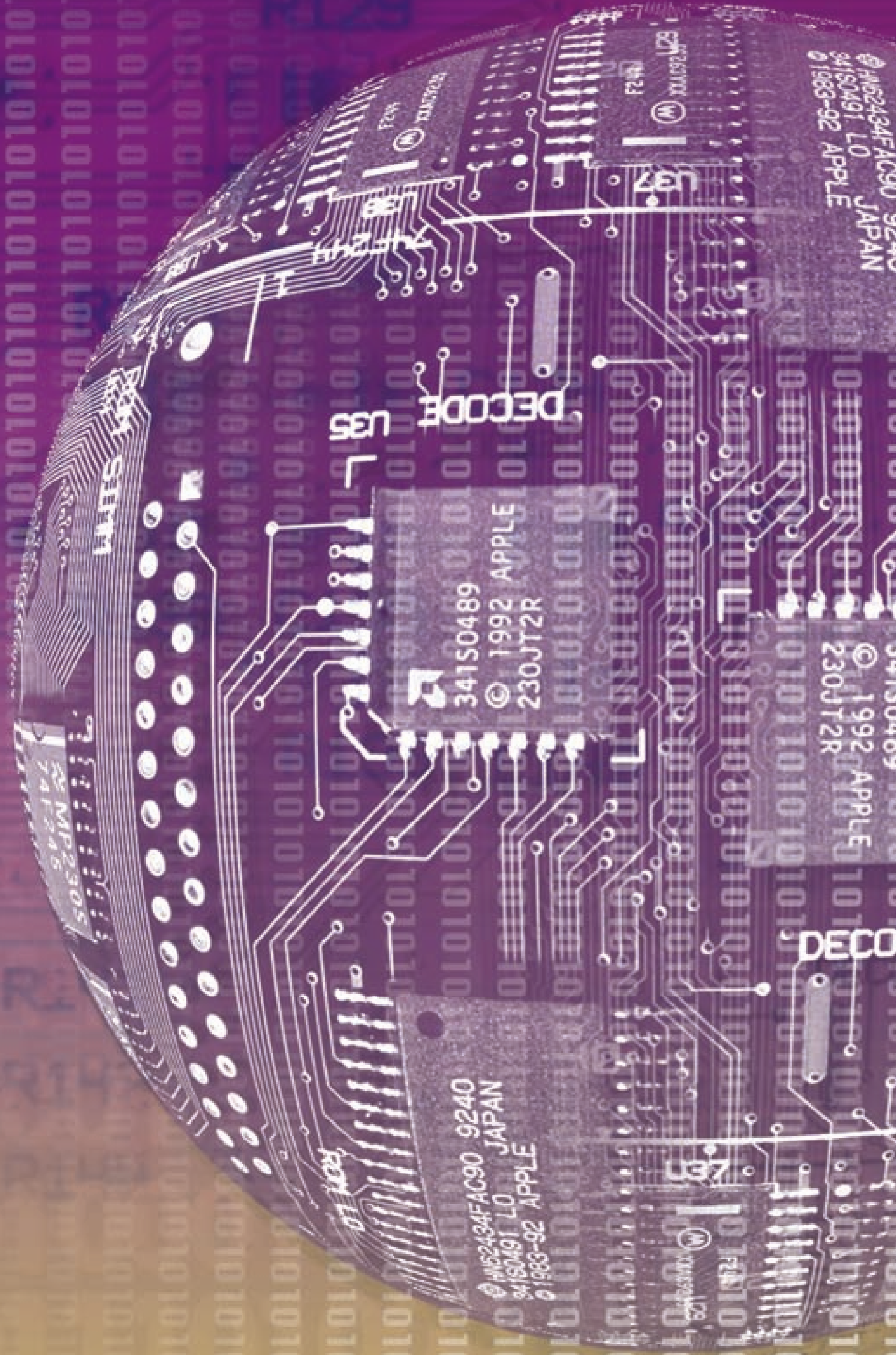
*for identification only



Annual Report 2007

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)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors of countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual report, for which the directors ("Directors") of Shanghai Fudan Microelectronics Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this annual report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Chairman's Statement

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 2007.

FINANCIAL RESULTS

The Group has recorded a considerable business growth during the year under review. For the year ended 31 December 2007, the Group's revenue was RMB315,967,000 being an increase of 14% as compared to the previous year. The profit attributable to shareholders of the parent was approximately RMB38,250,000 and the basic earnings per share was RMB6.20 cents, representing increases of approximately 81% and 83% respectively over the last year.

OBJECTIVE AND MISSION

Integrated circuit ("IC") design remains as the Group's core business. With privileges in plenty of professional talents, self-developed technologies, "fabless" mode of operation and diversified product series, the Group will strive to become an outstanding and leading enterprise in IC design industry within the People's Republic of China, and to achieve the mission that domestic electronic products would be embedded with "Fudan chips".

PROSPECTS

The Group expects that the economy of the PRC will keep a strong growth, and the national expenditures continue to increase as well as the rapid expansion in electronics technologies. The directors are confident that the Group's business will continue to derive benefits from all these factors. With a view to solid its leading status and to expand its market share, the Group will cope with the market changes and demands by applying more resources for the research and development of high-tech products and expects a further growth in its results for the coming year.

APPRECIATION

On behalf of the board of directors, I would like to this opportunity to thank all the Group's staff for their unfailing loyalties and hard working. Also have to thank the Company's shareholders, the Group's customers, suppliers and business associates for their long lasting supports and trust.

Jiang Guoxing
Chairman

Shanghai, the People's Republic of China
18 March 2008

Management Discussion and Analysis

BUSINESS REVIEW

During the year, the Group's results benefited from the blooming growth in the market of the Mainland in China and the increasing in market demand of electronic products and IC card chips. Since the new launched products were well accepted by the market, the Group recorded a growth in its turnover by 14.4% with a satisfactory overall profit margin of approximately 29.6% during the year.

During the year under review, the Group with its extensive experience gained over the years in the professional IC design technology, has successfully developed numerous electronic products to meet market needs. In addition, the provision of total solution enabled the Group's products to expedite its market development and applications in various kinds of consumer goods, and consequently largely widened their application scopes.

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

IC Card

IC card chips are the major products of the Group and the sales of which increased by approximately 53% over the last year. The Group's self-developed contactless application specific IC card chips and related card readers were accredited in the application areas like social medical insurance, electronic consumption, public transportation, identity verification and human resources management. With products commonly consumed in domestic and overseas markets, the Group is now one of the suppliers that provides full series of IC card chips products.

Power Electronics

The Group's self-developed power electronics IC chips are marketed together with application system that provides a total solution. With further developing abilities and well equipped functions, these products provide customers with multiple choices and have gained a very stable customer base that brought with 45% increase in sales as compared with last year.

Motor and Mobile Electronics

This product category is not the Group's major project and contributed only a little to the Group's turnover. As very few resources were applied, sales of these products could only be based on existing products that still kept a steady growth.

Telecommunication Electronics

The market of telecommunication electronics was still highly competitive and in view of its small contribution to the Group, research and development have been suspended which resulted with a 49% drop in sales as compared with last year.

Consumer Electronics

The Group's self-developed consumer IC products have been widely applied in mobile terminals, portable multi-media accessories and home entertainment facilities. As existing products have been launched into the market for a certain period, prices have to be adjusted to cope with the market situation that lead to a decrease of 11% in sales during the year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

IC Testing

The IC testing services were affected by keen market competition, even though there was a decrease of approximately 13% in revenue during the year, these services pay a significant supportive role to the basic business of the Group.

FINANCE REVIEW

For the year ended 31 December 2007, the Group's recorded a revenue amounted to approximately RMB315,967,000 (2006: RMB276,171,000), a growth of approximately 14.4% as compared to the previous year. The audited profit attributable to shareholders of the parent was approximately RMB38,250,000 represents an increase of 81.3% as compared to RMB21,098,000 of last year. The basic earnings per share was RMB6.20 cents (2006: RMB3.38 cents) an increase of 83.4% over the last year.

During the year under review, the Group recorded a continuous growth in revenue and the overall gross profit margin increased to a satisfactory level of 29.6% as compared with 25.4% in last year. Other income and gains also recorded a 1.37 times increase; save for the increase in interest rate that brought with increase in bank interest income, there was a sharp increase in government grants received.

With regard to expenditures, the selling and distribution costs increased by 38.7% as compared with previous year due to additional costs incurred for market promotion and recruitment of salesmen for the purpose of expanding market share. Even though there were salaries and allowances increment and economic inflation, administrative expenses decreased by approximately 5.9% over the last year as a result of effective cost control. Compare with last year, other operating expenses raised significantly by approximately 55.1% as more research and development costs were incurred for the increase in projects that related to government grants received. Furthermore, a provision for impairment loss on available-for-sale investments amounted to RMB1,000,000 was made during the year.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

Save for the setting up of two wholly-owned subsidiaries in Shenzhen and Beijing during the year for the purpose of marketing the Group's products, there was no material change in the subsidiaries of the Group during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group still actively keeps looking for strategic cooperation. Other than the negotiations for the acquisition of a company engaged in provision of related application system to the Group's products and the consideration of which will be satisfied by internal financial resources, the Group has no other material investment plan at present.

Management Discussion and Analysis

TECHNOLOGICAL COOPERATION

During the year, the Group had co-operations 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 had been enjoying their advanced and superior technological supports.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2007, net assets of the Group amounted to approximately RMB289,328,000 (2006: RMB254,465,000); current assets amounted to approximately RMB289,025,000 (2006: RMB265,700,000), of which approximately RMB180,209,000 (2006: RMB143,006,000) 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 operations and present development.

As at 31 December 2007, except a deposit of RMB229,000 was pledged as guarantee for fulfillment of projects (2006: RMB2,417,000 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 (2006: 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. Save as disclosed, the Company's capital has no change and only comprises of ordinary shares.

GEARING RATIO

As at 31 December 2007, the Group's current liabilities amounted to approximately RMB70,871,000 (2006: RMB75,691,000) and non-current liabilities of approximately RMB3,092,000 (2006: RMB384,000). The net assets value per share of the Group was approximately RMB0.48 (2006: RMB0.42). The Group's ratio of current liabilities over current assets was approximately 24.5% (2006: 28.5%) and the gearing ratio was approximately 17.8% (2006: 21.9%). As at 31 December 2007, the Group and the Company had no bank or other borrowings (2006: nil).

INTEREST AND FOREIGN EXCHANGE RISK

The board of directors believes that the Group is not exposed to any material interest rate risk in view that the Group does not have any debt obligations that are subject to fluctuations in market interest rates.

Management Discussion and Analysis

INTEREST AND FOREIGN EXCHANGE RISK *(continued)*

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 40% (2006: 44%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 46% (2006: 50%) of costs are denominated in the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

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 trades only with recognised and creditworthy third parties and seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, 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 amounts of these instruments.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had capital commitments amounted to approximately RMB853,000 relate to acquisitions of intangible assets (2006: RMB6,308,000 relates 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 2007, the Group had no contingent liabilities (2006: 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 cooperation opportunities as appropriate.

Management Discussion and Analysis

STAFF

As at 31 December 2007, the Group employed approximately 342 (2006: 301) staff. The increase of staff was due to increase in research and development projects and enhancement of market promotion. 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 2007 amounted to approximately RMB34,571,000 (2006: RMB26,775,000). The increase in total staff costs was due to salaries adjustment in accordance with price index and market trend.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Mr. Cheung Wing Keung *FCCA, CPA*
Mr. Guo Li
Mr. Chen Baoying
(appointed on 1 November 2007)
Mr. Leung Tin Pui
(ceased on 6 September 2007)

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. Cheung Wing Keung
Mr. Guo Li
Mr. Shen Xiaozu
(appointed on 1 November 2007)
Mr. Leung Tin Pui
(ceased on 6 September 2007)

SUPERVISORS' COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Cheung Wing Keung
Mr. Wang Su (appointed on 1 April 2007)
Mr. Guo Li (appointed on 1 November 2007)
Mr. Leung Tin Pui
(ceased on 6 September 2007)

NOMINATION COMMITTEE

Mr. Cheung Wing Keung
Mr. Wang Su
Mr. Guo Li (appointed on 1 November 2007)
Mr. Leung Tin Pui
(ceased on 6 September 2007)

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

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

Corporate Information

PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor 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 54, 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 Fudan Enterprise Development Company Limited and Fudan Venture Capital Limited, chairman of Fudan Water Works Technology Limited and Fudan Technology Zone (UK) Limited, companies invested by 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 41, joined the Company in July 1998, is the Managing Director of the Company. He is a 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 40, 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 was the deputy director of the Research Institute for Integrated Circuit Designs of Fudan University and the chief engineer of Shanghai Fudan High Tech Company, and has extensive knowledge and experience in the design of integrated circuits and systems.

Ms. Cheng Junxia, aged 61, joined the Company in July 1998, is the Chief Engineer of the Company. She was a professor and a director of the Research Institute for Integrated Circuit Designs of Fudan University and the general manager of Fudan High Tech Company. She has extensive knowledge and experience in the design and manufacture of integrated circuits.

Mr. Wang Su, aged 54, joined the Company in July 1998, is an accountant. He is the Financial Controller and a member of the nomination committee and remuneration committee of the Company. 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 71, joined the Company in July 1998, was a principal professor and tutor to doctorate students at Fudan University. She is a distinguished academy 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.

Directors And Senior Management Biographies

Non-executive directors *(continued)*

Mr. He Lixing, aged 73, 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 58, 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. Cheung Wing Keung, aged 42, joined the Company in May 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 61, joined the Company in May 2006, 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.

Mr. Chen Baoying, aged 78, joined the Company in October 2007, is a part-time professor of Nankai University. He graduated with a bachelor degree in Nankai University, the PRC and a master degree in Renmin University of China both in international trade and finance. He has around 40 years working experience in research of international trade and finance. He was the director and researcher of the Institute of International Trade of the Ministry of Foreign Trade and Economic Cooperation, the PRC, which he worked for 30 years. He was the vice director of the Hong Kong and Macao Research Centre of the Hong Kong and Macao Affairs Office of the State Council since 1986 and retired in 1995, and was primarily responsible for research of economic and finance in these areas. He was appointed member respectively of the Join Working Group of the Mainland and Hong Kong Securities Affairs and the Expert Group on Commodities of the China Securities Regulatory Commission. He was an independent non-executive director of China National Resources Development Holdings Limited, a company listed on the main board of the Stock Exchange.

SUPERVISORS

Mr. Li Wei, aged 36, 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.

Directors And Senior Management Biographies

SUPERVISORS *(continued)*

Mr. Ding Shengbiao, aged 45, 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 56, 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 40, 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 57, joined the Company in July 1998, is the Production Officer of the Company. She holds a bachelor degree and was previously the sales manager of Fudan High Tech Company. 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

Mr. Li Wing Sum Steven, aged 51, joined the Company in July 2000, is the Qualified Accountant and Company Secretary of the Company. He has over 30 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.

Corporate Governance Report

Directors' Responsibility on the Financial Statements

The directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2007, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditor on the financial statements are set out in the "Independent Auditor's Report" on pages 26 to 27.

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 2007.

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 11 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.

Corporate Governance Report

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 2007, 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	4/4
Ms. Zhang Qianling	2/4
Mr. He Lixing	4/4
Mr. Shen Xiaozu	4/4
Mr. Cheung Wing Keung	4/4
Mr. Guo Li	4/4
Mr. Chen Baoying (appointed on 1 November 2007)	1/1
Mr. Leung Tin Pui (ceased on 6 September 2007)	3/3

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

Corporate Governance Report

Non-Executive Directors (Continued)

The three independent non-executive directors, Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying, have entered into service contracts with the Company for one year commencing from 25 May 2007, 25 May 2007 and 1 November 2007, respectively and expire at the forthcoming annual general meeting to be held on or about May 2008 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. Cheung Wing Keung and Mr. Guo Li and the executive director, Mr. Wang Su.

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 year under review, one meeting of the remuneration committee was held and details of the attendance are as follows:

Directors	**Number of attendance**
Mr. Cheung Wing Keung	1/1
Mr. Wang Su (appointed on 1 April 2007)	1/1
Mr. Guo Li (appointed on 1 November 2007)	0/0
Mr. Leung Tin Pui (ceased on 6 September 2007)	0/1

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.

Appointment, re-election and removal 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.

Corporate Governance Report

Appointment, re-election and removal of Directors (Continued)

The Company has established a nomination committee which comprises the independent non-executive directors, Mr. Cheung Wing Keung and Mr. Guo Li and the 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 two meetings during the year under review as following.

Committee member	Number of attendance
Mr. Cheung Wing Keung	2/2
Mr. Wang Su	2/2
Mr. Guo Li (appointed on 1 November 2007)	0/0
Mr. Leung Tin Pui (ceased on 6 September 2007)	1/1

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 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 two independent non-executive directors, Mr. Cheung Wing Keung and Mr. Guo Li and the non-executive director, Mr. Shen Xiaozu. The Company's and the Group's financial statements for the year ended 31 December 2007 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 members are well experienced in management, accounting, finance, commercial and industrial businesses.

Corporate Governance Report

Audit' Committee (Continued)

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

Directors	Number of attendance
Mr. Cheung Wing Keung	4/4
Mr. Guo Li	4/4
Mr. Shen Xiaozu (appointed on 1 November 2007)	1/1
Mr. Leung Tin Pui (ceased on 6 September 2007)	3/3

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 2007.

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 2007 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 29.

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 and reclassified as appropriate, is set out on page 90. 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.

Report of The Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY *(continued)*

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting (the "AGM"), with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

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 of 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 2007, the Company's reserves available for distribution amounted to RMB39,299,000. In addition, the Company's share premium account, in the amount of RMB168,486,000, 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 32% of the total sales for the year and sales to the largest customer included therein amounted to 21%. Purchases from the Group's five largest suppliers accounted for 62% of the total purchases for the year and purchases from the largest supplier included therein amounted to 23%.

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

Report of The Directors

DIRECTORS *(continued)*

Non-executive directors:

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

Independent non-executive directors:

Mr. Leung Tin Pui (passed away on 6 September 2007)
Mr. Cheung Wing Keung
Mr. Guo Li
Mr. Chen Baoying (appointed on 1 November 2007)

In accordance with article 87 of the Company's amended articles of association, with effect from 19 May 2006, the 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 AGM. Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years. Any person appointed as a director either to fill a casual vacancy or as an addition to the board of directors shall be subject to election by shareholders at the first general meeting after the appointment.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying, who are the independent non-executive directors of the Company, have signed letters of appointment with the Company for a period of one year commencing from 25 May 2007, 25 May 2007 and 1 November 2007, respectively, until the forthcoming AGM in or about May 2008 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.

Report of The Directors

DIRECTORS' REMUNERATION

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

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' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests and short positions of the directors and supervisors 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					
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust *(Note)*	Total	Percentage of the Company's issued share capital
Directors						
Mr. Jiang Guoxing	7,210,000	–	–	1,442,300	8,652,300	1.40
Mr. Shi Lei	7,210,000	–	–	12,980,000	20,190,000	3.27
Mr. Yu Jun	–	–	–	10,961,530	10,961,530	1.78
Ms. Cheng Junxia	–	–	–	8,076,920	8,076,920	1.31
Mr. Wang Su	–	–	–	7,211,530	7,211,530	1.17
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	9.67

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

	Number of issued shares held, capacity and nature of interest					
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust *(Note)*	Total	Percentage of the Company's issued share capital
Supervisors						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.98
Mr. Ding Shengbiao	–	–	–	7,211,530	7,211,530	1.17
Mr. Xu Lenian	–	–	–	865,380	865,380	0.14
	–	–	–	14,134,600	14,134,600	2.29

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 (the "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.

Save as disclosed above, as at 31 December 2007, none of the directors or supervisors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the 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 2007, 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:

Report of The Directors

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

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	23.36
Shanghai Fudan High Tech Company	(1)	Directly beneficially owned	106,730,000	17.29
Shanghai Fudan Technology Enterprise Holdings Limited	(2)	Directly beneficially owned	109,620,000	17.76
SCI	(2)	Through a controlled corporation	109,620,000	17.76

Notes:

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

(2) The ordinary shares are directly held by Shanghai Fudan Technology Enterprise Holdings Limited ("SFTE"), which is 90% owned by SCI. SCI is a state-owned enterprise wholly owned by the Shanghai Municipal Government.

During the year, SCI transferred a total of 95,200,000 domestic shares of the Company to SFTE. Meanwhile, SFTE acquired additional 14,420,000 domestic shares of the Company which was previously held by Shanghai Gao Zhan Commercial Consultancy Company Limited.

Save as disclosed above, as at 31 December 2007, no person, other than the directors and supervisors of the Company, whose interests are set out in the section headed "Directors' and supervisors' 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.

Report of The Directors

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.

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
18 March 2008

Independent Auditors' Report

ERNST & YOUNG

■ Ernst & Young
12th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2501 0343

■ 安永會計師事務所
香港中環金融街8號
國際金融中心2期12樓
電話：(852) 2846 9888
傳真：(852) 2501 0343

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 29, which comprise the consolidated and company balance sheets as at 31 December 2007, 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, 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.

Independent Auditors' Report

AUDITORS' RESPONSIBILITY *(Continued)*

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 2007 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
18 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	315,967	276,171
Cost of sales		(222,434)	(205,989)
Gross profit		93,533	70,182
Other income and gains	5	28,767	12,144
Selling and distribution costs		(10,312)	(7,436)
Administrative expenses		(23,512)	(24,981)
Other expenses		(36,451)	(23,500)
PROFIT BEFORE TAX	6	52,025	26,409
Tax	9(a)	(12,028)	(4,433)
PROFIT FOR THE YEAR		39,997	21,976
Attributable to:			
Equity holders of the parent		38,250	21,098
Minority interests		1,747	878
		39,997	21,976
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	11	6.20 cents	3.38 cents

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	66,816	56,790
Intangible assets	13	10,210	8,543
Available-for-sale investments	15	3,500	4,500
Deferred tax assets	9(c)	480	–
Total non-current assets		81,006	69,833
CURRENT ASSETS			
Inventories	16	56,333	65,293
Trade and bills receivables	17	46,148	51,417
Prepayments, deposits and other receivables	18	6,067	4,984
Held-to-maturity investments	19	–	1,000
Tax recoverable	9(b)	268	–
Pledged deposits	20	229	2,417
Cash and cash equivalents	20	179,980	140,589
Total current assets		289,025	265,700
CURRENT LIABILITIES			
Trade and bills payables	21	32,424	50,508
Other payables and accruals	22	27,346	20,906
Tax payable	9(b)	11,101	4,277
Total current liabilities		70,871	75,691
NET CURRENT ASSETS		218,154	190,009
TOTAL ASSETS LESS CURRENT LIABILITIES		299,160	259,842

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		299,160	259,842
NON-CURRENT LIABILITIES			
Long term payables	22	3,069	–
Deferred tax liabilities	9(d)	23	384
Total non-current liabilities		3,092	384
Net assets		296,068	259,458
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	23	61,733	62,364
Reserves	24	227,595	192,101
		289,328	254,465
Minority interests		6,740	4,993
Total equity		296,068	259,458

Jiang Guoxing
Director

Shi Lei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to equity holders of the parent									
	Issued share capital RMB'000 Note 23	Share premium account RMB'000 Note 24	Treasury shares RMB'000 Note 24	Statutory surplus reserve RMB'000 Note 24	Statutory public welfare fund RMB'000 Note 24	Exchange fluc–tuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	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 and 1 January 2007	62,364	170,455	(223)	3,405	–	(859)	19,323	254,465	4,993	259,458
Exchange realignment and total income and expenses for the year recognised directly in equity	–	–	–	–	–	(1,010)	–	(1,010)	–	(1,010)
Profit for the year	–	–	–	–	–	–	38,250	38,250	1,747	39,997
Total income and expenses for the year	–	–	–	–	–	(1,010)	38,250	37,240	1,747	38,987
Repurchase of shares	(631)	(1,969)	223	–	–	–	–	(2,377)	–	(2,377)
Transfer from retained profits	–	–	–	4,752	–	–	(4,752)	–	–	–
At 31 December 2007	**61,733**	**168,486**	**–**	**8,157**	**–**	**(1,869)**	**52,821**	**289,328**	**6,740**	**296,068**

Consolidated Cash Flow Statement
Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		52,025	26,409
Adjustments for:			
Bank interest income	5	(3,155)	(2,348)
Loss on disposal of items of property, plant and equipment	6	35	23
Gain on disposal of held-to-maturity investments	6	(17)	–
Depreciation	6	10,490	10,231
Amortisation of deferred development costs	6	2,239	3,372
Impairment of available-for-sale investments	6	1,000	–
		62,617	37,687
Decrease/(increase) in inventories		8,960	(8,987)
Decrease in trade and bills receivables		5,269	11,762
Increase in prepayments, deposits and other receivables		(984)	(2,062)
Decrease in trade and bills payables		(18,084)	(16,121)
Increase/(decrease) in other payables and accruals		8,596	(1,375)
Cash generated from operations		66,374	20,904
Hong Kong profits tax paid	9(b)	(3,744)	(889)
PRC tax paid	9(b)	(2,554)	(64)
Net cash inflow from operating activities		60,076	19,951
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with original maturity of over three months when acquired		(25,628)	(23,014)
Bank interest received		3,056	2,290
Purchases of items of property, plant and equipment		(19,929)	(11,805)
Proceeds from disposal of items of property, plant and equipment		34	–
Receipt of government grants		598	1,594
Additions to intangible assets		(4,343)	(4,229)
Purchases of held-to-maturity investments		–	(1,000)
Proceeds from disposal of held-to-maturity investments		1,017	–
Net cash outflow from investing activities		(45,195)	(36,164)

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash outflow from investing activities		(45,195)	(36,164)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares	23	(2,377)	(556)
Net cash outflow from financing activities		(2,377)	(556)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		12,504	(16,769)
Cash and cash equivalents at beginning of year		81,992	98,633
Effect of foreign exchange rate changes, net		(929)	128
CASH AND CASH EQUIVALENTS AT END OF YEAR		93,567	81,992
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	46,538	58,565
Cash and bank balances pledged for bank facilities	20	229	2,417
Time deposits with original maturity of less than three months when acquired	20	46,800	21,010
		93,567	81,992

Balance Sheet

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	53,168	43,405
Intangible assets	13	10,210	8,041
Investments in subsidiaries	14	22,428	16,428
Available-for-sale investments	15	3,500	4,500
Total non-current assets		89,306	72,374
CURRENT ASSETS			
Inventories	16	53,782	50,759
Due from subsidiaries	14	582	5,000
Trade and bills receivables	17	41,343	39,414
Prepayments, deposits and other receivables	18	5,478	4,472
Pledged deposits	20	229	2,417
Cash and cash equivalents	20	148,756	102,798
Total current assets		250,170	204,860
CURRENT LIABILITIES			
Due to subsidiaries	14	1,206	244
Trade and bills payables	21	29,601	22,856
Other payables and accruals	22	17,865	13,255
Tax payable		10,921	2,425
Total current liabilities		59,593	38,780
NET CURRENT ASSETS		190,577	166,080
TOTAL ASSETS LESS CURRENT LIABILITIES		279,883	238,454
NON-CURRENT LIABILITIES			
Long term payables	22	3,069	–
Net assets		276,814	238,454
EQUITY			
Issued capital	23	61,733	62,364
Reserves	24	215,081	176,090
Total equity		276,814	238,454

Jiang Guoxing
Director

Shi Lei
Director

Notes to Financial Statements

31 December 2007

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 include all Hong Kong Financial Reporting Standards, 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 (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

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.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 28 to the financial statements.

Save as disclosed above, the adoption of these new and revised standards and interpretations 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.

HKFRS 8	Operating Segments[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

(continued)

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sales. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs 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, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

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 is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Related parties *(continued)*

(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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Notes to Financial Statements
31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss (continued)

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.

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 less any allowance for impairment. 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. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. 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. 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets (continued)

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.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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 by adjusting the allowance account. 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.

Notes to Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost (continued)

In relation to trade and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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 (such as observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets) that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. 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. The related interest expense is recognised within "finance costs" in the income statement.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

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 that are readily convertible into known amounts of cash, 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 sheets, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Income tax *(continued)*

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.

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.

Notes to Financial Statements
31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

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) 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

(d) 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% 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.

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 those 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 subsidiary's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

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, 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

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

Notes to Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 9 to the financial statements.

Impairment of financial assets carried at cost

The unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured is stated at cost less any impairment losses. The amount of the impairment 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. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. Further details are included in note 15 to the financial statements.

Impairment of trade receivables

The Group records impairment of trade receivables based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of the trade receivables and doubtful debt expenses in the period in which such estimates have been changed.

Provisions for inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of inventories and write-downs of inventories in the period in which such estimates have been changed.

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 2007, the best estimate of the carrying amount of capitalised development costs was RMB10,210,000 (2006: RMB8,543,000).

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.

Notes to Financial Statements
31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

	Design, development and sale of IC products		Testing services for IC products		Eliminations		Consolidated	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Segment revenue:								
Sales to external customers	309,523	268,581	6,444	7,590	–	–	315,967	276,171
Intersegment sales	–	–	4,330	2,387	(4,330)	(2,387)	–	–
Total	309,523	268,581	10,774	9,977	(4,330)	(2,387)	315,967	276,171
Segment results	21,992	12,896	1,369	1,556	(103)	(187)	23,258	14,265
Interest income and unallocated gains							28,767	12,144
Profit before tax							52,025	26,409
Tax							(12,028)	(4,433)
Profit for the year							39,997	21,976
Assets and liabilities								
Segment assets	210,312	232,854	23,984	21,155	(1,207)	(5,000)	233,089	249,009
Interest-bearing time deposits	126,392	77,024	7,050	5,000	–	–	133,442	82,024
Available-for-sale investments	3,500	4,500	–	–	–	–	3,500	4,500
Total assets	340,204	314,378	31,034	26,155	(1,207)	(5,000)	370,031	335,533
Segment liabilities	66,018	71,131	9,152	9,944	(1,207)	(5,000)	73,963	76,075
Total liabilities	66,018	71,131	9,152	9,944	(1,207)	(5,000)	73,963	76,075
Other segment information:								
Capital expenditure	19,364	4,530	5,223	7,173	–	–	24,587	11,703
Impairment losses recognised in the income statement	2,610	1,231	20	19	–	–	2,630	1,250
Depreciation	7,636	7,648	2,854	2,583	–	–	10,490	10,231
Amortisation of intangible assets	2,239	3,372	–	–	–	–	2,239	3,372

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 2007 and 2006.

For the year ended 31 December 2007

	Mainland China RMB'000	Asia Pacific RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	212,184	125,735	11,842	(33,794)	315,967
Other segment information:					
Segment assets	376,530	18,330	–	(24,829)	370,031
Capital expenditure	24,423	164	–	–	24,587

For the year ended 31 December 2006

	Mainland China RMB'000	Asia Pacific RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	153,091	131,582	9,768	(18,270)	276,171
Other segment information:					
Segment assets	303,146	54,429	–	(22,042)	335,533
Capital expenditure	11,703	–	–	–	11,703

Notes to Financial Statements
31 December 2007

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 and the value of services rendered.

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

	2007 RMB'000	2006 RMB'000
Revenue:		
Sale of goods	309,523	268,581
Rendering of services	6,444	7,590
	315,967	276,171
Other income and gains:		
Interest income	3,172	2,348
Value-added tax refunds	227	263
Deed tax refunds	–	83
Subsidy income	256	–
Government grants received (note 6)	24,956	8,810
Others	156	640
	28,767	12,144

6. PROFIT BEFORE TAX

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

	2007 RMB'000	2006 RMB'000
Cost of inventories sold	217,476	203,400
Cost of services provided	4,958	2,589
Depreciation	10,490	10,231
Research and development costs (note 29):		
Deferred development costs amortised*	2,239	3,372
Current year expenditure	31,264	17,050
	33,503	20,422
Minimum lease payments under operating leases:		
Land and buildings	2,909	2,151
Auditors' remuneration	850	800
Employees benefit expense (excluding directors' remuneration – (note 7)):		
Wages and salaries	29,231	22,580
Pension scheme contributions	2,868	2,448
	32,099	25,028
Less: Amounts capitalised as development costs	(2,081)	(3,162)
	30,018	21,866
Foreign exchange differences, net	777	865
Impairment of trade and bills receivables (note 17)	1,200	1,725
Provision for/(reversal of) inventories to net realisable value	430	(475)
Impairment of available-for-sale investments (note 15)	1,000	–
Loss on disposal of items of property, plant and equipment	35	23
Interest income	(3,172)	(2,348)
Value-added tax refunds	(227)	(263)
Deed tax refunds	–	(83)
Subsidy income	(256)	–
Government grants received (note 29)**	(24,956)	(8,810)

Notes to Financial Statements

31 December 2007

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 received for certain research activities have been recognised as other income. There are no unfulfilled conditions or contingencies relating to these grants and they are not matched with the related costs which they are intended to compensate. Government grants received for which related expenditure has not yet been undertaken are included in other liabilities in the balance sheet.*

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	
	2007 RMB'000	2006 RMB'000
Fees	207	174
Other emoluments:		
Salaries, allowances and benefits in kind	2,265	1,573
	2,472	1,747

(a) Independent non-executive directors

The fees and other benefits paid to independent non-executive directors during the year were as follows:

	Fees		Other benefits in kind	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Mr. Leung Tin Pui	116	123	–	–
Mr. Cheung Wing Keung	49	51	–	–
Mr. Guo Li	–	–	36	–
Mr. Chen Baoying	–	–	6	–
	165	174	42	–

7. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors:

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Other benefits received RMB'000	Total remuneration RMB'000
2007				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	697	–	–	697
Mr. Yu Jun	521	–	–	521
Ms. Cheng Junxia	379	–	–	379
Mr. Wang Su	368	–		368
	2,265	–	–	2,265
Non-executive directors:				
Ms. Zhang Qianling	–	–	–	–
Mr. He Lixing	–	–	–	–
Mr. Shen Xiaozu	–	–	–	–
	–	–	–	–
	2,265	–	–	2,265
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

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

Notes to Financial Statements

31 December 2007

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2006: one) non-director, highest paid employee of the Group for the year are as follows:

	2007 RMB'000	2006 RMB'000
Salaries, allowances and benefits in kind	482	442
Pension scheme contributions	12	13
	494	455

The remuneration of the non-director, highest paid employee of the Group fell within the band of Nil to HK$1,000,000 (2006: Nil to HK$1,000,000).

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 and two of its subsidiaries, Shenzhen Fudan Microelectronics Company Limited ("SZFM") and Beijing Fudan Microelectronics Technology Company Limited ("BJFM"), are subject to income tax at a base rate of 33%. For the financial year ended 31 December 2007, income taxes on assessable income have been provided at the rate of 33% (2006: 33%).

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 forth profit making year for the financial year ended 31 December 2007 and is entitled to the 50% concession on income tax (2006: 7.5%).

The PRC Corporate Income Tax Law (the "New CIT Law") which became effective on 1 January 2008 unifies the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Therefore, the applicable income tax rate of the Company and its subsidiaries which operate in the PRC has become 25% starting from 1 January 2008. Sino IC will enter into its fifth profit making year in 2008 and is still entitled to the 50% concession on income tax. The New CIT Law also provides that High New Technology enterprises ("HNT Enterprises") encouraged by the State are eligible for a reduced income tax rate of 15%. The New CIT Law Implementation Regulations (the "CITLIR") further set out a framework of five conditions that an enterprise must meet to be eligible for the HNT Enterprises reduced tax rate, but fall short of prescribing the exact measuring parameters.

Notes to Financial Statements

31 December 2007

9. TAX *(continued)*

The matter is left to be covered by a further guideline to be formulated by the Science and Technology Commission, the Ministry of Finance and the State Administration of Taxation (the "SAT") for formal announcement by the State Council. Up to the date of this report, no announcement has been made by the State Council. The prevailing regulations confirm that enterprises which had been recognised as HNT enterprises prior to 1 January 2008 should pay provisional income tax at the rate of 25% pending a re-recognition process under the New CIT Law. Therefore, the applicable income tax rate of the Company has become 25% starting from 1 January 2008, pending a re-recognition process for HNT enterprises.

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2007 RMB'000	2006 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	1,861	2,149
Underprovision in prior year	–	29
Current – Mainland China	10,993	2,728
Deferred	(826)	(473)
Total tax charge for the year	12,028	4,433

Notes to Financial Statements
31 December 2007

9. TAX *(continued)*

(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 – 2007

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	42,965		9,060		52,025	
Tax at the applicable tax rates	14,178	33.0	1,586	17.5	15,764	30.3
Lower tax rate for local authority	(622)	(1.4)	–	–	(622)	(1.2)
Effect on income tax expense of increase in rates	(266)	(0.6)	–	–	(266)	(0.5)
Income not subject to tax	–	–	(71)	(0.8)	(71)	(0.1)
Tax concession	(3,376)	(7.9)	–	–	(3,376)	(6.5)
Expenses not deductible for tax	599	1.4	–	–	599	1.1
Tax charge at the Group's effective rate	10,513	24.5	1,515	16.7	12,028	23.1

Group – 2006

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
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)*

Deferred tax assets have not been recognised in respect of the temporary differences mainly arising from the Company's impairment provisions and government grants related to items of property, plant and equipment, as it is uncertain whether the Company will be able to generate taxable profits in the foreseeable future to fully utilise these 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 in the same periods.

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

	2007 RMB'000	2006 RMB'000
At beginning of year	4,277	324
Provision for the year	12,854	4,906
Payment during the year	(6,298)	(953)
At end of year	10,833	4,277
Represented by:		
Income tax payable	11,101	4,277
Income tax recoverable	(268)	–

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

	Consolidated balance sheet		Consolidated income statement	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Government grants related to property, plant and equipment	480	–	(480)	–

Notes to Financial Statements
31 December 2007

9. TAX *(continued)*

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

	Consolidated balance sheet		Consolidated income statement	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Depreciation of property, plant and equipment	23	384	(346)	(473)

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 2007 includes a profit of RMB26,887,000 (2006: profit of RMB10,913,000) which has been dealt with in the financial statements of the Company (note 24).

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:

	2007 RMB'000	2006 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	38,250	21,098

	Number of shares '000	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	617,928	624,265

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

Diluted earnings per share for the year ended 31 December 2007 and the comparative diluted earnings per share for the year ended 31 December 2006 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 2007					
Cost:					
At beginning of year	37,823	52,272	1,901	825	92,821
Additions	–	7,972	890	11,802	20,664
Transfers from construction in progress	–	840	–	(840)	–
Disposals	–	(303)	(121)	–	(424)
Exchange realignment	–	(368)	–	–	(368)
At 31 December 2007	**37,823**	**60,413**	**2,670**	**11,787**	**112,693**
Accumulated depreciation:					
At beginning of year	2,698	32,130	1,203	–	36,031
Provided during the year	1,000	9,204	286	–	10,490
Disposals	–	(280)	(75)	–	(355)
Exchange realignment	–	(289)	–	–	(289)
At 31 December 2007	**3,698**	**40,765**	**1,414**	**–**	**45,877**
Net book value:					
At 31 December 2007	**34,125**	**19,648**	**1,256**	**11,787**	**66,816**
At 31 December 2006	35,125	20,142	698	825	56,790

Notes to Financial Statements
31 December 2007

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

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

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 2007					
Cost:					
At beginning of year	37,823	26,337	1,386	172	65,718
Additions	–	7,653	417	7,207	15,277
Transfers from construction in progress	–	187	–	(187)	–
Disposals	–	(303)	–	–	(303)
At 31 December 2007	**37,823**	**33,874**	**1,803**	**7,192**	**80,692**
Accumulated depreciation:					
At beginning of year	2,698	18,740	875	–	22,313
Provided during the year	1,000	4,269	222	–	5,491
Disposals	–	(280)	–	–	(280)
At 31 December 2007	**3,698**	**22,729**	**1,097**	–	**27,524**
Net book value:					
At 31 December 2007	**34,125**	**11,145**	**706**	**7,192**	**53,168**
At 31 December 2006	35,125	7,597	511	172	43,405

Notes to Financial Statements
31 December 2007

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

During the year ended 31 December 2007, government grants of RMB178,000 (2006: Nil) have been received and deducted from the items of property, plant and equipment in arriving at their carrying amounts. These cash grants were non-recurring in nature and were designated for the purpose of developing certain of the Group's products. There were no unfulfilled conditions or contingencies relating to these grants.

13. INTANGIBLE ASSETS

	Deferred development costs Group RMB'000	Deferred development costs Company RMB'000
31 December 2007		
Cost:		
At beginning of year	29,793	27,057
Additions – internal development	3,923	3,923
Exchange realignment	(180)	–
At 31 December 2007	**33,536**	**30,980**
Accumulated amortisation and impairment:		
At beginning of year	21,250	19,016
Amortisation provided during the year	2,239	1,754
Exchange realignment	(163)	–
At 31 December 2007	**23,326**	**20,770**
Net book value:		
At 31 December 2007	**10,210**	**10,210**
At 31 December 2006	8,543	8,041
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

During the year ended 31 December 2007, government grants of RMB420,000 (2006: RMB1,594,000) have been received and deducted from the deferred development costs in arriving at their carrying amount. These cash grants were non-recurring in nature and were designated for the purpose of developing certain of the Group's products. There were no unfulfilled conditions or contingencies relating to these grants.

Notes to Financial Statements
31 December 2007

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	22,428	16,428

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB582,000 (2006: RMB5,000,000) and RMB1,206,000 (2006: RMB244,139), respectively, are unsecured, interest-free and repayable on demand or within one year. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered 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 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 IC products
SZFM**	Mainland China 16 August 2007	RMB5,000,000	100	Designing, developing and selling IC products
BJFM**	Mainland China 25 December 2007	RMB1,000,000	100	Designing, developing and selling IC products

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

** *SZFM and BJFM are newly incorporated wholly-owned subsidiaries of the Company during the year, both of which are registered as limited liability companies under the PRC law. Neither of the companies was audited by Ernst & Young or other member firm of the Ernst & Young global network.*

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2007 RMB'000	2006 RMB'000
Unlisted equity investments, at cost	5,963	5,963
Impairment provision	(2,463)	(1,463)
	3,500	4,500

As at 31 December 2007, 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. The Group does not intend to dispose of them in the near future.

The movements in provision for impairment of available-for-sale investments are as follows:

	Group and Company	
	2007 RMB'000	2006 RMB'000
At 1 January	1,463	1,463
Impairment losses recognised (note 6)	1,000	–
	2,463	1,463

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB2,463,000 (2006: RMB1,463,000) with a carrying amount of RMB5,463,000 (2006: RMB1,463,000). The individually impaired available-for-sale investments related to investments from which a measurable decrease in estimated future cash flows is evidenced. The Group does not hold any collateral as security over these investments.

Notes to Financial Statements
31 December 2007

16. INVENTORIES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Raw materials:				
At cost	12,818	18,461	13,047	18,594
At net realisable value	10	40	10	40
Work in progress:				
At cost	14,962	9,680	14,956	9,680
At net realisable value	–	320	–	320
Finished goods:				
At cost	28,533	36,305	25,759	21,638
At net realisable value	10	487	10	487
	56,333	65,293	53,782	50,759

17. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade and bills receivables	52,881	57,078	48,051	44,941
Impairment	(6,733)	(5,661)	(6,708)	(5,527)
	46,148	51,417	41,343	39,414

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 risk. 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.

17. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	33,272	36,717	29,432	24,930
3 to 6 months	9,468	8,180	8,653	7,964
6 to 12 months	2,206	2,716	2,206	2,716
Over 12 months	1,202	3,804	1,052	3,804
	46,148	51,417	41,343	39,414

The movements in provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
At 1 January	5,661	3,936	5,527	3,803
Impairment losses recognised (note 6)	1,200	1,725	1,181	1,724
Amount written off as uncollectible	(128)	–	–	–
	6,733	5,661	6,708	5,527

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB2,800,000 (2006: RMB1,881,000) with a carrying amount of RMB8,500,000 (2006: RMB9,620,000). The individually impaired trade and bills receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements
31 December 2007

17. TRADE AND BILLS RECEIVABLES *(continued)*

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	42,688	44,786	38,034	32,895
Less than 1 month past due	67	390	67	390
1 to 3 months past due	924	1,581	924	1,480
3 to 6 months past due	1,459	767	1,459	756
6 to 12 months past due	1,010	3,893	859	3,893
	46,148	51,417	41,343	39,414

Receivables that were neither past due nor impaired relate to certain major customers and a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade and bills receivables is an amount due from an entity controlled by SCI of RMB252,000 (2006: Nil) which is repayable on similar credit terms to those offered to the major customers of the Group.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Prepayments	4,466	3,335	4,229	3,218
Deposits and other receivables	1,601	1,649	1,249	1,254
	6,067	4,984	5,478	4,472

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. HELD-TO-MATURITY INVESTMENTS

The held-to-maturity investment related to unlisted debt securities at amortised cost and was attributable to Sino IC. It has been recovered in full during the year.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash and bank balances	46,767	60,982	27,393	33,215
Time deposits with original maturity of less than three months when acquired	46,800	21,010	41,000	18,000
Time deposits with original maturity of over three months when acquired	86,642	61,014	80,592	54,000
Cash and cash equivalents	180,209	143,006	148,985	105,215
Less: Deposits pledged for bank facilities	(229)	(2,417)	(229)	(2,417)
Cash and cash equivalents	179,980	140,589	148,756	102,798

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to RMB163,963,000 (2006: RMB107,952,000). 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 banks 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 the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

Notes to Financial Statements

31 December 2007

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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	31,820	47,860	29,321	20,763
3 to 6 months	444	1,712	120	1,157
6 to 12 months	110	936	110	936
Over 12 months	50	–	50	–
	32,424	50,508	29,601	22,856

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

A maturity analysis of the above financial liabilities is set out in note 28 to the financial statements.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Payable for purchase of software	3,650	2,737	3,650	–
Portion classified as Long term	3,069	–	3,069	–
Current portion	581	2,737	581	–
Accruals	1,666	1,508	1,370	1,319
Other payables	25,099	16,661	15,914	11,936
	27,346	20,906	17,865	13,255

Included in the Group's other payables and accruals are an amount due to a subsidiary of the Company's substantial shareholder of RMB4,000,000 (2006: Nil) and an amount due to the owner of a substantial shareholder of RMB804,000 (2006: Nil). RMB4,000,000 was as an advance to finance the research and development activities of the Group in accordance with a conditional cooperation agreement and RMB804,000 was research and development fee to be paid by the Group for the consignment of certain research and development projects.

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

A maturity analysis of the above financial liabilities is set out in note 28 to the financial statements.

23. SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2006: 375,000,000) unlisted domestic shares of RMB0.10 each	37,500	37,500
242,330,000 (2006: 248,642,000) H shares of RMB0.10 each	24,233	24,864
	61,733	62,364

During the year, the Company repurchased on the Stock Exchange a total of 5,828,000 H shares of RMB0.10 each of the Company for an aggregate consideration of RMB2,377,000. A summary of the share repurchase transactions during the year is as follows:

Trading date	Settlement date	Number of shares repurchased	Price per share or highest price paid HK$	Lowest price paid HK$	Total price paid RMB'000	Cancellation date
29 December 2006	3 January 2007	900,000	0.420	–	381	24 January 2007
2 January 2007	4 January 2007	700,000	0.410	–	281	24 January 2007
3 January 2007	5 January 2007	700,000	0.400	–	278	24 January 2007
4 January 2007	8 January 2007	644,000	0.400	0.395	256	24 January 2007
5 January 2007	9 January 2007	576,000	0.400	–	230	24 January 2007
8 January 2007	10 January 2007	1,200,000	0.415	–	495	22 February 2007
9 January 2007	11 January 2007	1,108,000	0.420	0.415	456	22 February 2007
		5,828,000			2,377	

Notes to Financial Statements

31 December 2007

23. SHARE CAPITAL *(continued)*

A summary of the transactions for the years ended 31 December 2007 and 2006 with reference to the above movements in the Company's issued share capital is as follows:

	Number of H shares in issue RMB'000	Issued share capital 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
Shares repurchased and cancelled	(712,000)	(71)	–	(262)	(333)
	248,642,000	24,864	–	170,455	195,319
Shares repurchased and uncancelled	(484,000)	–	(223)	–	(223)
At 31 December 2006 and 1 January 2007	248,158,000	24,864	(223)	170,455	195,096
Shares repurchased and cancelled	(5,828,000)	(631)	223	(1,969)	(2,377)
At 31 December 2007	**242,330,000**	**24,233**	**–**	**168,486**	**192,719**

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 2006	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 and 1 January 2007	170,455	(223)	2,799	3,059	176,090
Profit for the year	–	–	–	40,737	40,737
Repurchase of shares (note 23)	(1,969)	223	–	–	(1,746)
Transfer from retained profits	–	–	4,497	(4,497)	–
At 31 December 2007	**168,486**	**–**	**7,296**	**39,299**	**215,081**

In accordance with the Company Law of the PRC and the articles of association of the Company and its subsidiaries in Mainland China, the Company and the subsidiaries 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 companies. 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 subsidiaries 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 subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the property of the Company and the subsidiaries.

Notes to Financial Statements

31 December 2007

24. RESERVES *(continued)*

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

The directors of the Company have proposed to transfer RMB4,497,000 (2006: RMB2,799,000) to the SSR. The transfer represents 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 RMB255,000 (2006: RMB198,000) to the SSR. The transfer represents 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 2007, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2006: RMB170,455,000) of the Company's share premium account was available for distribution by way of a future capitalisation issue.

According to the relevant regulations of 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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:				
Land and buildings	–	72	–	27
Plant and machinery	–	333	–	333
Intangible assets	853	522	853	522
Repurchase of H shares	–	381	–	381
	853	1,308	853	1,263
Authorised, but not contracted for:				
Capital contributions payable to a new subsidiary	–	5,000	–	5,000
	853	6,308	853	6,263

25. COMMITMENTS *(continued)*

(b) The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within one year	1,398	1,460	463	365
In the second to fifth years, inclusive	1,078	3,567	101	–
After five years	1,630	–	–	–
	4,106	5,027	564	365

26. RELATED PARTY TRANSACTIONS

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

	NOTES	Group 2007 RMB'000	2006 RMB'000
Technical and equipment support fee paid to the owner of a substantial shareholder	(i)	412	269
Rendering of testing service for an entity controlled by SCI	(ii)	82	–
Research and development fee paid to:			
the owner of a substantial shareholder	(iii)	804	–
an entity controlled by SCI	(iii)	800	–

Notes to Financial Statements

31 December 2007

26. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) On 12 August 2003, the Company and Shanghai Fudan University ("SFU") entered into an agreement under which the Company was required to pay technical and equipment support fee to SFU based on a price mutually agreed by the two parties.

(ii) Sino IC provides testing service of IC products for Shanghai Hualong Information Technology Development Center ("SHHL"). The unit charges were based on the direct costs incurred, plus margins ranging from 40% to 50%, depending on technical requirements of the services rendered.

(iii) The research and development fee arose from the consignment of certain research and development projects by the Company to SFU and SHHL, which in turn received research and development fee based on a price mutually agreed with the Company.

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

(b) Outstanding balances with related parties:

(i) Details of the Group's trade and bills receivable balances with SHHL are disclosed in note 17 to the financial statements.

(ii) In accordance with a conditional cooperation agreement entered into by Sino IC and Shanghai Fukong Hualong Micro-system Technology Company Limited ("SHFH"), a subsidiary of a substantial shareholder, on 10 December 2007, Sino IC received RMB4,000,000 from SHFH to finance its research and development activities. The agreement was subsequently terminated due to unfulfillment of certain conditions and the amount was fully refunded to SHFH.

(c) Compensation of key management personnel of the Group:

	2007 RMB'000	2006 RMB'000
Fees	207	174
Other emoluments:		
Salaries, allowances and benefits in kind	2,265	1,573
Total compensation paid to key management personnel	2,472	1,747

Further details of directors' emoluments are included in note 7 to the financial statements.

These related party transactions also constitute connected transactions as defined in Chapter 20 of the GEM Listing Rules.

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available–for-sale financial assets RMB'000	Total RMB'000
31 December 2007				
Available-for-sale investments	–	–	3,500	3,500
Trade and bills receivables	–	46,148	–	46,148
Financial assets included in prepayments, deposits and other receivables	–	6,067	–	6,067
Pledged deposits	–	229	–	229
Cash and cash equivalents	–	179,980	–	179,980
	–	232,424	3,500	235,924
31 December 2006				
Available-for-sale investments	–	–	4,500	4,500
Trade and bills receivables	–	51,417	–	51,417
Financial assets included in prepayments, deposits and other receivables	–	4,984	–	4,984
Held-to-maturity investments	1,000	–	–	1,000
Pledged deposits	–	2,417	–	2,417
Cash and cash equivalents	–	140,589	–	140,589
	1,000	199,407	4,500	204,907

Notes to Financial Statements

31 December 2007

27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2007	
Trade and bills payables	32,424
Financial liabilities included in other payables and accruals	27,346
Long term payables	3,069
	62,839
31 December 2006	
Trade and bills payables	50,508
Financial liabilities included in other payables and accruals	20,906
	71,414

27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	Loans and receivables RMB'000	Available–for-sale financial assets RMB'000	Total RMB'000
31 December 2007			
Available-for-sale investments	–	3,500	3,500
Due from subsidiaries	582	–	582
Trade and bills receivables	41,343	–	41,343
Financial assets included in prepayments, deposits and other receivables	5,478	–	5,478
Pledged deposits	229	–	229
Cash and cash equivalents	148,756	–	148,756
	196,388	3,500	199,888
31 December 2006			
Available-for-sale investments	–	4,500	4,500
Due from subsidiaries	5,000	–	5,000
Trade and bills receivables	39,414	–	39,414
Financial assets included in prepayments, deposits and other receivables	4,472	–	4,472
Pledged deposits	2,417	–	2,417
Cash and cash equivalents	102,798	–	102,798
	154,101	4,500	158,601

Notes to Financial Statements

31 December 2007

27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2007	
Due to subsidiaries	1,206
Trade and bills payables	29,601
Financial liabilities included in other payables and accruals	17,865
Long term payables	3,069
	51,741
31 December 2006	
Due to subsidiaries	244
Trade and bills payables	22,856
Financial liabilities included in other payables and accruals	13,255
	36,355

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. 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, other payables and accruals and long term payables, 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.

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors believes that the Group is not exposed to any material interest rate risk in view that the Group does not have any debt obligations that are subject to fluctuations in market interest rates. The board of directors 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 40% (2006: 44%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 46% (2006: 50%) of costs are denominated in the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's and Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity (due to changes in foreign currency exchange realignment).

	Group		
	Increase/ (decrease) in foreign currency exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2007			
If RMB weakens against United States dollar ("US$")	+5	94	63
If RMB strengthens against US$	–5	(94)	(63)
If RMB weakens against Hong Kong dollar ("HK$")	+5	90	1,101
If RMB strengthens against HK$	–5	(90)	(1,101)

Notes to Financial Statements
31 December 2007

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

Foreign currency risk *(continued)*

	Group		
	Increase/ (decrease) in foreign currency exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2006			
If RMB weakens against US$	+5	394	264
If RMB strengthens against US$	–5	(394)	(264)
If RMB weakens against HK$	+5	312	885
If RMB strengthens against HK$	–5	(312)	(885)

	Company		
	Increase/ (decrease) in foreign currency exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2007			
If RMB weakens against US$	**+5**	**94**	**63**
If RMB strengthens against US$	**–5**	**(94)**	**(63)**
If RMB weakens against HK$	**+5**	**90**	**60**
If RMB strengthens against HK$	**–5**	**(90)**	**(60)**
2006			
If RMB weakens against US$	+5	394	264
If RMB strengthens against US$	–5	(394)	(264)
If RMB weakens against HK$	+5	312	209
If RMB strengthens against HK$	–5	(312)	(209)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

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 management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, 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 amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the balance sheet date, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. 16% (2006: 26%) of the Group's trade and bills receivables were due from the Group's five largest customers within the design, development and sale of IC products segment. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 17 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of normal business credit terms obtained from various creditors.

Notes to Financial Statements
31 December 2007

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

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2007						
Trade and bills payables	145	32,150	129	–	–	32,424
Other payables and accruals	17,770	6,276	3,300	–	–	27,346
Long term payables	–	–	–	3,069	–	3,069
	17,915	38,426	3,429	3,069	–	62,839
31 December 2006						
Trade and bills payables	145	50,287	76	–	–	50,508
Other payables and accruals	15,100	5,190	616	–	–	20,906
	15,245	55,477	692	–	–	71,414

Company

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2007						
Trade and bills payables	145	29,327	129	–	–	29,601
Other payables And accruals	9,179	5,386	3,300	–	–	17,865
Due to subsidiaries		1,206	–	–	–	1,206
Long term payables	–	–	–	3,069	–	3,069
	9,324	35,919	3,429	3,069	–	51,741
31 December 2006						
Trade and bills payables	145	22,635	76	–	–	22,856
Other payables And accruals	10,708	2,147	400	–	–	13,255
Due to subsidiaries	–	244	–	–	–	244
	10,853	25,026	476	–	–	36,355

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is the total debt divided by the total capital plus the total debt. The total debt includes trade and bills payables, other payables and accruals and long term payables. Capital includes equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007 RMB'000	2006 RMB'000
Trade and bills payables	32,424	50,508
Other payables and accruals	27,346	20,906
Long term payables	3,069	–
Total debt	62,839	71,414
Equity attributable to equity holders of the parent	289,328	254,465
Capital and total debt	352,167	325,879
Gearing ratio	18%	22%

29. COMPARATIVE AMOUNTS

In order to conform with the current year's presentation and accounting treatment, government grants received which have no unfulfilled conditions or related contingencies are presented in the income statement as other income and gains in the current year. They were previously deducted from other expenses.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2008.

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 and reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been reclassified to conform with the current year's presentation and accounting treatment.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	315,967	276,171	211,211	132,710	97,456
Cost of sales	(222,434)	(205,989)	(157,393)	(85,386)	(62,938)
Gross profit	93,533	70,182	53,818	47,324	34,518
Other income and gains	28,767	12,144	10,991	6,860	2,907
Selling and distribution costs	(10,312)	(7,436)	(7,914)	(6,292)	(5,875)
Administrative expenses	(23,512)	(24,981)	(22,795)	(19,010)	(17,512)
Other expenses	(36,451)	(23,500)	(24,438)	(20,491)	(15,092)
Share of losses of associates	–	–	–	(835)	(5,228)
PROFIT/(LOSS) BEFORE TAX	52,025	26,409	9,662	7,556	(6,282)
Tax	(12,028)	(4,433)	(1,272)	(57)	(72)
PROFIT/(LOSS) FOR THE YEAR	39,997	21,976	8,390	7,499	(6,354)
Attributable to:					
Equity holders of the parent	38,250	21,098	8,037	7,239	(6,550)
Minority interests	1,747	878	353	260	196
	39,997	21,976	8,390	7,499	(6,354)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	370,031	335,533	331,516	269,104	242,636
TOTAL LIABILITIES	(73,963)	(76,075)	(92,849)	(41,160)	(22,675)
MINORITY INTERESTS	(6,740)	(4,993)	(4,115)	(1,179)	(419)
	289,328	254,465	234,552	226,765	219,542