上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

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

(Stock Code: 8102)

ANNUAL REPORT 2010

* for identification only

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This report, for which the directors (the "Directors") of Shanghai Fudan Microelectronics Group Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Chairman's Statement

TO ALL SHAREHOLDERS:

On behalf of the board of directors (the "Board") of Shanghai Fudan Microelectronics Group Company Limited (the "Company" and formerly known as Shanghai Fudan Microelectronics Company Limited), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

The Company changed its company name during the year so as to better reflect the collective integrated and diversified business of the Group in the IC design industry. Besides the enhancement of the Company's corporate image, it will also help the future business development of the Group.

In the year 2010, following the outbreak of global financial crisis, different countries have different levels of economic recovery but the paces are rather slow. The economy of the PRC kept a rapid growth as a result of government stimulus and supportive policies in addition to the motive force of domestic needs. The Group has been concentrated its business in the domestic market and was hence benefited with new highs in its turnover and results. The Group continuous to seek business opportunities and market explorations, and during the year, has participated in certain projects of the Shanghai World Expo as well as successful in joining the government projects in other provinces and cities as the major supplier and service provider of IC card chips.

The Group has all the time been concentrated in its core business with the PRC market as its base, and has kept a continuous business growth over the years with healthy financial position and diversified development in its products. In view of satisfactory business and results, the Board is actively considering the solutions for returns to the shareholders, besides recommending dividends in accordance with results, will also adopt procedures to promote the Group's recognition, and to improve the results by fully developing the advantages of advanced technologies with a view to reflect the Company's value in its share price so as to repay in a good way for the shareholders' support.

The Board believes that the success of the Group's business development relies on the technical supports from the Shanghai Fudan University and the backup of continuous resources applied by the Group in research and development of its products, and as a result of taking the right time of rapid economic growth in the PRC which brought with increasing market demand in electronic products and the China government's injection of substantial resources to support the industry. As the PRC is still a developing country and has to stimulate its economy in great efforts for the improvements of people's living standards, the Group will highly value its results and grasp the business opportunities with a view to fulfill its business objectives. It is expected that the results of the Group for the coming year will continue to grow with steady business development.

On behalf of the fellow Board members, I would like to express my heartfelt thanks to the senior management and all staff members for their hard work during the past year, and the Company's shareholders and business associates for their continued support and trust.

Jiang Guoxing
Chairman

Shanghai, the PRC, 22 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the domestic electronics market in the PRC continued to rise following the growth momentum of the PRC's economy. The Group was benefited with satisfactory business development during the year as well, in addition to the gaining of related market in the Shanghai World Expo, participations in government projects in other provinces and cities were also gradually implemented. The Group has strengthened the technology and design innovation in its major product IC card chips for the usages and applications in various different industries, and with over ten years substantial experience and advanced technology, sales quantity of the Group's products has becoming the front ranking.

During the year ended 31 December 2010, both the Group's sales and profit after tax were recorded with new highs. Domestic sales as well as export sales increased as compared with last year and the overall profit margin also increased over the years. The Group has completed the research and development of certain products during the year and introduced publicly through demonstrations in several large exhibitions, and it is expected that these products will be put into production and launched into market shortly. Besides, the Group also actively sought for the co-operation with giant companies with the intention to develop high new technologies and business innovation.

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

IC Smart Card Chips

IC card chips are the Group's major products and sales of which have been a substantial constitution of the Group's overall turnover for years, and the portion in this year was approximately 65%. The sales for the year have significantly increased by approximately 58% over the last year together with an increase in profit margin and contributed a lot to the Group's results. Because of the commencement in changes of toll system and electronic public transportation in various cities within the PRC, these products have been provided with huge rooms for market development. Based on the past successful experience in IC card chips business and the provision of more comprehensive solutions, the Group has predominance in expanding its business to the public transportation in other cities. During the year, the Group's IC card chips have participated in the government projects relating to the Shanghai World Expo and being adopted in the public transportation system of some cities in the PRC.

Consumer Electronics Chips

The sales of consumer electronic products ranked second in the Group's overall turnover. Several new products were launched during the year and as benefited from the domestic economic growth and the increasing market demand in consumer electronic products, the products sales as well as profit margin were increased. As consumer electronic products have a characteristic of short useful live, high profit margin and fast price adjustments, as such, there were an increase of 49% in sales as compared with last year and a slightly increase in profit margin.

Power Electronics Chips

Since the market of power electronics IC chips lacks changes and the products are usually long lasting, both the customer base and sales for these products have been kept constantly since market introductions. The sales for the year kept a growth over the years, however, as a result of marketing policy, the selling prices and profit margin were dropped but with an increase of 31% in sales over the last year.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Motor and Mobile Electronics Chips

The market of motor and mobile electronics chips has been highly competitive over the years and the Group has already cut its resources applied and scaled down in early years, as a consequence, product sales of which only accounted for a small portion of the Group's total turnover. Because these old products series are outdated without innovation, sales dropped but profit margin raised during the year as compared with the last year.

Telecommunication Electronics Chips

Sales of the telecommunication electronics chips products still suffered from market saturation and keen competition and only a few old products were available for sale, even though sales increased during the year due to sales promotion, the profit margin decreased as a result and the contributions of this product category to the Group's turnover and profit were minimal.

IC Testing Services

Due to the rapid growth in the electronics industry in the PRC, in addition that the Group has built a solid foundation in the IC testing services industry, the business has been benefited in pace of market development. The income from IC testing services rendered externally increased by approximately 67% as compared with last year with profit margin also increased. These testing services were operated by a subsidiary which provided the Group with quality assurance and more than half of its income was derived from the Group that would produce a synergy effect.

Other IC Chips and products

Sales of other IC chips and products during the year have both been increased. Although these products were not in the Group's main series, their markets have helped the business exploration of the main products and had a considerable contribution to the Group's results.

FINANCE REVIEW

The Group recorded a total revenue of approximately RMB489,083,000 (2009: RMB321,374,000) for the year ended 31 December 2010 represents a rise of approximately 52% as compared to the previous year. The audited profit attributable to owners of the parent was approximately RMB117,039,000 (2009: RMB53,006,000) and the basic earnings per share was RMB18.96 cents (2009: RMB8.59 cents), representing increases of approximately 121% over the last year. The Directors recommend the payment of a final dividend of RMB5 cents (2009: RMB5 cents) per ordinary share in respect of the year.

For the year under review, in addition to the rise of total revenue, the Group's profit margin has been increased to the level of approximately 46% from 42% of last year resulted from the launch of new products into the market. Other income and gains increased by approximately RMB7,647,000 or 18%, and because of the Group's active participations in government projects in recent years, the government grants and subsidies increased and the rise of interest rate brought with an increase in bank interest income.

Management Discussion and Analysis

FINANCE REVIEW *(continued)*

For the expenses incurred during the year, the selling and distribution costs raised by approximately 41% over the last year in accordance with the growth in turnover. The administrative expenses increased by approximately 24% due to new recruitment in order to cope with business development and adjustments in salary policy to kept technical experts. With regard to the other expenses, there was no impairment loss on intangible assets (2009: provision of RMB1,816,000) and the provision ratio for doubtful debts has been significantly decreased as compared with the last year. The increase in application of resources in research and development projects and the impairment loss on the whole of available-for-sale investment due to business change in Shanghai Fudan Communication Co., Ltd. have resulted in an increase of approximately 16% in other expenses.

In respect of income tax, because some of the group companies have been recognised as High New Technology Enterprises, they are eligible to a preferential income tax rate. The income tax charges for the current year significantly raised as a result of increase in assessable profits for the year.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, the Group has no material investment and there was no material change in the subsidiaries of the Group during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

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

TECHNOLOGICAL COOPERATION

The Company has entered into a co-operation agreement with the Shanghai subsidiary of China United Network Communications Group Co., Ltd. ("Shanghai Unicom") during the year for the development of related technologies in "The Internet of Things". With the help of related information and technologies provided by Shanghai Unicom, the Group would be able to develop its business in the future.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2010, net assets of the Group amounted to approximately RMB474,247,000 (2009: RMB383,749,000); current assets amounted to approximately RMB517,552,000 (2009: RMB376,860,000), of which approximately RMB267,200,000 (2009: RMB252,468,000) 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.

As at 31 December 2010, the Group has no deposit pledged as guarantee (2009: RMB240,000 pledged as guarantee for fulfillment of projects) and has not pledged any of its assets to any third parties (2009: nil).

Management Discussion and Analysis

CAPITAL STRUCTURE

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

GEARING RATIO

As at 31 December 2010, the Group's current liabilities amounted to approximately RMB161,448,000 (2009: RMB87,730,000) and non-current liabilities of approximately RMB2,099,000 (2009: RMB235,000). The net assets value per share of the Group was approximately RMB0.77 (2009: RMB0.62). The Group's ratio of current liabilities over current assets was approximately 31.2% (2009: 23.3%) and the gearing ratio was approximately 34.5% (2009: 22.9%) on the basis of total liabilities over net assets. As at 31 December 2010, the Group and the Company had no bank or other borrowings (2009: nil).

INTEREST AND FOREIGN EXCHANGE RISK

The Board 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 23% (2009: 25%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 80% (2009: 70%) 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. 27% (2009: 15%) 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, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group had capital commitments of approximately RMB1,445,000 related to acquisition of property, plant and equipment (2009: RMB240,000).

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no contingent liabilities (2009: nil).

Management Discussion and Analysis

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 2010, the Group employed approximately 547 (2009: 471) employees. The increase in number of employees was due to expansion of the Group's business, increase of 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 2010 amounted to approximately RMB57,638,000 (2009: RMB47,028,000). The increase in total employees expenses was due to the increase in employees and salary adjustments to keep technical experts.

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

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 57, 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 (the "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 44, 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 as well as a professor grade senior engineer and was graduated with a Bachelor degree in management from China University of Technology and a Master's degree in management from the 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 43, 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 the 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 64, 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 the 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 57, 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 74, 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 the Fudan University.

Mr. He Lixing, aged 76, 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 61, 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 46, 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 64, 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 81, 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 39, 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 48, 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 55, 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 54, 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 60, 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 42, joined the Company in June 2001, is the Deputy General Manager of the Company. He holds a bachelor degree and is a researcher in microelectronics and chief engineer. Before joining the Company, he worked for China Spaces Technology Research College and was the manager of design department of the Company. He has substantial experience in IC design and specific application management.

Mr. Ma Fubin, aged 40, joined the Company in October 1999, is the Deputy General Manager of the Company. He and holds a Master's degree in business administration and is a certified public accountant of the PRC. Before joining the Company, he has worked in Zhejiang Province Village Development Investment Group Limited as assistant to investment manager.

Mr. Diao Linshan, aged 45, 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 54, 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 had been employed as group financial controller of various companies including a listed company in Hong Kong as well as 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 2010, 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 25 to 26.

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 2010.

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 held four full board meetings in each year and meets as and when required. During the year ended 31 December 2010, the attendances of the Directors at the board meetings are as follows:

Directors	Number of attendance
Mr. Jiang Guoxing	3/4
Mr. Shi Lei	4/4
Mr. Yu Jun	4/4
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 all 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.

Non-executive Directors and Independent 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 three 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 and Independent 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 28 May 2010 until the forthcoming annual general meeting to be held in or about May 2011 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 three 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 three 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 2010 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.

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.

Corporate Governance Report

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. Two 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 Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

CHANGE OF COMPANY NAME

Pursuant to a special resolution made in an extraordinary general meeting on 28 October 2010 and approved by the Administrative Bureau of Industry and Commerce of Shanghai City on 30 December 2010, the name of the Company was changed from Shanghai Fudan Microelectronics Company Limited to Shanghai Fudan Microelectronics Group Company Limited.

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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 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 27 May 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 97. 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 2010, the Company's reserves available for distribution amounted to RMB174,516,000, 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 77% of the total purchases for the year and purchases from the largest supplier included therein amounted to 33%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

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

Non-executive directors:

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

Independent non-executive directors:

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

DIRECTORS *(continued)*

In accordance with article 87 of the Company's amended articles of association, with effect from 19 May 2006, the directors shall be elected at the general meeting each for a term of not more than three years. One-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office at the annual general meeting (the "AGM"). Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years. Any person appointed as a director either to fill a casual vacancy or as an addition to the board of directors shall be subject to election by shareholders at the first annual 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 as at the date of this report 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 28 May 2010, until the forthcoming AGM in or about May 2011 and are subject to termination by either party giving no less than one month's written notice.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

Report of the Directors

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

At 31 December 2010, 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 of Hong Kong Limited (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

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, supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University (the "University Laboratory") and Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Save as disclosed above, as at 31 December 2010, 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 2010, 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 2010, 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

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

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 a 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 2010 amounted to RMB387,000.

On 1 December 2010, the Company entered into a Special FPGA Agreement with SFU. According to the Special FPGA Agreement, SFU will cooperate with the Company to conduct the research and development of highly reliable anti-irradiation FPGA circuits. As such, the Company expects that the total distribution to SFU will be with an annual cap of RMB2,600,000, RMB5,000,000 and RMB5,000,000, respectively, during 2010, 2011 and 2012. The Company paid no distribution of profit to SFU during 2010.

On 29 September 2010, two of the Company's subsidiaries, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") and Sino IC Technology Co., Ltd. ("Sino IC") entered into a sales and purchase agreement with each other. According to the agreement, Sino IC agreed to purchase raw wafer of approximately RMB5,170,000 from Fukong Hualong and to sell well developed, authenticated and tested wafer of approximately RMB5,615,000 to Fukong Hualong as well. For the year ended 31 December 2010, Sino IC actually purchased wafer of RMB2,262,000 from Fukong Hualong and sold well developed, authenticated and tested wafer of RMB2,454,000 to Fukong Hualong.

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.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with GEM Listing Rules 20.38. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Report of the Directors

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.

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 2011

Independent Auditors' Report

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安 永

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

We have audited the consolidated financial statements of Shanghai Fudan Microelectronics Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 97, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**489,083**	321,374
Cost of sales		**(266,265)**	(186,407)
Gross profit		**222,818**	134,967
Other income and gains	5	**51,052**	43,405
Selling and distribution costs		**(21,081)**	(14,944)
Administrative expenses		**(35,092)**	(28,350)
Other expenses		**(86,648)**	(74,955)
PROFIT BEFORE TAX	6	**131,049**	60,123
Income tax expense	9(a)	**(10,515)**	(4,139)
PROFIT FOR THE YEAR		**120,534**	55,984
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(222)**	(15)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(222)**	(15)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**120,312**	55,969
Profit attributable to:			
Owners of the parent	10	**117,039**	53,006
Non-controlling interests		**3,495**	2,978
		120,534	55,984
Total comprehensive income attributable to:			
Owners of the parent	10	**116,817**	52,991
Non-controlling interests		**3,495**	2,978
		120,312	55,969
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the year	12	**18.96 cents**	8.59 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 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**87,096**	66,983
Intangible assets	14	**24,980**	14,650
Available-for-sale investments	16	**–**	7,980
Deferred tax assets	9(c)	**8,166**	5,241
Total non-current assets		**120,242**	94,854
CURRENT ASSETS			
Inventories	17	**127,152**	55,912
Trade and bills receivables	18	**95,355**	56,407
Prepayments, deposits and other receivables	19	**27,845**	11,819
Tax recoverable	9(b)	**–**	254
Pledged deposits	20	**–**	240
Cash and cash equivalents	20	**267,200**	252,228
Total current assets		**517,552**	376,860
CURRENT LIABILITIES			
Trade and bills payables	21	**56,971**	34,360
Accruals, other payables and deferred income	22	**87,174**	37,757
Tax payable	9(b)	**17,303**	15,613
Total current liabilities		**161,448**	87,730
NET CURRENT ASSETS		**356,104**	289,130
TOTAL ASSETS LESS CURRENT LIABILITIES		**476,346**	383,984

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**476,346**	383,984
NON-CURRENT LIABILITIES			
Long term payables	22	**1,672**	–
Deferred tax liabilities	9(c)	**427**	235
Total non-current liabilities		**2,099**	235
Net assets		**474,247**	383,749
EQUITY			
Equity attributable to owners of the parent			
Issued capital	23	**61,733**	61,733
Reserves	24	**347,656**	261,706
Proposed final dividend	11	**30,867**	30,867
		440,256	354,306
Non-controlling interests		**33,991**	29,443
Total equity		**474,247**	383,749

Jiang Guoxing
Director

Shi Lei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent								
	Note	Issued share capital RMB'000 (Note 23)	Share premium account RMB'000 (Note 24)	Statutory surplus reserve RMB'000 (Note 24)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009		61,733	168,486	12,400	(2,650)	61,346	–	301,315	23,891	325,206
Profit for the year		–	–	–	–	53,006	–	53,006	2,978	55,984
Exchange differences on translation of foreign operations		–	–	–	(15)	–	–	(15)	–	(15)
Total comprehensive income for the year		–	–	–	(15)	53,006	–	52,991	2,978	55,969
Additional capital contribution from non-controlling shareholders in a subsidiary		–	–	–	–	–	–	–	6,956	6,956
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	(4,382)	(4,382)
Proposed final 2009 dividend	11	–	–	–	–	(30,867)	30,867	–	–	–
Transfer from retained profits		–	–	4,686	–	(4,686)	–	–	–	–
At 31 December 2009 and 1 January 2010		61,733	168,486	17,086	(2,665)	78,799	30,867	354,306	29,443	383,749
Profit for the year		–	–	–	–	117,039	–	117,039	3,495	120,534
Exchange differences on translation of foreign operations		–	–	–	(222)	–	–	(222)	–	(222)
Total comprehensive income for the year		–	–	–	(222)	117,039	–	116,817	3,495	120,312
Final 2009 dividend declared		–	–	–	–	–	(30,867)	(30,867)	–	(30,867)
Additional capital contribution from non-controlling shareholders in a subsidiary		–	–	–	–	–	–	–	1,053	1,053
Proposed final 2010 dividend	11	–	–	–	–	(30,867)	30,867	–	–	–
Transfer from retained profits		–	–	9,930	–	(9,930)	–	–	–	–
At 31 December 2010		**61,733**	**168,486***	**27,016***	**(2,887)***	**155,041***	**30,867**	**440,256**	**33,991**	**474,247**

* *These reserve accounts comprise the consolidated reserves of RMB347,656,000 (2009: RMB261,706,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**131,049**	60,123
Adjustments for:			
Bank interest income	5, 6	**(3,884)**	(3,700)
Loss on disposal of items of property, plant and equipment	6	**117**	73
Gain on deemed partial disposal of a subsidiary	5, 6	**–**	(251)
Depreciation	13	**10,687**	10,279
Amortisation of intangible assets	14	**2,162**	2,645
Impairment of intangible assets	6, 14	**–**	1,816
Income from bank financial products		**–**	(41)
Impairment of available-for-sale investments	6	**7,980**	–
		148,111	70,944
(Increase)/decrease in inventories		**(71,240)**	21,006
Increase in trade and bills receivables		**(38,948)**	(5,145)
Increase in prepayments, deposits and other receivables		**(16,197)**	(3,549)
Increase in trade and bills payables		**22,611**	8,007
Increase in accruals, other payables and deferred income		**48,971**	3,160
Cash generated from operations		**93,308**	94,423
Hong Kong profits tax recovered	9(b)	**63**	393
PRC tax paid	9(b)	**(11,367)**	(4,270)
Net cash flows from operating activities		**82,004**	90,546
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in time deposits with original maturity of over three months when acquired	20	**8,059**	(42,363)
Bank interest received		**4,055**	4,186
Purchases of items of property, plant and equipment		**(28,968)**	(9,376)
Proceeds from disposal of items of property, plant and equipment		**169**	57
Additions to intangible assets		**(12,492)**	(6,212)
Proceeds from disposal of bank financial products		**–**	41
Additional purchase of available-for-sale investments		**–**	(7,980)
Net cash flows used in investing activities		**(29,177)**	(61,647)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows used in investing activities		**(29,177)**	(61,647)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from additional capital contribution in a subsidiary from non-controlling shareholders		**1,053**	7,207
Dividends paid		**(30,867)**	(18,520)
Dividends paid to non-controlling shareholders		**–**	(4,382)
Net cash flows used in financing activities		**(29,814)**	(15,695)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**23,013**	13,204
Cash and cash equivalents at beginning of year		**98,096**	84,907
Effect of foreign exchange rate changes, net		**(222)**	(15)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**120,887**	98,096
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**93,874**	53,688
Non-pledged time deposits	20	**173,326**	198,540
Cash and cash equivalents as stated in the consolidated statement of financial position	20	**267,200**	252,228
Time deposits with original maturity of less than three months when acquired, pledged for banking facilities	20	**–**	240
Time deposits with original maturity of over three months when acquired	20	**(146,313)**	(154,372)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**120,887**	98,096

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**60,111**	48,356
Intangible assets	14	**20,384**	12,327
Investments in subsidiaries	15	**49,972**	49,972
Available-for-sale investments	16	**–**	7,980
Deferred tax assets	9(c)	**5,329**	3,900
Total non-current assets		**135,796**	122,535
CURRENT ASSETS			
Inventories	17	**122,546**	50,927
Due from subsidiaries	15	**13,157**	1,041
Trade and bills receivables	18	**78,156**	45,622
Prepayments, deposits and other receivables	19	**25,105**	11,143
Pledged deposits	20	**–**	240
Cash and cash equivalents	20	**169,921**	194,041
Total current assets		**408,885**	303,014
CURRENT LIABILITIES			
Due to subsidiaries	15	**2,339**	2,775
Trade and bills payables	21	**55,053**	32,816
Accruals, other payables and deferred income	22	**42,304**	27,155
Tax payable		**13,700**	14,094
Total current liabilities		**113,396**	76,840
NET CURRENT ASSETS		**295,489**	226,174
TOTAL ASSETS LESS CURRENT LIABILITIES		**431,285**	348,709
NON-CURRENT LIABILITIES			
Long term payables	22	**1,672**	–
Net assets		**429,613**	348,709
EQUITY			
Issued capital	23	**61,733**	61,733
Reserves	24	**337,013**	256,109
Proposed final dividend	11	**30,867**	30,867
Total equity		**429,613**	348,709

Jiang Guoxing
Director

Shi Lei
Director

1. CORPORATE INFORMATION

Shanghai Fudan Microelectronics Group Company Limited (the "Company", formerly known as Shanghai Fudan Microelectronics Company Limited) 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

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notes to Financial Statements

31 December 2010

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 IMPACT OF NEW AND REVISED HKFRSs

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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 in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), and amendments to HKAS 7 included in *Improvements to HKFRSs 2009*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes 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. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

Notes to Financial Statements

31 December 2010

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes*: *Deferred Tax – Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments*: *Presentation – Classification of Rights Issues*[1]
HK(IFRIC)–Int 14 Amendments	Amendments to HK(IFRIC)-Int14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)–Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

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

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. 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 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

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

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) *HKFRS 3 Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) *HKAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) *HKAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the 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 the 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 the 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%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Notes to Financial Statements

31 December 2010

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 profit or loss. 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.

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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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 by 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 other income in the profit or loss. The loss arising from impairment is recognised in the profit or loss in other 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 profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 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 profit or loss in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the profit or loss in other 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 profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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. 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 the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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; or

- 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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 the 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 other expenses in the profit or loss.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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 is removed from other comprehensive income and recognised as profit or loss in the statement of comprehensive income.

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 is removed from other comprehensive income and recognised as profit or loss in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the 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:

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 the 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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the 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 a 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

Government grants

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

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 their payroll costs to the central pension scheme. The contributions are charged to the 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 the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the 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 the Hong Kong dollar. 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 as profit or loss in the statement of comprehensive income.

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)*

Estimation uncertainty *(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. Further details are contained in note 14 to the financial statements.

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, as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, available-for-sale financial investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities and other unallocated head office and corporate liabilities 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.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010	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	474,760	14,323	489,083
Intersegment sales	–	20,019	20,019
	474,760	34,342	509,102
Reconciliation:			
Elimination of intersegment sales			(20,019)
Revenue			489,083
Segment results	109,911	9,556	119,467
Reconciliation:			
Elimination of intersegment results			118
Interest income			3,884
Unallocated other income and gains			7,580
Profit before tax			131,049
Segment assets	538,200	93,569	631,769
Reconciliation:			
Elimination of intersegment receivables			(2,141)
Corporate and other unallocated assets			8,166
Total assets			637,794
Segment liabilities	118,656	46,605	165,261
Reconciliation:			
Elimination of intersegment payables			(2,141)
Corporate and other unallocated liabilities			427
Total liabilities			163,547
Other segment information:			
Impairment losses recognised in profit or loss	9,354	107	9,461
Depreciation	5,572	5,115	10,687
Amortisation of intangible assets	2,162	–	2,162
Capital expenditure	30,086	13,492	43,578*

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

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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
Unallocated other income and 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.*

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2010 RMB'000	2009 RMB'000
Mainland China	**435,198**	279,880
Asia Pacific	**44,702**	34,828
Others	**9,183**	6,666
	489,083	321,374

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

(b) Non-current assets

	2010 RMB'000	2009 RMB'000
Mainland China	**112,066**	81,609
Asia Pacific	**10**	24
	112,076	81,633

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 RMB45,655,000 (2009: RMB31,232,000) was derived from sales by the design, development and sale of IC products segment to a single customer.

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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:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods	**474,760**	312,509
Rendering of services	**14,323**	8,865
	489,083	321,374
Other income and gains		
Bank interest income	**3,884**	3,700
Subsidy income	**3,877**	1,108
Government grants received for research activities (note 6)	**39,588**	37,202
Gain on deemed partial disposal of a subsidiary	**–**	251
Income from bank financial products	**–**	41
Others	**3,703**	1,103
	51,052	43,405

6. PROFIT BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	**261,741**	180,285
Cost of services provided	**4,524**	4,464
Depreciation	**10,687**	10,279
Research and development costs:		
Deferred development costs amortised* (note 14)	**2,162**	2,645
Current year expenditure	**75,403**	41,229
	77,565	43,874
Minimum lease payments under operating leases:		
Land and buildings	**4,255**	3,615
Auditors' remuneration	**1,050**	970
Employee benefit expense (excluding directors' remuneration – (note 7)):		
Wages and salaries	**55,099**	45,096
Pension scheme contributions	**6,380**	5,189
	61,479	50,285
Less: Amounts capitalised as development costs	**(7,191)**	(6,173)
	54,288	44,112
Foreign exchange differences, net	**193**	(7)
Impairment of trade and bills receivables (note 18)	**487**	4,865
Provision for inventories to net realisable value	**994**	1,658
Impairment of available-for-sale investments (note 16)	**7,980**	–
Impairment of intangible assets (note 14)	**–**	1,816
Loss on disposal of items of property, plant and equipment	**117**	73
Bank interest income	**(3,884)**	(3,700)
Subsidy income	**(3,877)**	(1,108)
Government grants received for research activities**	**(39,588)**	(37,202)
Gain on deemed partial disposal of a subsidiary	**–**	(251)

* *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 "accruals, other payables and deferred income" 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	
	2010 RMB'000	2009 RMB'000
Fees	**52**	53
Other emoluments:		
Other benefits	**72**	72
Salaries, allowances and benefits in kind	**3,226**	2,791
	3,350	2,916

(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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Mr. Cheung Wing Keung	**52**	53	**–**	–
Mr. Guo Li	**–**	–	**36**	36
Mr. Chen Baoying	**–**	–	**36**	36
	52	53	**72**	72

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
2010				
Executive directors:				
Mr. Jiang Guoxing	**300**	**–**	**–**	**300**
Mr. Shi Lei	**1,161**	**–**	**–**	**1,161**
Mr. Yu Jun	**804**	**–**	**–**	**804**
Ms. Cheng Junxia	**502**	**–**	**–**	**502**
Mr. Wang Su	**459**	**–**	**–**	**459**
	3,226	**–**	**–**	**3,226**
Non-executive directors:				
Ms. Zhang Qianling	**–**	**–**	**–**	**–**
Mr. He Lixing	**–**	**–**	**–**	**–**
Mr. Shen Xiaozu	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
	3,226	**–**	**–**	**3,226**

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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
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

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 (2009: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2009: one) non-director, highest paid employee of the Group for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	**443**	451
Pension scheme contributions	**10**	11
	453	462

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 (2009: 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 2010, income taxes on assessable income of the Company have been provided at the rate of 15% (2009: 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 financial year ended 31 December 2010, income taxes on assessable income of Sino IC have been provided at the rate of 15% (2009: 15%).

Under the New CIT Law, the Company's subsidiary, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("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 still in its third profit making year and was entitled to a 50% concession on income tax. For the financial year ended 31 December 2010, income taxes on assessable income of Fukong Hualong have been provided at the rate of 12.5% (2009: 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 2010, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2009: 25%).

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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9. INCOME TAX *(continued)*

	2010 RMB'000	2009 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**263**	184
Under provision in prior years	**5**	–
Current – Mainland China		
Charge for the year	**21,043**	10,162
Overprovision in prior years	**(8,063)**	(1,538)
Deferred	**(2,733)**	(4,669)
Total tax charge for the year	**10,515**	4,139

(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 the majority of 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 – 2010

	Mainland China		**Hong Kong**		**Total**	
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**
Profit before tax	**129,473**		**1,576**		**131,049**	
Tax at the applicable tax rates	**32,368**	**25.0**	**260**	**16.5**	**32,628**	**24.8**
Lower tax rate enacted by local authority	**(13,027)**	**(10.1)**	**–**	**–**	**(13,027)**	**(9.9)**
Adjustment in respect of current tax of previous years	**(8,063)**	**(6.2)**	**5**	**0.3**	**(8,058)**	**(6.1)**
Tax concession	**(2,339)**	**(1.8)**	**–**	**–**	**(2,339)**	**(1.8)**
Expenses not deductible for tax	**1,793**	**1.4**	**3**	**0.2**	**1,796**	**1.4**
Temporary differences not recognised as deferred tax assets in previous years	**(636)**	**(0.5)**	**–**	**–**	**(636)**	**(0.5)**
Tax losses not recognised	**151**	**0.1**	**–**	**–**	**151**	**0.1**
Tax charge at the Group's effective rate	**10,247**	**7.9**	**268**	**17.0**	**10,515**	**8.0**

9. INCOME TAX *(continued)*

(a) Income tax expense *(continued)*

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

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

	2010 RMB'000	2009 RMB'000
At beginning of year	**15,359**	10,428
Provision for the year	**13,248**	8,808
Payment during the year	**(11,304)**	(3,877)
At end of year	**17,303**	15,359
Represented by:		
Income tax payable	**17,303**	15,613
Income tax recoverable	**–**	(254)

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9. INCOME TAX *(continued)*

(c) Deferred tax

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

Group – 2010

Deferred tax assets

	At 1 January 2010 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2010 RMB'000
Impairment of assets	3,240	(668)	2,572
Depreciation of property, plant and equipment	–	324	324
Government grants	3,135	2,488	5,623
Temporary differences related to accruals, other payables and deferred income	794	(49)	745
Total	7,169	2,095	9,264

Deferred tax liabilities

	At 1 January 2010 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2010 RMB'000
Deferred development costs	2,140	(635)	1,505
Depreciation of property, plant and equipment	23	(3)	20
Total	2,163	(638)	1,525

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	8,166
Net deferred tax liabilities recognised in the consolidated statement of financial position	427

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

The movements in deferred tax assets and liabilities during the year are as follows: *(continued)*

Group – 2009

Deferred tax assets

	At 1 January 2009 RMB'000	Deferred tax credited 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	360	2,775	3,135
Temporary differences related to accruals, other payables and deferred income	–	794	794
Total	360	6,809	7,169

Deferred tax liabilities

	At 1 January 2009 RMB'000	Deferred tax charged 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 *(continued)*

The movements in deferred tax assets and liabilities during the year are as follows: *(continued)*

Company – 2010

Deferred tax assets

	At 1 January 2010 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2010 RMB'000
Impairment of assets	2,357	174	2,531
Depreciation of property, plant and equipment	–	324	324
Government grants	2,719	121	2,840
Temporary differences related to accruals, other payables and deferred income	674	(39)	635
Total	5,750	580	6,330

Deferred tax liabilities

	At 1 January 2010 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2010 RMB'000
Deferred development costs	1,850	(849)	1,001

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	5,329

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

The movements in deferred tax assets and liabilities during the year are as follows: *(continued)*

Company – 2009

Deferred tax assets

	At 1 January 2009 RMB'000	Deferred tax credited 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	–	2,719	2,719
Temporary differences related to accruals, other payables and deferred income	–	674	674
Total	–	5,750	5,750

Deferred tax liabilities

	At 1 January 2009 RMB'000	Deferred tax charged 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

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10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB108,175,000 (2009: profit of RMB42,065,000) which has been dealt with in the financial statements of the Company (note 24).

11. DIVIDEND

	2010 RMB'000	2009 RMB'000
Proposed final – RMB5 cents (2009: RMB5 cents) per ordinary share	**30,867**	30,867

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 the 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 (2009: 617,330,000) in issue during the year.

The calculation of basic earnings per share is based on:

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**117,039**	53,006

	Number of shares '000	
	2010	2009
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 2010 and 2009 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 2010					
Cost:					
At beginning of year	48,321	76,864	3,242	3,234	131,661
Additions	105	7,008	1,217	22,756	31,086
Transfers	9,256	11,164	–	(20,420)	–
Disposals	(135)	(3,080)	(19)	–	(3,234)
Exchange realignment	–	(166)	–	–	(166)
At 31 December 2010	57,547	91,790	4,440	5,570	159,347
Accumulated depreciation:					
At beginning of year	6,675	56,170	1,833	–	64,678
Provided during the year	2,432	7,846	409	–	10,687
Disposals	(5)	(2,924)	(19)	–	(2,948)
Exchange realignment	–	(166)	–	–	(166)
At 31 December 2010	9,102	60,926	2,223	–	72,251
Net book value:					
At 31 December 2010	48,445	30,864	2,217	5,570	87,096
At 31 December 2009	41,646	20,694	1,409	3,234	66,983

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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 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

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 2010					
Cost:					
At beginning of year	47,289	36,499	1,458	580	85,826
Additions	–	6,418	1,051	9,776	17,245
Transfers	7,935	908	–	(8,843)	–
Disposals	(135)	(862)	–	–	(997)
At 31 December 2010	55,089	42,963	2,509	1,513	102,074
Accumulated depreciation:					
At beginning of year	6,364	29,955	1,151	–	37,470
Provided during the year	1,715	3,445	152	–	5,312
Disposals	(5)	(814)	–	–	(819)
At 31 December 2010	8,074	32,586	1,303	–	41,963
Net book value:					
At 31 December 2010	47,015	10,377	1,206	1,513	60,111
At 31 December 2009	40,925	6,544	307	580	48,356

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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 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

14. INTANGIBLE ASSETS

	Deferred development costs	
	Group	Company
	RMB'000	RMB'000
31 December 2010		
Cost:		
At beginning of year	**44,418**	**39,537**
Additions – internal development	**12,492**	**10,214**
Exchange realignment	**(317)**	**–**
At 31 December 2010	**56,593**	**49,751**
Accumulated amortisation and impairment:		
At beginning of year	**29,768**	**27,210**
Amortisation provided during the year	**2,162**	**2,157**
Exchange realignment	**(317)**	**–**
At 31 December 2010	**31,613**	**29,367**
Net book value:		
At 31 December 2010	**24,980**	**20,384**
At 31 December 2009	**14,650**	**12,327**
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

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**49,972**	49,972

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB13,157,000 (2009: RMB1,041,000) and RMB2,339,000 (2009: RMB2,775,000), 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

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
BJFM**	People's Republic of China/ Mainland China 25 December 2007	RMB1,000,000	100	Designing, developing and selling IC products
Fukong Hualong***	People's Republic of China/ Mainland China 8 October 2007	RMB30,000,000	51	Designing, developing and selling products of MicroSystem and application-specific 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 in computer and network technology area; developing and selling hardware and software of computers, electronic products, and communication equipment; designing, manufacturing and agency services for advertising; electronic commerce

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15. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

** *SZFM and BJFM are wholly-owned subsidiaries of the Company incorporated in 2007. FDKJ is a wholly-owned subsidiary of the Company incorporated in 2009. All of them are registered as limited liability companies under PRC law. None of the companies was audited by Ernst & Young or another 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 PRC law. Fukong Hualong was not audited by Ernst & Young or another member firm of the Ernst & Young global network.*

16. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2010 RMB'000	2009 RMB'000
Unlisted equity investments, at cost	**13,443**	13,443
Impairment provision	**(13,443)**	(5,463)
	–	7,980

As at 31 December 2010, 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	
	2010 RMB'000	2009 RMB'000
At 1 January	**5,463**	5,463
Impairment losses recognised (note 6)	**7,980**	–
	13,443	5,463

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB13,443,000 (2009: RMB5,463,000) with a carrying amount before provision of RMB13,443,000 (2009: RMB13,443,000). 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials:				
At cost	**34,797**	13,026	**34,967**	12,991
Work in progress:				
At cost	**36,788**	18,669	**36,265**	17,610
Finished goods:				
At cost	**55,567**	24,217	**51,314**	20,326
	127,152	55,912	**122,546**	50,927

18. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**107,884**	68,896	**90,461**	57,765
Impairment	**(12,529)**	(12,489)	**(12,305)**	(12,143)
	95,355	56,407	**78,156**	45,622

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.

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**73,890**	39,919	**57,870**	31,434
3 to 6 months	**14,012**	13,425	**13,370**	11,211
6 to 12 months	**6,886**	2,299	**6,515**	2,250
Over 12 months	**567**	764	**401**	727
	95,355	56,407	**78,156**	45,622

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18. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**12,489**	7,624	**12,143**	7,599
Impairment losses recognised (note 6)	**487**	4,865	**355**	4,544
Amount written off as uncollectible	**(444)**	–	**(193)**	–
Exchange realignment	**(3)**	–	**–**	–
	12,529	12,489	**12,305**	12,143

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB6,595,000 (2009: RMB7,902,000) with a carrying amount before provision of RMB8,280,000 (2009: RMB8,213,000). 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.

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**75,032**	49,777	**60,080**	40,798
Less than 1 month past due	**2,088**	2,528	**2,088**	1,773
1 to 3 months past due	**2,565**	2,805	**1,922**	1,804
3 to 6 months past due	**459**	1,279	**88**	1,247
6 to 12 months past due	**35**	18	**–**	–
	80,179	56,407	**64,178**	45,622

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.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Prepayments	**3,861**	2,219	**2,611**	1,604
Deposits and other receivables	**23,984**	9,600	**22,494**	9,539
	27,845	11,819	**25,105**	11,143

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.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cash and bank balances	**93,874**	53,928	**48,975**	37,453
Time deposits with original maturity of less than three months when acquired	**27,013**	44,168	**19,000**	19,000
Time deposits with original maturity of over three months when acquired	**146,313**	154,372	**101,946**	137,828
	267,200	252,468	**169,921**	194,281
Less: Deposits pledged for banking facilities	**–**	(240)	**–**	(240)
Cash and cash equivalents	**267,200**	252,228	**169,921**	194,041

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB242,981,000 (2009: RMB233,651,000). 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.

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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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**56,412**	33,775	**54,807**	32,611
3 to 6 months	**502**	520	**189**	140
6 to 12 months	**4**	12	**4**	12
Over 12 months	**53**	53	**53**	53
	56,971	34,360	**55,053**	32,816

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

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

22. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payable for purchase of software	**3,344**	1,225	**3,344**	1,225
Portion classified as long term	**1,672**	–	**1,672**	–
Current portion	**1,672**	1,225	**1,672**	1,225
Accruals	**1,164**	798	**700**	691
Deferred income	**58,197**	20,326	**18,221**	11,259
Other payables	**26,141**	15,408	**21,711**	13,980
	87,174	37,757	**42,304**	27,155

Included in the Group's accruals, other payables and deferred income as of 31 December 2010, there was an amount due to an entity controlled by Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial shareholder of the Company, of RMB900 (2009: RMB216,000).

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

23. SHARE CAPITAL

	2010 RMB'000	2009 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2009: 375,000,000) unlisted domestic shares of RMB0.10 each	**37,500**	37,500
242,330,000 (2009: 242,330,000) H shares of RMB0.10 each	**24,233**	24,233
	61,733	61,733

24. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the financial statements.

Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 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 and 1 January 2010	**168,486**	**15,557**	**72,066**	**256,109**
Total comprehensive income for the year	**–**	**–**	**111,771**	**111,771**
Proposed 2010 final dividend (note 11)	**–**	**–**	**(30,867)**	**(30,867)**
Transfer from retained profits	**–**	**9,321**	**(9,321)**	**–**
At 31 December 2010	**168,486**	**24,878**	**143,649**	**337,013**

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24. RESERVES *(continued)*

Company *(continued)*

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

The directors of the Company have proposed to transfer RMB9,321,000 (2009: RMB4,436,000) to the SSR. The transfer represents 10% of the Company's profit after tax for the year, as determined in accordance with the PRC accounting standards. The transfer has been incorporated in these financial statements.

The directors of the Company's PRC subsidiaries have proposed to transfer RMB609,000 (2009: RMB250,000) 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 2010, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2009: 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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Contracted, but not provided for:				
Property, plant and equipment	**1,445**	240	**–**	240

25. COMMITMENTS *(continued)*

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

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Within one year	**3,896**	2,944	**1,640**	1,584
In the second to fifth years, inclusive	**5,577**	3,062	**1,796**	2,410
	9,473	6,006	**3,436**	3,994

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	**2010 RMB'000**	2009 RMB'000
Technical and equipment support fee paid to: the owner of a substantial shareholder	(i)	**387**	494
Research and development fee paid to: the owner of a substantial shareholder		**–**	1,996
Purchases of plant, vehicles, furniture and fixtures from: an entity controlled by SCI	(ii)	**40**	539
Vehicles rental fee paid to: an entity controlled by SCI		**–**	207

Notes:

(i) On 12 August 2003, the Company and Shanghai Fudan University ("SFU"), a substantial shareholder of the Company, 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 2010 amounted to RMB387,000.

(ii) In May 2010, Fukong Hualong purchased plant, vehicles, furniture and fixtures amounting to RMB40,000 from Shanghai FuKong Hualong Information Technology Development Center ("FHIT"), a entity controlled by SCI. The items of property, plant and equipment were acquired at their net book values.

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26. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

In addition, on 1 December 2010, the Company entered into a Special FPGA Agreement with SFU to cooperatively conduct the research and development of highly reliable anti-irradiation FPGA circuits. As such, the Company expects that the distribution to SFU will be with an annual cap of RMB2,600,000, RMB5,000,000 and RMB5,000,000, respectively, during 2010, 2011 and 2012. The Company paid no distribution of profit to SFU during 2010.

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

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.

(b) Outstanding balances with related parties:

Details of the Group's payable balances with FHIT are disclosed in note 22 to the financial statements.

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

	2010 RMB'000	2009 RMB'000
Fees	**124**	125
Other emoluments:		
Salaries, allowances and benefits in kind	**3,226**	2,791
Total compensation paid to key management personnel	**3,350**	2,916

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

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 2010			
Trade and bills receivables	**95,355**	**–**	**95,355**
Financial assets included in prepayments, deposits and other receivables	**23,984**	**–**	**23,984**
Cash and cash equivalents	**267,200**	**–**	**267,200**
	386,539	**–**	**386,539**

	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

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27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2010	
Trade and bills payables	**56,971**
Financial liabilities included in accruals, other payables and deferred income	**16,912**
	73,883

	Financial liabilities at amortised cost RMB'000
31 December 2009	
Trade and bills payables	34,360
Financial liabilities included in accruals, other payables and deferred income	34,130
	68,490

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 2010			
Due from subsidiaries	**13,157**	**–**	**13,157**
Trade and bills receivables	**78,156**	**–**	**78,156**
Financial assets included in prepayments, deposits and other receivables	**22,494**	**–**	**22,494**
Cash and cash equivalents	**169,921**	**–**	**169,921**
	283,728	**–**	**283,728**

	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

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27. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

Financial liabilities

31 December 2010

	Financial liabilities at amortised cost RMB'000
Due to subsidiaries	**2,339**
Trade and bills payables	**55,053**
Financial liabilities included in accruals, other payables and deferred income	**14,925**
	72,317

	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 accruals, other payables and deferred income	23,693
	59,284

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 accruals, other payables and deferred income, 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.

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 23% (2009: 25%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 80% (2009: 70%) 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
2010			
If RMB weakens against United States dollar ("US$")	**+5**	**1,338**	**1,137**
If RMB strengthens against US$	**–5**	**(1,338)**	**(1,137)**
If RMB weakens against Hong Kong dollar ("HK$")	**+5**	**–**	**364**
If RMB strengthens against HK$	**–5**	**–**	**(364)**
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	245	223
If RMB strengthens against HK$	–5	(245)	(223)

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
2010			
If RMB weakens against US$	**+5**	**1,338**	**1,137**
If RMB strengthens against US$	**–5**	**(1,338)**	**(1,137)**
2009			
If RMB weakens against US$	+5	1,026	872
If RMB strengthens against US$	–5	(1,026)	(872)

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. 27% (2009: 15%) of the Group's trade and bills receivables were due from the Group's five largest customers within the design, development and sale of IC products segment. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

Liquidity risk

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

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

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

Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is 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 2010						
Trade and bills payables	**265**	**56,706**	**–**	**–**	**–**	**56,971**
Accruals, other payables and deferred income	**7,457**	**1,638**	**7,817**	**–**	**–**	**16,912**
	7,722	**58,344**	**7,817**	**–**	**–**	**73,883**
31 December 2009						
Trade and bills payables	3,274	30,882	204	–	–	34,360
Accruals, other payables and deferred income	24,347	5,670	4,113	–	–	34,130
	27,621	36,552	4,317	–	–	68,490

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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, is 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 2010						
Trade and bills payables	**247**	**54,806**	**–**	**–**	**–**	**55,053**
Accruals, other payables and deferred income	**6,549**	**559**	**7,817**	**–**	**–**	**14,925**
Due to subsidiaries	**–**	**2,339**	**–**	**–**	**–**	**2,339**
	6,796	**57,704**	**7,817**	**–**	**–**	**72,317**
31 December 2009						
Trade and bills payables	1,817	30,795	204	–	–	32,816
Accruals, other payables and deferred income	14,333	5,247	4,113	–	–	23,693
Due to subsidiaries	–	2,775	–	–	–	2,775
	16,150	38,817	4,317	–	–	59,284

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

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 2010 and 31 December 2009.

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, accruals, other payables and deferred income and long term payables. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Trade and bills payables	**56,971**	34,360
Accruals, other payables and deferred income	**87,174**	37,757
Long term payables	**1,672**	–
Total debt	**145,817**	72,117
Equity attributable to owners of the parent	**440,256**	354,306
Capital and total debt	**586,073**	426,423
Gearing ratio	**25%**	17%

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29. EVENT AFTER THE REPORTING PERIOD

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 27 May 2011.

30. COMPARATIVE AMOUNTS

During the current year, the presentation of certain items in the financial statements has been revised. 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 2011.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling 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				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
RESULTS					
REVENUE	**489,083**	321,374	281,348	315,967	276,171
Cost of sales	**(266,265)**	(186,407)	(173,239)	(222,434)	(205,989)
Gross profit	**222,818**	134,967	108,109	93,533	70,182
Other income and gains	**51,052**	43,405	20,739	28,767	12,144
Selling and distribution costs	**(21,081)**	(14,944)	(12,365)	(10,312)	(7,436)
Administrative expenses	**(35,092)**	(28,350)	(22,144)	(23,512)	(24,981)
Other expenses	**(86,648)**	(74,955)	(54,433)	(36,451)	(23,500)
PROFIT BEFORE TAX	**131,049**	60,123	39,906	52,025	26,409
Tax	**(10,515)**	(4,139)	(6,607)	(12,028)	(4,433)
PROFIT FOR THE YEAR	**120,534**	55,984	33,299	39,997	21,976
Attributable to:					
Owners of the parent	**117,039**	53,006	31,288	38,250	21,098
Non-controlling interests	**3,495**	2,978	2,011	1,747	878
	120,534	55,984	33,299	39,997	21,976

	As at 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**637,794**	471,714	417,026	370,031	335,533
TOTAL LIABILITIES	**(163,547)**	(87,965)	(91,820)	(73,963)	(76,075)
NON-CONTROLLING INTERESTS	**(33,991)**	(29,443)	(23,891)	(6,740)	(4,993)
	440,256	354,306	301,315	289,328	254,465