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)

2008
Annual Report

*for identification only

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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.

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This report, for which the directors (the "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 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 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

	Pages
CHAIRMAN'S STATEMENT	3
MANAGEMENT DISCUSSION AND ANALYSIS	4-7
CORPORATE INFORMATION	8
DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES	9-11
CORPORATE GOVERNANCE REPORT	12-16
REPORT OF THE DIRECTORS	17-24
INDEPENDENT AUDITORS' REPORT	25-26
AUDITED FINANCIAL STATEMENTS	
CONSOLIDATED:	
Income statement	27
Balance sheet	28-29
Statement of changes in equity	30
Cash flow statement	31-32
COMPANY:	
Balance sheet	33
NOTES TO FINANCIAL STATEMENTS	34-89
FIVE YEAR FINANCIAL SUMMARY	90

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 2008.

Under the financial turmoil which caused negative impact on worldwide economic conditions, the Group was slightly affected and recorded with a drop in its turnover during the year under review. Since the Group has built up a solid ground in the industry and has a strong ability to overcome risks, its results have not been significantly affected. For the year ended 31 December 2008, the Group's revenue was RMB281,348,000 being a decrease of 11% as compared to the previous year. The profit attributable to shareholders of the parent was approximately RMB31,288,000 and the basic earnings per share was RMB5.07 cents, representing a drop of approximately 18% over the last year.

During the year, the board of directors declared the payment of a special interim dividend of RMB3 cents per ordinary shares in respect of the year ended 31 December 2008 and was subsequently paid after the balance sheet date. The directors considered that this is a return to the shareholders for their support to the Company and in the interests of the shareholders as a whole.

The Group's core business since its incorporation has been aimed at the design of integrated circuits ("IC") which has already gained accreditation in the industry and in a leading position. The Group will continue in its research and development of self-developed products and keeps its predominance for the goal of achieving its mission that domestic electronic products would be embedded with "Fudan chips".

The Group expects that the global economy will not be fully recovered in the coming year and would continue to seek co-operations to expand its business opportunities. Following the incentive policy on domestic needs in the PRC, with a view to expedite business development, besides the acquisition of a subsidiary for the enhancement in micro-electronics system development during the year, the Group also injected further capital in the investment of communication system after the balance sheet date. The Group will continue the research and development of its core products and actively participate in large government projects in order to build a solid foundation for the Group's business. The directors expect that the Group's business could be maintained with a satisfactory return to the shareholders.

Taking this opportunity, I would like to thank all the Company's board members, all staff, shareholders, the Group's customers, suppliers and business associates for their continued supports and trust.

Jiang Guoxing
Chairman

Shanghai, the People's Republic of China
23 March 2009

Management Discussion and Analysis

BUSINESS REVIEW

In face of the global financial and economy crisis, the Group's overseas sales during the year were significantly affected and dropped, however, with the support of economic growth within the region and the help of the PRC government's great efforts on incentive policy of domestic needs, the Group's major domestic market could still keep a growth. Even though this was the Group's first drop in overall turnover over the past years with a 11% decrease as compared with last year, the overall profit margin was increased to a satisfactory level of 38.4%.

During the year under review, the Group, having substantial years of experience in the professional IC design technology, with wide applications of its well-developed products in different fields and success in accreditation by the market, was enabled to record a considerable growth in the sales of its major products. As consumer electronics products have been concentrated in overseas markets and have been launched into the market for a certain period of time, the sharp decreases in prices as well as sales resulted to be a burden on overall turnover.

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

IC Card

IC card chips products have been keeping a double-digit sales growth over the past years and have been the Group's major products that contributed the most to the Group's results. The sales for the year were slowed down, however, there was an increase of approximately 20% over the last year. Benefited from the continuing development of the electronics market, the rapid changes in new technologies with increasing application scopes, these products have a lot of marketing channels and huge rooms in market. In view of its comparatively high profit margin with other products, the Group has applied more resources for the expansion of its applications and enhancement of its functions with a view to provide a comprehensive product range that complies with international standards.

Power Electronics

The power electronics IC chips have kept a steady customer base and the multi-fees power control meter is the major product. Because of its mature technological skills and multi-functions, there are plenty spaces for market development and as a result, sales of this category for the year have recorded an increase of 17%.

Motor and Mobile Electronics

As the market for this product category is rather narrow, the Group has limited its resources and as such, search and development was consequently suspended with only existing products made available for sales. Sales only contributed a small part of the Group as a whole and also have been decreasing over the years.

Telecommunication Electronics

These products have little contributions to the Group's turnover as well as profit and its research and development was suspended in earlier years which resulted with an approximately 31% drop in sales as compared with last year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Consumer Electronics

Consumer IC products, with specified applications in mobile terminals, portable multi-media accessories and home entertainment facilities, have been majored its markets in overseas, sales of which were largely affected by price adjustments as a result of their long presence in the markets and the slowdown of the external markets brought with a sharp decrease of approximately 55% in sales during the year.

IC Testing

During the year, the IC testing services which were operated by a subsidiary took the opportunity of blooming market of electronics and recorded an increase of approximately 59% in revenue. These testing services have been playing an important role in supporting the basic business of the Group.

FINANCE REVIEW

The Group recorded a revenue for the year ended 31 December 2008 amounted to approximately RMB281,348,000 (2007: RMB315,967,000), a decrease of approximately 11% as compared to the previous year. The audited profit attributable to shareholders of the parent was approximately RMB31,288,000 (2007: RMB38,250,000) and the basic earnings per share was RMB5.07 cents (2007: RMB6.20 cents), representing decreases of approximately 18% over the last year.

During the year under review, despite the decrease in revenue of the Group, as a result of increase in prices of its major products and the effective cost control, the overall gross profit margin raised from 29.6% of last year to a satisfactory level of 38.4% this year. In other income and gains, save for the rise in interest rate that brought with increase in interest income, the government grants received for search activities have significantly reduced and caused a decrease in total other income.

With regard to expenditures, the selling and distribution costs increased by 20% as compared with previous year due to increase in sales volume and expenses incurred for increasing market promotion and staff. After implementation of an effective cost control, the Group's administrative expenses continued to decrease and dropped by approximately 5.8% over the last year. Compare with last year, other operating expenses continued to increase and surged by approximately 49% as more research and development costs were incurred for new products. In addition, there was a provision for impairment loss on available-for-sale investments amounted to RMB3,000,000 during the year.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

Save for the acquisition of a 51% equity interest in Shanghai Fukong Hualong Micro-system Technology Company Limited ("Fukong Hualong"), there was no material change in the subsidiaries of the Group during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

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

Management Discussion and Analysis

TECHNOLOGICAL COOPERATION

With a view to enjoy advanced and superior technological supports, 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.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2008, net assets of the Group amounted to approximately RMB325,206,000 (2007: RMB296,068,000); current assets amounted to approximately RMB334,683,000 (2007: RMB289,025,000), of which approximately RMB196,916,000 (2007: RMB180,209,000) 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 2008, except a deposit of RMB231,000 pledged as guarantee for fulfillment of projects (2007: RMB229,000), the Group has not pledged any of its assets to any third parties (2007: nil).

CAPITAL STRUCTURE

The Company's capital has no change and only comprises of ordinary shares.

GEARING RATIO

As at 31 December 2008, the Group's current liabilities amounted to approximately RMB90,729,000 (2007: RMB70,871,000) and non-current liabilities of approximately RMB1,091,000 (2007: RMB3,092,000). The net assets value per share of the Group was approximately RMB0.53 (2007: RMB0.48). The Group's ratio of current liabilities over current assets was approximately 27.1% (2007: 24.5%) and the gearing ratio was approximately 28.2% (2007: 25.0%) on the basis of total liabilities over net assets. As at 31 December 2008, the Group and the Company had no bank or other borrowings (2007: 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.

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 24% (2007: 40%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 72% (2007: 46%) 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.

Management Discussion and Analysis

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 2008, the Group had capital commitments amounted to approximately RMB439,000 relate to acquisitions of intangible assets (2007: RMB853,000).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no contingent liabilities (2007: 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. Post the balance sheet date, out of its internal resources, the Company injected additional capital amounted to RMB7,980,000 into Shanghai Fudan Communication Co., Ltd. ("Fudan Communication") in proportion to the Company's shareholdings in Fudan Communication.

STAFF

As at 31 December 2008, the Group employed approximately 416 (2007: 342) staff. The increase of staff was due to the inclusion of staff after acquisition of the subsidiary Fukong Hualong, and the 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 including directors' remuneration charged to the income statement for the year ended 31 December 2008 amounted to approximately RMB38,027,000 (2007: RMB32,490,000). The increase in total staff costs was due to inclusion of salaries of Fukong Hualong and adjustments 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

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

SUPERVISORS' COMMITTEE

Mr. Li Wei
Mr. Xu Lenian
Ms. Lu Beili (appointed on 1 June 2008)
Mr. Ding Shengbiao (resigned on 31 May 2008)

REMUNERATION COMMITTEE

Mr. Cheung Wing Keung
Mr. Wang Su
Mr. Guo Li

NOMINATION COMMITTEE

Mr. Cheung Wing Keung
Mr. Wang Su
Mr. Guo Li

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Flat 6, 5/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 55, 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 also the director and general manager of Shanghai Fudan Fuhua Technology Company Limited, a company listed on the Stock Exchange of Shanghai. He was the non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the GEM.

Mr. Shi Lei, aged 42, 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 41, 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 62, 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 55, 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 72, 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.

Mr. He Lixing, aged 74, 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.

Directors and Senior Management Biographies

Non-executive directors *(continued)*

Mr. Shen Xiaozu, aged 59, 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 43, 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 62, 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 79, 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 37, 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. Xu Lenian, aged 57, 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.

Ms. Lu Beili, aged 46, joined the Company in June 2008, has a Master degree in business management and administration. She was the deputy general manager and chief accountant of the Shanghai Foreign Trade and Investment Development Limited. She had worked for the Industry and Commerce Bank of China and the Shanghai Foreign Trade and Investment Development Limited.

SENIOR MANAGEMENT

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

Mr. Shi Jin, aged 52, joined the Company in October 1999 until March 2002 and re-joined the Company in March 2007. He is the deputy general manager of the Company and the chairman of the Company's subsidiary Sino IC Technology Co., Ltd. He holds a Master's degree in business administration and is an assistant research fellow. He was previously the director of the Research Institute of Shanghai Planning Commission, the general manager of Shanghai Industrial Investment Consultation Company, the chairman of Shanghai Industrial Investment Finance and Management Company, the deputy head of the Economics Department of Shanghai Municipal Research Institute and the chief executive of Tian You High Technology Enterprise Investment Ltd.

Mr. Da Zhongdong, aged 40, joined the Company in June 2001, is the deputy general manager of the Company. He holds a bachelor degree and is a researcher in microelectronics and chief engineer. Before joining the Company, he worked for China Spaces Technology Research College and was the manager of design department of the Company. He has substantial experience in IC design and specific application management.

Mr. Ma Fubin, aged 41, 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 58, 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.

Mr. Li Wing Sum Steven, aged 52, 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 2008, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditors on the financial statements are set out in the "Independent Auditors' Report" on pages 25 to 26.

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 2008.

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 9 to 10, 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 2008, 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	3/4
Mr. He Lixing	4/4
Mr. Shen Xiaozu	4/4
Mr. Cheung Wing Keung	4/4
Mr. Guo Li	4/4
Mr. Chen Baoying	4/4

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

Independent Non-Executive Directors

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 29 May 2008 and expire at the forthcoming annual general meeting to be held in or about May 2009 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 which consists of 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	1/1
Mr. Guo Li	1/1

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

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 one meeting during the year under review as following.

Directors	Number of attendance
Mr. Cheung Wing Keung	1/1
Mr. Wang Su	1/1
Mr. Guo Li	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 2008 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made. The audit committee held four meetings during the year 2008.

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	4/4

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

During the year, 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 of the GEM Listing Rules and the articles of association of the Company on the poll voting procedures. In view of the amendments of the GEM Listing Rules, the Company will amend its articles of association for the mandatory voting by poll in all future general meetings.

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 2008.

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 15 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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 89.

An interim dividend of RMB3 cents per ordinary share was declared on 10 November 2008 and subsequently paid in January 2009.

The directors do not recommend the payment of a final 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 13 to the financial statements.

Share capital

There were no movements in either the Company's authorized or issued share capital during the year.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

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 2008, the Company's reserves available for distribution amounted to RMB54,186,000. 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 less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 76% of the total purchases for the year and purchases from the largest supplier included therein amounted to 29%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

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

Non-executive directors:

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

Independent non-executive directors:

Mr. Cheung Wing Keung
Mr. Guo Li
Mr. Chen Baoying

Report of the Directors

Directors *(continued)*

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 annual general meeting (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 a 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 30 May 2008, until the forthcoming AGM in or about May 2009 and are subject to termination by either party giving no less than one month's written notice.

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

Directors' remuneration

The directors' salaries 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.

Report of the Directors

Management contracts

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

Directors' and supervisors' interests and short positions in shares and underlying shares

At 31 December 2008, 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
Supervisors						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.98
Mr. Xu Lenian	–	–	–	865,380	865,380	0.14
	–	–	–	6,923,070	6,923,070	1.12

Report of the Directors

Directors' and supervisors' interests and short positions in shares and underlying shares *(continued)*

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.

Mr. Ding Shengbiao, who resigned on 31 May 2008 as a supervisor of the Company, still held 7,211,530 of the Company's domestic shares as an ex-employee through the trust of SSAC as at 31 December 2008.

Ms. Lu Beili ("Ms. Lu"), who was appointed as supervisor of the Company with effect from 1 June 2008 and had no personal interest in the shares of the Company as at 31 December 2008.

Save as disclosed above, as at 31 December 2008, 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 spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 December 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in domestic shares of the Company:

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
SSAC		Directly beneficially owned	144,230,000	23.36
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.

Save as disclosed above, as at 31 December 2008, 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.

Report of the Directors

Connected transactions and continuing connected transactions

Connected transactions

Details of the connected transactions of the Group are set out in note 27 to the financial statements.

Continuing connected transactions

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. The annual technical support fee payable to SFU for the year ended 31 December 2008 amounted to RMB425,000.

On 16 March 2008, the Company entered into a Testing Service Agreement with SFU to engage SFU to perform certain testing and examination services on the technologies compatibility of FPGA circuits, for a research and development fee of RMB325,000. On 23 December 2008, the Company entered into a Technological Research Agreement with SFU for a cash consideration of RMB1,080,000 to co-operate in technological research of self-developed high performance FPGA circuits. As such, SFU will receive a research and development fee of RMB960,000 as the first payment during the year and the remaining balance of RMB120,000 on 30 June 2009, respectively.

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

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standard on Related Services 4400 Engagements to Perform Agreed Upon Procedures Regarding Financial Information. Based on the work performed, the auditors of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions (i) have been approved by the board of directors of the Company; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iv) have not exceeded the caps allowed by the Stock Exchange.

In respect of the related party transactions as set out in note 27 to the financial statements, which are also connected transactions and continuing connected transactions, the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

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

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 30 to the financial statements.

Code on corporate governance practices

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

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

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 PRC
23 March 2009

Independent Auditors' Report

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安 永

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To the shareholders of Shanghai Fudan Microelectronics Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Shanghai Fudan Microelectronics Company Limited set out on pages 27 to 89, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 disclosure requirements of 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' judgement, 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 2008 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 disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
23 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	281,348	315,967
Cost of sales		(173,239)	(222,434)
Gross profit		108,109	93,533
Other income and gains	5	20,739	28,767
Selling and distribution costs		(12,365)	(10,312)
Administrative expenses		(22,144)	(23,512)
Other expenses		(54,433)	(36,451)
PROFIT BEFORE TAX	6	39,906	52,025
Tax	9(a)	(6,607)	(12,028)
PROFIT FOR THE YEAR		33,299	39,997
Attributable to:			
Equity holders of the parent		31,288	38,250
Minority interests		2,011	1,747
		33,299	39,997
DIVIDEND			
Interim	11	18,520	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	5.07 cents	6.20 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	69,084	66,816
Intangible assets	14	12,899	10,210
Available-for-sale investments	16	–	3,500
Deferred tax assets	9(c)	360	480
Total non-current assets		82,343	81,006
CURRENT ASSETS			
Inventories	17	76,918	56,333
Trade and bills receivables	18	51,262	46,148
Prepayments, deposits and other receivables	19	8,756	6,067
Tax recoverable	9(b)	831	268
Pledged deposits	20	231	229
Cash and cash equivalents	20	196,685	179,980
Total current assets		334,683	289,025
CURRENT LIABILITIES			
Trade and bills payables	21	26,353	32,424
Other payables and accruals	22	53,117	27,346
Tax payable	9(b)	11,259	11,101
Total current liabilities		90,729	70,871
NET CURRENT ASSETS		243,954	218,154
TOTAL ASSETS LESS CURRENT LIABILITIES		326,297	299,160

continued/...

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		326,297	299,160
NON-CURRENT LIABILITIES			
Long term payables	22	1,068	3,069
Deferred tax liabilities	9(d)	23	23
Total non-current liabilities		1,091	3,092
Net assets		325,206	296,068
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	23	61,733	61,733
Reserves	24	239,582	227,595
		301,315	289,328
Minority interests		23,891	6,740
Total equity		325,206	296,068

Jiang Guoxing
Director

Shi Lei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent								
	Note	Issued share capital RMB'000 Note 23	Share premium account RMB'000 Note 24	Treasury shares RMB'000	Statutory surplus reserve RMB'000 Note 24	Exchange Fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 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 and 1 January 2008		61,733	168,486	–	8,157	(1,869)	52,821	289,328	6,740	296,068
Exchange realignment and total income and expenses for the year recognised directly in equity		–	–	–	–	(781)	–	(781)	–	(781)
Profit for the year		–	–	–	–	–	31,288	31,288	2,011	33,299
Total income and expense for the year		–	–	–	–	(781)	31,288	30,507	2,011	32,518
Acquisition of a subsidiary		–	–	–	–	–	–	–	15,140	15,140
2008 Interim dividend	11	–	–	–	–	–	(18,520)	(18,520)	–	(18,520)
Transfer from retained profits		–	–	–	4,243	–	(4,243)	–	–	–
At 31 December 2008		**61,733**	**168,486***	**–***	**12,400***	**(2,650)***	**61,346***	**301,315**	**23,891**	**325,206**

* *These reserve accounts comprise the consolidated reserves of RMB239,582,000 (2007: RMB227,595,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		39,906	52,025
Adjustments for:			
Bank interest income	5	(5,110)	(3,155)
Recognised excess over the cost of a business combination	5	(332)	–
Loss on disposal of items of property, plant and equipment	6	87	35
Gain on disposal of held-to-maturity investments		–	(17)
Depreciation	13	10,510	10,490
Amortisation of deferred development costs	14	1,981	2,239
Impairment of available-for-sale investments	6	3,000	1,000
		50,042	62,617
Decrease/(increase) in inventories		(17,718)	8,960
Decrease/(increase) in trade and bills receivables		(414)	5,269
Increase in prepayments, deposits and other receivables		(1,085)	(984)
Decrease in trade and bills payables		(9,995)	(18,084)
Increase in other payables and accruals		5,767	8,596
Cash generated from operations		26,597	66,374
Hong Kong profits tax paid	9(b)	(1,089)	(3,744)
PRC tax paid	9(b)	(5,803)	(2,554)
Net cash inflow from operating activities		19,705	60,076
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with original maturity of over three months when acquired		(25,367)	(25,628)
Bank interest received		4,046	3,056
Purchases of items of property, plant and equipment		(13,143)	(19,929)
Proceeds from disposal of items of property, plant and equipment		22	34
Receipt of government grants		–	598
Additions to intangible assets		(4,670)	(4,343)
Acquisition of a subsidiary	25	11,019	–
Proceeds from disposal of an available-for-sale investment		500	–
Proceeds from disposal of held-to-maturity investments		–	1,017
Net cash outflow from investing activities		(27,593)	(45,195)

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash outflow from investing activities		(27,593)	(45,195)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		–	(2,377)
Net cash outflow from financing activities		–	(2,377)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(7,888)	12,504
Cash and cash equivalents at beginning of year		93,567	81,992
Effect of foreign exchange rate changes, net		(772)	(929)
CASH AND CASH EQUIVALENTS AT END OF YEAR		84,907	93,567
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	44,676	46,538
Cash and bank balances pledged for bank facilities	20	231	229
Time deposits with original maturity of less than three months when acquired	20	40,000	46,800
		84,907	93,567

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	51,403	53,168
Intangible assets	14	12,892	10,210
Investments in subsidiaries	15	37,854	22,428
Available-for-sale investments	16	–	3,500
Total non-current assets		102,149	89,306
CURRENT ASSETS			
Inventories	17	76,576	53,782
Due from subsidiaries	15	724	582
Trade and bills receivables	18	42,055	41,343
Prepayments, deposits and other receivables	19	8,091	5,478
Pledged deposits	20	231	229
Cash and cash equivalents	20	146,726	148,756
Total current assets		274,403	250,170
CURRENT LIABILITIES			
Due to subsidiaries	15	1,225	1,206
Trade and bills payables	21	22,346	29,601
Other payables and accruals	22	46,046	17,865
Tax payable		10,341	10,921
Total current liabilities		79,958	59,593
NET CURRENT ASSETS		194,445	190,577
TOTAL ASSETS LESS CURRENT LIABILITIES		296,594	279,883
NON-CURRENT LIABILITIES			
Long term payables	22	1,068	3,069
Net assets		295,526	276,814
EQUITY			
Issued capital	23	61,733	61,733
Reserves	24	233,793	215,081
Total equity		295,526	276,814

Jiang Guoxing
Director

Shi Lei
Director

Notes to Financial Statements

31 December 2008

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 6, 5/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; the 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of a subsidiary 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 interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2008

2.2 IMPACT OF NEW AND REVISED HKFRSs *(continued)*

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

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 buys 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. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect 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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment -Vesting Conditions and Cancellations[1]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[2]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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

* *Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

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 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

31 December 2008

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 interests in subsidiaries are stated at cost less any impairment losses.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets

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 an 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 an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

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

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

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

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%

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

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

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 embodied in the asset are 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as 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 2008

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 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.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

Financial liabilities including trade and other payables 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 a 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

- 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 asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

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

(c) 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; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension schemes

The employees of the Company and its subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Company and these subsidiaries 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 dates 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 rates 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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 judgments, 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.

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 16 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.

Notes to Financial Statements

31 December 2008

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

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 2008, the best estimate of the carrying amount of capitalised development costs was RMB12,899,000 (2007: RMB10,210,000).

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 activities 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 2008

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 2008 and 2007.

	Design, development and sale of IC products		Testing services for IC products		Eliminations		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Segment revenue:								
Sales to external customers	271,127	309,523	10,221	6,444	–	–	281,348	315,967
Intersegment sales	–	–	9,683	4,330	(9,683)	(4,330)	–	–
Total	271,127	309,523	19,904	10,774	(9,683)	(4,330)	281,348	315,967
Segment results	20,596	21,992	4,503	1,369	(5,932)	(103)	19,167	23,258
Interest income and unallocated gains							20,739	28,767
Profit before tax							39,906	52,025
Tax							(6,607)	(12,028)
Profit for the year							33,299	39,997
Assets and liabilities								
Segment assets	242,497	210,312	23,794	23,984	(1,274)	(1,207)	265,017	233,089
Interest-bearing time deposits	139,879	126,392	12,130	7,050	–	–	152,009	133,442
Available-for-sale investments	–	3,500	–	–	–	–	–	3,500
Total assets	382,376	340,204	35,924	31,034	(1,274)	(1,207)	417,026	370,031
Segment liabilities	86,120	66,018	6,974	9,152	(1,274)	(1,207)	91,820	73,963
Total liabilities	86,120	66,018	6,974	9,152	(1,274)	(1,207)	91,820	73,963
Other segment information:								
Capital expenditure	9,107	19,364	8,199	5,223	–	–	17,306	24,587
Impairment losses recognised in the income statement	1,475	2,610	(18)	20	–	–	1,457	2,630
Depreciation	5,996	7,636	4,514	2,854	–	–	10,510	10,490
Amortisation of intangible assets	1,981	2,239	–	–	–	–	1,981	2,239

Notes to Financial Statements

31 December 2008

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 2008 and 2007.

For the year ended 31 December 2008

	Mainland China RMB'000	Asia Pacific RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	258,475	71,681	6,673	(55,481)	281,348
Other segment information:					
Segment assets	452,743	11,111	–	(46,828)	417,026
Capital expenditure	17,144	162	–	–	17,306

For the year ended 31 December 2007

	Mainland China RMB'000	Asia Pacific RMB'000	Others RMB'000	Elimination 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

Notes to Financial Statements

31 December 2008

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:

	2008 RMB'000	2007 RMB'000
Revenue		
Sale of goods	271,127	309,523
Rendering of services	10,221	6,444
	281,348	315,967
Other income and gains		
Bank interest income	5,110	3,172
Value-added tax refunds	–	227
Subsidy income	4,434	256
Government grants received for research activities (note 6)	10,296	24,956
Excess over the cost of a business combination	332	–
Others	567	156
	20,739	28,767

Notes to Financial Statements

31 December 2008

6. PROFIT BEFORE TAX

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

	2008 RMB'000	2007 RMB'000
Cost of inventories sold	168,196	217,476
Cost of services provided	5,043	4,958
Depreciation	10,510	10,490
Research and development costs:		
Deferred development costs amortised*	1,981	2,239
Current year expenditure	50,051	31,264
	52,032	33,503
Minimum lease payments under operating leases:		
Land and buildings	3,783	2,909
Auditors' remuneration	900	850
Employees benefit expense (excluding directors' remuneration – (note 7)):		
Wages and salaries	34,935	29,231
Pension scheme contributions	3,484	2,868
	38,419	32,099
Less: Amounts capitalised as development costs	(3,162)	(2,081)
	35,257	30,018
Foreign exchange differences, net	153	777
Impairment of trade and bills receivables (note 18)	891	1,200
Provision for/(reversal of) inventories to net realisable value	(2,434)	430
Impairment of available-for-sale investments (note 16)	3,000	1,000
Loss on disposal of items of property, plant and equipment	87	35
Bank interest income	(5,110)	(3,172)
Value-added tax refunds	–	(227)
Subsidy income	(4,434)	(256)
Government grants received for research activities**	(10,296)	(24,956)
Excess over the cost of a business combination^	(332)	–

Notes to Financial Statements

31 December 2008

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.*

^ *The excess over the cost of a business combination is included in "Other income and gains" on the face of the consolidated income statement.*

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	
	2008 RMB'000	2007 RMB'000
Fees	127	207
Other emoluments:		
Salaries, allowances and benefits in kind	2,643	2,265
	2,770	2,472

(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 received	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Mr. Leung Tin Pui	–	116	–	–
Mr. Cheung Wing Keung	55	49	–	–
Mr. Guo Li	–	–	36	36
Mr. Chen Baoying	–	–	36	6
	55	165	72	42

Notes to Financial Statements

31 December 2008

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
2008				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	900	–	–	900
Mr. Yu Jun	606	–	–	606
Ms. Cheng Junxia	423	–	–	423
Mr. Wang Su	414	–	–	414
	2,643	–	–	2,643
Non-executive directors:				
Ms. Zhang Qianling	–	–	–	–
Mr. He Lixing	–	–	–	–
Mr. Shen Xiaozu	–	–	–	–
	–	–	–	–
	2,643	–	–	2,643

7. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors *(continued)*

	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

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee of the Group for the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries, allowances and benefits in kind	517	482
Pension scheme contributions	12	12
	529	494

Notes to Financial Statements

31 December 2008

8. FIVE HIGHEST PAID EMPLOYEES *(continued)*

The remuneration of the non-director, highest paid employee of the Group fell within the band of Nil to HK$1,000,000 (2007: 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 PRC Corporate Income Tax Law (the "New CIT Law"), which became effective on 1 January 2008, the Company is subject to income tax at a base rate of 25%. The Company is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise ("HNT Enterprise"). For the financial year ended 31 December 2008, income taxes on assessable income of the Company have been provided at the rate of 15% (2007: 33%).

Under the New CIT Law, the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") is subject to income tax at a base rate of 25%. Sino IC is entitled to a preferential income tax rate of 15% as a HNT Enterprise. In the meantime, 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. Pursuant to the New CIT Law, Sino IC is entitled to a lower income tax rate when two preferential income tax rates are applicable. Sino IC was in its fifth profit making year for the financial year ended 31 December 2008 and was entitled to a 50% concession on income tax, so the applicable tax rate is 12.5% (2007: 7.5%).

Under the New CIT Law, three of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited ("SZFM"), Beijing Fudan Microelectronics Technology Company Limited ("BJFM") and Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong"), are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2008, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2007: 33%).

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate has become effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008.

9. TAX *(continued)*

	2008 RMB'000	2007 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	446	1,861
Current – Mainland China		
Charge for the year	6,130	10,993
Overprovision in prior year	(89)	–
Deferred	120	(826)
Total tax charge for the year	6,607	12,028

(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 – 2008

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	37,147		2,759		39,906	
Tax at the applicable tax rates	9,287	25.0	455	16.5	9,742	24.4
Lower taxrate enacted by local authority	(3,728)	(10.0)	–	–	(3,728)	(9.3)
Effect on deferred tax of decrease in rate	137	0.4	–	–	137	0.3
Adjustment in respect of current tax of previous periods	(89)	(0.2)	–	–	(89)	(0.2)
Income not subject to tax	–	–	(9)	(0.3)	(9)	–
Tax concession	(1,880)	(5.1)	–	–	(1,880)	(4.7)
Timing differences not recognised as deferred tax assets	619	1.7	–	–	619	1.6
Expenses not deductible for tax	1,815	4.8	–	–	1,815	4.5
Tax charge at the Group's effective rate	6,161	16.6	446	16.2	6,607	16.6

Notes to Financial Statements

31 December 2008

9. TAX *(continued)*

(a) Income tax expense *(continued)*

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 deferred tax expense of increase in rate	(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)
Timing differences not recognised as deferred tax assets	277	0.6	–	–	277	0.5
Expenses not deductible for tax	322	0.8	–	–	322	0.6
Tax charge at the Group's effective rate	10,513	24.5	1,515	16.7	12,028	23.1

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

	2008 RMB'000	2007 RMB'000
At beginning of year	10,833	4,277
Provision for the year	6,487	12,854
Payment during the year	(6,892)	(6,298)
At end of year	10,428	10,833
Represented by:		
Income tax payable	11,259	11,101
Income tax recoverable	(831)	(268)

9. TAX *(continued)*

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

	Consolidated balance sheet		Consolidated income statement	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Government grants related to property, plant and equipment	360	480	120	(480)

Deferred tax assets have not been recognised in respect of the temporary differences of RMB19,379,000 (2007: RMB15,251,000) 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.

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

	Consolidated balance sheet		Consolidated income statement	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Depreciation of property, plant and equipment	23	23	–	(346)

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 2008 includes a profit of RMB30,307,000 (2007: profit of RMB26,887,000) which has been dealt with in the financial statements of the Company (note 24).

Notes to Financial Statements

31 December 2008

11. DIVIDEND

	2008 RMB'000	2007 RMB'000
Interim – RMB3 cents (2007: Nil) per ordinary share	18,520	–

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

The calculation of basic earnings per share amount 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:

	2008 RMB'000	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	31,288	38,250

	Number of shares '000	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue ('000) during the year used in the basic earnings per share calculation	617,330	617,928

Diluted earnings per share for the year ended 31 December 2008 and the comparative diluted earnings per share for the year ended 31 December 2007 have not been presented as no diluting events existed during these years.

13. 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 2008					
Cost:					
At beginning of year	37,823	60,413	2,670	11,787	112,693
Additions	1,470	1,971	38	9,157	12,636
Acquisition of a subsidiary (note 25)	–	304	–	–	304
Transfers from construction in progress	8,121	11,269	328	(19,718)	–
Disposals	(183)	(402)	(345)	–	(930)
Exchange realignment	–	(304)	–	–	(304)
At 31 December 2008	47,231	73,251	2,691	1,226	124,399
Accumulated depreciation:					
At beginning of year	3,698	40,765	1,414	–	45,877
Acquisition of a subsidiary (note 25)	–	44	–	–	44
Provided during the year	1,382	8,775	353	–	10,510
Disposals	(183)	(379)	(259)	–	(821)
Exchange realignment	–	(295)	–	–	(295)
At 31 December 2008	4,897	48,910	1,508	–	55,315
Net book value:					
At 31 December 2008	42,334	24,341	1,183	1,226	69,084
At 31 December 2007	34,125	19,648	1,256	11,787	66,816

Notes to Financial Statements

31 December 2008

13. 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 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 2008

13. 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 2008					
Cost:					
At beginning of year	37,823	33,874	1,803	7,192	80,692
Additions	1,470	1,943	–	762	4,175
Transfers from construction in progress	6,907	293	–	(7,200)	–
Disposals	–	(173)	(345)	–	(518)
At 31 December 2008	46,200	35,937	1,458	754	84,349
Accumulated depreciation:					
At beginning of year	3,698	22,729	1,097	–	27,524
Provided during the year	1,168	4,480	194	–	5,842
Disposals	–	(161)	(259)	–	(420)
At 31 December 2008	4,866	27,048	1,032	–	32,946
Net book value:					
At 31 December 2008	41,334	8,889	426	754	51,403
At 31 December 2007	34,125	11,145	706	7,192	53,168

Notes to Financial Statements

31 December 2008

13. 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

As at 31 December 2008, the Group is in the process of applying the legal documents in respect of the ownership certificates of buildings with an aggregate net book value of RMB6,859,000 (2007: RMB6,907,000).

During the year ended 31 December 2007, government grants of RMB178,000 were received and deducted from the items of property, plant and equipment in arriving at their carrying amounts. The cash grants received in the prior year 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 2008

14. INTANGIBLE ASSETS

	Deferred development costs	
	Group	Company
	RMB'000	RMB'000
31 December 2008		
Cost:		
At beginning of year	33,536	30,980
Additions – internal development	4,670	4,663
At 31 December 2008	38,206	35,643
Accumulated amortisation and impairment:		
At beginning of year	23,326	20,770
Amortisation provided during the year	1,981	1,981
At 31 December 2008	25,307	22,751
Net book value:		
At 31 December 2008	12,899	12,892
At 31 December 2007	10,210	10,210
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

Notes to Financial Statements

31 December 2008

14. INTANGIBLE ASSETS *(continued)*

During the year ended 31 December 2007, government grants of RMB420,000 were received and deducted from the deferred development costs in arriving at their carrying amount. The cash grants received in the prior year 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.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	37,854	22,428

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB724,000 (2007: RMB582,000) and RMB1,225,000 (2007: RMB1,206,000), 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*	People's Republic of China/ 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

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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
SZFM**	People's Republic of China/ Mainland China 16 August 2007	RMB5,000,000	100	Designing, developing and selling IC products
BJFM**	People's Republic of China/ Mainland China 25 December 2007	RMB1,000,000	100	Designing, developing and selling IC products
Fukong Hualong***	People's Republic of China/ Mainland China 8 October 2007	RMB30,000,000	51	designing, developing and selling products of MicroSystem and application-specific integrated circuit ("IC") and software; the provision of investment, investment management and consultancy services; as well as the provision of research and consultancy services of MicroSystem technology

* *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 2007, 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.*

*** *Fukong Hualong is a subsidiary of the Company newly acquired during the year, which is registered as a contractual joint venture company under the PRC law. Further details of this acquisition are included in note 25 to the financial statements. Fukong Hualong was not audited by Ernst & Young or other member firm of the Ernst & Young global network.*

Notes to Financial Statements

31 December 2008

16. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2008 RMB'000	2007 RMB'000
Unlisted equity investments, at cost	5,463	5,963
Impairment provision	(5,463)	(2,463)
	–	3,500

As at 31 December 2008, 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 the provision for impairment of available-for-sale investments are as follows:

	Group and Company	
	2008 RMB'000	2007 RMB'000
At 1 January	2,463	1,463
Impairment losses recognised (note 6)	3,000	1,000
	5,463	2,463

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB5,463,000 (2007: RMB2,463,000) with a carrying amount of RMB5,463,000 (2007: RMB5,463,000). 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.

17. INVENTORIES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials:				
At cost	23,685	12,818	29,669	13,047
At net realisable value	–	10	–	10
Work in progress:				
At cost	14,376	14,962	12,010	14,956
Finished goods:				
At cost	37,001	28,533	34,897	25,759
At net realisable value	1,856	10	–	10
	76,918	56,333	76,576	53,782

18. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	58,886	52,881	49,654	48,051
Impairment	(7,624)	(6,733)	(7,599)	(6,708)
	51,262	46,148	42,055	41,343

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 monitors the collection to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Notes to Financial Statements

31 December 2008

18. 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	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within 3 months	34,828	33,272	26,121	29,432
3 to 6 months	13,019	9,468	12,624	8,653
6 to 12 months	2,525	2,206	2,432	2,206
Over 12 months	890	1,202	878	1,052
	51,262	46,148	42,055	41,343

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

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	6,733	5,661	6,708	5,527
Impairment losses recognised (note 6)	891	1,200	891	1,181
Amount written off as uncollectible	–	(128)	–	–
	7,624	6,733	7,599	6,708

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB3,180,000 (2007: RMB2,800,000) with a carrying amount of RMB7,387,000 (2007: RMB8,500,000). 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.

18. 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	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	47,628	42,688	38,513	38,034
Less than 1 month past due	959	67	867	67
1 to 3 months past due	259	924	259	924
3 to 6 months past due	1,604	1,459	1,604	1,459
6 to 12 months past due	812	1,010	812	859
	51,262	46,148	42,055	41,343

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 RMB266,000 (2007: RMB252,000) which is repayable on similar credit terms to those offered to the major customers of the Group.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Prepayments	4,790	4,466	4,597	4,229
Deposits and other receivables	3,966	1,601	3,494	1,249
	8,756	6,067	8,091	5,478

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.

Notes to Financial Statements

31 December 2008

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash and bank balances	44,907	46,767	36,957	27,393
Time deposits with original maturity of less than three months when acquired	40,000	46,800	11,000	41,000
Time deposits with original maturity of over three months when acquired	112,009	86,642	99,000	80,592
Cash and cash equivalents	196,916	180,209	146,957	148,985
Less: Deposits pledged for bank facilities	(231)	(229)	(231)	(229)
Cash and cash equivalents	196,685	179,980	146,726	148,756

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to RMB178,100,000 (2007: RMB163,963,000). 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.

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	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within 3 months	21,714	31,820	19,665	29,321
3 to 6 months	1,935	444	943	120
6 to 12 months	2,654	110	1,688	110
Over 12 months	50	50	50	50
	26,353	32,424	22,346	29,601

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 29 to the financial statements.

Included in the Group's trade and bills payables is an amount due to an entity controlled by SCI of RMB699,000 (2007: Nil) which is repayable on similar credit terms to those offered by the major suppliers of the Group.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Payable for purchase of software	3,069	3,650	3,069	3,650
Portion classified as long term	1,068	3,069	1,068	3,069
Current portion	2,001	581	2,001	581
Accruals	1,043	1,666	710	1,370
Dividend payables	18,520	–	18,520	–
Other payables	31,553	25,099	24,815	15,914
	53,117	27,346	46,046	17,865

Included in the Group's other payables and accruals as of 31 December 2008, there were an amount due to a subsidiary of the Company's substantial shareholder of nil (2007: RMB4,000,000) and an amount due to the owner of a substantial shareholder of nil (2007: RMB804,000).

Notes to Financial Statements

31 December 2008

22. OTHER PAYABLES AND ACCRUALS *(continued)*

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 29 to the financial statements.

23. SHARE CAPITAL

	2008 RMB'000	2007 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2007: 375,000,000) unlisted domestic shares of RMB0.10 each	37,500	37,500
242,330,000 (2007: 242,330,000) H shares of RMB0.10 each	24,233	24,233
	61,733	61,733

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 30 of the financial statements.

Company

	Share premium account RMB'000	**Treasury shares** RMB'000	**Statutory surplus reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2007	170,455	(223)	2,799	3,059	176,090
Profit for the year	–	–	–	40,737	40,737
Repurchase of shares	(1,969)	223	–	–	(1,746)
Transfer from retained profits	–	–	4,497	(4,497)	–
At 31 December 2007 and 1 January 2008	168,486	–	7,296	39,299	215,081
Profit for the year	–	–	–	37,232	37,232
2008 Interim dividend (note 11)	–	–	–	(18,520)	(18,520)
Transfer from retained profits	–	–	3,825	(3,825)	–
At 31 December 2008	168,486	–	11,121	54,186	233,793

Notes to Financial Statements

31 December 2008

24. RESERVES *(continued)*

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 of the Company and its PRC subsidiaries, 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.

The directors of the Company have proposed to transfer RMB3,825,000 (2007: RMB4,497,000) 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 the Company's PRC subsidiaries have proposed to transfer RMB418,000 in total (2007: RMB255,000) to the SSR. The transfer represents 10% of the Company's PRC subsidiaries' profit after tax, as determined in accordance with the PRC accounting standards. The transfer has been incorporated in these financial statements.

At 31 December 2008, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2007: RMB168,486,000) 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. BUSINESS COMBINATION

On 8 December 2008, the Company acquired a 51% interest in Fukong Hualong from Shanghai Fudan Technology Enterprise Holdings Limited ("Fudan Tech"). Fukong Hualong is engaged in the designing, developing and selling products of MicroSystem and application-specific integrated circuit. The purchase consideration of RMB15,426,000 for the acquisition was in the form of cash, which was fully paid at the acquisition date.

Notes to Financial Statements

31 December 2008

25. BUSINESS COMBINATION *(continued)*

The fair values of the identifiable assets and liabilities of Fukong Hualong as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	13	260	260
Cash and bank balances		26,445	26,445
Trade receivables		4,700	4,700
Prepayments and other receivables		550	550
Inventory		2,867	2,867
Trade payables		(3,924)	(3,924)
		30,898	30,898
Excess over the cost of a business combination recognised in the income statement	5	332	
Satisfied by cash		15,426	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(15,426)
Cash and bank balances acquired	26,445
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	11,019

Since its acquisition, Fukong Hualong contributed RMB1,957,000 to the Group's turnover and RMB338,000 to the consolidated loss for the year ended 31 December 2008.

Had the combination take place at the beginning of the year, the revenue and the profit of the Group would have been RMB296,986,000 and RMB34,262,000, respectively.

26. COMMITMENTS

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

(a) Capital commitments

	Group		**Company**	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:				
Intangible assets	439	853	439	853

Notes to Financial Statements

31 December 2008

26. 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 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within one year	2,936	1,398	1,401	463
In the second to fifth years, inclusive	4,489	1,078	3,403	101
After five years	652	1,630	–	–
	8,077	4,106	4,804	564

27. 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:

		Group	
	Notes	2008 RMB'000	2007 RMB'000
Technical and equipment support fee paid to:			
the owner of a substantial shareholder	(i)	425	412
Rendering of testing service for an entity controlled by SCI		–	82
Research and development fee paid to:			
the owner of a substantial shareholder	(ii)	1,285	804
an entity controlled by SCI		–	800

27. RELATED PARTY TRANSACTIONS *(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. The annual technical support fee payable to SFU for the year ended 31 December 2008 amounted to RMB425,000.

(ii) On 16 March 2008, the Company entered into a Testing Service Agreement with SFU to engage SFU to perform certain testing and examination services on the technologies compatibility of FPGA circuits, for a research and development fee of RMB325,000. On 23 December 2008, the Company entered into a Technological Research Agreement with SFU for a cash consideration of RMB1,080,000 to co-operate in technological research of self-developed high performance FPGA circuits. As such, SFU will receive a research and development fee of RMB960,000 as the first payment during the year and the remaining balance of RMB120,000 on 30 June 2009, respectively.

(iii) During the year, the Group acquired a subsidiary, Fukong Hualong, from a subsidiary of a substantial shareholder for a consideration of RMB15,426,000, based on an external valuation of the business performed by the independent valuer. Further details of the transaction are included in note 25 to the financial statements.

In the opinion of the independent non-executive directors, the above related party transactions were entered into in the ordinary and usual course of the Group's business on normal commercial terms and were in accordance with the terms of the arrangements governing the transactions that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

(b) Outstanding balances with related parties:

Details of the Group's trade and bills receivable and payables with Shanghai Fukong Hualong Information Technology Development Center are disclosed in notes 18 and 21 to the financial statements.

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

	2008 RMB'000	2007 RMB'000
Fees	127	207
Other emoluments:		
Salaries, allowances and benefits in kind	2,643	2,265
Total compensation paid to key management personnel	2,770	2,472

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.

28. 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

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
31 December 2008			
Trade and bills receivables	51,262	–	51,262
Financial assets included in prepayments, deposits and other receivables	8,756	–	8,756
Pledged deposits	231	–	231
Cash and cash equivalents	196,685	–	196,685
	256,934	–	256,934
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

Notes to Financial Statements

31 December 2008

28. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
31 December 2008	
Trade and bills payables	26,353
Financial liabilities included in other payables and accruals	53,117
Long term payables	1,068
	80,538
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

28. 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 2008			
Due from subsidiaries	724	–	724
Trade and bills receivables	42,055	–	42,055
Financial assets included in prepayments, deposits and other receivables	8,091	–	8,091
Pledged deposits	231	–	231
Cash and cash equivalents	146,726	–	146,726
	197,827	–	197,827
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

Notes to Financial Statements

31 December 2008

28. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
31 December 2008	
Due to subsidiaries	1,225
Trade and bills payables	22,346
Financial liabilities included in other payables and accruals	46,046
Long term payables	1,068
	70,685
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

29. 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.

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

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 24% (2007: 40%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 72% (2007: 46%) 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 the 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
2008			
If RMB weakens against United States dollar ("US$")	+5	656	558
If RMB strengthens against US$	–5	(656)	(558)
If RMB weakens against Hong Kong dollar ("HK$")	+5	30	712
If RMB strengthens against HK$	–5	(30)	(712)
2007			
If RMB weakens against US$	+5	94	63
If RMB strengthens against US$	–5	(94)	(63)
If RMB weakens against HK$	+5	90	1,101
If RMB strengthens against HK$	–5	(90)	(1,101)

Notes to Financial Statements

31 December 2008

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Foreign currency risk *(continued)*

	Company		
	Increase/ (decrease) in foreign currency exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2008			
If RMB weakens against US$	+5	656	558
If RMB strengthens against US$	–5	(656)	(558)
If RMB weakens against HK$	+5	30	25
If RMB strengthens against HK$	–5	(30)	(25)
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)

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, 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.

Notes to Financial Statements

31 December 2008

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Credit risk *(continued)*

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. 14% (2007: 16%) 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 monitors 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 18 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.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual 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 2008						
Trade and bills payables	3,673	22,680	–	–	–	26,353
Other payables and accruals	38,066	9,539	5,512	–	–	53,117
Long term payables	–	–	–	1,068	–	1,068
	41,739	32,219	5,512	1,068	–	80,538

Notes to Financial Statements

31 December 2008

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

Liquidity risk *(continued)*

Group (continued)

	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

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 2008						
Trade and bills payables	2,680	19,666	–	–	–	22,346
Other payables and accruals	31,704	8,830	5,512	–	–	46,046
Due to subsidiaries	–	1,225	–	–	–	1,225
Long term payables	–	–	–	1,068	–	1,068
	34,384	29,721	5,512	1,068	–	70,685
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

29. 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the 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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is the total debt divided by the 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	
	2008 RMB'000	2007 RMB'000
Trade and bills payables	26,353	32,424
Other payables and accruals	53,117	27,346
Long term payables	1,068	3,069
Total debt	80,538	62,839
Equity attributable to equity holders of the parent	301,315	289,328
Capital and total debt	381,853	352,167
Gearing ratio	21%	18%

30. POST BALANCE SHEET EVENT

On 27 February 2009, the Company entered into a capital injection agreement with Shanghai Fudan Communication Co., Ltd. ("Fudan Communication") whereby the Company has agreed to inject additional capital into Fudan Communication in proportion to the Company's shareholdings in Fudan Communication. The amount to be injected by the Company into Fudan Communication is RMB7,980,000. Upon completion of the capital injection, the Company will continue to hold a 19% equity interest of the enlarged registered capital of Fudan Communication.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2009.

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.

	Year ended 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
RESULTS					
REVENUE	281,348	315,967	276,171	211,211	132,710
Cost of sales	(173,239)	(222,434)	(205,989)	(157,393)	(85,386)
Gross profit	108,109	93,533	70,182	53,818	47,324
Other income and gains	20,739	28,767	12,144	10,991	6,860
Selling and distribution costs	(12,365)	(10,312)	(7,436)	(7,914)	(6,292)
Administrative expenses	(22,144)	(23,512)	(24,981)	(22,795)	(19,010)
Other expenses	(54,433)	(36,451)	(23,500)	(24,438)	(20,491)
Share of losses of associates	–	–	–	–	(835)
PROFIT BEFORE TAX	39,906	52,025	26,409	9,662	7,556
Tax	(6,607)	(12,028)	(4,433)	(1,272)	(57)
PROFIT FOR THE YEAR	33,299	39,997	21,976	8,390	7,499
Attributable to:					
Equity holders of the parent	31,288	38,250	21,098	8,037	7,239
Minority interests	2,011	1,747	878	353	260
	33,299	39,997	21,976	8,390	7,499
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	417,026	370,031	335,533	331,516	269,104
TOTAL LIABILITIES	(91,820)	(73,963)	(76,075)	(92,849)	(41,160)
MINORITY INTERESTS	(23,891)	(6,740)	(4,993)	(4,115)	(1,179)
	301,315	289,328	254,465	234,552	226,765