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 2012

* 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

On behalf of the board of directors (the "Board") of Shanghai Fudan Microelectronics Group Company Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

During the year 2012 under review, the global economy still has no sign of recovery, the haze of world economic recession as well as European debt crisis remained and have affected the economy growth of the PRC to a slow down. The Group has been focused on the PRC domestic market and thus has benefited from its continuous economic growth and huge market space. In addition, to cope with the surrounding economy situation, the Group has changed its marketing policy accordingly by shifting the overseas sales to strengthen its domestic sales. The Group has a long term strategic planning towards its core business, therefore, under the situation of economic growth of the PRC and the rapid change in technologies, its results have been continuously improved and turnover has been increased over the years. The results for the year ended 31 December 2012 were recorded with a good growth over the last year. Turnover continued to grow and profit margin increased as new products were launched during the year. Other income and gain also increased significantly as a result of active participations in government projects in recent years and as a course, the Group's comprehensive income for the year has achieved a considerable growth.

The Group adopts a fabless mode for its production, besides the avoidance of burden on capital expenditure of fixed assets and the risk of economy recession; it can focus on the research and development of its core products. Through continuous application of resources on the project research and development, in addition to the ability to update its products as from time to time to fulfill its customer needs, the Group can also continue to release new products to meet market demand and maintain a complete and diversely developed product series. The Group will still pay attention to the surrounding economic environment and the overseas markets and grasp the opportunities to expedite its overseas business development with a view to expand its overseas sales. The Group's products have covered different kinds of areas, besides the applications for public transportation, power electricity and consumer electronics in early years; they are now applied in areas like social security, residents, finance and mobile payment etc.

Even though the facing of unfavorable factors of uncertainty in surrounding economies and the expectation of a slow-down in economic growth of the PRC, the Group will continue its application of resources in project research and development, enhance market promotion, improve and control its operating costs, adopt a stable business development way forward in order to keep its past results with a steady growth. Looking forward to 2013, the Directors expect that following the launching of new products into various areas and the stable sales of the existing products, it is optimistic as to the Group's business and results.

Taking this opportunity, on behalf of the board, I would like to thank all the staff of the Group for their diligence and hardworking in the past years. Also, a heartfelt thanks to our shareholders and business partners for their long term supports. I expect to achieve a continuous growth in the Group's business and results to reward our shareholders with satisfactory returns.

Jiang Guoxing
Chairman

Shanghai, the PRC, 18 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the economy of the Mainland slowed down and resulted with severe market competitions. Overseas markets were still under the shadow of economic recession and the PRC export market growth was decelerated by the impact of exchange fluctuation. As the Group's business was highly concentrated in the domestic market, even though suffered from different kinds of adverse factors, with new products launched into different areas during the year, the impact was limited. Besides, with various electronics automation projects, the changes of specifications in social security, residents, finance and mobile payment projects have generated a hot demand in the electronics market.

For the year ended 31 December 2012, the Group's turnover recorded a continuous growth over the years. Sales in the mainland China kept a good growth; on the other hand, overseas sales were substantially dropped after the Group changed its marketing policy. Through its liaison offices in Singapore and Taiwan, the Group has strengthen its communication channels with overseas buyers and took good opportunities to promote its products as well as the exploration of overseas markets.

During the year, the Group still concentrated on its core business; besides the continuation of participating in government special projects, the Group has also joined lots of large scaled activities, technical conferences and exhibitions in order to enhance market promotion so as to expand the Group's technologies and product applications to varies areas and markets. Some existing products of the Group have been successfully penetrated into new markets of certain provinces and cities within the PRC. At the same time, the Group also launched at a right time with several new products to cope with the electronics upgrade program of identification cards and security system leaded by the government authorities and financial institutions. Some of the Group's products recorded a new high in sales during the year and resulted with a considerable growth in the Group's business as a whole.

The classifications of product category have been reclassified to conform with the Group's business development and the rapid changes in product series so as to reflect more realistic product performances:

Security and Identification Chips

Security and identification IC chips were developed from products of smart cards and radio frequency identification. Security and identification product line has taken shape in 3 product series as identification and memory, smart and security and identification readers based on the technologies including self-owned MCU core, EEPROM and radio frequency. The Group, having developed over 20 types of products ranging from contact/contactless/dual-interface CPU cards to contactless readers, SMAP mobile payment and etc., is now one of the domestic IC chips suppliers that provides a complete series. Products are widely adopted in areas of transportation, medical insurance, identification, e-wallet and etc.

IC chips of this category have been the Group's core products, sales of which for the year were similar to the past that accounted for more than a half of the Group's overall turnover. During the year, the IC chips for public transportation have penetrated into certain markets and with the new products launched for social security and financial industry, the sales in this category have increased by approximately 16% over the last year, however, the overall sales volume in this category was dropped as a result of changes in market policy. The IC smart card chips were the key products in this category and its applications are in areas of public transportation and etc., thus, the selling prices and sales volume are rather stable with profit margin increased from 47.6% of last year to 55.49% of the year driven by higher profits of certain new products.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Smart Meter ASIC Chips

The products of application specified IC ("ASIC") of smart meter series provide specific IC chips and related system solution for smart meters, electricity leakage protection equipment and electric power automation within the smart electric power network product line. Based on ASIC, our product line provides added value for system solution including embedded software, supporting IC chips developing kit and application set up. At present, and since its launching for market promotion, the key product smart meter specific micro controller unit chips have gained more than 90 enterprises for meter sampling and out of which, more than 80 enterprises have submitted their programs to the Nation Electric Network for certification, and more than 70 enterprises have put into mass production, thus these smart meter IC chips have been operated throughout the country.

The sales of this category during the year increased by approximately 83% over the last year and as the sales and selling prices of these products were very stable, as such, the profit margin was similar to the last year. The sharp increase in sales growth of this category has attributed a considerable contribution to the current year's results.

Non-volatile Memory Chips

The Group is the first serial EEPROM supplier in mainland China and with over 10 years' development, the product capacities now cover those from 2K bits to 1024K bits. The Group, which has accumulated rich experience in providing perfect quality management, excellent component supplies, sound channel management and outstanding customer services, has gained accreditations from worldwide and domestic electronics manufacturers and has becoming the top sellers in serial EEPROM with the widest EEPROM product lines. In addition to serial EEPROM, the Group also developed serial Flash products which provide a total solution in Non-volatile Memory chips products with a view to becoming an international leading and professional serial EEPROM supplier.

Sales of chips in this category slipped approximately 22% as compared with last year. Because of saturation in markets of certain products and together with increase of new competitors, selling prices of certain products have to be adjusted to meet market demands. However, profit margin was increased from 20% in last year to 26% as a result of improvement in production.

Specific Analog Circuits

The Group's specific analog circuits involve many aspects and are fully functional. Products include leakage protection circuit, meter circuits, lighting circuits, motorcycle automotive electronics, telecommunication circuits, and consumer electronics and so on.

Due to decreases in sales of motorcycle automotive electronics and telecommunication circuits, sales of this category during the year were decreased by 25%. As the portion of sales on overall turnover was minimal, there was little impact on the turnover and results of the year.

Other Chips

This category comprises of some secondary products and developed software and sales for the year were a few million Renminbi and accounted for a small portion of the Group's turnover. The sales for the year increased by 11% as compared with last year and the profit margin also increased slightly.

BUSINESS REVIEW *(continued)*

IC Testing Services

The IC testing services are provided by Sino IC Technology Co., Ltd., a 64.9%-owned subsidiary of the Group, income for the year of which has been maintained at a health growth trend over the years. Benefited from the rapid growth of the domestic electronics market with the Group's advanced technologies and accumulated experience, service income for the year increased sharply by approximately 53% over the last year. Even though the profit margin dropped due to increase in operating costs, it still achieved a satisfactory level of 61% with an approximately 86% increase in results. The IC testing services provide good supports to the Group's product testing and ensure its products meet with quality standards.

FINANCE REVIEW

The Group recorded a total revenue of approximately RMB704,064,000 (2011: RMB609,544,000) for the year ended 31 December 2012, represents a rise of approximately 16% as compared to the previous financial year. The profit attributable to owners of the parent was approximately RMB140,068,000 (2011: RMB106,372,000) and the basic earnings per share was RMB22.69 cents (2011: RMB17.23 cents), representing increase of approximately 32% over the last year. The Directors recommend the payment of a final dividend of RMB8 cents (2011: RMB8 cents) per ordinary share in respect of the year ended 31 December 2012.

For the year under review, following the increase in turnover of the Group, the profit margin also increased from 44% in last year to approximately 48% due to new products with high return launched during the year. Other income and gains increased by approximately 77% as compared to last year, mainly due to the increase of government grants received for research activities by 86% over the last year.

With regard to the selling and distribution costs, the increase of approximately 18% during the year as compared to last year was in relation with increase in turnover. In addition, it is also due to additional costs incurred for the exploration of new markets in surrounding cities within the country. At the same time, the overseas liaison offices in Singapore and Taiwan established for the purpose of developing overseas markets also incurred additional expenditures. The administrative expenses increased by approximately 44% when compared to last year because of business growth and salaries adjustment in order to keep professional talents. The other expenses for the year increased by approximately 39% over the last year, it is due to continuous application of resources in research and development by the Group and the increase in amortisation of deferred development costs.

With regard to income tax, the increase in provision of RMB4,384,000 as compared with previous year was due to increase in assessable profits.

During the year, the Group had an addition of RMB10,190,000 in self-occupied office premises transferred from construction under development to meet office spaces demand from increase in employees. Intangible assets increased by RMB5,695,000 over the last year as a result of applying resources for project research and development. As at the end of the reporting period, the inventory level was at a healthy level and with some inventories that were slow moving due to market demand, a provision of RMB5,352,000 was accounted for during the year. Compared with last year, the trade receivables increased slightly in relation to the increase in turnover with related impairment also increased lightly. The deferred tax assets increased by RMB3,395,000 because of government grants received were not recognised due to projects pending for acceptance and settlement. Since there were some projects settled and recognised during the year, prepayments, deposits and other receivables were decreased significantly by approximately RMB15,846,000.

Management Discussion and Analysis

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group's wholly owned subsidiary, Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint"), has undergone a corporate restructuring at the end of year by increasing registered capital to cope with its business development. The Company will increase its shareholding in Doublepoint by additional investment of RMB5,000,000 and upon the completion of increase in registered capital of Doublepoint in early 2013, the Group's equity interest will be increased from 26.4% to approximately 61.9%.

Save as disclosed above, 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.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2012, net assets of the Group amounted to approximately RMB642,416,000 (2011: RMB550,393,000), an increase of approximately 17% as compared to last year; of which, current assets amounted to approximately RMB660,482,000 (2011: RMB563,553,000), a rise of approximately 17% over the previous year, and including cash and bank deposits amounted to approximately RMB345,577,000 (2011: RMB256,017,000), an increase of approximately 35% when compared to last year.

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 2012, the Group has no deposit or security deposit pledged as guarantee (2011: nil) and has not pledged any of its assets to any third parties (2011: nil).

CAPITAL STRUCTURE

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

GEARING RATIO

As at 31 December 2012, the Group's current liabilities amounted to approximately RMB185,841,000 (2011: RMB179,935,000), an increase of approximately 3% as compared to last year. Non-current liabilities of approximately RMB18,611,000 (2011: RMB41,000), an increase of approximately 453 times when compared with last year. The net assets value per share of the Group was approximately RMB1.04 (2011: RMB0.89), a growth of approximately 17% over the last year. The Group's ratio of current liabilities over current assets was approximately 28.1% (2011: 31.9%) and the gearing ratio was approximately 31.8% (2011: 32.7%) on the basis of total liabilities over net assets. As at 31 December 2012, the Group and the Company had no bank or other borrowings (2011: 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 4% (2011: 11%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 73% (2011: 77%) 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. 21% (2011: 21%) 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 2012, the Group had capital commitments of approximately RMB4,264,000 related to acquisition of property, plant and equipment (2011: RMB1,299,000).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no contingent liabilities (2011: nil).

USE OF CAPITAL AND FUNDING

The Group currently has a stable financial position with sufficient working capital which will be applied for research and development of new products and identifying of cooperation opportunities as appropriate.

EMPLOYEES

As at 31 December 2012, the Group employed approximately 750 (2011: 614) 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 2012 amounted to approximately RMB125,700,000 (2011: RMB91,934,000). The substantial increase in total employees expenses were due to increase in employees and salaries 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
Mr. Lin Fujiang

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Li Wing Sum, Steven *FCCA, FCPA, FTIHK, HKIOD*

COMPLIANCE OFFICER

Mr. Wang Su

AUTHORISED REPRESENTATIVES

Mr. Shi Lei
Mr. Wang Su

AUDIT COMMITTEE

Mr. Cheung Wing Keung *(Chairman)*
Mr. Guo Li
Mr. Shen Xiaozu

REMUNERATION COMMITTEE

Mr. Cheung Wing Keung *(Chairman)*
Mr. Wang Su
Mr. Guo Li

NOMINATION COMMITTEE

Mr. Cheung Wing Keung *(Chairman)*
Mr. Wang Su
Mr. Guo Li

SUPERVISORS' COMMITTEE

Mr. Li Wei
Ms. Lu Beili
Mr. Wei Ran

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 59, 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 46, 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 professor grade senior engineer and was graduated with a Bachelor degree and a Master degree in management respectively from the China University of Technology and the Fudan University. Prior to joining the Company, 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 45, 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 as well as 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 66, 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 59, 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 76, joined the Company in July 1998, was a principal professor and tutor to doctorate students at Fudan University. She is a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of the Fudan University.

Directors and Senior Management Biographies

Non-executive directors *(continued)*

Mr. He Lixing, aged 78, 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.

Mr. Shen Xiaozu, aged 63, 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 48, 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 66, 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 83, 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 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.

Mr. Lin Fujiang, aged 54, is currently a professor of the School of Information Science and Technology and a doctoral supervisor of the Department of Electronics Science and Technology of the University of Science and Technology of China (the "USTC"). He graduated with degrees of Bachelor and Master in electronic engineering and technology from the USTC and a Doctorate degree in electrical and electronic engineering from the University of Kassel, Germany. Professor Lin was one of the National "Thousand Talent" Professors in 2010 and has been engaged for a long time in the multidisciplinary research of microwave and microelectronics, especially with a series of achievements in advanced radio frequency semi-conductors and circuits integration modeling and simulation, and is a renowned practical radio frequency modeling expert. He has presented more than a hundred scholarly essays in subscriptions, magazines and conferences and holds several intellectual rights in electronic technology jointly with various famous scholars, and is a well-known scholar in electronics science and technology.

Directors and Senior Management Biographies

SUPERVISORS

Mr. Li Wei, aged 41, 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 50, 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.

Mr. Wei Ran, aged 57, 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 56, 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 62, 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 44, joined the Company in June 2001, is the Deputy General Manager of the Company. He holds a bachelor degree and is a researcher in microelectronics and chief engineer. Before joining the Company, he worked for China Spaces Technology Research College and was the manager of design department of the Company. He has substantial experience in IC design and specific application management.

Mr. Diao Linshan, aged 47, joined the Company in January 1999, is the Deputy Operation Officer and General Manager of the Sales Department 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 of IC chips and operation management.

Directors and Senior Management Biographies

SENIOR MANAGEMENT *(continued)*

Mr. Li Wing Sum Steven, aged 56, joined the Company in July 2000, is the Qualified Accountant and Company Secretary of the Company. 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 and a member of the Hong Kong Institute of Directors. 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 the independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd., a company listed on the main board of the Stock Exchange and Ruifeng Petroleum Chemical Holdings Limited, a company listed on the GEM.

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 2012, 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 29 to 30

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") 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 CG Code 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 2012.

BOARD OF DIRECTORS AND BOARD MEETING

Composition and role

The Board comprises five executive Directors, three non-executive directors and four 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 13, 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 below in this report.

The Board classifies directors into chairman, executive directors, non-executive directors and independent non-executive directors and this has been disclosed in all the Company's announcements, circulars and the websites of the Company and the GEM.

The Company has arranged appropriate insurance cover in respect of legal action against the Directors.

In order to comply with rule 5.05A of the GEM Listing Rules that the independent non-executive directors appointed must representing at least one-third of the board, the Company has appointed Mr. Lin Fujiang as independent non-executive Director on 24 December 2012. And has ensured that at least one of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise as required by the GEM Listing Rules. The participation of independent non-executive Directors can provide the Board with independent judgements, knowledge and experience to ensure the interests of all shareholders have been duly considered.

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

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.

Board meetings

The Board held four full board meetings in each year and meets as and when required. 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.

Committees

The Board strives to maintain an excellent corporate governance and has established committees with written terms of reference setting out the powers and duties of the committees:

1. *Audit Committee*

   An audit committee has been established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and has been published on the websites of the GEM and the Company. 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 (Chairman) and Mr. Guo Li and a non-executive director, Mr. Shen Xiaozu. The audit committee members are well experienced in management, accounting, finance, commercial and industrial sectors.

   The Company's and the Group's financial statements for the year ended 31 December 2012 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

   The audit committee held four meetings during the year under review. Besides, the committee also held two meetings with the external auditors for the discussions on issues including the accounting policies adopted by the Group, internal control and financial statements.

2. *Nomination Committee*

   The nomination committee now comprises two independent non-executive directors, Mr. Cheung Wing Keung (Chairman) and Mr. Guo Li and an executive director, Mr. Wang Su. The nomination committee was established with written terms of reference which has been published on the websites of the GEM and the Company. 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.

   The Nomination Committee has held two meetings during the year.

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

3. *Remuneration Committee*

The remuneration committee now consists of two independent non-executive directors, Mr. Cheung Wing Keung (Chairman) and Mr. Guo Li and an executive director, Mr. Wang Su. The remuneration committee was established with written terms of reference which has been published on the websites of the GEM and the Company. 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.

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.

During the year under review, four meetings of the remuneration committee were held.

Record of number of Board and committee meetings and Directors' attendance

During the year ended 31 December 2012, the number of Board and committee meetings and Directors' attendance are set out below:

Directors	Annual General Meeting	Board of Directors	Audit Committee	Nomination Committee	Remuneration committee
Mr. Jiang Guoxing	1/1	4/4	N/A	N/A	N/A
Mr. Shi Lei	0/1	3/4	N/A	N/A	N/A
Mr. Yu Jun	1/1	4/4	N/A	N/A	N/A
Ms. Cheng Junxia	1/1	4/4	N/A	N/A	N/A
Mr. Wang Su	0/1	4/4	N/A	2/2	4/4
Ms. Zhang Qianling	1/1	4/4	N/A	N/A	N/A
Mr. He Lixing	0/1	4/4	N/A	N/A	N/A
Mr. Shen Xiaozu	1/1	4/4	2/2	N/A	N/A
Mr. Cheung Wing Keung	1/1	4/4	2/2	2/2	4/4
Mr. Guo Li	0/1	4/4	2/2	2/2	4/4
Mr. Chen Baoying	0/1	4/4	N/A	N/A	N/A
Mr. Lin Fujiang*	0/1	0/4	N/A	N/A	N/A

* Mr. Lin Fujiang was appointed on 24 December 2012

One non-executive director and two independent non-executive directors have not attended the Company's annual general meeting held on 25 May 2012 due to other commitment.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Directors training

All directors have participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company has the responsibilities for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.

During the year ended 31 December 2012, all Directors have received relevant trainings and have provided their training records as follow:

Directors	Training type
Mr. Jiang Guoxing	A,B
Mr. Shi Lei	A,B
Mr. Yu Jun	A,B
Ms. Cheng Junxia	B
Mr. Wang Su	A,B
Ms. Zhang Qianling	A,B
Mr. He Lixing	A,B
Mr. Shen Xiaozu	A,B
Mr. Cheung Wing Keung	A,B
Mr. Guo Li	A,B
Mr. Chen Baoying	B
Mr. Lin Fujiang*	B

Notes:

A. Attending conference/forum/seminar/workshop
B. Reading relevant articles and information relating to the business, economy, directors' duties and corporate governance

* Mr. Lin Fujiang was appointed on 24 December 2012

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.

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

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 2012 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 commencing from 25 May 2012, until the forthcoming AGM in or about May 2013 and Mr. Lin Fujiang, the independent non-executive directors of the Company, has signed letters of appointment with the Company commencing from 24 December 2012, until the forthcoming AGM in or about May 2013 and are subject to termination by either party giving no less than one months's written notice.

COMPANY SECRETARY

During the year, the company secretary of the Company has undertaken no less than 15 hours of professional training to update his skills and knowledge.

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.

INTERNAL CONTROL

The Company and its subsidiaries have to conduct at least annually a review of its system of internal control to ensure the effective and adequate internal control system including finance, operations and risk management. The reports and findings prepared by the internal audit team have to be circulated to the relevant committee delegated by the Board. If necessary, the internal audit team will submit their findings and the proposed audit plan to the Audit Committee for its approval. A review of system of internal control have been undergone during the year under review and the Directors are satisfy that the Group has maintained sound and effective internal controls.

CONSTITUTIONAL DOCUMENTS

The constitutional documents of the Company have been published both on the GEM and the Company's websites. The Company's articles have been amended upon the approval on the AGM held on 24 May 2012.

SHAREHOLDERS' RIGHT

Shareholders can convene an extraordinary general meeting ("EGM")

Shareholders requesting the convening of an extraordinary shareholders' general meeting or a class meeting of shareholders shall proceed in accordance with the procedures set forth below:

(1) shareholders separately or aggregately holding a total of 10 percent or more of the shares may sign one or more written counterpart requests requesting the board of directors to convene an extraordinary shareholders' general meeting or a class meeting of shareholders and stating the subject of the meeting. The board of directors shall convene the shareholders' general meeting or the meeting of shareholders of different class as soon as possible after having received the above-mentioned written request. The shareholding referred to above shall be calculated as at the date on which the written request is made; and

(2) if the board of directors fails to issue a notice of such a meeting within 30 days after having received the above-mentioned written notice, the shareholders who made such request may themselves convene the meeting within four months after the board of directors received the request. The procedures according to which they convene such meeting shall be, as similar as possible, to the procedures according to which shareholders' meetings are to be convened by the board of directors.

Corporate Governance Report

SHAREHOLDERS' RIGHT *(continued)*

Forward a proposal at a general meeting

When the Company is to hold an annual shareholders' general meeting, shareholders separately or aggregately holding 3 percent or more of the total number of the Company's shares shall be entitled to propose new notions in writing to the Company. The Company shall include in the agenda for the meeting the matters in the motions that fall within the scope of duties of the shareholders' general meeting.

Procedure for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedure for shareholders to propose a person for election as a director

A written notice of intention to nominate a person for election as director and a written notice of acceptance of such nomination given by such person shall be give in to the Company 7 days prior to a shareholder's meeting. The written notice shall be given in no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting

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, the executive Directors, the non-executive Directors and the Company's external auditors 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 2012.

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 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 107.

The directors recommend the payment of a final dividend of RMB8 cents per ordinary share in respect of the year to shareholders on the register of members on 6 June 2013. 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 108. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 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 2012, the Company's reserves available for distribution amounted to RMB324,496,000 of which RMB49,386,000 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 32% of the total sales for the year and sales to the largest customers accounted for 10% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 52% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17%.

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 and customers.

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
Mr. Lin Fujiang (appointed on 24 December 2012)

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 retirement and re-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, Mr. Chen Baoying and Mr Lin Fujiang, 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 2012 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 commencing from 25 May 2012, until the forthcoming AGM in or about May 2013, and Mr. Lin Fujiang, the independent non-executive directors of the Company, has signed letters of appointment with the Company commencing from 24 December 2012, until the forthcoming AGM in or about May 2013 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 AND DEBENTURES

At 31 December 2012, the interests and short positions of the directors and supervisors of the Company in the share capital and underlying shares and debentures 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 the Model Code for Securities Transactions by Directors of Listed Issuers, 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.

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

Long positions in shares and underlying shares of an associate corporation:

	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Numbers of shares/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Directors						
Mr. Yu Jun	Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint")	Company's associate	Ordinary shares	200,000	Directly beneficially owned	5.277
Mr. Wang Su	Doublepoint	Company's associate	Ordinary shares	100,000	Directly beneficially owned	2.638
Supervisors						
Mr. Li Wei	Doublepoint	Company's associate	Ordinary shares	100,000	Directly beneficially owned	2.638

Save as disclosed above, as at 31 December 2012, 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 the Model Code for Securities Transactions by Directors of Listed Issuers.

Report of the Directors

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 2012, 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 shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
SSAC		Directly beneficially owned	144,230,000	Domestic shares	37.95	23.36
Shanghai Fudan High Tech Company	(1)	Directly beneficially owned	106,730,000	Domestic shares	28.46	17.29
Shanghai Fudan Technology Enterprise Holdings Limited	(2)	Directly beneficially owned	109,620,000	Domestic shares	29.23	17.76
SCI	(2)	Through a controlled corporation	109,620,000	Domestic shares	29.23	17.76
Credit Suisse Group AG		Interest of corporation controlled	29,848,000	H shares	12.32	4.84

Notes:

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

(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 2012, 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.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, or 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

Except for the continuing connected transactions disclosed below, details of the connected transactions of the Group are set out in note 29 to the financial statements.

Continuing connected transactions

On 12 August 2003, the Company and 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 2012 amounted to RMB465,000.

On 1 December 2010, the Company entered into a Special Field Programmable Gate Arrays ("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 surplus to SFU during 2012.

On 18 January 2010, the Company entered into a co-operation agreement with Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong"), a 51% owned subsidiary of the Company, for the research and development of electricity meter IC chips ("No. 1 Agreement") for a co-operation term commencing from the date of signing the agreement up to the termination of product life. The resultant intellectual proprietary rights would be shared equally by both parties. Under the No. 1 Agreement, after deducting the production costs, revenue derived from the product would be shared by the Company and Fukong Hualong based on two sales volume levels at the ratios of 82% to 18% and 88% to 12%, respectively.

On 21 February 2011, the Company entered into a co-operation agreement with Fukong Hualong for the research and development of lighting product IC chips ("No. 2 Agreement") for a co-operation term commencing from the date of signing the agreement up to the termination of product life. The resultant intellectual proprietary rights would be shared equally by both parties. Under the No. 2 Agreement, the Company will purchase the finished goods from Fukong Hualong at a cost based on the product selling price after deducting the relevant production costs and a 50% profit sharing.

On 24 June 2009, the Company entered into a co-operation agreement with Fukong Hualong for the setting up a jointly developed "Chip & System" mode ("Cooperation Agreement") with a view to explore markets in global positioning system ("GPS"), smart video player and mobile payment. Based on the previous cooperation result, on 23 April 2012, the Company entered into a cooperation agreement with Fukong Hualong for the product development of GPS IC chips ("No. 3 Agreement") for a term starting from the agreement date up to the end of the estimated product life which is about 3 years. Pursuant to the No. 3 Agreement, the Company and Fukong Hualong will carry out two cooperation modules respectively in project mode and product sales mode.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Continuing connected transactions *(continued)*

Under the project mode, the Company will be the primary applicant for the government grants. The Company will share 10% of the grants as compensation for administrative expenses and, after deducting the reimbursement of subcontracting charges paid by the Company, the remaining proceeds will be Fukong Hualong's entitlement of research and development income ("R & D Income") as compensation for its provision of basic equipment, facilities and human resources.

Based on the above-mentioned product sales mode, both parties, having realized that there are prospects in product industrialization, have entered into cooperation of product sales mode. The Company will be responsible for the production of qualified IC chips and Fukong Hualong will be responsible for product marketing. Both parties will determine a market selling price with references to the production costs, selling and distribution costs and market conditions ("Market Selling Price"), and the Company will sell products to Fukong Hualong at a price based on production costs plus 50% gross profit on Market Selling Price.

As the nature of the transactions contemplated under No. 1 Agreement, No. 2 Agreement and No. 3 Agreement are similar and will be continued, pursuant to rule 20.25 of the GEM Listing Rules, these transactions should be aggregated. As such, the Company expects that the total transaction amount will be with an annual cap during 2012, 2013 and 2014 of RMB21,700,000, RMB19,400,000 and RMB20,400,000, respectively. The Company paid RMB5,481,000 to Fukong Hualong for R&D expenses compensation and Fukong Hualong paid RMB1,412,000 to the Company for purchase of products during 2012.

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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions set out in the Corporate Governance Code 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 of the Group after the reporting period are set out in note 33 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
18 March 2013

Independent Auditors' Report

ERNST & YOUNG
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 31 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

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 2012, 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
18 March 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**704,064**	609,544
Cost of sales		**(367,919)**	(343,284)
Gross profit		**336,145**	266,260
Other income and gains	5	**105,277**	59,390
Selling and distribution expenses		**(36,861)**	(31,303)
Administrative expenses		**(58,168)**	(40,523)
Other expenses		**(183,380)**	(131,818)
Share of losses of an associate		**(376)**	–
PROFIT BEFORE TAX	6	**162,637**	122,006
Income tax expense	9(a)	**(19,049)**	(14,665)
PROFIT FOR THE YEAR		**143,588**	107,341
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of a foreign operation		**(3)**	(328)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(3)**	(328)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**143,585**	107,013
Profit attributable to:			
Owners of the parent		**140,068**	106,372
Non-controlling interests		**3,520**	969
		143,588	107,341
Total comprehensive income attributable to:			
Owners of the parent		**140,065**	106,044
Non-controlling interests		**3,520**	969
		143,585	107,013
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	**22.69 cents**	17.23 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 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**136,017**	125,161
Intangible assets	14	**35,651**	29,956
Investment in an associate	16	**494**	870
Available-for-sale investments	17	**500**	500
Deferred tax assets	9(c)	**13,724**	10,329
Total non-current assets		**186,386**	166,816
CURRENT ASSETS			
Inventories	18	**146,659**	136,205
Trade and bills receivables	19	**155,234**	142,473
Prepayments, deposits and other receivables	20	**13,012**	28,858
Cash and cash equivalents	21	**345,577**	256,017
Total current assets		**660,482**	563,553
CURRENT LIABILITIES			
Trade and bills payables	22	**53,378**	64,403
Accruals, other payables and deferred income	23	**110,637**	97,894
Tax payable	9(b)	**21,826**	17,638
Total current liabilities		**185,841**	179,935
NET CURRENT ASSETS		**474,641**	383,618
TOTAL ASSETS LESS CURRENT LIABILITIES		**661,027**	550,434

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**661,027**	550,434
NON-CURRENT LIABILITIES			
Deferred tax liabilities	9(c)	**1**	41
Deferred income	23	**18,610**	–
Total non-current liabilities		**18,611**	41
Net assets		**642,416**	550,393
EQUITY			
Equity attributable to owners of the parent			
Issued capital	24	**61,733**	61,733
Reserves	25	**494,993**	404,314
Proposed final dividend	11	**49,386**	49,386
		606,112	515,433
Non-controlling interests		**36,304**	34,960
Total equity		**642,416**	550,393

Jiang Guoxing
Director

Shi Lei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to owners of the parent								
	Notes	Issued share capital RMB'000 (Note 24)	Share premium account RMB'000 (Note 25)	Statutory surplus reserve RMB'000 (Note 25)	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 2011		61,733	168,486	27,016	(2,887)	155,041	30,867	440,256	33,991	474,247
Profit for the year		–	–	–	–	106,372	–	106,372	969	107,341
Exchange differences on translation of foreign operations		–	–	–	(328)	–	–	(328)	–	(328)
Total comprehensive income for the year		–	–	–	(328)	106,372	–	106,044	969	107,013
Final 2010 dividend declared		–	–	–	–	–	(30,867)	(30,867)	–	(30,867)
Proposed final 2011 dividend	11	–	–	–	–	(49,386)	49,386	–	–	–
Transfer from retained profits		–	–	11,367	–	(11,367)	–	–	–	–
At 31 December 2011 and 1 January 2012		**61,733**	**168,486***	**38,383***	**(3,215)***	**200,660***	**49,386**	**515,433**	**34,960**	**550,393**
Profit for the year		**–**	**–**	**–**	**–**	**140,068**	**–**	**140,068**	**3,520**	**143,588**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**(3)**	**–**	**–**	**(3)**	**–**	**(3)**
Total comprehensive income for the year		**–**	**–**	**–**	**(3)**	**140,068**	**–**	**140,065**	**3,520**	**143,585**
Dividends paid to non-controlling shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,176)**	**(2,176)**
Final 2011 dividend declared		**–**	**–**	**–**	**–**	**–**	**(49,386)**	**(49,386)**	**–**	**(49,386)**
Proposed final 2012 dividend	11	**–**	**–**	**–**	**–**	**(49,386)**	**49,386**	**–**	**–**	**–**
Transfer from retained profits	25	**–**	**–**	**1,266**	**–**	**(1,266)**	**–**	**–**	**–**	**–**
At 31 December 2012		**61,733**	**168,486***	**39,649***	**(3,218)***	**290,076***	**49,386**	**606,112**	**36,304**	**642,416**

* These reserve accounts comprise the consolidated reserves of RMB494,993,000 (2011: RMB404,314,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**162,637**	122,006
Adjustments for:			
Share of loss of an associate		**376**	–
Bank interest income	5, 6	**(5,299)**	(4,939)
Loss on disposal of items of property, plant and equipment	6	**27**	71
Gain on disposal of a subsidiary	26	**–**	(365)
Depreciation	13	**22,403**	14,712
Amortisation of intangible assets	14	**6,486**	3,502
Write off of intangible assets	14	**1,251**	3,050
		187,881	138,037
Increase in inventories		**(10,454)**	(9,053)
Increase in trade and bills receivables		**(12,761)**	(47,118)
Decrease/(increase) in prepayments, deposits and other receivables		**16,126**	(3,135)
Increase/(decrease) in trade and bills payables		**(11,025)**	7,432
Increase in accruals, other payables and deferred income		**12,743**	3,898
Increase in deferred income		**18,610**	–
Cash generated from operations		**201,120**	90,061
Hong Kong profits tax recovered	9(b)	**246**	–
PRC tax paid	9(b)	**(18,542)**	(16,879)
Net cash flows from operating activities		**182,824**	73,182
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in time deposits with original maturity of over three months when acquired	21	**(21,756)**	38,277
Bank interest received		**5,019**	7,061
Purchases of items of property, plant and equipment	13	**(33,436)**	(50,497)
Proceeds from disposal of items of property, plant and equipment		**150**	2,785
Additions to intangible assets	14	**(13,432)**	(11,528)
Disposal of a subsidiary	26	**–**	(492)
Purchase of available-for-sale investments	17	**–**	(500)
Net cash flows used in investing activities		**(63,455)**	(14,894)

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows used in investing activities		**(63,455)**	(14,894)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(49,386)**	(30,867)
Dividends paid to non-controlling shareholders		**(2,176)**	–
Net cash flows used in financing activities		**(51,562)**	(30,867)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**67,807**	27,421
Cash and cash equivalents at beginning of year		**147,981**	120,887
Effect of foreign exchange rate changes, net		**(3)**	(327)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**215,785**	147,981
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**153,490**	80,770
Non-pledged time deposits	21	**192,087**	175,247
Cash and cash equivalents as stated in the consolidated statement of financial position	21	**345,577**	256,017
Time deposits with original maturity of over three months when acquired	21	**(129,792)**	(108,036)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**215,785**	147,981

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**75,889**	69,521
Intangible assets	14	**33,366**	26,098
Investments in subsidiaries	15	**48,972**	48,972
Investment in an associate	16	**494**	870
Available-for-sale investments	17	**500**	500
Deferred tax assets	9(c)	**8,314**	6,811
Total non-current assets		**167,535**	152,772
CURRENT ASSETS			
Inventories	18	**145,270**	132,581
Due from subsidiaries	15	**13,765**	16,912
Trade and bills receivables	19	**140,372**	126,742
Prepayments, deposits and other receivables	20	**9,376**	26,468
Cash and cash equivalents	21	**257,163**	170,461
Total current assets		**565,946**	473,164
CURRENT LIABILITIES			
Due to subsidiaries	15	**4,521**	1,861
Trade and bills payables	22	**50,122**	59,606
Accruals, other payables and deferred income	23	**65,529**	46,521
Tax payable		**15,644**	13,201
Total current liabilities		**135,816**	121,189
NET CURRENT ASSETS		**430,130**	351,975

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**597,665**	504,747
NON-CURRENT LIABILITIES			
Deferred income	23	**7,472**	–
Net assets		**590,193**	504,747
EQUITY			
Issued capital	24	**61,733**	61,733
Reserves	25	**479,074**	393,628
Proposed final dividend	11	**49,386**	49,386
Total equity		**590,193**	504,747

Jiang Guoxing
Director

Shi Lei
Director

Notes to Financial Statements

31 December 2012

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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Notes to Financial Statements

31 December 2012

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. 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) *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) *HKAS 32 Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

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 Group elects whether to measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets 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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a); and

  (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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:

Land and buildings	1.9%
Machinery and office equipment	19%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents machinery and other items of property, plant and equipment under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction and capitalised borrowing costs on related borrowed fund 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 at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial investments. 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. 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.

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

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 and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as 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 revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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 income statement.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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 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.

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31 December 2012

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 loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

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 previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement.

Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. 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, net of directly attributable transaction costs.

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

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31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate 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 income statement.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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 option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when 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 and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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 and associates, 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.

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

(b) from the rendering of services, in the period in which 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 over 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 income statement as they become payable in accordance with the rules of the central pension scheme.

The Group's subsidiary in Hong Kong operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The subsidiary's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Notes to Financial Statements

31 December 2012

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, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

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 rate prevailing at the end of the reporting period and its statement of comprehensive income is translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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 prevailing 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 rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Research and development costs

The Group determines whether costs of research and development qualify for capitalisation, and has developed criteria in making that judgement. Therefore, the Group considers whether costs of research and development to be capitalised generates future cash flows, and whether the Group has the technical feasibility of completing the development so that the item under research and development will be available for use or sale and the Group has the intention to complete the development. The Group also considers the ability in measuring development expenditure during the development.

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 described below.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other temporary differences to the extent that it is probable that taxable profit will be available against which the losses and differences 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. The amount of unrecognised tax losses at 31 December 2012 was RMB891,000 (2011: RMB726,000). 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 of 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 evaluation 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 17 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The Group records impairment of trade receivables based on an assessment of the recoverability of trade and bills receivables. The identification of doubtful debts requires 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.

Useful lives of plant, property and equipment

The Group determines the useful lives of plant, property and equipment based on an assessment of the expected useful lives or expected pattern of consumption of future economic benefits embodied in the assets. The determination of a reasonable useful life requires directors' estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the plant, property and equipment and the depreciation expenses in the period in which such estimates have been changed.

Useful lives of intangible assets

The Group determines the useful lives of intangible assets based on an assessment of the expected useful lives or expected pattern of consumption of future economic benefits embodied in the assets. The determination of a reasonable useful life requires directors' estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the intangible assets and the amortisation expenses in the period in which such estimates have been changed.

Provisions for inventories to net realisable value and slow-moving

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories and makes slow-moving provision based on the analysis turnover of the inventories and their historical and subsequent usage or sales. The assessment of write-down and slow-moving provision requires directors' estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the inventories and write-down of inventories in the period in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Development costs capitalisation

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 flows generated from the assets, discount rates to be applied and the expected period of benefits. Further details are contained in note 14 to the financial statements.

Recoverability and recognition of development costs through government grants

The Group records receivables of development costs through government grants based on an assessment of the recoverability of development costs through government grants. The determination of recoverability requires directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and the unrecovered development costs in the period in which such estimates have been changed.

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, and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude deferred tax liabilities, corporate and other unallocated 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.

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4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2012	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	**665,434**	**38,630**	**704,064**
Intersegment sales	**–**	**33,661**	**33,661**
	665,434	**72,291**	**737,725**
Reconciliation:			
Elimination of intersegment sales			**(33,661)**
Revenue			**704,064**
Segment results	**126,569**	**20,100**	**146,669**
Reconciliation:			
Elimination of intersegment results			**(1,040)**
Interest income			**5,299**
Unallocated other income and gains			**11,709**
Profit before tax			**162,637**
Segment assets	**708,930**	**127,758**	**836,688**
Reconciliation:			
Elimination of intersegment receivables			**(4,538)**
Corporate and other unallocated assets			**14,718**
Total assets			**846,868**
Segment liabilities	**149,585**	**59,404**	**208,989**
Reconciliation:			
Elimination of intersegment payables			**(4,538)**
Corporate and other unallocated liabilities			**1**
Total liabilities			**204,452**
Other segment information:			
Share of losses of an associate	**376**	**–**	**376**
Impairment loss recognised in the income statement	**7,466**	**162**	**7,628**
Depreciation	**9,183**	**13,220**	**22,403**
Amortisation of intangible assets	**6,486**	**–**	**6,486**
Investment in an associate	**494**	**–**	**494**
Capital expenditure	**28,417**	**18,451**	**46,868***

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2011	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	584,935	24,609	609,544
Intersegment sales	–	23,813	23,813
	584,935	48,422	633,357
Reconciliation:			
Elimination of intersegment sales			(23,813)
Revenue			609,544
Segment results	99,466	10,129	109,595
Reconciliation:			
Elimination of intersegment results			226
Interest income			4,939
Unallocated other income and gains			7,246
Profit before tax			122,006
Segment assets	606,279	114,260	720,539
Reconciliation:			
Elimination of intersegment receivables			(1,869)
Corporate and other unallocated assets			11,699
Total assets			730,369
Segment liabilities	124,470	57,334	181,804
Reconciliation:			
Elimination of intersegment payables			(1,869)
Corporate and other unallocated liabilities			41
Total liabilities			179,976
Other segment information:			
Impairment losses recognised in the income statement	2,196	14	2,210
Depreciation	7,176	7,536	14,712
Amortisation of intangible assets	3,502	–	3,502
Investment in an associate	870	–	870
Capital expenditure	26,557	33,796	60,353*

* 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

	2012 RMB'000	2011 RMB'000
Mainland China	**677,294**	543,630
Asia Pacific (excluding Mainland China)	**19,900**	51,495
Others	**6,870**	14,419
	704,064	609,544

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
Mainland China	**171,653**	155,095
Asia Pacific (excluding Mainland China)	**15**	22
	171,668	155,117

The non-current asset information above is based on the locations of the assets and excludes an investment in an associate, available-for-sale investments and deferred tax assets.

Information about a major customer

Revenue of approximately RMB68,723,000 (2011: RMB35,205,000) was derived from sales by the design, development and sale of IC products segment to a single customer.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	**665,434**	584,935
Rendering of services	**38,630**	24,609
	704,064	609,544
Other income		
Bank interest income	**5,299**	4,939
Government grants received for research activities (note 6)	**87,893**	47,205
Other government grants	**3,731**	3,542
	96,923	55,686
Gains		
Gain on disposal of a subsidiary (note 26)	**–**	365
Others	**8,354**	3,339
	8,354	3,704
	105,277	59,390

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6. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold	**342,303**	330,346
Cost of services provided	**25,616**	12,938
Depreciation	**22,403**	14,712
Research and development costs:		
Deferred development costs amortised* (note 14)	**6,486**	3,502
Current year expenditure	**172,219**	121,849
Less: Government grants received for research activities**	**(87,893)**	(47,205)
	90,812	78,146
Minimum lease payments under operating leases:		
Land and buildings	**5,461**	5,805
Auditors' remuneration	**1,075**	1,075
Employee benefit expense (excluding directors' and chief executive's remuneration – (note 7)):		
Wages and salaries	**107,596**	80,425
Pension scheme contributions	**13,773**	8,064
	121,369	88,489
Less: Amounts capitalised as development costs	**(9,658)**	(7,142)
	111,711	81,347
Foreign exchange differences, net	**75**	1,831
Impairment of trade and bills receivables (note 19)	**2,276**	1,706
Provision for inventories to net realisable value	**5,352**	504
Loss on disposal of items of property, plant and equipment	**27**	71
Bank interest income	**(5,299)**	(4,939)
Other government grants	**(3,731)**	(3,542)
Government grants received for research activities**	**(87,893)**	(47,205)
Gain on disposal of a subsidiary (note 26)	**–**	(365)

* 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. Conditions or contingencies relating to these grants are fulfilled 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 incurred are included in "accruals, other payables and deferred income" in the consolidated statement of financial position.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") ("GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Fees	**66**	50
Other emoluments:		
Other benefits	**72**	72
Salaries, allowances and benefits in kind	**4,193**	3,323
	4,331	3,445

(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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Mr. Cheung Wing Keung	**66**	50	**–**	–
Mr. Guo Li	**–**	–	**36**	36
Mr. Chen Baoying	**–**	–	**36**	36
Mr. Lin Fujiang (appointed in 2012)	**–**	–	**–**	–
	66	50	**72**	72

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Other benefits received RMB'000	Total remuneration RMB'000
2012				
Executive directors:				
Mr. Jiang Guoxing	**300**	**–**	**–**	**300**
Mr. Shi Lei	**1,517**	**–**	**–**	**1,517**
Mr. Yu Jun	**1,134**	**–**	**–**	**1,134**
Ms. Cheng Junxia	**653**	**–**	**–**	**653**
Mr. Wang Su	**589**	**–**	**–**	**589**
	4,193	**–**	**–**	**4,193**
Non-executive directors:				
Ms. Zhang Qianling	**–**	**–**	**–**	**–**
Mr. He Lixing	**–**	**–**	**–**	**–**
Mr. Shen Xiaozu	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
	4,193	**–**	**–**	**4,193**

The Group and the Company's chief executive is Mr. Shi Lei, who is also an executive director of the Group and the Company.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive *(continued)*

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Other benefits received RMB'000	Total remuneration RMB'000
2011				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	1,161	–	–	1,161
Mr. Yu Jun	815	–	–	815
Ms. Cheng Junxia	551	–	–	551
Mr. Wang Su	496	–	–	496
	3,323	–	–	3,323
Non-executive directors:				
Ms. Zhang Qianling	–	–	–	–
Mr. He Lixing	–	–	–	–
Mr. Shen Xiaozu	–	–	–	–
	–	–	–	–
	3,323	–	–	3,323

The Group and the Company's chief executive is Mr. Shi Lei, who is also an executive director of the Group and the Company.

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

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and one director/chief executive (2011: three directors and one director/chief executive), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining one (2011: one) highest paid employee who is neither a director nor chief executive of the Group are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**743**	523
Pension scheme contributions	**58**	10
	801	533

The remuneration of the non-director and non-chief executive, highest paid employee of the Group whose remuneration fell within the band of Nil to HK$1,000,000 (2011: Nil to HK$1,000,000).

During the year, no emoluments were paid by the Group to the directors and chief executive or the non-director and non-chief executive 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 "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 2012, income tax on assessable income of the Company has been provided at the rate of 15% (2011: 15%).

Under the 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 an HNT Enterprise. For the financial year ended 31 December 2012, income tax on assessable income of Sino IC has been provided at the rate of 15% (2011: 15%).

Under the 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%. Pursuant to an approval document dated 15 May 2009 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2008, Fukong Hualong is exempted from corporate income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Fukong Hualong was in its fifth profit making year and was entitled to a 50% concession on income tax. For the financial year ended 31 December 2012, income tax on assessable income of Fukong Hualong has been provided at the rate of 12.5% (2011: 12.5%).

Under the CIT Law, two of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited ("SZFM") and Beijing Fudan Microelectronics Technology Company Limited ("BJFM"), are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2012, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2011: 25%).

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

9. INCOME TAX *(continued)*

	2012 RMB'000	2011 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**291**	–
Current – Mainland China		
Charge for the year	**23,536**	18,122
Overprovision in prior years	**(1,343)**	(908)
Deferred (note 9(c))	**(3,435)**	(2,549)
Total tax charge for the year	**19,049**	14,665

(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 – 2012

	Mainland China RMB'000	%	Hong Kong RMB'000	%	Total RMB'000	%
Profit before tax	**160,881**		**1,756**		**162,637**	
Tax at the statutory tax rates	**40,219**	**25.0**	**290**	**16.5**	**40,509**	**24.9**
Lower tax rates enacted by local authority	**(15,830)**	**(9.9)**	**–**	**–**	**(15,830)**	**(9.7)**
Adjustment in respect of current tax of previous years	**(1,343)**	**(0.8)**	**–**	**–**	**(1,343)**	**(0.8)**
Accelerated deduction for research and development activities	**(5,963)**	**(3.7)**	**–**	**–**	**(5,963)**	**(3.7)**
Income not subject for tax	**(604)**	**(0.4)**	**–**	**–**	**(604)**	**(0.4)**
Expenses not deductible for tax	**1,407**	**0.9**	**1**	**0.1**	**1,408**	**0.9**
Timing differences not recognised as deferred tax assets from previous years	**–**	**–**	**(19)**	**(1.1)**	**(19)**	**–**
Tax losses not recognised	**891**	**0.6**	**–**	**–**	**891**	**0.5**
Tax charge at the Group's effective rate	**18,777**	**11.7**	**272**	**15.5**	**19,049**	**11.7**

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9. INCOME TAX *(continued)*

(a) Income tax expense *(continued)*

Group – 2011

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	122,633		(627)		122,006	
Tax at the applicable tax rates	30,658	25.0	(104)	(16.5)	30,554	25.0
Lower tax rate enacted by local authority	(12,153)	(10.0)	–	–	(12,153)	(10.0)
Effect on deferred tax of increase in rate	(60)	–	–	–	(60)	–
Adjustment in respect of current tax of previous years	(908)	(0.7)	–	–	(908)	(0.7)
Accelerated deduction for research and development activities	(4,062)	(3.3)	–	–	(4,062)	(3.3)
Expenses not deductible for tax	703	0.6	(2)	(0.3)	701	0.6
Temporary differences not recognised as deferred tax assets in previous years	(133)	(0.1)	–	–	(133)	(0.1)
Tax losses not recognised	620	0.5	106	16.8	726	0.5
Tax charge at the Group's effective rate	14,665	12.0	–	–	14,665	12.0

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

	2012	2011
	RMB'000	RMB'000
At beginning of year	**17,638**	17,303
Provision for the year	**22,484**	17,214
Hong Kong tax recovered during the year	**246**	–
PRC Tax paid during the year	**(18,542)**	(16,879)
At end of year	**21,826**	17,638

9. INCOME TAX *(continued)*

(c) Deferred tax

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

Group – 2012

Deferred tax assets

	At 1 January 2012 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2012 RMB'000
Impairment of assets	2,774	733	3,507
Depreciation of property, plant and equipment	606	76	682
Government grants	6,712	1,896	8,608
Temporary differences related to accruals, other payables and deferred income	1,163	264	1,427
Total	11,255	2,969	14,224

Deferred tax liabilities

	At 1 January 2012 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2012 RMB'000
Deferred development costs	948	(448)	500
Depreciation of property, plant and equipment	19	(18)	1
Total	967	(466)	501

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	13,724
Net deferred tax liabilities recognised in the consolidated statement of financial position	1

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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)*

Group – 2011

Deferred tax assets

	At 1 January 2011 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2011 RMB'000
Impairment of assets	2,572	202	2,774
Depreciation of property, plant and equipment	324	282	606
Government grants	5,623	1,089	6,712
Temporary differences related to accruals, other payables and deferred income	745	418	1,163
Total	9,264	1,991	11,255

Deferred tax liabilities

	At 1 January 2011 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2011 RMB'000
Deferred development costs	1,505	(557)	948
Depreciation of property, plant and equipment	20	(1)	19
Total	1,525	(558)	967

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	10,329
Net deferred tax liabilities recognised in the consolidated statement of financial position	41

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

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

Company – 2012

Deferred tax assets

	At 1 January 2012 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2012 RMB'000
Impairment of assets	2,713	757	3,470
Depreciation of property, plant and equipment	606	76	682
Government grants	3,415	198	3,613
Temporary differences related to accruals, other payables and deferred income	859	190	1,049
Total	7,593	1,221	8,814

Deferred tax liabilities

	At 1 January 2012 RMB'000	Deferred tax charged to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2012 RMB'000
Deferred development costs	782	(282)	500

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 balance of the Company for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the statement of financial position	8,314

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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 – 2011

Deferred tax assets

	At 1 January 2011 RMB'000	Deferred tax credited to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2011 RMB'000
Impairment of assets	2,531	182	2,713
Depreciation of property, plant and equipment	324	282	606
Government grants	2,840	575	3,415
Temporary differences related to accruals, other payables and deferred income	635	224	859
Total	6,330	1,263	7,593

Deferred tax liabilities

	At 1 January 2011 RMB'000	Deferred tax charged to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2011 RMB'000
Deferred development costs	1,001	(219)	782

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 balance of the Company for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the statement of financial position	6,811

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Tax losses	**891**	726	**–**	–
Deductible temporary differences	**147**	267	**–**	–
	1,038	993	**–**	–

The Group has tax losses arising in Mainland China of RMB891,000 (2011: RMB620,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB134,832,000 (2011: RMB106,001,000) which has been dealt with in the financial statements of the Company (note 25).

11. DIVIDEND

	2012 RMB'000	2011 RMB'000
Proposed final – RMB8 cents (2011: RMB8 cents) per ordinary share	**49,386**	49,386

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 (2011: 617,330,000) in issue during the year.

The calculation of the basic earnings per share is based on:

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**140,068**	106,372

	Number of shares '000	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**617,330**	617,330

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2012 and 2011.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012					
Cost:					
At beginning of year	62,358	136,440	4,970	11,244	215,012
Additions	1,557	12,112	399	19,368	33,436
Transfers	10,190	2,774	–	(12,964)	–
Disposals	–	(3,994)	–	(146)	(4,140)
Exchange realignment	–	1	–	–	1
At 31 December 2012	74,105	147,333	5,369	17,502	244,309
Accumulated depreciation:					
At beginning of year	11,543	75,631	2,677	–	89,851
Provided during the year	4,187	17,560	656	–	22,403
Disposals	–	(3,963)	–	–	(3,963)
Exchange realignment	–	1	–	–	1
At 31 December 2012	15,730	89,229	3,333	–	108,292
Net book value:					
At 31 December 2012	58,375	58,104	2,036	17,502	136,017

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

Group *(continued)*

	Land and buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011					
Cost:					
At beginning of year	57,547	103,834	4,440	5,570	171,391
Additions	1,683	21,655	597	24,890	48,825
Transfers	3,128	15,748	129	(19,005)	–
Disposals	–	(4,546)	(196)	(211)	(4,953)
Disposal of a subsidiary	–	(22)	–	–	(22)
Exchange realignment	–	(229)	–	–	(229)
At 31 December 2011	62,358	136,440	4,970	11,244	215,012
Accumulated depreciation:					
At beginning of year	9,102	66,141	2,223	–	77,466
Provided during the year	2,441	11,629	642	–	14,712
Disposals	–	(1,909)	(188)	–	(2,097)
Disposal of a subsidiary	–	(2)	–	–	(2)
Exchange realignment	–	(228)	–	–	(228)
At 31 December 2011	11,543	75,631	2,677	–	89,851
Net book value:					
At 31 December 2011	50,815	60,809	2,293	11,244	125,161

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

Company

	Land and buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012					
Cost:					
At beginning of year	55,089	50,592	2,509	10,789	118,979
Additions	1,062	11,817	397	1,540	14,816
Transfers	10,190	–	–	(10,190)	–
Disposals	–	(3,994)	–	(146)	(4,140)
At 31 December 2012	66,341	58,415	2,906	1,993	129,655
Accumulated depreciation:					
At beginning of year	9,814	38,053	1,591	–	49,458
Provided during the year	1,988	6,019	264	–	8,271
Disposals	–	(3,963)	–	–	(3,963)
At 31 December 2012	11,802	40,109	1,855	–	53,766
Net book value:					
At 31 December 2012	54,539	18,306	1,051	1,993	75,889

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

Company *(continued)*

	Land and buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011					
Cost:					
At beginning of year	55,089	47,946	2,509	1,513	107,057
Additions	–	2,587	–	10,393	12,980
Transfers	–	906	–	(906)	–
Disposals	–	(847)	–	(211)	(1,058)
At 31 December 2011	55,089	50,592	2,509	10,789	118,979
Accumulated depreciation:					
At beginning of year	8,074	34,214	1,303	–	43,591
Provided during the year	1,740	4,633	288	–	6,661
Disposals	–	(794)	–	–	(794)
At 31 December 2011	9,814	38,053	1,591	–	49,458
Net book value:					
At 31 December 2011	45,275	12,539	918	10,789	69,521

The Group's land and buildings are situated in Mainland China and held under a long term lease.

14. INTANGIBLE ASSETS

	Deferred development costs	
	Group	Company
	RMB'000	RMB'000
31 December 2012		
Cost:		
At beginning of year	**65,071**	**58,697**
Additions – internal development	**13,432**	**13,154**
Write off – internal development	**(1,251)**	**–**
At 31 December 2012	**77,252**	**71,851**
Accumulated amortisation:		
At beginning of year	**35,115**	**32,599**
Amortisation provided during the year	**6,486**	**5,886**
At 31 December 2012	**41,601**	**38,485**
Net book value:		
At 31 December 2012	**35,651**	**33,366**
31 December 2011		
Cost:		
At beginning of year	56,593	49,751
Additions – internal development	11,528	8,946
Disposals – internal development	(3,050)	–
At 31 December 2011	65,071	58,697
Accumulated amortisation:		
At beginning of year	31,613	29,367
Amortisation provided during the year	3,502	3,232
At 31 December 2011	35,115	32,599
Net book value:		
At 31 December 2011	29,956	26,098

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15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**48,972**	48,972

The balances with subsidiaries included in the Company's current assets and current liabilities of RMB13,765,000 (2011: RMB16,912,000) and RMB4,521,000 (2011: RMB1,861,000), respectively, are unsecured, interest-free and repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of 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 place of 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

* Sino IC is registered as a contractual joint venture company under PRC law. Sino IC is treated as a subsidiary, as the Group/Company has unilateral control directly over Sino IC.

** SZFM and BJFM are wholly-owned subsidiaries of the Company incorporated in 2007. Both of them are registered as limited liability companies under PRC law. None of the companies was audited by Ernst & Young, Hong Kong 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 is treated as a subsidiary, as the Group/Company has unilateral control directly over Fukong Hualong. Fukong Hualong was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

16. INVESTMENT IN AN ASSOCIATE

	Group and Company	
	2012 RMB'000	2011 RMB'000
Unlisted equity investment, share of net assets	**494**	870

Particulars of the associate are as follows:

Name	Place and date of registration and place of operations	Registered and paid up share capital	Percentage of equity directly attributable to the Company	Principal activities
Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint")	People's Republic of China/ Mainland China 4 August 2009	RMB3,790,000	26.4	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

Doublepoint is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Doublepoint was a wholly-owned subsidiary of the Company incorporated in 2009 with an investment cost of RMB1,000,000, which is registered as a limited liability company under PRC law. According to the equity holder agreement on 15 October 2011, individual equity holders injected additional capital of Doublepoint by RMB2,790,000, which resulted in the Company's voting power held and the percentage of equity directly attributable to the Company decreased from 100% to 26.4%. The above capital injection in Doublepoint was completed on 28 December 2011.

16. INVESTMENT IN AN ASSOCIATE *(continued)*

The Group's equity holdings in this associate comprise registered capital held by the Company. The financial year of the associate is coterminous with that of the Group. The above associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	Group and Company	
	2012 RMB'000	2011 RMB'000
Assets	**2,765**	3,302
Liabilities	**(896)**	(7)
Revenue	**(2,835)**	–
Loss/(profit)	**1,425**	(412)

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2012 RMB'000	2011 RMB'000
Unlisted equity investments, at cost	**13,943**	13,943
Impairment provision	**(13,443)**	(13,443)
	500	500

As at 31 December 2012, the unlisted equity investments with a carrying amount of RMB13,943,000 (2011: RMB13,943,000) 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.

There were no movements in the provision for impairment of available-for-sale investments during the year.

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB13,443,000 (2011: RMB13,443,000) with a carrying amount before provision of RMB13,443,000 (2011: 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.

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18. INVENTORIES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**46,482**	42,883	**45,312**	42,225
Work in progress	**40,131**	42,117	**39,064**	41,350
Finished goods	**60,046**	51,205	**60,894**	49,006
	146,659	136,205	**145,270**	132,581

19. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**171,490**	156,707	**156,364**	140,727
Impairment	**(16,256)**	(14,234)	**(15,992)**	(13,985)
	155,234	142,473	**140,372**	126,742

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 a 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. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

19. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 3 months	**130,936**	117,525	**117,414**	102,864
3 to 6 months	**15,727**	16,745	**14,470**	16,014
6 to 12 months	**7,108**	5,346	**7,044**	5,045
Over 12 months	**1,463**	2,857	**1,444**	2,819
	155,234	142,473	**140,372**	126,742

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
At 1 January	**14,234**	12,529	**13,985**	12,305
Impairment losses recognised (note 6)	**2,276**	1,706	**2,109**	1,680
Amount written off as uncollectible	**(254)**	–	**(102)**	–
Exchange realignment	**–**	(1)	**–**	–
	16,256	14,234	**15,992**	13,985

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB6,578,000 (2011: RMB6,615,000) with a carrying amount before provision of RMB8,053,000 (2011: RMB8,537,000). 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.

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19. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**136,273**	126,157	**123,287**	112,070
Less than 1 month past due	**3,395**	4,768	**3,085**	4,768
1 to 3 months past due	**6,325**	2,551	**4,839**	1,824
3 to 6 months past due	**4,186**	4,948	**4,123**	4,674
6 to 12 months past due	**3,580**	2,127	**3,563**	2,127
	153,759	140,551	**138,897**	125,463

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.

Included in the Group's trade receivables are amounts due from the Group's associate of RMB735,000 (2011: Nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

At 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills"), to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB3,668,000 (2011: RMB1,111,000). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's continuing involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Derecognised Bills are not significant.

During the reporting periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognized from the continuing involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the reporting period.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**3,200**	3,066	**2,865**	2,378
Deposits and other receivables	**9,812**	25,792	**6,511**	24,090
	13,012	28,858	**9,376**	26,468

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.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**153,490**	80,770	**104,539**	46,449
Time deposits with original maturity of less than three months when acquired	**62,295**	67,211	**38,000**	38,000
Time deposits with original maturity of over three months when acquired	**129,792**	108,036	**114,624**	86,012
	345,577	256,017	**257,163**	170,461

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB313,359,000 (2011: RMB234,736,000). 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 are deposited with creditworthy banks with no recent history of default.

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22. 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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 3 months	**51,870**	64,070	**50,069**	59,553
3 to 6 months	**118**	–	**–**	–
6 to 12 months	**195**	–	**–**	–
Over 12 months	**1,195**	333	**53**	53
	53,378	64,403	**50,122**	59,606

Included in the trade and bills payables are trade payables of RMB9,000 (2011: Nil) due to an associate which are repayable within 90 days, which represents similar credit terms to those offered by the associate to its major customers.

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 32 to the financial statements.

23. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Current liabilities:				
Payable for purchase of software	**–**	1,672	**–**	1,672
Accruals	**1,014**	1,456	**435**	907
Deferred income	**76,134**	66,521	**36,663**	25,654
Other payables	**33,489**	28,245	**28,431**	18,288
	110,637	97,894	**65,529**	46,521
Non-current liability:				
Deferred income	**18,610**	–	**7,472**	–

Included in the Group's accruals, other payables and deferred income as at 31 December 2012, the amount due to an entity of which Shanghai Commerce and Invest (Group) Corporation ("SCI" and a shareholder of the Company) has beneficial interest as equity holder, is RMB900 (2011: RMB900).

Deferred income represents the government grants received, which are related to assets and should be recorded as deferred income that was recognised in profit or loss on a systematic basis over the useful lives of the assets.

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

24. SHARE CAPITAL

	2012 RMB'000	2011 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2011: 375,000,000) unlisted domestic shares of RMB0.10 each	**37,500**	37,500
242,330,000 (2011: 242,330,000) H shares of RMB0.10 each	**24,233**	24,233
	61,733	61,733

25. 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 34 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 2011	168,486	24,878	143,649	337,013
Net profit and total comprehensive income for the year	–	–	106,001	106,001
Proposed 2011 final dividend (note 11)	–	–	(49,386)	(49,386)
Transfer from retained profits	–	10,600	(10,600)	–
At 31 December 2011 and 1 January 2012	**168,486**	**35,478**	**189,664**	**393,628**
Net profit and total comprehensive income for the year	**–**	**–**	**134,832**	**134,832**
Proposed 2012 final dividend (note 11)	**–**	**–**	**(49,386)**	**(49,386)**
At 31 December 2012	**168,486**	**35,478**	**275,110**	**479,074**

25. 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.

As the SSR has reached 50% of the registered capital of the Company, the directors of the Company did not propose any transfer of profit after tax to the SSR in 2012 (2011: RMB10,600,000).

The directors of the Company's PRC subsidiaries have proposed to transfer RMB1,266,000 (2011: RMB767,000) 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 2012, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2011: 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.

26. DISPOSAL OF A SUBSIDIARY

	Note	2012 RMB'000	2011 RMB'000
Net assets disposed of:			
Cash and bank balances		–	492
Property, plant and equipment		–	20
Tax payable		–	(7)
		–	505
Gain on disposal of a subsidiary		–	365
		–	870
Satisfied by:			
Investment in an associate	16	–	870

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

	2012 RMB'000	2011 RMB'000
Cash consideration	–	–
Cash and bank balances disposed of	–	492
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	492

27. CONTINGENT LIABILITIES

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities.

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28. COMMITMENTS

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

(a) Capital commitments

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	**4,264**	1,299	**1,503**	–

(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 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**6,648**	5,533	**1,898**	1,278
In the second to fifth years, inclusive	**6,588**	8,334	**2,593**	292
	13,236	13,867	**4,491**	1,570

29. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2012 RMB'000	2011 RMB'000
Technical and equipment support fee paid to the owner of a shareholder of the Company	(i)	**465**	369
Sales of products to an associate	(ii)	**1,028**	–
Purchases of products from an associate	(iii)	**19**	–

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 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 2012 amounted to RMB465,000 (2011: RMB369,000).

(ii) The sales to the associate were made according to the market prices and conditions offered to the major customers of the Group.

(iii) The purchases from the associate were made according to the market prices and conditions offered by the associate to its major customers.

In addition, on 1 December 2010, the Company entered into a Special Field Programmable Gate Arrays ("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 profit shared by 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 profit shared by SFU during 2012 (2011: Nil).

These related party transactions also constitute connected transactions or continuing 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.

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29. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties:

Details of the Group's trade receivable and payable balances with its associate as at the end of the reporting period are disclosed in notes 19 and 22, respectively, to the financial statements.

Details of the Group's payable balances with Shanghai Fukong Hualong Information Technology Development Center ("FHIT"), which is controlled by SCI, are disclosed in note 23 to the financial statements.

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

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**3,035**	2,760
Total compensation paid to key management team	**3,035**	2,760

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

30. 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 2012			
Available-for-sale investments	**–**	**500**	**500**
Trade and bills receivables	**155,234**	**–**	**155,234**
Financial assets included in prepayments, deposits and other receivables	**9,812**	**–**	**9,812**
Cash and cash equivalents	**345,577**	**–**	**345,577**
	510,623	**500**	**511,123**
31 December 2011			
Available-for-sale investments	–	500	500
Trade and bills receivables	142,473	–	142,473
Financial assets included in prepayments, deposits and other receivables	25,792	–	25,792
Cash and cash equivalents	256,017	–	256,017
	424,282	500	424,782

30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2012	
Trade and bills payables	**53,378**
Financial liabilities included in accruals, other payables and deferred income	**31,175**
	84,553
31 December 2011	
Trade and bills payables	64,403
Financial liabilities included in accruals, other payables and deferred income	22,801
	87,204

Notes to Financial Statements

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30. 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 2012			
Available-for-sale investments	**–**	**500**	**500**
Due from subsidiaries	**13,765**	**–**	**13,765**
Trade and bills receivables	**140,372**	**–**	**140,372**
Financial assets included in prepayments, deposits and other receivables	**6,511**	**–**	**6,511**
Cash and cash equivalents	**257,163**	**–**	**257,163**
	417,811	**500**	**418,311**
31 December 2011			
Available-for-sale investments	–	500	500
Due from subsidiaries	16,912	–	16,912
Trade and bills receivables	126,742	–	126,742
Financial assets included in prepayments, deposits and other receivables	24,090	–	24,090
Cash and cash equivalents	170,461	–	170,461
	338,205	500	338,705

30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
31 December 2012	
Due to subsidiaries	**4,521**
Trade and bills payables	**50,122**
Financial liabilities included in accruals, other payables and deferred income	**26,228**
	80,871
31 December 2011	
Due to subsidiaries	1,861
Trade and bills payables	59,606
Financial liabilities included in accruals, other payables and deferred income	18,606
	80,073

31. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Financial assets				
Trade and bills receivables	**155,234**	142,473	**155,234**	142,473
Financial assets included in prepayments, deposits and other receivables	**9,812**	25,792	**9,812**	25,792
Cash and cash equivalents	**345,577**	256,017	**345,577**	256,017
	510,623	424,282	**510,623**	424,282
Financial liabilities				
Trade and bills payables	**53,378**	64,403	**53,378**	64,403
Financial liabilities included in accruals, other payables and deferred income	**31,175**	22,801	**31,175**	22,801
	84,553	87,204	**84,553**	87,204

Company

	Carrying amounts		Fair values	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Financial assets				
Due from subsidiaries	**13,765**	16,912	**13,765**	16,912
Trade and bills receivables	**140,372**	126,742	**140,372**	126,742
Financial assets included in prepayments, deposits and other receivables	**6,511**	24,090	**6,511**	24,090
Cash and cash equivalents	**257,163**	170,461	**257,163**	170,461
	417,811	338,205	**417,811**	338,205
Financial liabilities				
Due to subsidiaries	**4,521**	1,861	**4,521**	1,861
Trade and bills payables	**50,122**	59,606	**50,122**	59,606
Financial liabilities included in accruals, other payables and deferred income	**26,228**	18,606	**26,228**	18,606
	80,871	80,073	**80,871**	80,073

31. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Company *(continued)*

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in accruals, other payables and deferred income, amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the unlisted available-for-sale equity investments cannot be measured reliably, 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 investments are stated at cost less any impairment losses.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group and the Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2012 and 31 December 2011.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term time 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 and other payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors believes that the Group is not exposed to any material interest rate risk as Group does not have any debt obligations that are subject to fluctuations in market interest rates. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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31 December 2012

32. 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 currencies. Approximately 4% (2011: 11%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 73% (2011: 77%) of costs are denominated in the units' functional currencies. 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).

	Group		
	Increase/ (decrease) in foreign currency exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2012			
If RMB weakens against United States dollar ("US$")	**+5**	**734**	**624**
If RMB strengthens against US$	**–5**	**(734)**	**(624)**
If RMB weakens against Hong Kong dollar ("HK$")	**+5**	**403**	**337**
If RMB strengthens against HK$	**–5**	**(403)**	**(337)**
2011			
If RMB weakens against United States dollar ("US$")	+5	488	415
If RMB strengthens against US$	–5	(488)	(415)
If RMB weakens against Hong Kong dollar ("HK$")	+5	317	264
If RMB strengthens against HK$	–5	(317)	(264)

32. 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
2012			
If RMB weakens against US$	**+5**	**734**	**624**
If RMB strengthens against US$	**–5**	**(734)**	**(624)**
2011			
If RMB weakens against US$	+5	488	415
If RMB strengthens against US$	–5	(488)	(415)

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. 21% (2011: 21%) 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 19 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.

32. 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	**Total** RMB'000
31 December 2012				
Trade and bills payables	**1,475**	**51,903**	**–**	**53,378**
Financial liabilities included in accruals, other payables and deferred income	**19,794**	**8,353**	**3,028**	**31,175**
	21,269	**60,256**	**3,028**	**84,553**
31 December 2011				
Trade and bills payables	12,389	52,014	–	64,403
Financial liabilities included in accruals, other payables and deferred income	9,753	7,918	5,130	22,801
	22,142	59,932	5,130	87,204

32. 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	Total RMB'000
31 December 2012				
Trade and bills payables	**53**	**50,069**	**–**	**50,122**
Financial liabilities included in accruals, other payables and deferred income	**15,706**	**7,494**	**3,028**	**26,228**
Due to subsidiaries	**–**	**4,521**	**–**	**4,521**
	15,759	**62,084**	**3,028**	**80,871**
31 December 2011				
Trade and bills payables	12,109	47,497	–	59,606
Financial liabilities included in accruals, other payables and deferred income	6,696	6,780	5,130	18,606
Due to subsidiaries	–	1,861	–	1,861
	18,805	56,138	5,130	80,073

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 and the risk characteristics of the underlying assets. 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 2012 and 31 December 2011.

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

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is the total debt divided by the capital plus the total debt. The total debt includes trade and bills payables, accruals, and other 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	
	2012 RMB'000	2011 RMB'000
Trade and bills payables	**53,378**	64,403
Accruals and other payables	**31,175**	22,801
Total debt	**84,553**	87,204
Equity attributable to owners of the parent	**606,112**	515,433
Capital and total debt	**690,665**	602,637
Gearing ratio	**12%**	14%

33. EVENTS AFTER THE REPORTING PERIOD

(a) The directors recommend the payment of a final dividend of RMB8 cents per ordinary share in respect of the year to shareholders on the register of members on 6 June 2013.

(b) According to the resolution of the board of directors on 29 January 2013, the Company injected additional capital of RMB5,000,000 into the associate, Doublepoint, which resulted in the increase of the Company's voting power and the percentage of equity directly attributable to the Company from 26.4% to 61.86%. The above capital injection in Doublepoint was completed on 29 January 2013.

(c) On 14 March 2013, the Company entered into a supplementary agreement (the "Supplementary Agreement") with SFU in relation to the Special FPGA Agreement with SFU on 1 December 2010 for the research and development on the special high reliable FPGA circuits. According to the Supplementary Agreement, a sum of approximately RMB7,000,000 is expected to be paid to SFU in 2013.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2013.

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 and reclassified as appropriate, is set out below.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**704,064**	609,544	489,083	321,374	281,348
Cost of sales	**(367,919)**	(343,284)	(266,265)	(186,407)	(173,239)
Gross profit	**336,145**	266,260	222,818	134,967	108,109
Other income and gains	**105,277**	59,390	52,602	43,405	20,739
Selling and distribution expenses	**(36,861)**	(31,303)	(21,081)	(14,944)	(12,365)
Administrative expenses	**(58,168)**	(40,523)	(35,092)	(28,350)	(22,144)
Share of losses of associate	**(376)**	–	–	–	–
Other expenses	**(183,380)**	(131,818)	(88,198)	(74,955)	(54,433)
PROFIT BEFORE TAX	**162,637**	122,006	131,049	60,123	39,906
Tax	**(19,049)**	(14,665)	(10,515)	(4,139)	(6,607)
PROFIT FOR THE YEAR	**143,588**	107,341	120,534	55,984	33,299
Attributable to:					
Owners of the parent	**140,068**	106,372	117,039	53,006	31,288
Non-controlling interests	**3,520**	969	3,495	2,978	2,011
	143,588	107,341	120,534	55,984	33,299

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**846,868**	730,369	644,623	471,714	417,026
TOTAL LIABILITIES	**(204,452)**	(179,976)	(170,376)	(87,965)	(91,820)
NON-CONTROLLING INTERESTS	**(36,304)**	(34,960)	(33,991)	(29,443)	(23,891)
	606,112	515,433	440,256	354,306	301,315