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)

ANNUAL REPORT 2009

*for identification only

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

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.

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

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 2009.

Even though the Global market of IC chips experienced a year of slow down in 2009, the Group obviously has been benefited from the stable economic growth maintained in the People's Republic of China (the "PRC") and with reliance on its huge domestic market demand, the Group's business continued to grow and recorded new highs in turnover and results during the year under review. For the year ended 31 December 2009, the Group's total revenue was approximately RMB321,374,000 representing a rise of approximately 14% as compared to the previous year; the profit attributable to owners of the parent was approximately RMB53,006,000 and the basic earnings per share was approximately RMB8.59 cents, representing increases of approximately 69% over the last year.

The directors recommend the payment of a final dividend of RMB5 cents per ordinary share for the year ended 31 December 2009. Following the declaration of a special interim dividend of RMB3 cents per ordinary share in last year, the directors consider that the business of the Group has been steadily developed and continued to be profitable, and the continuing payment of dividend in this year is the best return to the shareholders' supports.

Under the leadership of the board of directors of the Company (the "Board"), the Group, having adopted a stable business development strategy and carried through the policy in running core products, has built up excellent reputation within the industry; with the strength of its accumulated 10-year experiences in technologies and scale production in smart cards, the Group has turned to be a company with market influence in the global smart card product lines and a sizeable leading IC design company in the PRC. The Group's mission of "Fudan Chips" pushes it ahead to work hard on research and development of self-developed products and by all means not only to innovate new technologies and enhance competition strength, but also to strive forward simultaneously with advanced international techniques so as to achieve the final goal of significantly uplifting the degree of self-sufficiency of the IC chips domestic market.

In accordance with market researches, the global market of IC chips will be recovered in 2010. At the same time, the IC design industry is highly supported by the government with application of substantial resources including schemes of provision of industrial environment and preferential policies. The Group is optimistic about its business in the coming year and following the Group's participations in sizable government projects and continuing co-operations with large organisations, it is believed that substantial business opportunities will be emerged. The Group will grasp all these chances to seek for the best interests of the shareholders.

Lastly, I would like to take this opportunity to express my heartfelt thanks to the Board, senior management and all staff members for their dedication and hard work. At the same time, also thanks to the Company's shareholders, customers, suppliers and business associates for their continued supports and trust.

Jiang Guoxing
Chairman

Shanghai, the People's Republic of China
22 March 2010

Management Discussion and Analysis

BUSINESS REVIEW

Global market of IC chips in 2009 remained eroded by the unreversed financial and economy crisis, however, the Group with its product base in the Mainland China market and reliance on huge domestic demand, together with continuous economic growth of the PRC and its government policy on stimulating domestic needs, has achieved a continuing business growth. Closer to the market pulse and mastering the key technologies, the Group also has accumulated substantial experiences and techniques in IC design business with its products applicable in various different fields, hence, has benefited from the electronically transformation in cities and provinces within the PRC.

During the year under review, the Group recorded a new high in overall sales with continuous growth in domestic sales as well as pick up in its export business and an increase in profit margin over the years. Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") which was acquired during the end of last year has commenced its business, in addition to its contributions to the turnover and results of the Group, has attributed to the Group's step forward in business diversification. Furthermore, the mobile phone payment chips that were developed and researched by the Group since 2006 have passed final testing, mobile phone payment was launched recently in Shanghai with cooperation with the Shanghai branch of China Unicom and the Shanghai Public Transportation Card Co., Ltd and enables the Group to build up its development space and application scope in this field.

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

IC Smart Card Chips

Sales of IC card chips remained to be the top of the Group's products for the year and increased by approximately 21% over the last year. As mentioned in the above section, the Group has launched its self-developed mobile phone payment chips in Shanghai during the year. In view that the public transportation system and electronic payment market in most cities of the PRC have not been optimized which provides the market with huge development spaces, the Group with sound foundation and leading edge in IC smart card chips has actively explored emerging markets within the PRC for the purpose of providing a total system solution.

Consumer Electronics Chips

Following the increasing purchasing power of the PRC, different types of consumer electronic products were newly introduced continuously and developed a huge market. As consumer electronics products usually have a shorter life cycle than other products, selling prices drop with passage of time and profit margins are more volatile. This kind of products had an approximately 10% increase in sales during the year with a considerable increase in profit margin.

Power Electronics Chips

Power electronics IC chips consist of main products of multi-fees power control meter chips and specific electric leakage protection circuits. As these products have a rather solid customer base, sales of the year recorded a growth of approximately 5% with profit margin being kept at a reasonable level. These products are multi-functional, high reliability and low cost, therefore, there will be new rooms upon the market development in domestic smart electric meters.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Motor and Mobile Electronics Chips

The market of motor and mobile electronics chips is highly competitive and requires substantial investment for research and development, as such, the Group has decreased its proportion in view of its effectiveness. Sales during the year continued to decline by about 23% when compared with last year and attributed to a small portion of the Group's overall sales.

Telecommunication Electronics Chips

Telecommunication electronics chips products are fewer in kind than other categories and because of market saturation and keen competition, the Group has terminated its R&D. Sales during the year were mainly existing products and the contributions to the Group's turnover and profit were minimal.

IC Testing Services

As a result of blooming domestic market of electronic products, business operators in IC testing services have been increasing and caused keen market competition. The testing service income for the year dropped by an approximately 13% as compared with last year, however, profit margin could be kept at last year's level. These testing services were operated by Sino IC and approximately half of its income for the year was derived from the Group and were technical supports for the Group's business.

Other IC Chips and Products

The baseband processor chips, electric meter chips, SOC (system on chip) and system products developed by Fukong Hualong have been launched during the year with considerable market share, besides additions to the Group's diversified IC products, they also made definite contributions to the Group's growth in turnover and results for the year.

FINANCE REVIEW

The Group recorded a revenue for the year ended 31 December 2009 amounted to approximately RMB321,374,000 (2008: RMB281,348,000), a rise of approximately 14% as compared to the previous year. The audited profit attributable to owners of the parent was approximately RMB53,006,000 (2008: RMB31,288,000) and the basic earnings per share was RMB8.59 cents (2008: RMB5.07 cents), representing increases of approximately 69% over the last year. The directors recommend the payment of a final dividend of RMB0.05 (2008: special interim dividend of RMB0.03) per ordinary share in respect of the year.

During the year, the Group's overall income has increased and profit margin also increased from 38.4% of last year to the level of approximately 42.0% in current year resulted from effective cost control. Decreases in bank interest rate on savings and subsidy income caused only a slightly drop in other income and gains for the year of approximately 7% as it was compensated by an increase of government grants received in respect of research activities.

FINANCE REVIEW *(continued)*

With regard to the expenses for the year and compared with last year, expenses increased as Fukong Hualong has commenced its business. The selling and distribution costs raised by approximately 21% over the last year as a result of increases in marketing staff and promotion related to the Group's market exploration. The administrative expenses increased by approximately 28% due to increase in staff to cope with business development and salary adjustments in accordance with market level. Although there were an impairment loss on intangible assets amounted to approximately RMB1,816,000 and a provision for doubtful debts of approximately RMB3,974,000 during the year, other expenses still decreased by approximately 7% compared with previous year as there was an impairment loss on available-for-sale investment amounted to RMB3,000,000 in last year and research and development expenses were substantially reduced during the year.

In respect of income tax, because the Company is eligible to a preferential income tax rate as a High New Technology Enterprise, the income taxes provided at standard rates in previous years amounted to approximately RMB1,538,000 have been written back and reflected in income tax through profit and loss.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, except the Company's additional capital injection in respect of available-for-sale investment into Shanghai Fudan Communication Co., Ltd. in proportion to the its shareholdings amounted to RMB7,980,000, the Group has no other material investment.

A new wholly owned subsidiary FDKJ was incorporated by the Company during the year for the provision of a total solution in mobile payment services. Sino IC has undergone a share capital increment and restructuring with the Company's equity interest therein being slightly reduced upon completion. Other than these transactions, there was no material change in the subsidiaries of the Group during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

After the reporting period, the Company has entered into a property purchase agreement with an independent third party, accordingly, the Company will spend RMB7,927,000 to acquire two units for its office uses. Moreover, the Group is still actively seeking for strategic cooperation and has no other material investment plan at present.

TECHNOLOGICAL COOPERATION

The Group still has 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 so as to enjoy their advanced and superior technological supports.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2009, net assets of the Group amounted to approximately RMB383,749,000 (2008: RMB325,206,000); current assets amounted to approximately RMB376,860,000 (2008: RMB334,683,000), of which approximately RMB252,468,000 (2008: RMB196,916,000) were cash and bank deposits.

The Group's usually applies its cash flows generated internally to meet its operation needs. The Group's financial resources and liquidity are in healthy status that are sufficient for the Group to meet its daily business operations and present development.

Management Discussion and Analysis

FINANCIAL RESOURCES AND LIQUIDITY *(continued)*

As at 31 December 2009, except a deposit of RMB240,000 (2008: RMB231,000) pledged as guarantee for fulfillment of projects, the Group has not pledged any of its assets to any third parties (2008: nil).

CAPITAL STRUCTURE

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

GEARING RATIO

As at 31 December 2009, the Group's current liabilities amounted to approximately RMB87,730,000 (2008: RMB90,729,000) and non-current liabilities of approximately RMB235,000 (2008: RMB1,091,000). The net assets value per share of the Group was approximately RMB0.62 (2008: RMB0.53). The Group's ratio of current liabilities over current assets was approximately 23.3% (2008: 27.1%) and the gearing ratio was approximately 22.9% (2008: 28.2%) on the basis of total liabilities over net assets. As at 31 December 2009, the Group and the Company had no bank or other borrowings (2008: 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 25% (2008: 24%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 70% (2008: 72%) of costs are denominated in the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

During the reporting period, the fluctuations in foreign exchange have no material effect on the Group's operations and cash flows.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. At the end of the reporting period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. 15% (2008: 14%) 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.

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

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had capital commitments of approximately RMB240,000 related to acquisition of intangible assets (2008: RMB439,000).

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had no contingent liabilities (2008: 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.

EMPLOYEES

As at 31 December 2009, the Group employed approximately 471 (2008: 416) employees. The increase in number of employees was due to new recruitments for the expansion of the Group's business as well as to match up research and development projects and market exploration. 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 employees expenses of the Group including directors' remuneration charged to the consolidated statement of comprehensive income for the year ended 31 December 2009 amounted to approximately RMB47,028,000 (2008: RMB38,027,000). The increase in total employees expenses was due to the increase in employees and salary adjustments made in accordance with labour 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 AND 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
Ms. Lu Beili
Mr. Wei Ran (appointed on 22 May 2009)
Mr. Xu Lenian (resigned on 22 May 2009)

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 56, 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 43, joined the Company in July 1998, is the Managing Director of the Company and a director of the Company's subsidiary, Shanghai Fudan Microelectronics (HK) Limited ("Fudan HK"). 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 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 Shanghai Pacific Commercial Trust Company Limited. He is also the Chairman of the Company's substantial shareholders, Shanghai Commerce and Invest (Group) Corporation ("SCI") and Shanghai Fudan Technology Enterprise Holdings Limited.

Mr. Yu Jun, aged 42, joined the Company in July 1998, is the Deputy Managing Director of the Company and a director respectively of the Company's subsidiaries namely, Beijing Fudan Microelectronics Technology Company Limited, Sino IC and Fukong Hualong. 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 63, 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 Shanghai Fudan High Tech Company. She has extensive knowledge and experience in the design and manufacture of integrated circuits.

Mr. Wang Su, aged 56, joined the Company in July 1998, is an accountant. He is the Financial Controller and a member respectively of the nomination committee and remuneration committee of the Company, and a director respectively of the Company's subsidiaries namely, Shenzhen Fudan Microelectronics Company Limited, Fudan HK, Sino IC and Fukong Hualong. He is also a director of SCI and was previously its fund manager as well as the deputy manager of the Finance Department and the financial controller of Shanghai Pacific Commercial Trust Company Limited.

Non-executive directors

Ms. Zhang Qianling, aged 73, 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 75, joined the Company in July 1998, is a senior economist. He was previously the chief economist of SCI 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 60, is a senior economist. He joined the Company in July 1998 and was previously the assistant to the general manager of SCI, 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 44, 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 63, 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 80, 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 38, 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.

Ms. Lu Beili, aged 47, 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.

Directors and Senior Management Biographies

SUPERVISORS *(continued)*

Mr. Wei Ran, aged 54, joined the Company in May 2009, holds a degree of graduate student and is a fellow economist. He is a director of Fukong Hualong and is the deputy general manager of SCI, the chairman of Shanghai Commercial Investment Enterprise Limited and the vice chairman of Shanghai Xujiahui Shopping Mall Company Limited. He was the fund manager and assistant to general manager of SCI and has substantial experience in corporate merger, re-structuring, investment and financing.

SENIOR MANAGEMENT

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

Mr. Shi Jin, aged 53, 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 Sino IC. 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.

Ms. Ji Lanhua, aged 59, joined the Company in July 1998, is the Deputy General Manager and Production Officer of the Company. She holds a bachelor degree and was previously the sales manager of Fudan High Tech Company. She had 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 IC chips.

Mr. Da Zhongdong, aged 41, 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. Diao Linshan, aged 44, joined the Company in January 1999, is the Deputy Operation Officer and Sales Manager of the Company. Before joining the Company, he had worked for Oxford and Cambridge International Group as assistant to general manager and Beijing Wantong Industrial Corporation Limited as deputy general manager. He had worked as sales manager in the smart card division after joining the Company and has substantial experience in marketing and operation management of IC chips.

Mr. Li Wing Sum Steven, aged 53, 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 2009, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditor on the financial statements are set out in the "Independent Auditors' Report" on pages 28 to 29.

CORPORATE GOVERNANCE PRACTICES

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 regarding securities transactions by the Directors throughout the year ended 31 December 2009.

BOARD OF DIRECTORS AND BOARD MEETING

Board of Directors

The Board comprises five executive Directors, three non-executive directors and three independent non-executive directors. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 10 to 12, with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Details of these committees are set out in this report.

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

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Board Meetings

The board of Directors held four full board meetings in each year and meets as and when required. During the year ended 31 December 2009, 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	2/4
Ms. Cheng Junxia	3/4
Mr. Wang Su	4/4
Ms. Zhang Qianling	4/4
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.

Executive Directors

The four executive directors have entered into service contracts with the Company with effect from 19 July 2009 for a term of 3 years and shall continue thereafter unless terminated by a three month's prior written notice to be given by either party without payment of compensation.

Non-Executive Directors

The three non-executive directors have entered into service contracts with the Company with effect from 19 July 2009 for a term of 3 years and shall continue thereafter unless terminated by a three month's prior written notice to be given by either party without payment of compensation.

Corporate Governance Report

Non-Executive Directors (continued)

The three independent non-executive directors, Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying, have entered into service contracts with the Company for one year commencing from 22 May 2009 until the forthcoming annual general meeting to be held in or about May 2010 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.

The Company has established a nomination committee which comprises two 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 include the appointment and removal of directors, reviews the past performance, qualifications, 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 a strong and diverse Board.

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

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

Committee member	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 any 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 2009 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee members are well experienced in management, accounting, finance, commercial and industrial sectors.

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.

Corporate Governance Report

Audit Committee (continued)

The Audit Committee meets the external auditors at least once a year to discuss issues concerning the statutory audit. The Audit Committee reviews the quarterly, 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, interim and annual reports.

Internal Control

The Company and its subsidiaries have to conduct at least annually a review of its system of internal control 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 and the directors are satisfy that the Group has maintained sound and effective internal controls.

Shareholders' Relations

The Company has been publishing all of its announcements including 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.

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 2009.

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 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 97.

The directors recommend the payment of a final dividend of RMB5 cents per ordinary share in respect of the year to shareholders on the register of members on 28 May 2010.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 98. 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 authorised 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.

Report of the Directors

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.

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 2009, the Company's reserves available for distribution amounted to RMB102,933,000, of which RMB30,867,000 has been proposed as a final dividend for the year. 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 75% of the total purchases for the year and purchases from the largest supplier included therein amounted to 32%.

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

Report of the Directors

DIRECTORS *(continued)*

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

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 2009 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 22 May 2009, until the forthcoming AGM in or about May 2010 and are subject to termination by either party giving no less than one month's written notice.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS *(continued)*

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.

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 2009, 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. Wei Ran	–	–	–	288,460	288,460	0.05
	–	–	–	6,346,150	6,346,150	1.03

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.

Ms. Lu Beili ("Ms. Lu"), who was appointed as a supervisor of the Company with effect from 1 June 2008, had no personal interest in the shares of the Company as at 31 December 2009.

Mr. Xu Lenian, who resigned on 22 May 2009 as a supervisor of the Company, still held 865,380 of the Company's domestic shares as an ex-employee through the trust of SSAC as at 31 December 2009.

Mr. Wei Ran ("Mr. Wei"), who was appointed as a supervisor of the Company for a term of three years with effect from 22 May 2009 to 21 May 2012 had a personal interest in 288,460 domestic shares of the Company through the trust of SSAC as at 31 December 2009.

Save as disclosed above, as at 31 December 2009, 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.

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

At 31 December 2009, 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 2009, 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 26 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 2009 amounted to RMB494,000.

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 received a research and development fee of RMB960,000 as the first payment in 2008 and the remaining fee of RMB120,000 in 2009. On 25 June 2009, the Company entered into a Special FPGA Agreement with SFU for a cash consideration of RMB2,060,000. According to the Special FPGA Agreement, the Company will cooperate with SFU to conduct the research and development of highly reliable anti-irradiation FPGA circuits. As such, SFU received a net research and development fee from the Company of RMB1,876,000 in 2009 under the Special FPGA Agreement.

In September 2009, one of the Company's subsidiaries, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") purchased plant, vehicles, furniture and fixtures from Shanghai Fukong Hualong Information Technology Development Center ("FHIT"), an entity controlled by SCI, for a cash consideration of RMB539,000. On 1 January 2009, Fukong Hualong entered into a vehicle rental contract with FHIT for the period ended 31 May 2009. As such, Fukong Hualong paid a rental fee of RMB207,000 in 2009.

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

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 as disclosed in the Company's announcements or as allowed by the Stock Exchange.

In respect of the related party transactions as set out in note 26 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.

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.

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

Report of the Directors

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 29 to the financial statements.

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
22 March 2010

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 30 to 97, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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

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 2009 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.

Certified Public Accountants
Hong Kong
22 March 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**321,374**	281,348
Cost of sales		**(186,407)**	(173,239)
Gross profit		**134,967**	108,109
Other income and gains	5	**19,279**	20,739
Selling and distribution costs		**(14,944)**	(12,365)
Administrative expenses		**(28,350)**	(22,144)
Other expenses		**(50,829)**	(54,433)
PROFIT BEFORE TAX	6	**60,123**	39,906
Income tax expense	9(a)	**(4,139)**	(6,607)
PROFIT FOR THE YEAR		**55,984**	33,299
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(15)**	(781)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(15)**	(781)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**55,969**	32,518
Profit attributable to:			
Owners of the parent	10	**53,006**	31,288
Minority interests		**2,978**	2,011
		55,984	33,299
Total comprehensive income attributable to:			
Owners of the parent	10	**52,991**	30,507
Minority interests		**2,978**	2,011
		55,969	32,518
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	**8.59 cents**	5.07 cents

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**66,983**	69,084
Intangible assets	14	**14,650**	12,899
Available-for-sale investments	16	**7,980**	–
Deferred tax assets	9(c)	**5,241**	360
Total non-current assets		**94,854**	82,343
CURRENT ASSETS			
Inventories	17	**55,912**	76,918
Trade and bills receivables	18	**56,407**	51,262
Prepayments, deposits and other receivables	19	**11,819**	8,756
Tax recoverable	9(b)	**254**	831
Pledged deposits	20	**240**	231
Cash and cash equivalents	20	**252,228**	196,685
Total current assets		**376,860**	334,683
CURRENT LIABILITIES			
Trade and bills payables	21	**34,360**	26,353
Other payables and accruals	22	**37,757**	53,117
Tax payable	9(b)	**15,613**	11,259
Total current liabilities		**87,730**	90,729
NET CURRENT ASSETS		**289,130**	243,954
TOTAL ASSETS LESS CURRENT LIABILITIES		**383,984**	326,297

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**383,984**	326,297
NON-CURRENT LIABILITIES			
Long term payables	22	**–**	1,068
Deferred tax liabilities	9(c)	**235**	23
Total non-current liabilities		**235**	1,091
Net assets		**383,749**	325,206
EQUITY			
Equity attributable to owners of the parent			
Issued capital	23	**61,733**	61,733
Reserves	24	**261,706**	239,582
Proposed final dividend	11	**30,867**	–
		354,306	301,315
Minority interests		**29,443**	23,891
Total equity		**383,749**	325,206

Director *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Note	Attributable to owners of the parent								
		Issued share capital	Share premium account	Statutory surplus reserve	Exchange Fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
		RMB'000 (Note 23)	RMB'000 (Note 24)	RMB'000 (Note 24)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008		61,733	168,486	8,157	(1,869)	52,821	–	289,328	6,740	296,068
Total comprehensive income 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 and 1 January 2009		61,733	168,486	12,400	(2,650)	61,346	–	301,315	23,891	325,206
Total comprehensive income for the year		–	–	–	(15)	53,006	–	52,991	2,978	55,969
Additional capital contribution from minority shareholders in a subsidiary		–	–	–	–	–	–	–	6,956	6,956
Dividends paid to minority shareholders		–	–	–	–	–	–	–	(4,382)	(4,382)
Proposed 2009 final dividend	11	–	–	–	–	(30,867)	30,867	–	–	–
Transfer from retained profits		–	–	4,686	–	(4,686)	–	–	–	–
At 31 December 2009		**61,733**	**168,486***	**17,086***	**(2,665)***	**78,799***	**30,867**	**354,306**	**29,443**	**383,749**

* *These reserve accounts comprise the consolidated reserves of RMB261,706,000 (2008: RMB239,582,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**60,123**	39,906
Adjustments for:			
Bank interest income	5	**(3,700)**	(5,110)
Recognised excess over the cost of a business combination	5	**–**	(332)
Loss on disposal of items of property, plant and equipment	6	**73**	87
Gain on deemed partial disposal in a subsidiary	5	**(251)**	–
Depreciation	13	**10,279**	10,510
Amortisation of intangible assets	14	**2,645**	1,981
Impairment of intangible assets	14	**1,816**	–
Income from bank financial products		**(41)**	–
Impairment of available-for-sale investments	6	**–**	3,000
		70,944	50,042
Decrease/(increase) in inventories		**21,006**	(17,718)
Increase in trade and bills receivables		**(5,145)**	(414)
Increase in prepayments, deposits and other receivables		**(3,549)**	(1,085)
Increase/(decrease) in trade and bills payables		**8,007**	(9,995)
Increase in other payables and accruals		**3,160**	5,767
Cash generated from operations		**94,423**	26,597
Hong Kong profits tax recovered/(paid)	9(b)	**393**	(1,089)
PRC tax paid	9(b)	**(4,270)**	(5,803)
Net cash flows from operating activities		**90,546**	19,705
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in time deposits with original maturity of over three months when acquired		**(42,363)**	(25,367)
Bank interest received		**4,186**	4,046
Purchases of items of property, plant and equipment		**(9,376)**	(13,143)
Proceeds from disposal of items of property, plant and equipment		**57**	22
Additions to intangible assets		**(6,212)**	(4,670)
Acquisition of a subsidiary		**–**	11,019
Proceeds from disposal of bank financial products		**41**	–
Proceeds from disposal of an available-for– sale investment		**–**	500
Additional purchase of available-for-sale investments		**(7,980)**	–
Net cash flows used in investing activities		**(61,647)**	(27,593)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows used in investing activities		**(61,647)**	(27,593)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from additional capital contribution in a subsidiary from minority shareholders		**7,207**	–
Dividends paid		**(18,520)**	–
Dividends paid to minority shareholders		**(4,382)**	–
Net cash flows used in financing activities		**(15,695)**	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**13,204**	(7,888)
Cash and cash equivalents at beginning of year		**84,907**	93,567
Effect of foreign exchange rate changes, net		**(15)**	(772)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**98,096**	84,907
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**53,688**	44,676
Cash and bank balances pledged for bank facilities	20	**240**	231
Cash and cash equivalents as stated in the consolidated statement of financial position	20	**53,928**	44,907
Time deposits with original maturity of less than three months when acquired	20	**44,168**	40,000
Cash and cash equivalents as stated in the consolidated statement of cash flows		**98,096**	84,907

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**48,356**	51,403
Intangible assets	14	**12,327**	12,892
Investments in subsidiaries	15	**49,972**	37,854
Available-for-sale investments	16	**7,980**	–
Deferred tax assets	9(c)	**3,900**	–
Total non-current assets		**122,535**	102,149
CURRENT ASSETS			
Inventories	17	**50,927**	76,576
Due from subsidiaries	15	**1,041**	724
Trade and bills receivables	18	**45,622**	42,055
Prepayments, deposits and other receivables	19	**11,143**	8,091
Pledged deposits	20	**240**	231
Cash and cash equivalents	20	**194,041**	146,726
Total current assets		**303,014**	274,403
CURRENT LIABILITIES			
Due to subsidiaries	15	**2,775**	1,225
Trade and bills payables	21	**32,816**	22,346
Other payables and accruals	22	**27,155**	46,046
Tax payable		**14,094**	10,341
Total current liabilities		**76,840**	79,958
NET CURRENT ASSETS		**226,174**	194,445
TOTAL ASSETS LESS CURRENT LIABILITIES		**348,709**	296,594
NON-CURRENT LIABILITIES			
Long term payables	22	**–**	1,068
Net assets		**348,709**	295,526
EQUITY			
Issued capital	23	**61,733**	61,733
Reserves	24	**256,109**	233,793
Proposed final dividend	11	**30,867**	–
Total equity		**348,709**	295,526

Director *Director*

Notes to Financial Statements

31 December 2009

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 2009. 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 and revised 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 and revised HKFRSs has had no significant effect on 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*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
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*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* *Included in Improvements to HKFRSs 2009 (as issued in May 2009).*

Notes to Financial Statements

31 December 2009

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

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

(a) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 has some revision comparing with the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(b) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(c) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(d) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

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

(d) *(continued)*

- HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

Notes to Financial Statements

31 December 2009

2.3 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 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparatives HKFRS7 Disclosures for First-time Adopters[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash – settled Share-based Payment Transactions[2]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[6]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues[3]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items[1]
HK(IFRIC) – Int 14 Amendments	Amendment to HK(IFRIC)-Int14: Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest Subsidiary[1]
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that, except for the adoption of HKFRS 9, HKAS 24 (Revised), HKFRS 3 (Revised) and HKAS 27 (Revised) which may result in new or amended disclosures as further explained below, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39. HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

Notes to Financial Statements

31 December 2009

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 statement of comprehensive income 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 profit or loss.

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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period 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 profit or loss 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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 2009

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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss 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 (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets of the Group are assessed to be finite. Intangible assets with finite lives are subsequently 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 financial year end.

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 profit or loss in the expense category consistent with the function of the intangible asset.

Research and development costs

All research costs are charged to profit or loss 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 profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss 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

Initial recognition and measurement

Financial assets within 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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables and available-for-sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the statement of comprehensive income. These net fair value changes do 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 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other operating expenses.

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 calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments (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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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 when:

- the rights to receive cash flows from the asset have expired;

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at cost

If there is objective evidence 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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Notes to Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Loans and borrowings

After initial recognition, financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 other valuation models.

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 statement of cash flows, 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 statement of financial position, 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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

- 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.

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31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and 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 by the end of the reporting period.

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 profit or loss 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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension schemes

The employees of the Company and its subsidiaries which operate in 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 profit or loss 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 benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss 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 statement of financial position, 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. All differences are taken to profit or loss. 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 end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and its statement of comprehensive income is translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Notes to Financial Statements

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purpose of the consolidated statement of cash flows, 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 judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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 end of the reporting period, 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.

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-down requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of inventories and write-down of inventories in the period in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

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 2009, the best estimate of the carrying amount of capitalised development costs was RMB14,650,000 (2008: RMB12,899,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments 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").

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit before tax. The profit before tax is measured consistently with the Group's profit before tax except that interest income, dividend income, as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents, and other unallocated corporation assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated head office and corporate assets as these liabilities are managed on a group basis.

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.

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4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	312,509	8,865	321,374
Intersegment sales	–	8,904	8,904
	312,509	17,769	330,278
Reconciliation:			
Elimination of intersegment sales			(8,904)
Revenue			321,374
Segment results	43,328	5,531	48,859
Reconciliation:			
Elimination of intersegment results			5,061
Interest income			3,700
Dividend income and unallocated gains			2,503
Profit before tax			60,123
Segment assets	417,875	48,389	466,264
Reconciliation:			
Elimination of intersegment receivables			(2,530)
Corporate and other unallocated assets			7,980
Total assets			471,714
Segment liabilities	79,736	10,759	90,495
Reconciliation:			
Elimination of intersegment payables			(2,530)
Total liabilities			87,965
Other segment information:			
Impairment losses recognised in profit or loss	8,187	152	8,339
Depreciation	5,697	4,582	10,279
Amortisation of intangible assets	2,645	–	2,645
Capital expenditure	9,567	4,953	14,520*

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.*

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2008	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	271,127	10,221	281,348
Intersegment sales	–	9,683	9,683
	271,127	19,904	291,031
Reconciliation:			
Elimination of intersegment sales			(9,683)
Revenue			281,348
Segment results	30,892	5,503	36,395
Reconciliation:			
Elimination of intersegment results			(6,932)
Interest income			5,110
Dividend income and unallocated gains			5,333
Profit before tax			39,906
Segment assets	382,376	35,924	418,300
Reconciliation:			
Elimination of intersegment receivables			(1,274)
Total assets			417,026
Segment liabilities	86,120	6,974	93,094
Reconciliation:			
Elimination of intersegment payables			(1,274)
Total liabilities			91,820
Other segment information:			
Impairment losses recognised in profit or loss	1,475	(18)	1,457
Depreciation	5,996	4,514	10,510
Amortisation of intangible assets	1,981	–	1,981
Capital expenditure	9,107	8,199	17,306*

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition* of a subsidiary.

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4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2009 RMB'000	2008 RMB'000
Mainland China	**279,880**	248,793
Asia Pacific	**34,828**	25,882
Others	**6,666**	6,673
	321,374	281,348

The revenue information from operations above is based on the location of the customers.

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
Mainland China	**81,609**	81,824
Asia Pacific	**24**	159
	81,633	81,983

The non-current asset information above is based on the location of assets and excludes financial instruments, and deferred tax assets.

Information about a major customer

Revenue of approximately RMB31,232,000 (2008: RMB10,711,000) was derived from sales by the design, development and sale of IC products segment to a single customer.

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:

	2009 RMB'000	2008 RMB'000
Revenue		
Sale of goods	**312,509**	271,127
Rendering of services	**8,865**	10,221
	321,374	281,348
Other income and gains		
Bank interest income	**3,700**	5,110
Subsidy income	**1,108**	4,434
Government grants received for research activities (note 6)	**13,076**	10,296
Gain on deemed partial disposal in a subsidiary	**251**	–
Excess over the cost of a business combination	**–**	332
Income from bank financial products	**41**	–
Others	**1,103**	567
	19,279	20,739

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6. PROFIT BEFORE TAX

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

	2009 RMB'000	2008 RMB'000
Cost of inventories sold	**180,285**	170,630
Cost of services provided	**4,464**	5,043
Depreciation	**10,279**	10,510
Research and development costs:		
Deferred development costs amortised*	**2,645**	1,981
Current year expenditure	**41,229**	50,051
	43,874	52,032
Minimum lease payments under operating leases:		
Land and buildings	**3,615**	2,671
Auditors' remuneration	**970**	900
Employee benefit expense (excluding directors' remuneration – (note 7)):		
Wages and salaries	**45,096**	34,935
Pension scheme contributions	**5,189**	3,484
	50,285	38,419
Less: Amounts capitalised as development costs	**(6,173)**	(3,162)
	44,112	35,257
Foreign exchange differences, net	**(7)**	153
Impairment of trade and bills receivables (note 18)	**4,865**	891
Provision for/(reversal of) inventories to net realisable value	**1,658**	(2,434)
Impairment of available-for-sale investments (note 16)	**–**	3,000
Impairment of intangible assets (note 14)	**1,816**	–
Loss on disposal of items of property, plant and equipment	**73**	87
Bank interest income	**(3,700)**	(5,110)
Subsidy income	**(1,108)**	(4,434)
Government grants received for research activities**	**(13,076)**	(10,296)
Gain on deemed partial disposal of a subsidiary	**(251)**	–
Excess over the cost of a business combination	**–**	(332)

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 statement of comprehensive income.*

** *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 consolidated statement of financial position.*

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	
	2009 RMB'000	2008 RMB'000
Fees	**53**	55
Other emoluments:		
Other benefits	**72**	72
Salaries, allowances and benefits in kind	**2,791**	2,643
	2,916	2,770

(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	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Mr. Cheung Wing Keung	**53**	55	**–**	–
Mr. Guo Li	**–**	–	**36**	36
Mr. Chen Baoying	**–**	–	**36**	36
	53	55	**72**	72

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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
2009				
Executive directors:				
Mr. Jiang Guoxing	**300**	**–**	**–**	**300**
Mr. Shi Lei	**989**	**–**	**–**	**989**
Mr. Yu Jun	**656**	**–**	**–**	**656**
Ms. Cheng Junxia	**427**	**–**	**–**	**427**
Mr. Wang Su	**419**	**–**	**–**	**419**
	2,791	**–**	**–**	**2,791**
Non-executive directors:				
Ms. Zhang Qianling	**–**	**–**	**–**	**–**
Mr. He Lixing	**–**	**–**	**–**	**–**
Mr. Shen Xiaozu	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
	2,791	**–**	**–**	**2,791**

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
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

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 (2008: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee of the Group for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	**451**	517
Pension scheme contributions	**11**	12
	462	529

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 (2008: Nil to HK$1,000,000).

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

9. INCOME 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 2009, income taxes on assessable income of the Company have been provided at the rate of 15% (2008: 15%).

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. For the year ended 31 December 2008, Sino IC was subject to a preferential tax rate of 12.5% as it was still in its fifth profit making year and was entitled to a 50% concession on income tax. For the financial year ended 31 December 2009, income taxes on assessable income of Sino IC have been provided at the rate of 15% (2008: 12.5%).

Under the New CIT Law, the Company's subsidiary, FuKong Hualong is subject to income tax at a base rate of 25%. In the meantime, pursuant to an approval document dated 15 May 2009 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2008, Fukong Hualong is exempted from corporate income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Fukong Hualong was in its second profit making year for the financial year ended 31 December 2009, so the applicable tax rate is Nil (2008: Nil).

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 Doublepoint Information Technology Co., Ltd. ("FDKJ"), are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2009, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2008: 25%).

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

9. INCOME TAX *(continued)*

	2009 RMB'000	2008 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**184**	446
Current – Mainland China		
Charge for the year	**10,162**	6,130
Overprovision in the prior year	**(1,538)**	(89)
Deferred	**(4,669)**	120
Total tax charge for the year	**4,139**	6,607

(a) Income tax expense

A reconciliation of the tax expense applicable to profit before tax at 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 – 2009

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	59,143		980		60,123	
Tax at the applicable tax rates	14,786	25.0	162	16.5	14,948	24.9
Lower tax rate enacted by local authority	(6,364)	(10.8)	–	–	(6,364)	(10.6)
Adjustment in respect of current tax of previous periods	(1,538)	(2.6)	–	–	(1,538)	(2.5)
Tax concession	(2,084)	(3.5)	–	–	(2,084)	(3.5)
Expenses not deductible for tax	1,109	1.9	22	2.2	1,131	1.9
Temporary differences not recognised as deferred tax assets in previous years	(2,092)	(3.5)	–	–	(2,092)	(3.5)
Tax losses not recognised	138	0.2	–	–	138	0.2
Tax charge at the Group's effective rate	3,955	6.7	184	18.7	4,139	6.9

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9. INCOME TAX *(continued)*

(a) Income tax expense *(continued)*

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 tax rate 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)
Temporary 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

(b) Income tax payable/(recoverable) in the consolidated statement of financial position represents:

	2009 RMB'000	2008 RMB'000
At beginning of year	**10,428**	10,833
Provision for the year	**8,808**	6,487
Payment during the year	**(3,877)**	(6,892)
At end of year	**15,359**	10,428
Represented by:		
Income tax payable	**15,613**	11,259
Income tax recoverable	**(254)**	(831)

9. INCOME TAX *(continued)*

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

The movements in deferred tax assets and liabilities during the year are as follows:

Group – 2009

Deferred tax assets

	At 1 January 2009 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2009 RMB'000
Impairment of assets	–	3,240	3,240
Government grants related to property, plant and equipment	360	2,775	3,135
Temporary differences related to other payables and accruals	–	794	794
Total	360	6,809	7,169

Deferred tax liabilities

	At 1 January 2009 RMB'000	Deferred tax charged/(credited) to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2009 RMB'000
Deferred development costs	–	2,140	2,140
Depreciation of property, plant and equipment	23	–	23
Total	23	2,140	2,163

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	5,241
Net deferred tax liabilities recognised in the consolidated statement of financial position	235

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9. INCOME TAX *(continued)*

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

Group – 2008

Deferred tax assets

	At 1 January 2008 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2008 RMB'000
Government grants related to property, plant and equipment	480	(120)	360

Deferred tax liabilities

	At 1 January 2008 RMB'000	Deferred tax charged/(credited) to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2008 RMB'000
Depreciation of property, plant and equipment	23	–	23

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	360
Net deferred tax liabilities recognised in the consolidated statement of financial position	23

9. INCOME TAX *(continued)*

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

Company – 2009

Deferred tax assets

	At 1 January 2009 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2009 RMB'000
Impairment of assets	–	2,357	2,357
Government grants related to property, plant and equipment	–	2,719	2,719
Temporary differences related to other payables and accruals	–	674	674
Total	–	5,750	5,750

Deferred tax liabilities

	At 1 January 2009 RMB'000	Deferred tax charged/(credited) to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2009 RMB'000
Deferred development costs	–	1,850	1,850

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Company for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the statement of financial position	3,900

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB42,065,000 (2008: profit of RMB30,307,000) which has been dealt with in the financial statements of the Company (note 24).

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11. DIVIDEND

	2009 RMB'000	2008 RMB'000
Interim – Nil (2008: RMB3 cents) per ordinary share	–	18,520
Proposed final – RMB5 cents (2008: Nil) per ordinary share	**30,867**	–
	30,867	18,520

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 of 617,330,000 (2008: 617,330,000) in issue during the year.

The calculation of basic earnings per share is based on:

	2009 RMB'000	2008 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**53,006**	31,288

	Number of shares'000	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**617,330**	617,330

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue 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 2009					
Cost:					
At beginning of year	47,231	73,251	2,691	1,226	124,399
Additions	1,130	1,459	596	5,123	8,308
Transfers	–	3,115	–	(3,115)	–
Disposals	(40)	(953)	(45)	–	(1,038)
Exchange realignment	–	(8)	–	–	(8)
At 31 December 2009	48,321	76,864	3,242	3,234	131,661
Accumulated depreciation:					
At beginning of year	4,897	48,910	1,508	–	55,315
Provided during the year	1,778	8,171	330	–	10,279
Disposals	–	(903)	(5)	–	(908)
Exchange realignment	–	(8)	–	–	(8)
At 31 December 2009	6,675	56,170	1,833	–	64,678
Net book value:					
At 31 December 2009	41,646	20,694	1,409	3,234	66,983
At 31 December 2008	42,334	24,341	1,183	1,226	69,084

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

Group *(continued)*

	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	–	304	–	–	304
Transfers	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
Provided during the year	1,382	8,775	353	–	10,510
Acquisition of a subsidiary	–	44	–	–	44
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

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 2009					
Cost:					
At beginning of year	46,200	35,937	1,458	754	84,349
Additions	1,129	1,070	–	271	2,470
Transfers	–	445	–	(445)	–
Disposals	(40)	(953)	–	–	(993)
At 31 December 2009	47,289	36,499	1,458	580	85,826
Accumulated depreciation:					
At beginning of year	4,866	27,048	1,032	–	32,946
Provided during the year	1,498	3,810	119	–	5,427
Disposals	–	(903)	–	–	(903)
At 31 December 2009	6,364	29,955	1,151	–	37,470
Net book value:					
At 31 December 2009	40,925	6,544	307	580	48,356
At 31 December 2008	41,334	8,889	426	754	51,403

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

Company *(continued)*

	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	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

14. INTANGIBLE ASSETS

	Deferred development costs	
	Group	Company
	RMB'000	RMB'000
31 December 2009		
Cost:		
At beginning of year	**38,206**	**35,643**
Additions – internal development	**6,212**	**3,894**
At 31 December 2009	**44,418**	**39,537**
Accumulated amortisation and impairment:		
At beginning of year	**25,307**	**22,751**
Amortisation provided during the year	**2,645**	**2,643**
Impairment during the year	**1,816**	**1,816**
At 31 December 2009	**29,768**	**27,210**
Net book value:		
At 31 December 2009	**14,650**	**12,327**
At 31 December 2008	**12,899**	**12,892**
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

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15. INVESTMENTS IN SUBSIDIARIES

	Company 2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**49,972**	37,854

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,041,000 (2008: RMB724,000) and RMB2,775,000 (2008: RMB1,225,000), 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	RMB31,000,000	64.9	Provision of testing services for IC products; designing, developing and selling IC testing software; production of probe cards; and the provision of research and consultancy services of IC technology
Shanghai Fudan Micro-electronics (HK) Limited	Hong Kong 23 January 2002	HK$7,000,000	100	Developing and selling IC products
SZFM**	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

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
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
FDKJ**	People's Republic of China/ Mainland China 4 August 2009	RMB1,000,000	100	Provision of research and consultancy services of computer and network technology area; developing and selling of hardware and software of computer, electronic product, communication equipment; designing, manufacturing and agency service for advertising; electronic commerce

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15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Pursuant to a resolution of Sino IC's shareholders' general meeting held on 6 March 2009, the registered capital of Sino IC was increased from RMB13 million to RMB28.5 million. The additional RMB15.5 million capital was contributed by capitalisation of accumulated profits. In addition, pursuant to a resolution of the shareholders' general meeting held on 3 December 2009, the registered capital of Sino IC was further increased from RMB28.5 million to RMB31 million. The additional capital was to be contributed by its minority shareholders in cash. On 24 December 2009, Sino IC received cash contributions of RMB2.825 million from the minority shareholders, of which RMB2.5 million represented addition of paid-in capital and the remaining RMB0.325 million was added to the capital surplus of Sino IC. As a consequence of the above equity transactions, the Company's equity interest in Sino IC diluted from 69.2% to 64.9%, which gave rise to a deemed partial disposal gain of RMB251,000.

** *SZFM and BJFM are wholly-owned subsidiaries of the Company newly incorporated in 2007. FDKJ is a wholly-owned subsidiary of the Company newly incorporated in 2009. All of them are registered as limited liability companies under the PRC law. None 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 acquired during 2008, which is registered as a contractual joint venture company under the PRC law. Fukong Hualong was not audited by Ernst & Young or other member firm of the Ernst & Young global network.*

16. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Unlisted equity investments, at cost	**13,443**	5,463
Impairment provision	**(5,463)**	(5,463)
	7,980	–

As at 31 December 2009, 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	
	2009	2008
	RMB'000	RMB'000
At 1 January	**5,463**	2,463
Impairment losses recognised (note 6)	**–**	3,000
	5,463	5,463

16. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB5,463,000 (2008: RMB5,463,000) with a carrying amount of RMB13,443,000 (2008: 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	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Raw materials:				
At cost	**13,026**	23,685	**12,991**	29,669
Work in progress:				
At cost	**18,669**	14,376	**17,610**	12,010
Finished goods:				
At cost	**24,217**	37,001	**20,326**	34,897
At net realisable value	**–**	1,856	**–**	–
	55,912	76,918	**50,927**	76,576

18. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Trade and bills receivables	**68,896**	58,886	**57,765**	49,654
Impairment	**(12,489)**	(7,624)	**(12,143)**	(7,599)
	56,407	51,262	**45,622**	42,055

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.

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18. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**39,919**	34,828	**31,434**	26,121
3 to 6 months	**13,425**	13,019	**11,211**	12,624
6 to 12 months	**2,299**	2,525	**2,250**	2,432
Over 12 months	**764**	890	**727**	878
	56,407	51,262	**45,622**	42,055

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**7,624**	6,733	**7,599**	6,708
Impairment losses recognised (note 6)	**4,865**	891	**4,544**	891
	12,489	7,624	**12,143**	7,599

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB7,902,000 (2008: RMB3,180,000) with a carrying amount before provision of RMB8,213,000 (2008: RMB7,387,000). 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	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Neither past due nor impaired	**49,777**	47,628	**40,798**	38,513
Less than 1 month past due	**2,528**	959	**1,773**	867
1 to 3 months past due	**2,805**	259	**1,804**	259
3 to 6 months past due	**1,279**	1,604	**1,247**	1,604
6 to 12 months past due	**18**	812	**–**	812
	56,407	51,262	**45,622**	42,055

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.

As at 31 December 2009, included in the Group's trade and bills receivables is an amount due from an entity controlled by SCI of Nil (2008:RMB266,000) 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	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Prepayments	**2,219**	4,790	**1,604**	4,597
Deposits and other receivables	**9,600**	3,966	**9,539**	3,494
	11,819	8,756	**11,143**	8,091

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.

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20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Cash and bank balances	**53,928**	44,907	**37,453**	36,957
Time deposits with original maturity of less than three months when acquired	**44,168**	40,000	**19,000**	11,000
Time deposits with original maturity of over three months when acquired	**154,372**	112,009	**137,828**	99,000
Cash and cash equivalents	**252,468**	196,916	**194,281**	146,957
Less: Deposits pledged for bank facilities	**(240)**	(231)	**(240)**	(231)
Cash and cash equivalents	**252,228**	196,685	**194,041**	146,726

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB233,651,000 (2008: RMB178,100,000). 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 end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Within 3 months	**33,775**	21,714	**32,611**	19,665
3 to 6 months	**520**	1,935	**140**	943
6 to 12 months	**12**	2,654	**12**	1,688
Over 12 months	**53**	50	**53**	50
	34,360	26,353	**32,816**	22,346

21. TRADE AND BILLS PAYABLES *(continued)*

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

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

As at 31 December 2009, included in the Group's trade and bills payables is an amount due to an entity controlled by SCI of Nil (2008: RMB699,000) which is repayable on similar credit terms to those offered by the major suppliers of the Group.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Payable for purchase of software	**1,225**	3,069	**1,225**	3,069
Portion classified as long term	**–**	1,068	**–**	1,068
Current portion	**1,225**	2,001	**1,225**	2,001
Accruals	**798**	1,043	**691**	710
Dividend payables	**–**	18,520	**–**	18,520
Other payables	**35,734**	31,553	**25,239**	24,815
	37,757	53,117	**27,155**	46,046

Included in the Group's other payables and accruals as of 31 December 2009, there was an amount due to an entity controlled by SCL of RMB216,000.

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

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

23. SHARE CAPITAL

	2009 RMB'000	2008 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2008: 375,000,000) unlisted domestic shares of RMB0.10 each	**37,500**	37,500
242,330,000 (2008: 242,330,000) H shares of RMB0.10 each	**24,233**	24,233
	61,733	61,733

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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 33 of the financial statements.

Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2008	168,486	7,296	39,299	215,081
Total comprehensive income 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 and 1 January 2009	**168,486**	**11,121**	**54,186**	**233,793**
Total comprehensive income for the year	**–**	**–**	**53,183**	**53,183**
Proposed 2009 final dividend (note 11)	**–**	**–**	**(30,867)**	**(30,867)**
Transfer from retained profits	**–**	**4,436**	**(4,436)**	**–**
At 31 December 2009	**168,486**	**15,557**	**72,066**	**256,109**

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 RMB4,436,000 (2008: RMB3,825,000) 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.

24. RESERVES *(continued)*

Company *(continued)*

The directors of the Company's PRC subsidiaries have proposed to transfer RMB250,000 (2008: RMB418,000) in total 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 2009, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2008: 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. COMMITMENTS

The Group and the Company had the following commitments at the end of the reporting period:

(a) Capital commitments

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Contracted, but not provided for:				
Intangible assets	**240**	439	**240**	439

(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 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Within one year	**2,944**	2,936	**1,584**	1,401
In the second to fifth years, inclusive	**3,062**	4,489	**2,410**	3,403
After five years	**–**	652	**–**	–
	6,006	8,077	**3,994**	4,804

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26. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	**2009 RMB'000**	2008 RMB'000
Technical and equipment support fee paid to:			
the owner of a substantial shareholder	(i)	**494**	425
Research and development fee paid to:			
the owner of a substantial shareholder	(ii)	**1,996**	1,285
Purchases of plant, vehicles, furniture and fixtures from: an entity controlled by SCI	(iii)	**539**	–
Vehicles rental fee paid to:			
an entity controlled by SCI	(iii)	**207**	–

Notes:

(i) On 12 August 2003, the Company and 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 2009 amounted to RMB494,000.

(ii) 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 received a research and development fee of RMB960,000 as the first payment in 2008 and the remaining fee of RMB120,000 in 2009.

On 25 June 2009, the Company entered into the Special FPGA Agreement with SFU amounting to RMB2,060,000. According to the Special FPGA Agreement, the Company will cooperate with SFU to conduct the research and development of highly reliable anti-irradiation FPGA circuits. As such, SFU received a research and development fee of RMB2,060,000, and at the same time, paid a research and development fee of RMB184,000 in 2009 to the Company in respect of cooperating in technology research of radio resistance for FPGA circuits.

(iii) In September 2009, Fukong Hualong purchased plant, vehicles, furniture and fixtures amounting to RMB539,000 from FHIT. The items of property, plant and equipment were acquired at their net book values.

On 1 January 2008, Fukong Hualong entered into a vehicle rental contract with FHIT for a 17-month period ended 31 May 2009. As such, Fukong Hualong paid to FHIT a rental fee of RMB207,000 during the year.

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.

26. RELATED PARTY TRANSACTIONS

(b) Outstanding balances with related parties:

Details of the Group's receivable and payable balances with FHIT are disclosed in notes 18, 21 and 22 to the financial statements.

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

	2009 RMB'000	2008 RMB'000
Fees	**125**	127
Other emoluments:		
Salaries, allowances and benefits in kind	**2,791**	2,643
Total compensation paid to key management personnel	**2,916**	2,770

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.

Notes to Financial Statements
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27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	Loans and receivables RMB'000	Available–for-sale financial assets RMB'000	Total RMB'000
31 December 2009			
Available-for-sale investments	**–**	**7,980**	**7,980**
Trade and bills receivables	**56,407**	**–**	**56,407**
Financial assets included in prepayments, deposits and other receivables	**9,600**	**–**	**9,600**
Pledged deposits	**240**	**–**	**240**
Cash and cash equivalents	**252,228**	**–**	**252,228**
	318,475	**7,980**	**326,455**
31 December 2008			
Trade and bills receivables	51,262	–	51,262
Financial assets included in prepayments, deposits and other receivables	3,966	–	3,966
Pledged deposits	231	–	231
Cash and cash equivalents	196,685	–	196,685
	252,144	–	252,144

27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2009	
Trade and bills payables	**34,360**
Financial liabilities included in other payables and accruals	**34,130**
	68,490
31 December 2008	
Trade and bills payables	26,353
Financial liabilities included in other payables and accruals	51,370
Long term payables	1,068
	78,791

Notes to Financial Statements

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27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
31 December 2009			
Available-for-sale investments	**–**	**7,980**	**7,980**
Due from subsidiaries	**1,041**	**–**	**1,041**
Trade and bills receivables	**45,622**	**–**	**45,622**
Financial assets included in prepayments, deposits and other receivables	**9,539**	**–**	**9,539**
Pledged deposits	**240**	**–**	**240**
Cash and cash equivalents	**194,041**	**–**	**194,041**
	250,483	**7,980**	**258,463**
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	3,494	–	3,494
Pledged deposits	231	–	231
Cash and cash equivalents	146,726	–	146,726
	193,230	–	193,230

27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2009	
Due to subsidiaries	**2,775**
Trade and bills payables	**32,816**
Financial liabilities included in other payables and accruals	**23,693**
	59,284
31 December 2008	
Due to subsidiaries	1,225
Trade and bills payables	22,346
Financial liabilities included in other payables and accruals	44,375
Long term payables	1,068
	69,014

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, 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.

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31 December 2009

28. 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 25% (2008: 24%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 70% (2008: 72%) 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 end of the reporting period 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** RMB'000	**Increase/ (decrease) in equity** RMB'000
2009			
If RMB weakens against United States dollar ("US$")	**+5**	**1,026**	**872**
If RMB strengthens against US$	**–5**	**(1,026)**	**(872)**
If RMB weakens against Hong Kong dollar ("HK$")	**+5**	**245**	**223**
If RMB strengthens against HK$	**–5**	**(245)**	**(223)**
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)

28. 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** RMB'000	**Increase/ (decrease) in equity** RMB'000
2009			
If RMB weakens against US$	**+5**	**1,026**	**872**
If RMB strengthens against US$	**–5**	**(1,026)**	**(872)**
If RMB weakens against HK$	**+5**	**–**	**–**
If RMB strengthens against HK$	**–5**	**–**	**–**
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)

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, deposits and other receivables, available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. 15% (2008: 14%) 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.

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28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(continued)

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 end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
31 December 2009						
Trade and bills payables	**3,274**	**30,882**	**204**	**–**	**–**	**34,360**
Other payables and accruals	**24,347**	**5,670**	**4,113**	**–**	**–**	**34,130**
	27,621	**36,552**	**4,317**	**–**	**–**	**68,490**
31 December 2008						
Trade and bills payables	3,673	22,680	–	–	–	26,353
Other payables and accruals	36,319	9,539	5,512	–	–	51,370
Long term payables	–	–	–	1,068	–	1,068
	39,992	32,219	5,512	1,068	–	78,791

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

Liquidity risk *(continued)*

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
31 December 2009						
Trade and bills payables	**1,817**	**30,795**	**204**	**–**	**–**	**32,816**
Other payables and accruals	**14,333**	**5,247**	**4,113**	**–**	**–**	**23,693**
Due to subsidiaries	**–**	**2,775**	**–**	**–**	**–**	**2,775**
	16,150	**38,817**	**4,317**	**–**	**–**	**59,284**
31 December 2008						
Trade and bills payables	2,680	19,666	–	–	–	22,346
Other payables and accruals	30,033	8,830	5,512	–	–	44,375
Due to subsidiaries	–	1,225	–	–	–	1,225
Long term payables	–	–	–	1,068	–	1,068
	32,713	29,721	5,512	1,068	–	69,014

Capital management

The primary objectives of the Group's capital management are 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 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 2009 and 31 December 2008.

Notes to Financial Statements

31 December 2009

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

Capital management *(continued)*

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 owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Trade and bills payables	**34,360**	26,353
Other payables and accruals	**37,757**	53,117
Long term payables	**–**	1,068
Total debt	**72,117**	80,538
Equity attributable to owners of the parent	**354,306**	301,315
Capital and total debt	**426,423**	381,853
Gearing ratio	**17%**	21%

29. EVENTS AFTER THE REPORTING PERIOD

(a) On 25 January 2010, the Company entered into a purchase agreement with an independent third party to purchase certain office premises situated in Shanghai for a cash consideration of RMB7,927,000.

(b) The directors recommend the payment of a final dividend of RMB5 cents per ordinary share in respect of the year to shareholders on the register of members on 28 May 2010.

30. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2010.

Five Year Financial Summary

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

	Year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
RESULTS					
REVENUE	**321,374**	281,348	315,967	276,171	211,211
Cost of sales	**(186,407)**	(173,239)	(222,434)	(205,989)	(157,393)
Gross profit	**134,967**	108,109	93,533	70,182	53,818
Other income and gains	**19,279**	20,739	28,767	12,144	10,991
Selling and distribution costs	**(14,944)**	(12,365)	(10,312)	(7,436)	(7,914)
Administrative expenses	**(28,350)**	(22,144)	(23,512)	(24,981)	(22,795)
Other expenses	**(50,829)**	(54,433)	(36,451)	(23,500)	(24,438)
PROFIT BEFORE TAX	**60,123**	39,906	52,025	26,409	9,662
Tax	**(4,139)**	(6,607)	(12,028)	(4,433)	(1,272)
PROFIT FOR THE YEAR	**55,984**	33,299	39,997	21,976	8,390
Attributable to:					
Owners of the parent	**53,006**	31,288	38,250	21,098	8,037
Minority interests	**2,978**	2,011	1,747	878	353
	55,984	33,299	39,997	21,976	8,390
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**471,714**	417,026	370,031	335,533	331,516
TOTAL LIABILITIES	**(87,965)**	(91,820)	(73,963)	(76,075)	(92,849)
MINORITY INTERESTS	**(29,443)**	(23,891)	(6,740)	(4,993)	(4,115)
	354,306	301,315	289,328	254,465	234,552