



INTERIM REPORT
2013



上海復旦微電子集團股份有限公司
Shanghai Fudan Microelectronics Group Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8102)

* for identification only

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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.

HALF-YEAR RESULTS (UNAUDITED)

The board of directors (“Board”) of Shanghai Fudan Microelectronics Group Company Limited (“Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the half-year ended 30 June 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Half-year ended 30 June		Three months ended 30 June	
		2013 (Unaudited) <i>RMB'000</i>	2012 (Unaudited) <i>RMB'000</i>	2013 (Unaudited) <i>RMB'000</i>	2012 (Unaudited) <i>RMB'000</i>
REVENUE	2	386,244	294,684	221,763	177,270
Cost of sales		<u>(185,597)</u>	<u>(153,460)</u>	<u>(112,923)</u>	<u>(87,637)</u>
Gross profit		200,647	141,224	108,840	89,633
Other income and gains	2	40,219	27,220	34,733	11,422
Selling and distribution costs		(27,778)	(18,112)	(13,752)	(9,292)
Administrative expenses		(38,993)	(23,208)	(18,457)	(8,280)
Other expenses		(92,988)	(83,955)	(51,338)	(47,651)
Share of loss of an associate		(110)	(90)	–	(90)
PROFIT BEFORE TAX	4	80,997	43,079	60,026	35,742
Income tax expense	5	(611)	(3,764)	978	(2,417)
PROFIT FOR THE PERIOD		80,386	39,315	61,004	33,325
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations		<u>7</u>	<u>33</u>	<u>37</u>	<u>63</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>80,393</u>	<u>39,348</u>	<u>61,041</u>	<u>33,388</u>
Profit attributable to:					
Owners of the parent		80,324	38,365	61,020	32,946
Non-controlling interests		62	950	(16)	379
		<u>80,386</u>	<u>39,315</u>	<u>61,004</u>	<u>33,325</u>

		Half-year ended		Three months ended	
		30 June		30 June	
		2013	2012	2013	2012
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total comprehensive income					
attributable to:					
Owners of the parent		80,331	38,398	61,057	33,009
Non-controlling interests		62	950	(16)	379
		<u>80,393</u>	<u>39,348</u>	<u>61,041</u>	<u>33,388</u>
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
EARNINGS PER SHARE					
ATTRIBUTABLE TO					
ORDINARY EQUITY					
HOLDERS OF THE PARENT					
Basic					
– For profit for the period	6	<u>13.01 cents</u>	<u>6.21 cents</u>	<u>9.88 cents</u>	<u>5.33 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	147,760	136,017
Intangible assets		54,046	35,651
Investment in an associate		–	494
Available-for-sale investments	8	500	500
Deferred tax assets		13,897	13,724
		216,203	186,386
CURRENT ASSETS			
Inventories		184,462	146,659
Trade and bills receivables	9	184,658	155,234
Prepayments, deposits and other receivables		26,561	13,012
Cash and cash equivalents	14	323,300	345,577
		718,981	660,482
CURRENT LIABILITIES			
Trade and bills payables	10	87,506	53,378
Other payables and accruals		106,624	110,637
Dividend payable		49,386	–
Tax payable		7,963	21,826
		251,479	185,841
NET CURRENT ASSETS		467,502	474,641
TOTAL ASSETS LESS CURRENT LIABILITIES		683,705	661,027
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,950	1
Deferred income		8,027	18,610
		9,977	18,611
NET ASSETS		673,728	642,416
EQUITIES			
Equity attributable to equity holders of the parent			
Issued capital		61,733	61,733
Reserves	11	575,324	494,993
Proposed final dividend		–	49,386
		637,057	606,112
Non-controlling interests		36,671	36,304
TOTAL EQUITY		673,728	642,416

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent							Non-controlling interests	Total equity
	Issued share capital	Share premium	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total		
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
At 1 January 2013	61,733	168,486	39,649	(3,218)	290,076	49,386	606,112	36,304	642,416
Profit for the period	-	-	-	-	80,324	-	80,324	62	80,386
Exchange differences on translation of foreign operations	-	-	-	7	-	-	7	-	7
Total comprehensive income for the period	-	-	-	7	80,324	-	80,331	62	80,393
2012 final dividend declared	-	-	-	-	-	(49,386)	(49,386)	-	(49,386)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(2,502)	(2,502)
Non-controlling interests resulting from increase of Group's shareholdings in an associate which changed to a subsidiary	-	-	-	-	-	-	-	2,807	2,807
At 30 June 2013	61,733	168,486*	39,649*	(3,211)*	370,400*	-	637,057	36,671	673,728
At 1 January 2012	61,733	168,486	38,383	(3,215)	200,660	49,386	515,433	34,960	550,393
Profit for the period	-	-	-	-	38,365	-	38,365	950	39,315
Exchange differences on translation of foreign operations	-	-	-	33	-	-	33	-	33
Total comprehensive income for the period	-	-	-	33	38,365	-	38,398	950	39,348
2011 final dividend paid	-	-	-	-	-	(49,386)	(49,386)	-	(49,386)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(2,176)	(2,176)
Transfer from retained profits	-	-	3,743	-	(3,743)	-	-	-	-
At 30 June 2012	61,733	168,486*	42,126*	(3,182)*	235,282*	-	504,445	33,734	538,179

* These reserve accounts comprise the consolidated reserves of RMB575,324,000 (31 December 2012: RMB494,993,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the half-year ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
<i>Note</i>		
Net cash flows from operating activities	26,528	72,271
Net cash flows used in investing activities	(99,470)	(96,615)
Net cash flows generated from/(used in) financing activities	<u>2,126</u>	<u>(2,176)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(70,816)	(26,520)
Cash and cash equivalents at beginning of period	215,785	147,981
Effect of foreign exchange rate changes, net	<u>7</u>	<u>33</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>144,976</u>	<u>21,494</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
<i>14</i>		
Cash and bank balances	136,976	116,994
Time deposits with original maturity of less than three months when acquired	<u>8,000</u>	<u>4,500</u>
	<u>144,976</u>	<u>121,494</u>

Notes:

1. BASIS OF PRESENTATION

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

The accounting policies adopted in preparing these unaudited consolidated results are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2012. The Group has adopted the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for the financial year beginning on or after 1 January 2013. The adoption of these new and revised standards, amendments and interpretations did not have any significant impact on the operating results and financial position of the Group.

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

2. REVENUE, OTHER INCOME AND GAINS

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

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

	Half-year ended		Three months ended	
	30 June		30 June	
	2013	2012	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
Sale of goods	376,226	280,394	214,534	167,018
Services rendered	10,018	14,290	7,229	10,252
	<u>386,244</u>	<u>294,684</u>	<u>221,763</u>	<u>177,270</u>
Other income and gains				
Interest income	3,618	2,482	2,483	1,108
Government grants received for research activities	24,692	5,115	21,613	470
Other government grants	6,229	14,417	6,206	5,580
Others	5,680	5,206	4,431	4,264
	<u>40,219</u>	<u>27,220</u>	<u>34,733</u>	<u>11,422</u>

3. OPERATING SEGMENT INFORMATION

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

For the half year ended 30 June 2013	Design, development and selling of IC products RMB'000	Testing services of IC products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	376,226	10,018	386,244
Intersegment sales	—	20,334	20,334
	376,226	30,352	406,578
<i>Reconciliation:</i>			
Elimination of intersegment sales			(20,334)
Revenue			<u>386,244</u>
Segment results	59,654	8,530	68,184
<i>Reconciliation:</i>			
Elimination of segment results			(3,625)
Interest income			3,618
Unallocated gains			12,820
Profit before tax			<u>80,997</u>
Segment assets	784,170	140,554	924,724
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(3,437)
Corporate and other unallocated assets			13,897
Total assets			<u>935,184</u>
Segment liabilities	148,989	66,518	215,507
<i>Reconciliation:</i>			
Elimination of intersegment payables			(3,437)
Corporate and other unallocated liabilities			49,386
Total liabilities			<u>261,456</u>
Other segment information			
Impairment losses (written back)/recognised in income statement	(3,356)	37	(3,319)
Depreciation	3,488	6,595	10,083
Amortisation of intangible assets	4,938	—	4,938
Capital expenditure	28,167	11,237	39,404*

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

For the half year ended 30 June 2012	Design, development and selling of IC products <i>RMB'000</i>	Testing services of IC products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	280,394	14,290	294,684
Intersegment sales	—	11,696	11,696
	280,394	25,986	306,380
<i>Reconciliation:</i>			
Elimination of intersegment sales			(11,696)
Revenue			<u>294,684</u>
Segment results	27,531	7,007	34,538
<i>Reconciliation:</i>			
Elimination of segment results			943
Interest income			2,482
Unallocated gains			5,116
Profit before tax			<u>43,079</u>
Segment assets	664,050	136,411	800,461
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(3,437)
Corporate and other unallocated assets			9,741
Total assets			<u>806,765</u>
Segment liabilities	144,101	78,536	222,637
<i>Reconciliation:</i>			
Elimination of intersegment payables			(3,437)
Corporate and other unallocated liabilities			49,386
Total liabilities			<u>268,586</u>
Other segment information			
Impairment losses (written back)/recognised in income statement	(100)	86	(14)
Depreciation	3,263	6,407	9,670
Amortisation of intangible assets	1,602	—	1,602
Capital expenditure	19,597	23,355	42,952*

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

Geographical information

a) Revenue from external customers

	Half-year ended 30 June	
	2013	2012
	RMB'000	RMB'000
Mainland China	329,182	282,584
Asia Pacific (excluding Mainland China)	52,908	8,186
Others	4,154	3,914
	<u>386,244</u>	<u>294,684</u>

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

b) Non-current assets

	Half-year ended 30 June	
	2013	2012
	RMB'000	RMB'000
Mainland China	201,788	176,721
Asia Pacific (excluding Mainland China)	18	22
	<u>201,806</u>	<u>176,743</u>

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

Information about a major customer

Revenue of approximately RMB75,662,000 (2012: nil) from one customer in regard of design, development and selling of IC products and is individually accounted for more than 10% of the Group's total revenue during the six months ended 30 June 2013.

4. PROFIT BEFORE TAX

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

	Half-year ended		Three months ended	
	30 June		30 June	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	10,083	9,670	5,090	5,638
Share of loss of an associate	110	90	–	90
Written back for doubtful debts	(1,662)	(245)	(861)	(77)
Payments under operating leases in respect of land and buildings	3,449	2,940	2,212	1,528
Amortisation of deferred development costs*	3,608	2,563	2,042	1,772
Provision for impairment of inventories	(1,657)	231	(1,657)	231
Interest income	(3,618)	(2,482)	(2,091)	(1,108)
Other government grants	(6,229)	(14,417)	(6,206)	(5,580)
Government grants received for research activities**	(24,692)	(5,115)	(21,613)	(470)

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

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

5. INCOME TAX EXPENSES

Under the PRC Corporate Income Tax Law (the "CIT Law"), which became effective on 1 January 2008, the Company is subject to income tax at a base rate of 25%. The Company's application as a "key software enterprise falling within the State's planned arrangement" was approved and a notice of approval results was issued by the State Administration of Taxation, Yangpu, Shanghai on 13 June 2013, and the Company is eligible to a preferential income tax rate of 10% for the two financial years with effect from 1 January 2011 to 31 December 2012. As such, the Company is entitled to a tax refund of 5% on income tax of the two financial years. The Company will submit application as a "key software enterprise falling within the State's planned arrangement" again after the year ended 31 December 2013, and before obtaining the approval from the relevant tax bureau and issuance of official recognition, the Company's income tax provision on assessable income for the current year as a High New Technology Enterprise ("HNT Enterprise") will still be provided at the preferential rate of 15% (2012: 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 a HNT Enterprise. For the financial year ended 31 December 2013, income taxes on assessable income of Sino IC are provided at the rate of 15% (2012: 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%. In the meantime, pursuant to an approval document dated 15 May 2009 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2008, Fukong Hualong is exempted from corporate income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Fukong Hualong is in its sixth profit making year and is subject to the base rate of 25% on income tax. For the financial year ended 31 December 2013, income taxes on assessable income of Fukong Hualong are provided at the rate of 15% (2012: 12.5%) as a HNT Enterprise.

Under the CIT Law, three of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited, Beijing Fudan Microelectronics Technology Company Limited and Shanghai Doublepoint Information Technology Co., Ltd are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2013, income taxes on assessable income of these subsidiaries are provided at the rate of 25% (2012: 25%).

Hong Kong profits tax has been provided at 16.5% (2012: nil) on the estimated assessable profits arising during the period.

	Half-year ended 30 June		Three months ended 30 June	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Current period				
– PRC				
Charge for the period	12,129	3,217	10,533	2,643
Overprovision in prior years	(11,541)	–	(11,541)	–
	588	3,217	(1,008)	2,643
– Hong Kong	196	–	150	–
Deferred	(173)	547	(120)	(226)
Total tax charge for the period	611	3,764	(978)	2,417

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

The calculation of the basic earnings per share for the half-year and three months ended 30 June 2013 are based on the unaudited net profit attributable to ordinary equity holders of the parent of approximately RMB80,324,000 and RMB61,020,000 respectively (Half-year and three months ended 30 June 2012: RMB38,365,000 and RMB32,946,000 respectively) and the weighted average number of 617,330,000 (2012: 617,330,000) ordinary shares in issue during the periods.

No adjustment has been made to the basic earnings per share amounts presented for the half years ended 30 June 2013 and 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

7. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2013, the Group acquired machinery and office equipment amounted to approximately RMB21,826,000 (31 December 2012: RMB33,436,000).

8. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2013 RMB'000	31 December 2012 RMB'000
Unlisted equity investments, at cost	13,943	13,943
Impairment provision	(13,443)	(13,443)
	<u>500</u>	<u>500</u>

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit and the credit period is generally up to 30 days to 90 days. An ageing analysis of trade and bills receivables at 30 June 2013 is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 3 months	171,865	130,936
3 to 6 months	7,179	15,727
6 to 12 months	4,752	7,108
Over 12 months	862	1,463
	<u>184,658</u>	<u>155,234</u>

10. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables at 30 June 2013 is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 3 months	77,869	51,870
3 to 6 months	4,488	118
6 to 12 months	3,827	195
Over 12 months	1,322	1,195
	<u>87,506</u>	<u>53,378</u>

11. RESERVES

Other than the comprehensive income, statutory surplus reserve and exchange fluctuation reserve for the periods ended 30 June 2013 and 30 June 2012 as disclosed in the condensed consolidated statement of changes in equity, there were no significant movements in the reserves of the Group.

12. COMMITMENTS

The Group had the following commitments at the reporting date:

	30 June 2013 RMB'000	31 December 2012 RMB'000
(a) Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	<u>113,288</u>	<u>4,264</u>

(b) Commitments under operating leases

At the reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within one year	5,881	6,648
In the second to fifth years, inclusive	<u>6,146</u>	<u>6,588</u>
	<u>12,027</u>	<u>13,236</u>

13. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship with the Group	Nature of transaction	Half-year ended 30 June	
			2013 RMB'000	2012 RMB'000
Shanghai Fudan University	Owner of a substantial shareholder	Technical and equipment support fee	249	180
		Sharing of grants for special high reliable FPGA circuits project	<u>5,859</u>	<u>-</u>
Fukong Hualong	A subsidiary and is connected with a enterprise controlled by a substantial shareholder	Purchases of raw materials	-	21
		Sales of goods	443	-
		Share of profit on project	2,136	1,965
		Rent paid	20	-
			<u>2,136</u>	<u>-</u>

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.

14. CASH AND CASH EQUIVALENTS

	Half-year ended 30 June	
	2013 RMB'000	2012 RMB'000
Cash and bank balances	136,976	117,078
Non-pledged time deposits	<u>186,324</u>	<u>177,774</u>
Cash and cash equivalents as stated in the condensed statement of financial position	323,300	294,852
Pledged deposits for banking facilities	-	(84)
Time deposits with original maturity of over than 3 months when acquired	<u>(178,324)</u>	<u>(173,274)</u>
Cash and cash equivalents as stated in the condensed statement of cash flows	<u>144,976</u>	<u>121,494</u>

15. EVENTS AFTER THE REPORTING PERIOD

On 12 July 2013, the Board approved the transfer of listing of the H shares of the Company from the GEM to the Main Board and the transfer of listing is subject to approvals from the shareholders and the Stock Exchange. Notices convening the extraordinary general meeting and the class meetings have been published on 2 August 2013 for the shareholders to consider and approve the transfer of listing and the relevant articles amendments.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the half-year ended 30 June 2013 (30 June 2012: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the half-year ended 30 June 2013, the Group recorded a turnover of approximately RMB386,244,000 (30 June 2012: RMB294,684,000), an increase of approximately 31% as compared to the same period in last year. Profit attributable to owners of the parent amounted to approximately RMB80,324,000 (30 June 2012: RMB38,365,000), an increase of approximately 109% over the same period in last year.

During the period, the global economy recovered in a very slow pace, however, the Group's business performance remained satisfactory as it based on the increase in domestic sales to keep a stable growth. Within various product categories, the Security and Identification IC chips have a rapid sales growth which drove the increase in overall turnover. The Group has been participating in the financial and social security cards and resident health cards in various cities and provinces with large scale of supplies; of which, the participations in financial and social security cards have an accumulation of 15 projects and an aggregation of 7 projects in resident health cards. At the same time, besides the drop in sales of Non-volatile Memory chips that have less sales proportion, sales of products in other categories have achieved a steady growth. Moreover, the income generated from the provision of testing services for IC products also maintained a considerable increase. Benefiting from the effect of high profit factor of new products, the gross profit margin for the overall products has increased from 47.9% of the last corresponding period to approximately 51.9%.

As compared with the same period in last year, other income and gains for the period have increased significantly as settlements of several government projects were completed during the period resulted in an increase of RMB11,389,000 of government grants received for research and other activities. Besides, interest income also increased due to increase in interest rate in savings. Selling and distribution costs have increased by approximately 53% as a result of the Group's active exploration of new markets in various cities and provinces. Administrative expenses have increased by 68% in relation to increase in staff to cope with future business development and increases in expenses. Other expenses have increased by approximately 10% because of research and development activities. Tax expenses for the period should have been significantly increased by RMB8,912,000 in accordance with the increase in assessable profit, however, the tax expenses were less than the last corresponding period as there was a 5% income tax refund related to the previous two financial years amounted to approximately RMB11,541,000 in total accounted for during the period.

Financial review

As at 30 June 2013, net assets of the Group amounted to approximately RMB673,728,000 (31 December 2012: RMB642,416,000). Current assets amounted to approximately RMB718,981,000 (31 December 2012: RMB660,482,000), of which inventory increased by RMB37,803,000 as compared with that as at the end of reporting date of last year in line with sales increase and to maintain product supplies. Trade and bills receivables and prepayments also increased in accordance with sales growth. Approximately RMB323,300,000 (31 December 2012: RMB345,577,000) were cash and bank deposits. The Group keeps sufficient liquidity and is able to meet its daily operations and future development.

The Group's current liabilities as at 30 June 2013 amounted to approximately RMB251,479,000 (31 December 2012: RMB185,841,000). The increase in current liabilities was due to increase in purchases and related sales expenses as a result of increase in sales and at the same time, the final dividend for 2012 was also declared within the period. Non-current liabilities amounted to approximately RMB9,977,000 (31 December 2012: RMB18,611,000) and the decrease over the last corresponding period was mainly because of more projects relating to government grants received for research activities have been settled during the period.

The net assets value per share was approximately RMB1.09 (31 December 2012: RMB1.04). The Group's current ratio of total current liabilities over total current assets was approximately 34.9% (31 December 2012: 28.1%) and the gearing ratio was approximately 38.8% (31 December 2012: 31.8%) on the basis of total liabilities over net assets.

The Group manages its capital structure and makes adjustments to it in light of business development and changes in economic conditions. During the half year ended 30 June 2013, the Group had a net outflow in cash and cash equivalents of approximately RMB70,816,000 (30 June 2012: RMB26,520,000) and the increase over the same period in last year was due to significant increases in inventories, trade receivables and prepayments. As at 30 June 2013, the Group had no bank or other borrowings (31 December 2012: nil).

The Directors believe that the Group is not exposed to any material interest rate risk in view that the Group does not have any debt obligations that are subject to fluctuations in market interest rates. The Group has transactional currency exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place. During the reporting period, the fluctuations in foreign exchange have no material effect on the Group's operations and cash flows.

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

During the half-year ended 30 June 2013, the Company increased its shareholding from 26.4% to 61.9% in Shanghai Doublepoint Information Technology Co., Ltd. by an additional investment of RMB5,000,000. In addition, the Company also entered into an agreement to acquire office premises located in Shanghai together with related decorations at a total consideration of RMB127,706,878. Save as aforementioned, the Group did not have other significant investments, material acquisitions or disposals of subsidiaries.

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

As at 30 June 2013, the Group has capital commitments in respect of acquisition of property, plant and equipment amounted to RMB113,288,000 (31 December 2012: RMB4,264,000), and has operating leases commitments amounted to RMB12,027,000 (2012: RMB13,236,000) and did not have any material contingent liabilities (31 December 2012: nil). The Group has not pledged its assets to any third parties (31 December 2012: nil).

Employee information

As at 30 June 2013, the Group employed approximately 814 (30 June 2012: 696) staff and the total staff costs reflected in the condensed consolidated statement of comprehensive income amounted to RMB65,802,000 (30 June 2012: RMB52,175,000). The increase in staff costs was mainly due to adjustment in salaries to keep professional talents and increase in staff to meet project research and development as well as business expansion.

Prospects

As sales of the Security and Identification IC chips during the second quarter have recorded a considerable growth, it is expected that the financial and social security cards and resident health cards in this category still have a consideration huge market space and their sales growth are expected to be faster than other products. Because this product series attributes a large portion of the overall turnover, therefore, it is believe that this product series would bring a considerable contribution to the results of the second half year. The chips products of public transportation card, citizen card and resident card etc. within this product series are also expected to have a stable growth. In addition, the Group has participated in the government projects for a certain length of time and the Group has been able to enjoy a long term and steady income. The Directors expect that certain products would achieve a satisfactory sales growth and with stable project income, the Group will keep a growth in its results for the second half year and its business will be developed steadily.

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

At 30 June 2013, the interests or short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the registers required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in domestic shares of the Company:

Number of issued shares held, capacity and nature of interest

	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Through partnership enterprise <i>(Note)</i>	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
	<u>14,420,000</u>	<u>–</u>	<u>–</u>	<u>45,290,530</u>	<u>59,710,530</u>	<u>9.67</u>
Supervisors						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.98
Mr. Wei Ran	–	–	–	288,460	288,460	0.05
	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,346,150</u>	<u>6,346,150</u>	<u>1.03</u>

Note: These shares are held by four limited partnership enterprises, namely Shanghai Zhenghua Investment Consultant Partnership Enterprise with 10,961,530 shares, Shanghai Guonian Investment Consultant Partnership Enterprise with 15,864,600 shares, Shanghai Zhengben Investment Consultant Partnership Enterprise with 17,599,020 shares and Shanghai Jinnian Investment Consultant Partnership Enterprise with 7,211,530 shares, respectively. These four limited partnership enterprises are registered in Shanghai, the PRC and all of its partners are executive and non-executive directors, supervisors, certain employees and ex-employees of the Company, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University (“University Laboratory”) and Shanghai Commerce Invest (Group) Corporation Limited (“SCI”), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Long positions in 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 subsidiary	Ordinary shares	200,000	Directly beneficially owned	2.06
Mr. Wang Su	Doublepoint	Company's subsidiary	Ordinary shares	100,000	Directly beneficially owned	1.03
Supervisor						
Mr. Li Wei	Doublepoint	Company's subsidiary	Ordinary shares	100,000	Directly beneficially owned	1.03

Save as disclosed above, as at 30 June 2013, none of the directors, supervisors or chief executive had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

At 30 June 2013, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:—

Long positions in domestic shares of the Company:

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
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)	Interest of corporation controlled	109,620,000	Domestic shares	29.23	17.76
Shanghai Zhengben Investment Consultant Partnership Enterprise	(3)	Directly beneficially owned	52,167,270	Domestic shares	13.91	8.45
Shanghai Zhenghua Investment Consultant Partnership Enterprise	(3)	Directly beneficially owned	47,443,420	Domestic shares	12.65	7.68
Shanghai Guonian Investment Consultant Partnership Enterprise	(3)	Directly beneficially owned	29,941,470	Domestic shares	7.98	4.85
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 Fudan University.
- (2) The ordinary shares are directly held by Shanghai Fudan Technology Enterprise Holdings Limited, which is 90% owned by SCI. SCI is a state-owned enterprise wholly owned by the Shanghai Municipal Government.
- (3) All partners are executive and non-executive directors, supervisors, certain employees and ex-employees of the Company, various employees of University Laboratory and SCI as well as various individuals engaged in technological co-operation with the University Laboratory.

Save as disclosed above, as at 30 June 2013, no person, other than the directors, supervisors and chief executive of the Company, whose interests are set out in the section “Directors’, supervisors’ and chief executive’s interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

During the half-year ended 30 June 2013, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the half-year ended 30 June 2013.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors Mr. Cheung Wing Keung and Mr. Guo Li and the non-executive director Mr. Shen Xiaozu. The Group’s unaudited financial statements for the half-year ended 30 June 2013 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all directors, the directors have complied with such code of conduct and the required standard throughout the half-year ended 30 June 2013.

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

During the half-year ended 30 June 2013, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

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

Shanghai, PRC, 8 August 2013

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

* *For identification purpose only*