 determined.

The functional currency of the Group's subsidiary in Hong Kong is not the RMB. As at the balance sheet date, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, and its income statement is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

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 next financial year, are discussed below.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2006, the best estimate of the carrying amount of capitalised development costs was RMB8,543,000 (2005: RMB 9,280,000).

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- the design, development and sale of IC products segment ("Design, development and sale of IC products") ; and

- the provision of testing services for IC products segment ("Testing services for IC products").

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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.

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Design, development and sale of IC products		Testing services for IC products		Eliminations		Consolidated	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Segment revenue:								
Sales to external customers	**268,581**	204,563	**7,590**	6,648	**–**	–	**276,171**	211,211
Intersegment sales	**–**	–	**2,387**	1,605	**(2,387)**	(1,605)	**–**	–
Total	**268,581**	204,563	**9,977**	8,253	**(2,387)**	(1,605)	**276,171**	211,211
Segment results	**20,373**	1,632	**1,556**	607	**(187)**	82	**21,742**	2,321
Interest income and unallocated gains							**4,667**	7,341
Profit before tax							**26,409**	9,662
Tax							**(4,433)**	(1,272)
Profit for the year							**21,976**	8,390
Assets and liabilities								
Segment assets	**232,854**	230,551	**21,155**	18,834	**(5,000)**	–	**249,009**	249,385
Interest-bearing time deposits	**77,024**	77,631	**5,000**	–	**–**	–	**82,024**	77,631
Available-for-sale investments	**4,500**	4,500	**–**	–	**–**	–	**4,500**	4,500
Total assets	**314,378**	312,682	**26,155**	18,834	**(5,000)**	–	**335,533**	331,516
Segment liabilities	**71,131**	87,374	**9,944**	5,475	**(5,000)**	–	**76,075**	92,849
Total liabilities	**71,131**	87,374	**9,944**	5,475	**(5,000)**	–	**76,075**	92,849
Other segment information:								
Capital expenditure	**4,530**	11,625	**7,173**	572	**–**	–	**11,703**	12,197
Impairment losses recognised in the income statement	**–**	747	**–**	–	**–**	–	**–**	747
Depreciation	**7,648**	8,430	**2,583**	2,756	**–**	–	**10,231**	11,186
Amortisation of intangible assets	**3,372**	3,201	**–**	–	**–**	–	**3,372**	3,201
Other non-cash expenses	**970**	3,765	**19**	134	**–**	–	**1,250**	3,899

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

	Mainland China		Asia Pacific		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue:										
Sales to external customers	**153,091**	132,546	**131,582**	87,106	**9,768**	5,570	**(18,270)**	(14,011)	**276,171**	211,211
Other segment information:										
Segment assets	**303,146**	283,098	**54,429**	64,332	**–**	–	**(22,042)**	(15,914)	**335,533**	331,516
Capital expenditure	**11,703**	6,141	**–**	6,056	**–**	–	**–**	–	**11,703**	12,197

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered and gross rental income received.

An analysis of revenue, other income and gains is as follows:

	2006 RMB'000	2005 RMB'000
Revenue:		
Sale of goods	**268,581**	204,563
Rendering of services	**7,590**	6,648
	276,171	211,211
Other income and gains:		
Bank interest income	**2,348**	1,479
Value-added tax refunds	**263**	1,054
Deed tax refunds	**83**	421
Subsidy income	**1,333**	1,210
Royalty fee income	**–**	2,044
Gross rental income	**–**	404
Others	**640**	729
	4,667	7,341

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2006 RMB'000	2005 RMB'000
Cost of inventories sold	**203,400**	154,648
Cost of services provided	**2,589**	2,745
Depreciation	**10,231**	11,186
Research and development costs:		
Deferred development costs amortised*	**3,372**	3,201
Current year expenditures	**17,050**	18,365
Less: Government grants released**	**(7,477)**	(5,295)
	12,945	16,271
Minimum lease payments under operating leases:		
Land and buildings	**2,151**	2,160
Auditors' remuneration	**800**	750
Employees benefit expenses (excluding directors' remuneration – (note 7)):		
Wages and salaries	**22,580**	20,991
Pension scheme contributions	**2,448**	2,085
	25,028	23,076
Less: Amounts capitalised as development costs	**(3,162)**	(3,046)
	21,866	20,030
Foreign exchange difference, net	**865**	327
Impairment of available-for-sale investments	**–**	747
Impairment of trade and bills receivables	**1,725**	159
(Reversal)/write-down of inventories to net realisable value	**(475)**	3,740
Loss on deemed disposal of equity interest in a subsidiary	**–**	2,583
Loss on disposal of items of property, plant and equipment	**23**	46
Bank interest income	**(2,348)**	(1,479)
Value-added tax refunds	**(263)**	(1,054)
Deed tax refunds	**(83)**	(421)
Subsidy income	**(1,333)**	(1,210)
Royalty fee income	**–**	(2,044)
Gross rental income	**–**	(404)

6. PROFIT BEFORE TAX *(Continued)*

* *The amortisation of deferred development costs for the year is included in "Other expenses" on the face of the consolidated income statement.*

** *Various government grants have been received for setting up research activities in Shanghai, Mainland China, to support domestic technology development. The government grants released have been deducted from the research and development costs to which they relate. Government grants received for which related expenditure has not yet been undertaken are included in other liabilities in the balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.*

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Fees for two independent non-executive directors	**174**	170
Other emoluments:		
Salaries, allowances and benefits in kind	**1,573**	1,537
	1,747	1,707

(a) Independent non-executive directors

The fees, salaries, allowances and benefits in kind paid to independent non-executive directors during the year were as follows:

	Fees		**Salaries, allowances and benefits in kind**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mr. Leung Tin Pui	**123**	126	**–**	–
Mr. Cheung Wing Keung	**51**	44	**–**	–
Mr. Guo Li	**–**	–	**–**	–
Mr. Xu Juyan	**–**	–	**–**	38
	174	170	**–**	38

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

7. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind RMB'000	Pension schemes contribution RMB'000	Other benefits received RMB'000	Total remuneration RMB'000
2006				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	361	–	–	361
Mr. Yu Jun	306	–	–	306
Ms. Cheng Junxia	303	–	–	303
Mr. Wang Su	303	–	–	303
	1,573	–	–	1,573
Non-executive directors:				
Mr. Chen Xiaohong	–	–	–	–
Ms. Zhang Qianling	–	–	–	–
Mr. He Lixing	–	–	–	–
Mr. Shen Xiaozu	–	–	–	–
	–	–	–	–
	1,573	–	–	1,573

7. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind RMB'000	Pension schemes contribution RMB'000	Other benefits received RMB'000	Total remuneration RMB'000
2005				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	341	–	–	341
Mr. Yu Jun	288	–	–	288
Ms. Cheng Junxia	285	–	–	285
Mr. Wang Su	285	–	–	285
Mr. Tsai Kao Chung	–	–	–	–
	1,499	–	–	1,499
Non-executive directors:				
Mr. Chen Xiaohong	–	–	–	–
Ms. Zhang Qianling	–	–	–	–
Mr. He Lixing	–	–	–	–
Mr. Shen Xiaozu	–	–	–	–
	–	–	–	–
	1,499	–	–	1,499

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2005: one) non-director, highest paid employee of the Group for the year are as follows:

	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**442**	403
Pension scheme contributions	**13**	13
	455	416

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**1**	1

During the year, no emoluments were paid by the Group to the directors or the highest paid employees either as an inducement to join the Group, or as compensation for loss of office.

9. TAX

Under the Income Tax Law of the PRC, the Company is subject to income tax at a base rate of 33%. Pursuant to an approval document dated 15 January 2004 issued by the local municipal tax bureau, the Company was subject to a preferential income tax rate of 15% from 1 January 2004 to 31 December 2004. The Company is seeking approval of the relevant tax authorities for its continued entitlement to the aforesaid preferential income tax rate. For the financial year ended 31 December 2006, income taxes on assessable income have been provided at the rate of 33% (2005: The Company had no assessable income and no provision for income tax was required).

Under the Income Tax Law of the PRC, the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") is subject to a preferential income tax rate of 15%. Pursuant to an approval document dated 8 October 2004 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2004, Sino IC is exempt from corporate and local income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Sino IC is in its third profit making year for the financial year ended 31 December 2006 and is entitled to the 50% concession on income tax (2005: nil).

9. TAX *(Continued)*

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2006 RMB'000	2005 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	2,149	381
Underprovision in prior years	29	–
Current – Mainland China	2,728	–
Deferred	(473)	891
Total tax charge for the year	4,433	1,272

(a) Income tax expense

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries/jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2006

	Mainland China RMB'000	Mainland China %	Hong Kong RMB'000	Hong Kong %	Total RMB'000	Total %
Profit before tax	16,384		10,025		26,409	
Tax at the applicable tax rates	5,407	33.0	1,754	17.5	7,161	27.1
Lower tax rate for local authority	(534)	(3.2)	–	–	(534)	(2.0)
Adjustments in respect of current tax of previous periods	–	–	29	0.3	29	0.1
Income not subject to tax	–	–	(78)	(0.8)	(78)	(0.3)
Tax concession	(1,860)	(11.3)	–	–	(1,860)	(7.0)
Expenses not deductible for tax	1,316	8.0	–	–	1,316	5.0
Tax losses utilised from previous periods	(1,601)	(9.8)	–	–	(1,601)	(6.1)
Tax charge at the Group's effective rate	2,728	16.7	1,705	17.0	4,433	16.8

9. TAX *(Continued)*

(a) Income tax expense *(Continued)*

Group – 2005

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	2,302		7,360		9,662	
Tax at the applicable tax rates	760	33.0	1,288	17.5	2,048	21.2
Lower tax rate for local authority	(93)	(4.0)	–	–	(93)	(1.0)
Income not subject to tax	(130)	(5.7)	(17)	(0.2)	(147)	(1.5)
Tax concession	(235)	(10.2)	–	–	(235)	(2.4)
Expenses not deductible for tax	1,380	60.0	1	–	1,381	14.3
Tax losses utilised from previous periods	(1,682)	(73.1)	–	–	(1,682)	(17.4)
Tax charge at the Group's effective rate	–	–	1,272	17.3	1,272	13.2

Deferred tax assets have not been recognised in respect of the temporary differences mainly arising from provisions of the Company, as it is uncertain whether the Company will be able to fully utilise the temporary differences after considering tax incentives in relation to the additional deductible allowance for qualified research and development expenses to be incurred by the Company.

9. TAX *(Continued)*

(b) Income tax payable in the consolidated balance sheet represents:

	2006	2005
	RMB'000	RMB'000
At beginning of year	**324**	–
Provision for the year	**4,906**	381
Payment during the year	**(953)**	(57)
At end of year	**4,277**	324

(c) Deferred tax liabilities at 31 December relate to the following:

	Consolidated balance sheet		**Consolidated income statement**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Depreciation of property, plant and equipment	**384**	878	**(473)**	891

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB10,913,000 (2005: net profit of RMB3,285,000) (note 24) which has been dealt with in the financial statements of the Company.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of basic earnings per share is based on:

	2006 RMB'000	2005 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**21,098**	8,037

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue ('000) during the year used in the basic earnings per share calculation	**624,265**	624,354

Diluted earnings per share for the year ended 31 December 2006 and the comparative diluted earnings per share for the year ended 31 December 2005 have not been presented as no diluting events existed during these years.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
Cost:					
At beginning of year	37,409	45,323	1,531	142	84,405
Additions	–	1,120	370	7,578	9,068
Transfers from construction in progress	414	6,481	–	(6,895)	–
Disposals	–	(652)	–	–	(652)
At 31 December 2006	**37,823**	**52,272**	**1,901**	**825**	**92,821**
Accumulated depreciation:					
At beginning of year	1,720	23,838	871	–	26,429
Provided during the year	978	8,921	332	–	10,231
Disposals	–	(629)	–	–	(629)
At 31 December 2006	**2,698**	**32,130**	**1,203**	**–**	**36,031**
Net book value:					
At 31 December 2006	**35,125**	**20,142**	**698**	**825**	**56,790**
At 31 December 2005	35,689	21,485	660	142	57,976
31 December 2005					
Cost:					
At beginning of year	37,409	46,577	1,531	138	85,655
Additions	–	6,668	–	677	7,345
Transfers from construction in progress	–	673	–	(673)	–
Disposals	–	(8,595)	–	–	(8,595)
At 31 December 2005	37,409	45,323	1,531	142	84,405
Accumulated depreciation:					
At beginning of year	757	16,972	580	–	18,309
Provided during the year	963	9,932	291	–	11,186
Disposals	–	(3,066)	–	–	(3,066)
At 31 December 2005	1,720	23,838	871	–	26,429
Net book value:					
At 31 December 2005	35,689	21,485	660	142	57,976
At 31 December 2004	36,652	29,605	951	138	67,346

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
Cost:					
At beginning of year	37,409	25,536	1,016	142	64,103
Additions	–	1,102	370	612	2,084
Transfers from construction in progress	414	168	–	(582)	–
Disposals	–	(469)	–	–	(469)
At 31 December 2006	**37,823**	**26,337**	**1,386**	**172**	**65,718**
Accumulated depreciation:					
At beginning of year	1,720	15,400	631	–	17,751
Provided during the year	978	3,785	244	–	5,007
Disposals	–	(445)	–	–	(445)
At 31 December 2006	**2,698**	**18,740**	**875**	**–**	**22,313**
Net book value:					
At 31 December 2006	**35,125**	**7,597**	**511**	**172**	**43,405**
At 31 December 2005	35,689	10,136	385	142	46,352
31 December 2005					
Cost:					
At beginning of year	37,409	32,835	1,016	138	71,398
Additions	–	1,075	–	217	1,292
Transfers from construction in progress	–	213	–	(213)	–
Disposals	–	(8,587)	–	–	(8,587)
At 31 December 2005	37,409	25,536	1,016	142	64,103
Accumulated depreciation:					
At beginning of year	757	11,657	438	–	12,852
Provided during the year	963	6,807	193	–	7,963
Disposals	–	(3,064)	–	–	(3,064)
At 31 December 2005	1,720	15,400	631	–	17,751
Net book value:					
At 31 December 2005	35,689	10,136	385	142	46,352
At 31 December 2004	36,652	21,178	578	138	58,546

13. INTANGIBLE ASSETS

	Deferred development costs	
	Group	Company
	RMB'000	RMB'000
31 December 2006		
Cost:		
At beginning of year	27,158	24,422
Additions – internal development	2,635	2,635
At 31 December 2006	**29,793**	**27,057**
Accumulated amortisation and impairment:		
At beginning of year	17,878	17,030
Amortisation provided during the year	3,372	1,986
At 31 December 2006	**21,250**	**19,016**
Net book value:		
At 31 December 2006	**8,543**	**8,041**
At 31 December 2005	9,280	7,392
31 December 2005		
Cost:		
At beginning of year	22,306	20,146
Additions – internal development	4,852	4,276
At 31 December 2005	27,158	24,422
Accumulated amortisation and impairment:		
At beginning of year	14,677	14,677
Amortisation provided during the year	3,201	2,353
At 31 December 2005	17,878	17,030
Net book value:		
At 31 December 2005	9,280	7,392
At 31 December 2004	7,629	5,469

13. INTANGIBLE ASSETS *(Continued)*

During the year ended 31 December 2006, the Group received government grants aggregately amounting to RMB1,594,000 (2005: RMB1,055,000). These cash grants were non-recurring in nature and were designated for the purpose of developing certain of the Group's products. The cash grants received have been deducted from the deferred development costs in arriving at their carrying amount. There were no unfulfilled conditions or contingencies relating to these grants.

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**16,428**	16,428

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB5,000,000 (2005: RMB8,066,639) and RMB244,139 (2005: RMB364,550), respectively, are unsecured, interest-free and repayable on demand or within one year. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of registered/ issued ordinary share capital	Percentage of equity directly attributable to the Company	Principal activities
Sino IC*	Mainland China 28 April 2001	RMB13,000,000	69.2	Provision of testing services for IC Products; designing, developing and selling of IC testing software; production of probe cards; and the provision of research and consultancy services of IC technology
Shanghai Fudan Micro- electronics (HK) Limited**	Hong Kong 23 January 2002	HK$7,000,000	100	Developing and selling of IC products

* *Sino IC is registered as a contractual joint venture company under the PRC law.*

** *Shanghai Fudan Microelectronics (HK) Limited is a limited liability company incorporated in Hong Kong.*

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Unlisted equity investments, at cost	**5,963**	5,963
Impairment provision	**(1,463)**	(1,463)
	4,500	4,500

As at 31 December 2006, the unlisted equity investments were stated at cost less impairment, because the directors are of the opinion that the information to be applied in the valuation techniques cannot be obtained on a continuous basis so that their fair value cannot be measured reliably.

16. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials:				
At cost	**18,461**	25,047	**18,594**	14,995
At net realisable value	**40**	22	**40**	22
Work in process:				
At cost	**9,680**	8,463	**9,680**	8,463
At net realisable value	**320**	235	**320**	235
Finished goods:				
At cost	**36,305**	21,210	**21,638**	16,569
At net realisable value	**487**	1,329	**487**	1,329
	65,293	56,306	**50,759**	41,613

17. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally between 30 and 90 days. The Group's sales are made to several major customers and there is concentration of credit risks. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**36,717**	46,954	**24,930**	27,104
3 to 6 months	**8,180**	9,594	**7,964**	9,366
6 to 12 months	**2,716**	5,021	**2,716**	5,016
Over 12 months	**3,804**	1,610	**3,804**	1,600
	51,417	63,179	**39,414**	43,086

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**3,335**	2,504	**3,218**	2,490
Deposits and other receivables	**1,649**	1,138	**1,254**	845
	4,984	3,642	**4,472**	3,335

19. HELD-TO-MATURITY INVESTMENTS

The year-end balance of held-to-maturity investments is attributable to Sino IC.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**60,982**	59,002	**33,215**	25,269
Time deposits with original maturity of less than three months when acquired	**21,010**	39,631	**18,000**	39,631
Time deposits with original maturity of over three months when acquired	**61,014**	38,000	**54,000**	38,000
Cash and cash equivalents	**143,006**	136,633	**105,215**	102,900
Less: Deposits pledged for bank facilities	**(2,417)**	(1,639)	**(2,417)**	(1,639)
	140,589	134,994	**102,798**	101,261

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to RMB107,952,000 (2005: RMB94,544,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at respective short term time deposit rates. The carrying amounts of cash and cash equivalents and the pledged deposits approximate to their fair values.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**47,860**	54,135	**20,763**	21,376
3 to 6 months	**1,712**	12,494	**1,157**	12,494
6 to 12 months	**936**	–	**936**	–
	50,508	66,629	**22,856**	33,870

The trade and bills payables are non-interest-bearing and are normally settled on 90-day terms.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payable for purchases of software	**2,737**	5,474	**–**	–
Portion classified as long term	**–**	(2,737)	**–**	–
Current portion	**2,737**	2,737	**–**	–
Accruals	**1,508**	2,410	**1,319**	2,119
Other payables	**16,661**	17,134	**11,936**	9,222
	20,906	22,281	**13,255**	11,341

Other payables are non-interest-bearing and have an average term of three months.

23. SHARE CAPITAL

	2006 RMB'000	2005 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2005: 375,000,000) unlisted domestic shares of RMB0.10 each	**37,500**	37,500
248,642,000 (2005: 249,354,000) H shares of RMB0.10 each	**24,864**	24,935
	62,364	62,435

During the year, the Company repurchased on the Stock Exchange a total of 1,196,000 H shares of RMB0.10 each of the Company for an aggregate consideration of RMB556,000. A summary of shares repurchase transactions during the year is as follows:

Trading date	Settlement date	Number of shares repurchased	Price per share or highest price paid RMB	Lowest price paid RMB	Cancellation date
16 November 2006	17 November 2006	392,000	0.440	–	13 December 2006
17 November 2006	20 November 2006	320,000	0.440	–	13 December 2006
1 December 2006	5 December 2006	224,000	0.453	0.438	24 January 2007
18 December 2006	19 December 2006	260,000	0.473	0.438	24 January 2007
		1,196,000			

In addition, the Company repurchased 900,000 of its H shares on 29 December 2006 for a consideration of RMB381,000. The transaction was settled on 3 January 2007. These shares were subsequently cancelled on 24 January 2007.

23. SHARE CAPITAL *(Continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of H shares in issue	Issued share capital of H shares RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2006	249,354,000	24,935	–	170,717	195,652
Share repurchased and cancelled	(712,000)	(71)	–	(262)	(333)
	248,642,000	24,864	–	170,455	195,319
Share repurchased and uncancelled	(484,000)	–	(223)	–	(223)
At 31 December 2006	**248,158,000**	**24,864**	**(223)**	**170,455**	**195,096**

24. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

24. RESERVES *(Continued)*

Company

	Share premium account RMB'000	Treasury shares RMB'000	Statutory surplus reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2005	170,717	–	–	(8,340)	162,377
Profit for the year	–	–	–	3,285	3,285
At 31 December 2005 and beginning of year	170,717	–	–	(5,055)	165,662
Profit for the year	–	–	–	10,913	10,913
Repurchase of shares *(Note 23)*	(262)	(223)	–	–	(485)
Transfer from retained profits	–	–	2,799	(2,799)	–
At 31 December 2006	**170,455**	**(223)**	**2,799**	**3,059**	**176,090**

In accordance with the Company Law of the PRC and the articles of association of the Company and its subsidiary in Mainland China, the Company and the subsidiary are required to allocate 10% of their profits after tax (after deducting accumulated losses incurred in previous years), as determined in accordance with the applicable PRC accounting standards and regulations (the "PRC accounting standards"), to the Statutory Surplus Reserve (the "SSR") until such reserve reaches 50% of the registered capital of the respective company. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association, the SSR may be capitalised as share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company and the subsidiary were required to transfer 5% to 10% of their profits after tax (after deducting accumulated losses incurred in previous years), as determined in accordance with the PRC accounting standards, to the statutory Public Welfare Fund (the "PWF") which was a non-distributable reserve other than in the event of liquidation of the Company or the subsidiary. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the property of the Company and the subsidiary.

24. RESERVES *(Continued)*

Company *(Continued)*

According to the revised Company Law of the PRC effective from 1 January 2006, the Company is no longer required to transfer its profits after tax to PWF. All unutilised PWF as of 1 January 2006 was transferred to SSR.

The directors of the Company have proposed to transfer RMB2,799,000 (2005: Nil) to the SSR. The transfers represent 10% of the Company's profit after tax for the year, as determined in accordance with the PRC accounting standards. The transfer has been incorporated in these financial statements.

The directors of Sino IC have proposed to transfer RMB198,000 (2005: RMB93,000) to the SSR. The transfers represent 10% of Sino IC's profit after tax, as determined in accordance with the PRC accounting standards. The transfer has been incorporated in these financial statements.

At 31 December 2006, in accordance with the Company Law of the PRC, approximately RMB170,455,000 (2005: RMB170,717,000) of the Company's share premium account was available for distribution by way of future capitalisation issue.

According to the relevant regulations in the PRC, the amount of retained profits available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under HKFRSs.

25. COMMITMENTS

The Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**72**	150	**27**	150
Plant and machinery	**333**	20	**333**	20
Intangible assets	**522**	–	**522**	–
Repurchase of H shares	**381**	–	**381**	–
	1,308	170	**1,263**	170
Authorised, but not contracted for:				
Capital contributions payable to a new subsidiary	**5,000**	–	**5,000**	–
	6,308	170	**6,263**	170

(b) The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to five years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,460**	1,362	**365**	501
In the second to fifth years, inclusive	**3,567**	1,367	**–**	62
	5,027	2,729	**365**	563

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transaction with related parties during the year:

Name of related party	Relationship with the Group	Nature of transaction	2006 RMB'000	2005 RMB'000
Shanghai Fudan University ("SFU")	Owner of Fudan High Tech Company	Technical and equipment support fee	269	–

On 8 March 2000, the Company and SFU entered into an agreement ("the Agreement") under which the Company was required to pay a fee of RMB800,000 to SFU per annum for the provision of technical and equipment support.

On 12 August 2003, the Company and SFU entered into an agreement to terminate the Agreement and with effect from 1 January 2004 onwards, all technical and equipment support service provided by SFU will be charged based on a price mutually agreed by the two parties.

In the opinion of the independent non-executive directors, the above related party transaction was entered into in the ordinary course of the Group's business and were in accordance with the terms of the arrangements governing the transactions.

27. POST BALANCE SHEET EVENT

On 29 December 2006, the Company repurchased 900,000 of its H shares on the Stock Exchange. This transaction was settled on 3 January 2007. In January 2007, the Company further repurchased 4,928,000 of its H shares in total on the Stock Exchange. All of the aforesaid shares, together with the 224,000 and 260,000 H shares the Company repurchased on 1 December 2006 and 18 December 2006, respectively, were cancelled by the Company subsequent to the balance sheet date.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits and held-to-maturity investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, prepayments, deposits and other receivables, trade and bills payables and other payables and accruals, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 44% (2005: 38%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, while almost 50% (2005: 60%) of costs are denominated in the unit's functional currency. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

Credit risk

The Group's sales are made to several major customers and there is concentration of credit risks. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise 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, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, held-to-maturity investments, available-for-sale investments, trade and bills receivables, prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair value

The fair values of cash and short term deposits, trade and bills receivables, prepayments, deposits and other receivables, trade and bills payable and other payables and accruals are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2007.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**276,171**	211,211	132,710	97,456	62,003
Cost of sales	**(205,989)**	(157,393)	(85,386)	(62,938)	(44,173)
Gross profit	**70,182**	53,818	47,324	34,518	17,830
Other income and gains	**4,667**	7,341	6,860	2,907	2,946
Selling and distribution costs	**(7,436)**	(7,914)	(6,292)	(5,875)	(4,170)
Administrative expenses	**(24,981)**	(22,795)	(19,010)	(17,512)	(13,876)
Other expenses	**(16,023)**	(20,788)	(20,491)	(15,092)	(7,504)
Share of losses of associates	**–**	–	(835)	(5,228)	(2,637)
PROFIT/(LOSS) BEFORE TAX	**26,409**	9,662	7,556	(6,282)	(7,411)
Tax	**(4,433)**	(1,272)	(57)	(72)	96
PROFIT/(LOSS) FOR THE YEAR	**21,976**	8,390	7,499	(6,354)	(7,315)
Attributable to:					
Equity holders of the parent	**21,098**	8,037	7,239	(6,550)	(7,135)
Minority interests	**878**	353	260	196	(180)
	21,976	8,390	7,499	(6,354)	(7,315)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**335,533**	331,516	269,104	242,636	242,116
TOTAL LIABILITIES	**(76,075)**	(92,849)	(41,160)	(22,675)	(15,836)
MINORITY INTERESTS	**(4,993)**	(4,115)	(1,179)	(419)	(224)
	254,465	234,552	226,765	219,542	226,056