

INTERIM REPORT

2011



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)

* for identification only

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HALF-YEAR RESULTS (UNAUDITED)

The board of directors (“Board”) of Shanghai Fudan Microelectronics Group Company Limited (“Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the half-year ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Half-year ended 30 June		Three months ended 30 June	
		2011 (Unaudited) <i>RMB'000</i>	2010 (Unaudited) <i>RMB'000</i>	2011 (Unaudited) <i>RMB'000</i>	2010 (Unaudited) <i>RMB'000</i>
REVENUE	2	261,880	241,629	137,185	146,792
Cost of sales		<u>(157,842)</u>	<u>(138,114)</u>	<u>(80,950)</u>	<u>(83,158)</u>
Gross profit		104,038	103,515	56,235	63,634
Other income and gains	2	12,656	17,383	6,809	16,147
Selling and distribution costs		<u>(13,448)</u>	<u>(8,629)</u>	<u>(6,398)</u>	<u>(3,836)</u>
Administrative expenses		<u>(19,040)</u>	<u>(20,045)</u>	<u>(7,589)</u>	<u>(10,317)</u>
Other expenses		<u>(52,083)</u>	<u>(40,525)</u>	<u>(27,856)</u>	<u>(25,680)</u>
PROFIT BEFORE TAX	4	32,123	51,699	21,201	39,948
Income tax expense	5	<u>(2,685)</u>	<u>(5,676)</u>	<u>(1,670)</u>	<u>(5,205)</u>
PROFIT FOR THE PERIOD		29,438	46,023	19,531	34,743
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations		<u>(166)</u>	<u>(8)</u>	<u>(91)</u>	<u>8</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>29,272</u>	<u>46,015</u>	<u>19,440</u>	<u>34,751</u>
Profit attributable to:					
Owners of the parent		28,468	44,434	18,706	33,272
Non-controlling interests		<u>970</u>	<u>1,589</u>	<u>825</u>	<u>1,471</u>
		<u>29,438</u>	<u>46,023</u>	<u>19,531</u>	<u>34,743</u>

		Half-year ended		Three months ended	
		30 June		30 June	
		2011	2010	2011	2010
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total comprehensive income attributable to:					
Owners of the parent		28,302	44,426	18,615	33,280
Non-controlling interests		970	1,589	825	1,471
		<u>29,272</u>	<u>46,015</u>	<u>19,440</u>	<u>34,751</u>
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
EARNINGS PER SHARE					
ATTRIBUTABLE TO					
ORDINARY EQUITY					
HOLDERS OF THE PARENT					
Basic					
– For profit for the period	6	<u>4.61 cents</u>	<u>7.20 cents</u>	<u>3.03 cents</u>	<u>5.39 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	99,586	87,096
Intangible assets		29,880	24,980
Available-for-sale investments	8	-	-
Deferred tax assets		<u>8,326</u>	<u>8,166</u>
Total non-current assets		<u>137,792</u>	<u>120,242</u>
CURRENT ASSETS			
Inventories		138,749	127,152
Trade and bills receivables	9	109,701	95,355
Prepayments, deposits and other receivables		18,895	27,845
Pledged deposits	14	84	-
Cash and cash equivalents	14	<u>263,273</u>	<u>267,200</u>
Total current assets		<u>530,702</u>	<u>517,552</u>
CURRENT LIABILITIES			
Trade and bills payables	10	84,988	56,971
Other payables and accruals		105,005	87,174
Tax payable		<u>5,422</u>	<u>17,303</u>
Total current liabilities		<u>195,415</u>	<u>161,448</u>
NET CURRENT ASSETS		<u>335,287</u>	<u>356,104</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>473,079</u>	<u>476,346</u>
NON-CURRENT LIABILITIES			
Long term payables		-	1,672
Deferred tax liabilities		<u>427</u>	<u>427</u>
Total non-current liabilities		<u>427</u>	<u>2,099</u>
NET ASSETS		<u><u>472,652</u></u>	<u><u>474,247</u></u>

		30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
EQUITIES			
Equity attributable to equity holders of the parent			
Issued capital		61,733	61,733
Reserves	<i>11</i>	375,958	347,656
Proposed final dividend		<u>—</u>	<u>30,867</u>
		437,691	440,256
Non-controlling interests		<u>34,961</u>	<u>33,991</u>
TOTAL EQUITY		<u>472,652</u>	<u>474,247</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent								
	Issued share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Proposed final dividend <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2011	61,733	168,486	27,016	(2,887)	155,041	30,867	440,256	33,991	474,247
Total comprehensive income for the period	-	-	-	(166)	28,468	-	28,302	970	29,272
2010 final dividend paid	-	-	-	-	-	(30,867)	(30,867)	-	(30,867)
Transfer from retained profits	-	-	2,726	-	(2,726)	-	-	-	-
At 30 June 2011	<u>61,733</u>	<u>168,486*</u>	<u>29,742*</u>	<u>(3,053)*</u>	<u>180,783*</u>	<u>-</u>	<u>437,691</u>	<u>34,961</u>	<u>472,652</u>
At 1 January 2010	61,733	168,486	17,086	(2,665)	78,799	30,867	354,306	29,443	383,749
Total comprehensive income for the period	-	-	-	(8)	44,434	-	44,426	1,589	46,015
Capital contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	1,053	1,053
Transfer from retained profits	-	-	4,030	-	(4,030)	-	-	-	-
At 30 June 2010	<u>61,733</u>	<u>168,486</u>	<u>21,116</u>	<u>(2,673)</u>	<u>119,203</u>	<u>30,867</u>	<u>398,732</u>	<u>32,085</u>	<u>430,817</u>

* *These reserve accounts comprise the consolidated reserves of RMB375,958,000 (31 December 2010: RMB347,656,000) in the condensed consolidated statement of financial position.*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<i>Notes</i>	For the half-year ended 30 June	
		2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Net cash flows from/(used in) operating activities		50,743	(16,623)
Net cash flows (used in)/from investing activities		(25,359)	19,372
Net cash flows (used in)/from financing activities		<u>(30,867)</u>	<u>3,000</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,483)	5,749
Cash and cash equivalents at beginning of period		120,887	98,096
Effect of foreign exchange rate changes, net		<u>(166)</u>	<u>(8)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>115,238</u>	<u>103,837</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		102,154	77,668
Non-pledged time deposits	14	<u>161,119</u>	<u>145,255</u>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	14	263,273	222,923
Time deposits with original maturity of less than three months when acquired, pledged for banking facilities	14	84	8
Time deposits with original maturity of over three months when acquired	14	<u>(148,119)</u>	<u>(119,094)</u>
		<u>115,238</u>	<u>103,837</u>

Notes:

1. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange. They have been prepared under the historical cost convention.

The accounting policies adopted in preparing these unaudited consolidated results are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2010. The Group has adopted the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for the financial year beginning on or after 1 January 2011. The adoption of these new and revised standards, amendments and interpretations did not have any significant impact on the operating results and financial position of the Group.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group’s turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts and the value of services rendered.

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

	Half-year ended 30 June		Three months ended 30 June	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Revenue				
Sale of goods	252,277	222,261	132,444	137,289
Services rendered	9,603	19,368	4,741	9,503
	<u>261,880</u>	<u>241,629</u>	<u>137,185</u>	<u>146,792</u>
Other income and gains				
Interest income	1,516	1,938	741	974
Government grants received	10,319	12,669	5,926	12,546
Gain on deemed partial disposal of a subsidiary	–	1,947	–	1,947
Others	821	829	142	680
	<u>12,656</u>	<u>17,383</u>	<u>6,809</u>	<u>16,147</u>

3. 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 being 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”).

For the half year ended 30 June 2011	Design, development and selling of IC products <i>RMB'000</i>	Testing services of IC products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	252,317	9,563	261,880
Intersegment sales	—	9,752	9,752
	<u>252,317</u>	<u>19,315</u>	<u>271,632</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(9,752)</u>
Revenue			<u><u>261,880</u></u>
Segment results	27,534	2,797	30,331
<i>Reconciliation:</i>			
Elimination of segment results			(17)
Interest income			1,516
Unallocated gains			<u>293</u>
Profit before tax			<u><u>32,123</u></u>
Segment assets	562,984	102,234	665,218
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(5,050)
Corporate and other unallocated assets			<u>8,326</u>
Total assets			<u><u>668,494</u></u>
Segment liabilities	147,837	52,628	200,465
<i>Reconciliation:</i>			
Elimination of intersegment payables			(5,050)
Corporate and other unallocated liabilities			<u>427</u>
Total liabilities			<u><u>195,842</u></u>
Other segment information			
Impairment losses recognised in income statement	497	24	521
Depreciation	2,820	3,257	6,077
Amortisation of intangible assets	1,602	—	1,602
Capital expenditure	<u>7,587</u>	<u>17,482</u>	<u>25,069*</u>

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

For the half year ended 30 June 2010	Design, development and selling of IC products RMB'000	Testing services of IC products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	222,261	19,368	241,629
Intersegment sales	<u>—</u>	<u>10,637</u>	<u>10,637</u>
	222,261	30,005	252,266
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(10,637)</u>
Revenue			<u><u>241,629</u></u>
Segment results	44,881	6,292	51,173
<i>Reconciliation:</i>			
Elimination of segment results			608
Interest income			1,938
Impairment loss of available-for-sale investments			(4,796)
Unallocated gains			<u>2,776</u>
Profit before tax			<u><u>51,699</u></u>
Segment assets	487,264	62,419	549,683
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(2,965)
Corporate and other unallocated assets			<u>3,184</u>
Total assets			<u><u>549,902</u></u>
Segment liabilities	116,851	5,199	122,050
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(2,965)</u>
Total liabilities			<u><u>119,085</u></u>
Other segment information			
Impairment losses recognised in income statement	462	128	590
Depreciation	2,913	1,997	4,910
Amortisation of intangible assets	1,043	—	1,043
Capital expenditure	<u>12,566</u>	<u>5,280</u>	<u>17,846*</u>

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

Geographical information

a) Revenue from external customers

	Half-year ended 30 June	
	2011 RMB'000	2010 RMB'000
Mainland China	240,310	185,346
Asia Pacific	12,588	52,378
Others	8,982	3,905
	<u>261,880</u>	<u>241,629</u>

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

b) Non-current assets

	Half-year ended 30 June	
	2011 RMB'000	2010 RMB'000
Mainland China	129,439	93,498
Asia Pacific	27	26
	<u>129,466</u>	<u>93,524</u>

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

During the period, no revenue was derived from any single customer that was 10% or more of the Group's total sales revenue (2010: Revenue of approximately RMB35,653,000 was derived from sales by the design, development and sale of IC products segment to a single customer).

4. PROFIT BEFORE TAX

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

	Half-year ended		Three months ended	
	30 June		30 June	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	6,077	4,910	3,360	2,641
Impairment loss of available-for-sale investments	-	4,796	-	4,796
Provision for doubtful debts	463	521	293	174
Payments under operating leases in respect of land and buildings	2,054	1,702	1,082	857
Amortisation of deferred development costs*	1,602	1,043	801	521
Provision for impairment of inventories	58	69	58	69
Interest income	(1,516)	(1,938)	(741)	(974)
Gain on deemed partial disposal of a subsidiary	-	(1,947)	-	(1,947)
Government grants received**	(10,847)	(12,669)	(5,926)	(9,648)

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

** The government grants received for certain research activities have been recognised as other income if there are no unfulfilled conditions or contingencies relating to these grants and they are not matched with the related costs which they are intended to compensate. Government grants received for which related expenditure has not yet been undertaken are included in "other liabilities" in the condensed consolidated statement of financial position.

5. INCOME TAX EXPENSES

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 2011, income taxes on assessable income of the Company are provided at the rate of 15% (2010: 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 2011, income taxes on assessable income of Sino IC are provided at the rate of 15% (2010: 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 is in its fourth profit making year and is entitled to a 50% concession on income tax. For the financial year ended 31 December 2011, income taxes on assessable income of Fukong Hualong are provided at the rate of 12.5% (2010: 12.5%).

Under the New CIT Law, three of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited, Beijing Fudan Microelectronics Technology Company Limited and Shanghai Doublepoint Information Technology Co., Ltd., are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2011, income taxes on assessable income of these subsidiaries are provided at the rate of 25% (2010: 25%).

No assessable profits were derived from Hong Kong during the period (2010: 16.5%).

	Half-year ended		Three months ended	
	30 June		30 June	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current period				
– PRC	2,845	6,373	1,771	5,181
– Hong Kong	-	194	(54)	84
Deferred	(160)	(891)	(47)	(60)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total tax charge for the period	<u>2,685</u>	<u>5,676</u>	<u>1,670</u>	<u>5,205</u>

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

The calculation of the basic earnings per share for the half-year and three months ended 30 June 2011 are based on the unaudited net profit attributable to ordinary equity holders of the parent of approximately RMB28,468,000 and RMB18,706,000 respectively (half-year and three months ended 30 June 2010: RMB44,434,000 and RMB33,272,000 respectively) and the weighted average number of 617,330,000 (2010: 617,330,000) ordinary shares in issue during the periods.

No adjustment has been made to the basic earnings per share amounts presented for the half years ended 30 June 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

7. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2011, the Group acquired machinery and office equipment amounted to approximately RMB18,567,000 (31 December 2010: RMB31,086,000).

8. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Unlisted equity investments, at cost	13,443	13,443
Impairment provision	(13,443)	(13,443)
	<u><u>—</u></u>	<u><u>—</u></u>

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit and the credit period is generally up to 90 days. An ageing analysis of trade and bills receivables at 30 June 2011 is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 3 months	80,894	73,890
3 to 6 months	10,667	14,012
6 to 12 months	14,799	6,886
Over 12 months	3,341	567
	<u><u>109,701</u></u>	<u><u>95,355</u></u>

10. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables at 30 June 2011 is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 3 months	81,954	56,412
3 to 6 months	2,391	502
6 to 12 months	143	4
Over 12 months	500	53
	<u><u>84,988</u></u>	<u><u>56,971</u></u>

11. RESERVES

Other than the comprehensive income, statutory surplus reserve and exchange fluctuation reserve for the periods as disclosed in the condensed consolidated statement of changes in equity, there were no significant movements in the reserves of the Group for the relevant periods in 2011 and 2010.

12. COMMITMENTS

The Group had the following commitments at the reporting date:

	30 June 2011 RMB'000	31 December 2010 RMB'000
(a) Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	<u>10,207</u>	<u>1,445</u>
(b) Commitments under operating leases		
At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:		
	30 June 2011 RMB'000	31 December 2010 RMB'000
Within one year	4,429	3,896
In the second to fifth years, inclusive	<u>7,160</u>	<u>5,577</u>
	<u>11,589</u>	<u>9,473</u>

13. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with the related parties:

Name of related party	Relationship with the Group	Nature of transaction	Half-year ended 30 June	
			2011 RMB'000	2010 RMB'000
Shanghai Fudan University	Owner of a substantial shareholder	Technical and equipment support fee	<u>200</u>	<u>275</u>
Fukong Hualong	A subsidiary and is connected with a substantial shareholder	Purchases of raw materials	1,130	1,232
		Sales of goods	<u>419</u>	<u>454</u>

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

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Half-year ended 30 June	
	2011	2010
	RMB'000	RMB'000
Cash and bank balances	102,238	77,676
Time deposits with original maturity of less than 3 months when acquired	13,000	26,161
Time deposits with original maturity of over than 3 months when acquired	148,119	119,094
	<hr/>	<hr/>
Cash and cash equivalents	263,357	222,931
Less: Pledged deposits for banking facilities	(84)	(8)
	<hr/>	<hr/>
Cash and cash equivalents	<u>263,273</u>	<u>222,923</u>

15. COMPARATIVE AMOUNTS

During the period, the presentation of certain items in the financial statements has been revised. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the half-year ended 30 June 2011 (30 June 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the half-year ended 30 June 2011, the Group recorded a turnover of approximately RMB261,880,000 (30 June 2010: RMB241,629,000), an increase of approximately 8% as compared to the same period in last year. Profit attributable to owners of the parent amounted to approximately RMB28,468,000 (30 June 2010: RMB44,434,000), a decrease of approximately 36% over the same period in prior year.

During the period, the Group's turnover has increased slightly as market demand of certain product categories has increased. The selling price of the major product, IC card chips, has dropped and also affected by factors like the termination of projects in Shanghai Expo that have caused the sales to slow down, however, sales were satisfactory in power and electricity electronics and consumer electronics products. The sales of the remaining product categories of communication electronics and motor electronics products that constituted a small portion of total sales have continuously slipped. The overall profit margin has decreased from 42.8% in last comparative period to 39.7% as a result of change in structure of product sales with products of lower profit margin having comparatively faster growth in sales.

During the period, other income and gains have decreased as some government projects have not been completed and accounted for, grants received decreased by RMB2,350,000 as compared with the same period in last year. In addition, bank interest income also has decreased slightly and there was a gain of RMB1,947,000 deemed partial disposal of a subsidiary in last year. Selling and distribution costs have increased significantly due to exploration of new markets and increase in market promotion. Administrative expenses have decreased as compared with last corresponding period due to the reason that the subsidiaries have cut certain related expenses. In order to keep a constant products research and development and continuation in business development, substantial research and development costs have been applied resulting with an increase of RMB11,558,000, approximately a 29% increase, in other operating expenses as compared with last corresponding period.

FINANCIAL REVIEW

As at 30 June 2011, net assets of the Group amounted to approximately RMB472,652,000 (31 December 2010: RMB474,247,000). Current assets amounted to approximately RMB530,702,000 (31 December 2010: RMB517,552,000), of which inventory increased as compared with that as at the end of reporting date of last year in accordance with sales increase, and approximately RMB263,357,000 (31 December 2010: RMB267,200,000) were cash and bank deposits. The Group keeps sufficient liquidity and is able to meet its daily operations and future development.

The Group's current liabilities as at 30 June 2011 amounted to approximately RMB195,415,000 (31 December 2010: RMB161,448,000) as accounts payable has increased due to increase in purchases as a result of increase in sales. Besides, in other payables were certain government grants received for projects that have not been completed and accounted for during the period. non-current liabilities amounted to approximately RMB427,000 (31 December 2010: RMB2,099,000).

The net assets value per share was approximately RMB0.77 (31 December 2010: RMB0.77). The Group's current ratio of total current liabilities over total current assets was approximately 36.8% (31 December 2010: 31.2%) and the gearing ratio was approximately 41.4% (31 December 2010: 34.5%) on the basis of total liabilities over net assets.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. During the half year ended 30 June 2011, the Group had a net outflow in cash and cash equivalents of approximately RMB5,483,000 (31 December 2010: inflow of RMB23,013,000). As at 30 June 2011, the Group had no bank or other borrowings (31 December 2010: nil).

The Directors believe 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 arise from sales or purchases by operating units in currencies other than 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.

The Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. During the period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

During the half-year ended 30 June 2011, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries.

During the period, the capital structure of the Company has no change and only comprises of ordinary shares. The Group relies on its internal resources as a source of funding and keeps most of its cash in Renminbi in bank accounts as working capital.

As at 30 June 2011, except the commitments of RMB10,207,000 in respect of acquisition of property, plant and equipment (31 December 2010: RMB1,445,000), the Group did not have any material contingent liabilities (31 December 2010: nil). Besides the deposit amounted to RMB84,000 (31 December 2010: nil) being pledged for project guarantee, the Group has not pledged its assets to any third parties (31 December 2010: nil).

EMPLOYEE INFORMATION

As at 30 June 2011, the Group employed approximately 615 (30 June 2010: 513) staff and the total staff costs reflected in the condensed consolidated statement of comprehensive income amounted to RMB39,146,000 (30 June 2010: RMB28,813,000). Increase in staff costs was mainly due to adjustment in salaries and increase in staff to meet project research and development and business expansion.

PROSPECTS

Sales of IC card chips will continue to be a major constitution of the Group's sales, however, sales of other categories like power and electricity electronics and consumer electronics have kept significant continuous growth, the Group will constantly adjust its market strategy with a view to expand its market share and to create beneficial results. The Group expects that following the seasonal factor that affects the first half year sales, with new products being launched into the market, the Group's results for the second half year will be further improved.

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

At 30 June 2011, the interests or short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the registers required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in domestic shares of the Company:

	Number of issued shares held, capacity and nature of interest					Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust <i>(Note)</i>	Total	
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
	<u>14,420,000</u>	<u>–</u>	<u>–</u>	<u>45,290,530</u>	<u>59,710,530</u>	<u>9.67</u>
Supervisors						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.98
Mr. Wei Ran	–	–	–	288,460	288,460	0.05
	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,346,150</u>	<u>6,346,150</u>	<u>1.03</u>

Note: These shares are held by the Staff Shareholding Association of the Company (the "SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("University Laboratory") and Shanghai Commerce Invest (Group) Corporation Limited ("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 30 June 2011, none of the directors, supervisors or chief executive had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

At 30 June 2011, 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	<i>Notes</i>	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 Fudan University.
- (2) The ordinary shares are directly held by Shanghai Fudan Technology Enterprise Holdings Limited, 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 30 June 2011, no person, other than the directors, supervisors and chief executive of the Company, whose interests are set out in the section “Directors’, supervisors’ and chief executive’s interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

During the half-year ended 30 June 2011, 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.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the half-year ended 30 June 2011.

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 control system 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 Group’s unaudited financial statements for the half-year ended 30 June 2011 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 throughout the half-year ended 30 June 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the half-year ended 30 June 2011, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board
Shanghai Fudan Microelectronics Group Company Limited*
Jiang Guoxing
Chairman

Shanghai, PRC, 8 August 2011

As at the date of this report, the Company's executive directors are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Ms. Cheng Junxia and Mr. Wang Su; the non-executive directors are Ms. Zhang Qianling, Mr. He Lixing and Mr. Shen Xiaozu; the independent non-executive directors are Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying.

* *For identification purpose only*