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: 1385)

# ANNUAL REPORT 2014

* for identification only

# Contents

# 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 2014.

On 8 January 2014, the Company's transfer of listing from the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited to its Main Board was completed. After listed on the Main Board, the Company saw stabilisation in its H share price with increasingly buoyant trading volume, revealing the Company's value.

During the year under review, the global economic recovery was with difficulties and set-backs, there were differential trends in major economic systems, and the mainland's economy was continuously under pressure with its GDP growth slowdown. Addressing these unfavourable factors, the Group capitalised on its strengths in core businesses and the domestic market, which is the largest IC market in the world, as well as the ardent national support for the development of the IC industry and the intelligent city transition, to sustain its business growth and steady increases in both of revenue and profit.

For the year ended 31 December 2014, the Group recorded a revenue growth of only 3%, gross profit margin decreased slightly by approximately 1%, profit for the year increased by approximately 8% and earnings per share increased from RMB25.82 cents to RMB27.21 as compared with those of last year. Having considered that more resources are required for research and development projects in the coming year, the Board does not recommend the payment of final dividend in respect of the year.

The Group has established proven market share and leadership for its products, backed by its industry experience of over a decade and dozens of intellectual property rights. In 2014, the Group's security and identification IC products successfully penetrated into the financial IC card market, together with smooth marketing progress of the existing businesses including financial and social security cards, resident health cards and citizen cards. Thanks to considerable research and development expenditures, products of this major category could cater to the changing market and demand through rollout of new products. Other categories also kept in line with market paces to ensure the Group's stable business development.

Looking into the coming year, pursuant to the "Notice on Matters Concerning Gradually Prohibiting Fallback Transactions with Financial IC Cards" issued by the People's Bank of China, banks are required to gradually prohibit fallback transactions with financial IC cards with effect from 1 January 2015 to upgrade bank card transaction security level by completely eliminating the issuance of magnetic cards. Year 2015 is expected to see a peak of financial IC card issuance, leading to huge industrial demand for financial IC card chips. The Group is confident that it is well positioned to take a sizable market share for relevant products, since it has obtained certification for its high-barrier financial IC card applications and passed security certification tests by financial institutions. Moreover, based on its experience in mobile payment solutions through the years, the Group has successfully developed the "NFC Air Business Platform" that has been put in pilot use in Shanghai in cooperation with telecommunications and public transport operators, aiming to lay a business foundation for the booming mobile payment industry. In view of the projects relating to the "Internet of Things", "nationwide urban public transport cards" and various universal cards being launched, the Group is expected to maintain market share for its security and identification IC products. For the smart meter application specified IC ("ASIC") product market, which has attracted numerous industry participants, competition has become increasingly intensified under the tendering model, and the Group expects to encounter significant business pressure in the coming year. Other categories are expected to enjoy stable sales, while IC testing services should sustain its growth. In addition, the government projects that the Group has participated in for years are expected to deliver stable revenue. Despite the uncertainties, the Directors remain optimistic for a healthy growth in the Group's business in the year to come.

The Board wishes to extend its gratitude to the Company's shareholders and business partners for their valuable support and trust, and sincere thanks to all staff of the Group for their unremitting efforts and dedication.

**Jiang Guoxing**
*Chairman*

Shanghai, the PRC, 27 March 2015

# Management Discussion and Analysis

## BUSINESS REVIEW

Over the past decade, the global IC market has gradually shifted its focus from Europe and America to Asia. Given its strength in the vast domestic market, China has become the world's largest IC consumer marketplace. IC design companies in the IC industry, a strategic sector with strong government support, have witnessed improving scale and significantly enhanced design capability. Although still lagging behind the global top-notch players in terms of average scale, the domestic IC design companies are bridging the gap. The Group has been rooted in China's market with an unchanged focus on its core business of IC design, and has benefited from national incentive policies and its market advantages over the years.

During the year, declining prices amid fierce competition were seen in China's IC market, a preferred target for global peers given its rapid growth and increasing demand. Responding to the challenging competitive pressure, the Group took efforts to strengthen business promotion and cost control, which ensured continuous growths both in its annual revenue and profit.

The Group's business performance by product category during the year is as follows:

### Security and Identification IC Chips

During the year ended 31 December 2014, domestic banks began to cease issuance of magnetic cards, while starting the migration from magnetic cards to IC cards to gradually cease lower-security transactions compatible with financial IC cards. The Group made marketing progress and started bulk production for its financial IC card products which were tailored to market demand and standards and certified by tests. For products such as resident health cards, financial and social security cards, citizen cards, resident cards and identification IC chips, the Group has gradually entered provincial and municipal markets, and made sound progress in the projects secured and sales. For the category of IC smart cards, a traditional growth driver of the Group, sales and profit from public transport cards were slightly lower than those of last year due to market saturation and price pressure, and consumer IC cards also recorded a drop in sales volume in the context of macro control. Dragged by slower sales of such products, this chip category recorded drops of approximately 7% and 2% respectively in its turnover and gross profit margin. Given the significant weight of security and identification IC chips in the total revenue, this category had a notable pressure on the Group's overall performance in the year.

### Smart Meter ASIC Chips

After establishing a development plan for smart power gird in 2009, The State Grid Corporation of China has been making procurements of smart meters through open tenders for years since 2012. The Group's smart meter ASIC chips tailored to the plan and product standards have been well received by manufacturers, maintaining around one-third market share in terms of bid winning rate. As a result of a slightly higher bid winning rate, sales for the year increased by approximately 14% year-on-year, while gross profit margin still remained unchanged.

### Non-volatile Memory Chips

The Group's non-volatile memory chips have been warmly received in the booming markets such as wearable devices, Bluetooth and video products, billing meters and set-top boxes, recording substantial growths in sales as the product lines are to further expand. With a broad and comprehensive coverage, the product lines should have secured a considerable market share. Although prices of certain existing products were realigned with market demand due to the escalating competition, the Group launched a number of new products which contributed to the growths in turnover and gross profit margin.

## BUSINESS REVIEW *(continued)*

### Specific Analog Circuits

Specific analog circuit products recorded a slight decrease in sales during the year, as a result of the impact of market competition on selling prices of motorcycle automotive electronics, telecommunication circuits and other products. The gross profit margin was pushed up by the new products launched, but the decrease in sales of other products in this category could not be offset given the less exciting market response to the new products. This category had a marginal impact on turnover and business results given its limited weight in the Group's overall sales.

### Other Chips

Turnover of flash memory products, a best-seller since launched several years ago especially for new products, surged year-on-year but with a drop in gross profit margin due to price adjustments. This category had a marginal impact on turnover and business results given its minimum weight in the Group's overall sales.

### IC Testing Services

During the year, the IC testing services provided by Sino IC maintained a stable growth of approximately 7% year-on-year in income before elimination of intragroup transactions. Income of Sino IC from external services increased by approximately 73% while income from internal transactions decreased accordingly by approximately 27% in the year, reflecting its refined business strategy in market development and high concentration of the services provided to the Group in recent years has been decreasing. The gross profit margin of 33% held the line of last year, which still outperformed the industry average.

## FINANCE REVIEW

The Group recorded a total revenue of approximately RMB843,913,000 (2013: RMB816,931,000) for the year ended 31 December 2014, representing a rise of approximately 3.3% year-on-year. The audited net profit attributable to owners of the parent was approximately RMB167,963,000 (2013: RMB159,398,000), with basic earnings per share of RMB27.21 cents (2013: RMB25.82 cents), representing an increase of approximately 5.4% year-on-year. The board of directors does not recommend the payment of final dividend (2013: RMB8 cents per ordinary share) in respect of the year ended 31 December 2014.

For the year under review ended 31 December 2014, the Group's total revenue recorded a slight increase as driven by higher sales of other product categories except for the decreased sales of its major products of security and identification IC chips, together with a rise in income from IC testing services; and the gross profit margin decreased slightly by 1.2% year-on-year to approximately 47.5%. Other income and gains decreased slightly by approximately 1.5% year-on-year, mainly attributable to a decrease of approximately RMB5,153,000 in government grants received for research activities, partially offset by approximately RMB3,276,000 from gain on disposal of an available-for-sale investment.

With regard to the selling and distribution costs, a decrease of approximately 5.2% year-on-year was recorded due to lower marketing expenses as a result of stable market channels and changes in overseas marketing, albeit with a slight increase in sales for the year. The administrative expenses increased by approximately 18.7% year-on-year, which was attributable to an increased number of employees as well as the rising salaries and prices in the industry. Other expenses for the year decreased by approximately 9.8% year-on-year, mainly attributable to a decrease of approximately RMB20,096,000 in research and development costs during the year.

## FINANCE REVIEW *(continued)*

With regard to taxation, as the Company's application as a "key software enterprise falling within the State's planned arrangement" was approved, income tax on assessable income for the year was provided for at the preferential tax rate of 10%. The aggregate tax expenses for the year increased by approximately RMB1,900,000 year-on-year, mainly due to a tax refund of approximately RMB11,541,000 received in last year, in contrast with an increase of approximately RMB11,519,000 in the effect of change in rate on deferred tax during the year as well as an increase of approximately RMB4,260,000 year-on-year in the tax expenses based on taxable profits and a decrease of RMB2,316,000 tax expenses relating to expenses not deductible for tax.

During the year, the Group's non-current assets increased significantly by approximately RMB175,632,000, mainly attributable to an increase of approximately RMB99,005,000 in construction in progress due to acquisition of offices and equipment. In addition, intangible assets also increased by approximately RMB74,576,000 year-on-year due to the increase in research and development expenditures and capitalisation. Deferred tax assets increased by approximately RMB13,431,000 as a result of asset impairment, amortisation of offices and equipment and intangible assets, and temporary differences related to accruals and payables. As at the reporting date, current assets posted a significant increase of approximately RMB54,386,000 year-on-year. Inventories of the current period after an impairment provision of approximately RMB8,103,000 still increased by approximately RMB10,240,000 year-on-year, in order to cater for the estimated sales and seasonal sales to customers in the market. Trade and bills receivables increased by approximately RMB42,384,000 year-on-year, mainly attributable to the over-concentration of sales near the end of the year due to seasonal sales. Cash and bank deposits also increased by approximately RMB5,814,000 year-on-year. With regard to current liabilities, trade payables decreased by approximately RMB14,686,000 due to less procurement at the end of the year, while accrual, other payables and deferred income increased by approximately RMB69,933,000 year-on-year, mainly attributable to the provision of year end bonus, increases in other tax expenses other than income tax and deferred income.

## MATERIAL INVESMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Sino IC Technology Co., Ltd. ("Sino IC"), a non-wholly owned subsidiary of the Company, completed a capital increase in April 2014. Through the issuance of 11,000,000 shares, the registered capital of Sino IC was increased from RMB31,000,000 to RMB42,000,000, raising proceeds totalling RMB55,000,000. In proportion to its existing shareholding, the Company contributed RMB5,029,380 for the subscription of 1,005,876 new shares. Because there were subscriptions from third parties, upon completion of the capital increase, the Company's equity interest in Sino IC decreased from approximately 64.9% to approximately 50.3%, which is deemed as a sale transaction. As the decrease in equity interest will not result in loss of control over Sino IC, the Company did not recognise any gain or loss from the transaction in accordance with Hong Kong Financial Reporting Standards.

Save as disclosed above, the Group had no material investment and there was no acquisition and disposal of subsidiaries of the Company during the year.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group is still actively seeking for suitable investment opportunities and has no material investment plan at present.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2014, net assets of the Group amounted to approximately RMB934,928,000 (2013: RMB757,341,000), an increase of approximately 23.4% year-on-year; of which current assets amounted to approximately RMB815,326,000 (2013: 760,940,000), a rise of approximately 7.1% year-on-year, and including cash and bank deposits of approximately RMB346,194,000 (2013: RMB340,380,000), an increase of approximately 1.7% year-on-year.

The Group has been relying on its profit and internal cash flow to finance its working capital and business development requirements. Under prudent fiscal policy, the Group's financial resources are sufficient to meet its daily business operations and future development.

As at 31 December 2014, the Group has not pledged any of its assets to any third parties (2013: nil).

## CAPITAL STRUCTURE

The Company's capital structure has no change during the year and only comprises ordinary shares. For details of the capital increase in Sino IC, please refer to the section above headed "MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES".

## GEARING RATIO

As at 31 December 2014, the Group's current liabilities amounted to approximately RMB332,708,000 (2013: RMB275,418,000), an increase of approximately 20.8% year-on-year. Non-current liabilities amounted to approximately RMB8,825,000 (2013: RMB13,684,000), a decrease of approximately 35.5% year-on-year. Net asset value per share was approximately RMB1.51 (2013: RMB1.23), a growth of approximately 22.8% year-on-year. The Group's ratio of current liabilities over current assets was approximately 40.8% (2013: 36.2%) and the gearing ratio was approximately 36.5% (2013: 38.2%) on the basis of total liabilities over net assets. As at 31 December 2014, the Company and the Group had no bank or other borrowings (2013: nil).

## INTEREST AND FOREIGN EXCHANGE RISK

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. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 10% (2013: 13%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 76% (2013: 83%) 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 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 had no material influence on the Group's operations and cash flows.

## CREDIT RISK

The Group trades only with recognised and creditworthy third parties and, therefore, no collaterals are required. 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. 29% (2013: 26%) of the Group's total trade and bills receivables were due from the Group's five largest customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection of receivables 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, and the maximum exposure is limited to the carrying amount of these instruments.

## CAPITAL COMMITMENTS

As at 31 December 2014, the Group had capital commitments contracted but not provided for in the amount of approximately RMB2,340,000 (2013: RMB70,778,000), which were related to the acquisition of property, plant and equipment.

## CONTINGENT LIABILITIES

As at 31 December 2014, the Group had no contingent liabilities (2013: nil).

## USE OF CAPITAL AND FUNDING

The Group is not under liquidity stress in the short run as it currently has a stable financial position with sufficient working capital which will be applied to the research and development of new products and the identification of cooperation opportunities. The net cash inflow of approximately RMB49,973,000 raised from increase in share capital of Sino IC has not been utilised and under detailed planning.

## EMPLOYEES

As at 31 December 2014, the Group has approximately 932 (2013: 847) employees. The increase in the number of employees was attributable to the expansion of the Group's business, increase in research and development projects and market exploration in emerging provinces and municipals. The remuneration of employees was determined in accordance with their performance, qualifications, experience and contribution to the Group with reference to the latest market trend.

The employee benefit expense (including director's remuneration) as recorded in the consolidated statement of profit or loss and comprehensive income was RMB159,855,000 (2013: RMB142,821,000). The significant increase in employee benefit expense was due to the rise in number of employees and salaries resulted from shortage of experienced experts in the industry; in addition, due to the increase of research and development projects, the employee benefit expense of RMB46,032,000 (2013: RMB31,048,000) was capitalized as development costs during the year.

# 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

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

## AUTHORISED REPRESENTATIVES

Mr. Shi Lei
Mr. Wang Su

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION 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

Industrial and Commercial Bank of China
Shanghai branch

China Everbright Bank Co., Ltd.
Shanghai branch

## STOCK CODE

1385

# 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 61, 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 the Fudan University. He is also the vice chairman and general manager of Shanghai Fudan Forward Science and Technology Co., Ltd, a company listed on the Shanghai Stock Exchange. He was the non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the main board of the Stock Exchange.

**Mr. Shi Lei**, aged 48, joined the Company in July 1998, is the Managing Director of the Company. He is a professor grade senior engineer and was graduated with a Bachelor degree in Management from the China University of Technology and a Master degree in Management from the Fudan University. 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 47, joined the Company in July 1998, is the Deputy Managing Director of the Company and a director respectively of the Company's subsidiaries, Beijing Fudan Microelectronics Technology Company Limited, Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint") and Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong"). He graduated with a Bachelor degree in Electronics Engineering and a Master degree in Electronics and Information Systems from the Fudan University 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 68, joined the Company in July 1998, is the Chief Engineer of the Company. She graduated with a degree in Physics from the Fudan University. 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 61, 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, Shenzhen Fudan Microelectronics Company Limited and Shanghai Fudan Microelectronics (HK) Limited. He was a director of SCI and was previously its fund manager and 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 78, joined the Company in July 1998. She was graduated from the Department of Physics of the Fudan University and was a principal professor and tutor to doctorate students at the Fudan University. She was a promoter and first director of the ASIC and System State Key Laboratory of the Fudan University and was a director of Shanghai Huahong Integrated Circuit Co. Ltd.

## DIRECTORS *(continued)*

### Non-executive directors *(continued)*

**Mr. He Lixing**, aged 80, joined the Company in July 1998, is a senior economist. He was the vice chairman and secretary of Shanghai City Commercial Accounting Association, the chief economist of SCI, the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government and the officer and head of the Shanghai Tax Bureau.

**Mr. Shen Xiaozu**, aged 65, joined the Company in July 1998 and is a member of the audit committee of the Company. He graduated with a Bachelor degree in the Department of Power from the Xian Jiaotong University and a Master degree in Management from the Shanghai Jiaotong University, and is a senior economist. He was the assistant to the general manager of SCI, the deputy general manager of Shanghai Xinlian Real Estate Company, the deputy general manager of Shanghai Petrochemical General Machinery Corporation and the headmaster of the Shanghai Mechanical Engineering Industrial College.

### Independent non-executive directors

**Mr. Cheung Wing Keung**, aged 50, joined the Company in May 2004 and is also a member of the audit committee, the remuneration committee and the 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 25 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 private group companies.

**Mr. Guo Li**, aged 68, joined the Company in May 2006 and is a member of the audit committee, the remuneration committee and the nomination committee of the Company. He graduated from the Department of Radio Electronics from the University of Science and Technology of China and is a professor and doctoral supervisor as well as a senior member of the China Electronics Academy and a member of the China Image and Graphics Academy. He was the director of the Academic Committee of Department of Science and Technology in the University of Science and Technology of China as well as its Laboratory of Circuit and System. He has been carrying 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 of the United States.

**Mr. Chen Baoying**, aged 85, joined the Company in October 2007, is a part-time professor of the Nankai University. He graduated with a Bachelor degree of Trade Finance in the Nankai University and a Master degree in the Renmin University of China in Foreign Trade and Economic Development. 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.

## DIRECTORS *(continued)*

### Independent non-executive directors *(continued)*

**Mr. Lin Fujiang**, aged 56, is currently a professor of the School of Information Science and Technology and an executive director of the Micro-Nano-Electronics System Integration Centre 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 a national special recruited expert selected under the "One Thousand Talents Plan" in 2009 and has been engaged for long-term 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 also a renowned practical radio frequency modeling expert. He has presented more than hundred fifty scholarly essays in subscriptions, magazines and conferences and holds ten intellectual rights in electronic technology jointly with some famous scholars, and is a well-known scholar in electronics science and technology.

## SUPERVISORS

**Mr. Li Wei**, aged 43, joined the Company in July 1998, is the Technical Officer of the Company and the general manager of Fukong Hualong. He has a Master degree in Semiconductor Physics and Physics of Semiconductor Devices granted by the Department of Electronic Engineering of the Fudan University. Mr. Li has conducted in-depth researches on the mobile payment and satellite navigation system.

**Ms. Lu Beili**, aged 52, joined the Company in June 2008, has a Master degree in business management and administration. She is the deputy general manager and chief accountant of the Shanghai Foreign Trade and Investment Development Limited, and chief accountant of the Shanghai Foreign Trade and Investment (Group) Limited. She had worked for the Industry and Commerce Bank of China and the Shanghai Foreign Trade and Investment Committee.

**Mr. Wei Ran**, aged 59, joined the Company in May 2009, holds a master degree and is a senior economist. He is the general manager of SCI, chairman of Shanghai Commercial Investment Enterprise Limited and the vice chairman of Shanghai Xujiahui Shopping Mall Company Limited. He was the assistant to general manager and the deputy general manager of SCI. He 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 58, 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 64, joined the Company in July 1998 and is the Deputy General Manager of the Company and a director of Sino IC. 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.

## SENIOR MANAGEMENT *(continued)*

**Mr. Da Zhongdong**, aged 46, joined the Company in June 2001 and is the Deputy General Manager of the Company and chairman of Fukong Hualong. He holds a Bachelor degree and is a researcher in microelectronics and chief engineer. He had worked for China Academy of Space Technology. He once was the manager of the design department of the Company. He has substantial experience in IC design and specific application management.

**Mr. Ma Fubin**, aged 47, joined the Company in October 1999, is the Deputy General Manager of the Company and chairman of Doublepoint. He holds a Master degree in business administration and is a certified public accountant of the PRC. He has worked in Zhejiang Provincial Agricultural Development Investment Group Limited as assistant to investment manager.

**Mr. Diao Linshan**, aged 49, joined the Company in January 1999, is the Deputy Operation Officer and General Manager of the Sales Department of the Company. He holds a Master degree in business management and administration. He has 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 and operation management.

**Mr. Li Wing Sum Steven**, aged 58, joined the Company in July 2000 and is the 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 executive director in a listed company in Hong Kong and group financial controller of various companies including a subsidiary of a multi-national corporation. He was the independent non-executive director of Ruifeng Petroleum Chemical Holdings Limited, a company listed on the GEM, for the period from June 2012 to October 2013. 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 since October 2011, and the company secretary of China National Culture Group Limited, a company listed on the main board of the Stock Exchange since May 2014.

## DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The directors of the Company (the "Directors") acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2014, 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 31 to 32.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "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 ended 31 December 2014, save and except the code provision A.6.7 of the CG Code.

The code provision A.6.7 of the CG Code requires that independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. The independent non-executive directors, Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying were unable to attend the annual general meeting of the Company held on 30 May 2014 due to their other business engagements.

## 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 Appendix 10 of the 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 2014.

## BOARD OF DIRECTORS AND BOARD MEETING

### Composition and role

For the year ended 31 December 2014 and up to the date of this report, there was no change in the members of the Board. The Board has 12 members and 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 11, 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 Stock Exchange.

## BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

### Composition and role *(continued)*

For the year ended 31 December 2014, the Company has complied with the Listing Rules that the independent non-executive directors appointed must representing at least one-third of the board. In addition, the Company 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 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.

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

### Chairman and Managing Director

The Company has, since the early stage of its incorporation in 1998, segregated the duties of the chairman of the Board and the managing director. The Chairman of the Board and the Managing Director are separately held by Mr. Jiang Guoxing and Mr. Shi Lei in order to preserve independence and have a balanced judgement of views. The Chairman of the Board has the responsibilities to lead the Board and make sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The Managing Director has the responsibilities to manage and execute the Group's business directions and operation decisions.

### Appointment, re-election and removal of Directors

All appointments of directors have to be first considered by the Nomination Committee and proposed by the Nomination Committee to the full Board for further approval. 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. A retiring Director is eligible for re-election.

### Terms of Appointment of Directors

*Executive Directors*

Each of the five executive Directors has entered into a service contract with the Company for a term of three years which commenced on 19 July 2012 until 18 July 2015 and will continue thereafter unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

*Non-executive Directors*

Each of the four non-executive Directors has entered into a service contract with the Company for a term of three years which commenced on 19 July 2012 until 18 July 2015 and will continue thereafter unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

*Independent Non-executive Directors*

Each of the four independent non-executive Directors has signed letters of appointment with the Company for a period commencing from 30 May 2014 until the conclusion of the forthcoming annual general meeting of the Company to be held in or about May 2015 and are subject to termination by either party giving no less than one month's written notice.

The Company has received written annual confirmation from the four Independent Non-executive Directors of their independence in accordance with Rule 3.13 of the Listing Rules and recognised their independence.

## BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

### Board meetings

The Board held four full board meetings in each year and meets as and when required. 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 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 Listing Rules and has been published on the websites of the Stock Exchange 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 2014 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

   The audit committee held three 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 Stock Exchange 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. In carrying out its responsibilities, the nomination committee would give adequate consideration to the principles under Rules A.3 and A.4 of Appendix 14 of the Listing Rules.

   The Nomination Committee has held one meeting during the year.

## BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

### Committees *(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 Stock Exchange 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, one meeting of the remuneration committee was held.

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

During the year ended 31 December 2014, 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 | 1/1 | 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 | 3/4 | N/A | N/A | N/A |
| Mr. Wang Su | 1/1 | 4/4 | N/A | 1/1 | 1/1 |
| Ms. Zhang Qianling | 1/1 | 4/4 | N/A | N/A | N/A |
| Mr. He Lixing | 1/1 | 4/4 | N/A | N/A | N/A |
| Mr. Shen Xiaozu | 1/1 | 4/4 | 3/3 | N/A | N/A |
| Mr. Cheung Wing Keung | 0/1 | 4/4 | 3/3 | 1/1 | 1/1 |
| Mr. Guo Li | 0/1 | 4/4 | 3/3 | 1/1 | 1/1 |
| Mr. Chen Baoying | 0/1 | 4/4 | N/A | N/A | N/A |
| Mr. Lin Fujiang | 1/1 | 3/4 | N/A | N/A | N/A |

## 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 2014, 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 | A,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 | A,B |

*Notes:*

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

## 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, the Group has paid the following fees to the external auditors and which has been reviewed and approved by the audit committee:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Annual audit | **1,203** | 1,087 |
| Transfer of listing | **–** | 402 |
| Total | **1,203** | 1,489 |

## INTERNAL CONTROL

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

## CONSTITUTIONAL DOCUMENTS

The constitutional documents of the Company have been published both on the Stock Exchange and the Company's websites. For the year ended 31 December 2014, the Company has not amended its articles of association.

## 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.

## 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.

### *Procedures 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 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 (including independent 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.

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 2014.

## 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 16 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 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 111.

The directors did not recommend the payment of final dividend in respect of the year to shareholders.

## 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 112. 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.

## 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 2014, the Company's reserves available for distribution amounted to RMB514,098,000, and no final dividend has been proposed 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 29% of the total sales for the year and sales to the largest customer included therein amounted to 8%. Purchases from the Group's five largest suppliers accounted for 59% of the total purchases for the year and purchase from the largest supplier included therein amounted to 25%.

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

## DIRECTORS *(continued)*

In accordance with article 87 of the Company's latest amended articles of association, 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 vacant position 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, Mr. Chen Baoying, and Mr. Lin Fujiang, who are the independent non-executive directors of the Company, have signed letters of appointment with the Company for a period commencing from 30 May 2014, until the forthcoming AGM in or about May 2015 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.

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

At 31 December 2014, 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 "Hong Kong 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 | Through partnership enterprises (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 used to be 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. On 20 May 2013, pursuant to a share transfer agreement, SSAC has entirely transferred all of its shareholdings of 144,230,000 domestic shares to four partnership enterprises, namely Shanghai Zhenghua Investment Consultant Partnership Enterprise ("Shanghai Zhenghua") with 47,443,420 shares, Shanghai Guonian Investment Consultant Partnership Enterprise ("Shanghai Guonian") with 29,941,470 shares, Shanghai Zhengben Investment Consultant Partnership Enterprise ("Shanghai Zhengben") with 52,167,270 shares and Shanghai Jinnian Investment Consultant Partnership Enterprise with 14,677,840 shares, respectively. The interests of the directors and supervisors of the Company in the shares and underlying shares of the Company (within the meaning of Part XV of SFO) remained the same but the nature of interest has changed from "beneficiary of a trust" to "held through a partnership enterprise".

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

### Long positions in shares and underlying shares of associated corporations:

| | Name of associated corporation | Relationship with the Company | Shares/ equity derivatives | Number of shares/equity derivatives held | Capacity and nature of interest | Percentage of he 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 | 2.062 |
| Mr. Wang Su | Doublepoint | Company's subsidiary | Ordinary shares | 100,000 | Directly beneficially owned | 1.031 |
| **Supervisors** | | | | | | |
| Mr. Li Wei | Doublepoint | Company's subsidiary | Ordinary shares | 100,000 | Directly beneficially owned | 1.031 |
| Mr. Li Wei | Sino IC | Company's subsidiary | Ordinary shares | 42,000 | Directly beneficially owned | 0.100 |

Save as disclosed above, as at 31 December 2014, 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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.

## 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.

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

At 31 December 2014, 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 and short position in shares of the Company:

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Class of shares | Long positions (L)/short position (S) | 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 | (L) | 28.46 | 17.29 |
| Shanghai Fudan Technology Enterprise Holdings Limited | (2) | Directly beneficially owned | 109,620,000 | Domestic shares | (L) | 29.23 | 17.76 |
| SCI | (2) | Through a controlled corporation | 109,620,000 | Domestic shares | (L) | 29.23 | 17.76 |
| Shanghai Zhengben | (3) | Directly beneficially owned | 52,167,270 | Domestic shares | (L) | 13.91 | 8.45 |
| Shanghai Zhenghua | (3) | Directly beneficially owned | 47,443,420 | Domestic shares | (L) | 12.65 | 7.68 |
| Shanghai Guonian | (3) | Directly beneficially owned | 29,941,470 | Domestic shares | (L) | 7.98 | 4.85 |
| Springs China Opportunities Master Fund | (4) | Interest of controlled corporation | 19,224,000 | H shares | (L) | 7.93 | 3.11 |
| Credit Suisse Group AG | | Interest of controlled corporation | 17,376,000<br>38,000 | H shares<br>H shares | (L)<br>(S) | 7.17<br>0.02 | 2.81<br>0.01 |

*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 70.2% owned by SCI. SCI is a state-owned subsidiary of Shanghai Bailian Group Company Limited which is a state-owned enterprise wholly owned by the Shanghai Municipal Government.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

### Long positions and short position in shares of the Company: *(continued)*

(3) All partners are executive and non-executive directors, supervisors, certain employees and ex-employees of the Company, various employees of University Laboratory. The directors and supervisors held domestic shares of the Company through these partner enterprises.

(4) The beneficial owners are namely Chi Rui and Zhao Jun.

Save as disclosed above, as at 31 December 2014, 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 and debentures" 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.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

### 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 paid to SFU for the year ended 31 December 2014 amounted to RMB402,000 (2013: RMB400,000).

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 the expected outcome of research and development on the special high reliable FPGA circuits could not be achieved by both parties, the project has been delayed and the related subsidy income could not be recognised. In this regard, the Company has entered into a supplementary agreement with Fudan University on 14 March 2013 and both parties agreed to adjust the latter stage cooperation and related expenses so as to expedite the project progress. The Company originally expects that the total distribution to SFU will be RMB12,600,000, with an annual cap of RMB2,600,000, RMB5,000,000, and RMB5,000,000, respectively, during 2010, 2011 and 2012. As a result of project delay, there were no distributions paid to SFU in these three years but a sum of approximately RMB7,000,000 was expected to be distributed in 2013. In 2013, the project was completed and the company distributed RMB6,960,000 to SFU, which included the technical service for chip test. In 2014, there was no payment to SFU (2013: RMB6,960,000).

Pursuant to rule 14A.25 of the Listing Rules, the above similar transactions should be aggregated. As such, the Company expects that the total transaction amount with SFU will be with an annual cap during 2014 of RMB800,000 (2013: RMB7,800,000), and the Company paid RMB402,000 in total (2013: RMB7,360,000).

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

### Continuing connected transactions *(continued)*

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. As sales of products contemplated under the agreement were better than expected, the annual caps for the profit sharing payable to Fukong Hualong for the two years ended 31 December 2013 and 2014 have been increased from RMB2,000,000 to RMB5,000,000. During 2014, the Company has paid profit sharing of RMB4,054,000 to Fukong Hualong (2013: RMB4,371,000).

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. Due to delay in research and development as well as production, both the Company and Fukong Hualong believe that the products under development have been far behind today's market and both parties entered into an agreement to terminate this project on 8 May 2013.

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.

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, with annual caps of RMB2,200,000 for both the years ended 31 December 2013 and 2014. In 2014, there was no (2013: Nil) distribution of R&D income to Fukong Hualong by the Company.

Based on the above-mentioned product sales mode, both parties, having realised that there are prospects in product industrialisation, 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 reference 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. Because of the increasing demand in products, the directors increased annual caps relating to the Company's sales of products to Fukong Hualong from RMB10,200,000 to RMB13,000,000 for the year ended 31 December 2013 and further to RMB16,000,000 for the year ended 31 December 2014. In 2014, the Company sold related products of RMB1,809,000 (2013: RMB1,111,000) to Fukong Hualong.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

### Continuing connected transactions *(continued)*

As the nature of the transactions contemplated under the No. 1 Agreement and the No. 3 Agreement is similar and will continue, pursuant to rule 14A.25 of the Listing Rules, these transactions should be aggregated. As such, the Company expects that the total transaction amount will be with an annual cap during 2013 and 2014 of RMB20,200,000 and RMB23,200,000, respectively. The Company made no payment of R&D expense compensation to Fukong Hualong, whilst Fukong Hualong paid RMB1,809,000 (2013: RMB1,111,000) to the Company for the purchase of products during 2014.

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 Listing Rules 14A.56. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

## 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.

## 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 Listing Rules.

## 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 14 of the 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.

## 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
27 March 2015

EY 安永

**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 33 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, 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.

## 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 2014, 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
27 March 2015

# Consolidated Statement of Profit or Loss

Year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **843,913** | 816,931 |
| Cost of sales | | **(443,131)** | (419,472) |
| Gross profit | | **400,782** | 397,459 |
| Other income and gains | 5 | **102,722** | 104,234 |
| Selling and distribution expenses | | **(55,566)** | (58,637) |
| Administrative expenses | | **(71,894)** | (60,573) |
| Other expenses | | **(192,402)** | (213,343) |
| Share of losses of an associate | | **–** | (110) |
| PROFIT BEFORE TAX | 6 | **183,642** | 169,030 |
| Income tax expense | 9(a) | **(6,653)** | (4,753) |
| PROFIT FOR THE YEAR | | **176,989** | 164,277 |
| Profit attributable to: | | | |
| Owners of the parent | 12 | **167,963** | 159,398 |
| Non-controlling interests | | **9,026** | 4,879 |
| | | **176,989** | 164,277 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic | | | |
| – For profit for the year | 12 | **27.21 cents** | 25.82 cents |

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **176,989** | 164,277 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of a foreign operation | **11** | (269) |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | **11** | (269) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | **11** | (269) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **177,000** | 164,008 |
| Total comprehensive income attributable to: | | |
| Owners of the parent | **167,974** | 159,129 |
| Non-controlling interests | **9,026** | 4,879 |
| | **177,000** | 164,008 |

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **295,635** | 206,683 |
| Intangible assets | 14 | **131,763** | 57,187 |
| Goodwill | 15 | **–** | 827 |
| Available-for-sale investments | 17 | **–** | 500 |
| Deferred tax assets | 9(c) | **33,737** | 20,306 |
| Total non-current assets | | **461,135** | 285,503 |
| CURRENT ASSETS | | | |
| Inventories | 18 | **210,033** | 199,793 |
| Trade and bills receivables | 19 | **240,740** | 198,356 |
| Prepayments, deposits and other receivables | 20 | **18,359** | 22,411 |
| Cash and bank balance | 21 | **346,194** | 340,380 |
| Total current assets | | **815,326** | 760,940 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 22 | **74,389** | 89,075 |
| Accruals, other payables and deferred income | 23 | **245,614** | 175,681 |
| Tax payable | 9(b) | **12,705** | 10,662 |
| Total current liabilities | | **332,708** | 275,418 |
| NET CURRENT ASSETS | | **482,618** | 485,522 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **943,753** | 771,025 |

# Consolidated Statement of Financial Position

31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **943,753** | 771,025 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 23 | **8,825** | 13,684 |
| Total non-current liabilities | | **8,825** | 13,684 |
| Net assets | | **934,928** | 757,341 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 24 | **61,733** | 61,733 |
| Reserves | 25 | **780,531** | 604,736 |
| Proposed final dividend | 11 | **–** | 49,386 |
| | | **842,264** | 715,855 |
| **Non-controlling interests** | | **92,664** | 41,486 |
| Total equity | | **934,928** | 757,341 |

**Jiang Guoxing**
*Director*

**Shi Lei**
*Director*

| | 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 | Other reserves RMB'000 (Note 25) | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the parent | | | | | | | | | |
| 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 year | | – | – | – | – | – | 159,398 | – | 159,398 | 4,879 | 164,277 |
| Exchange differences on translation of foreign operation | | – | – | – | (269) | – | – | – | (269) | – | (269) |
| Total comprehensive income for the year | | – | – | – | (269) | – | 159,398 | – | 159,129 | 4,879 | 164,008 |
| Acquisition of a subsidiary | | – | – | – | – | – | – | – | – | 2,806 | 2,806 |
| Dividends paid to non-controlling shareholders | | – | – | – | – | – | – | – | – | (2,503) | (2,503) |
| Final 2012 dividend declared | | – | – | – | – | – | – | (49,386) | (49,386) | – | (49,386) |
| Proposed 2013 final dividend | 11 | – | – | – | – | – | (49,386) | 49,386 | – | – | – |
| Transfer | 25 | – | – | 1,590 | – | – | (1,590) | – | – | – | – |
| **At 31 December 2013** | | **61,733** | **168,486*** | **41,239*** | **(3,487)*** | **–*** | **398,498*** | **49,386** | **715,855** | **41,486** | **757,341** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **167,963** | **–** | **167,963** | **9,026** | **176,989** |
| Exchange differences on translation of foreign operation | | **–** | **–** | **–** | **11** | **–** | **–** | **–** | **11** | **–** | **11** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **11** | **–** | **167,963** | **–** | **167,974** | **9,026** | **177,000** |
| Capital contribution from non-controlling interests | 25 | **–** | **–** | **–** | **–** | **7,821** | **–** | **–** | **7,821** | **42,152** | **49,973** |
| Final 2013 dividend declared | | **–** | **–** | **–** | **–** | **–** | **–** | **(49,386)** | **(49,386)** | **–** | **(49,386)** |
| Transfer | 25 | **–** | **–** | **1,462** | **–** | **–** | **(1,462)** | **–** | **–** | **–** | **–** |
| **At 31 December 2014** | | **61,733** | **168,486*** | **42,701*** | **(3,476)*** | **7,821*** | **564,999*** | **–** | **842,264** | **92,664** | **934,928** |

* These reserve accounts comprise the consolidated reserves of RMB780,531,000 (2013: RMB604,736,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **183,642** | 169,030 |
| Adjustments for: | | | |
| Share of losses of an associate | | **–** | 110 |
| Bank interest income | 5, 6 | **(6,352)** | (7,070) |
| Bank interest expense | | **159** | – |
| Loss on disposal of items of property, plant and equipment and intangible assets | 6 | **521** | 20 |
| Gain on disposal of an available-for-sale investment | 6 | **(3,276)** | – |
| Depreciation | 13 | **25,876** | 23,341 |
| Impairment of goodwill | 15 | **827** | – |
| Impairment of intangible assets | 14 | **2,334** | – |
| Amortisation of intangible assets | 14 | **9,940** | 9,973 |
| | | **213,671** | 195,404 |
| Increase in inventories | | **(10,240)** | (51,235) |
| Increase in trade and bills receivables | | **(42,384)** | (43,004) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **4,662** | (11,272) |
| (Decrease)/increase in trade and bills payables | | **(14,686)** | 34,513 |
| Increase in accruals, other payables and deferred income | | **66,070** | 55,779 |
| Cash generated from operations | | **217,093** | 180,185 |
| Hong Kong profits tax paid | 9(b) | **(489)** | (398) |
| PRC taxes paid | 9(b) | **(17,552)** | (22,102) |
| Net cash flows from operating activities | | **199,052** | 157,685 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Increase in time deposits with original maturity of over three months when acquired | 21 | **(35,787)** | (19,448) |
| Bank interest received | | **5,742** | 9,055 |
| Purchases of items of property, plant and equipment | | **(119,486)** | (89,967) |
| Proceeds from disposal of items of property, plant and equipment | | **1,994** | 680 |
| Additions to intangible assets | 14 | **(85,703)** | (31,509) |
| Proceeds from disposal of an available-for sale investment | | **3,776** | – |
| Acquisition of a subsidiary | | **–** | 1,017 |
| Net cash flows used in investing activities | | **(229,464)** | (130,172) |

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Net cash flows used in investing activities | | **(229,464)** | (130,172) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **28,748** | – |
| Repayment of bank loans | | **(28,748)** | – |
| Interest paid | | **(159)** | – |
| Dividends paid | | **(49,386)** | (49,386) |
| Capital contribution from non-controlling interests | | **49,973** | – |
| Dividends paid to non-controlling shareholders | | **–** | (2,503) |
| Net cash flows generated from/ (used in) financing activities | | **428** | (51,889) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(29,984)** | (24,376) |
| Cash and cash equivalents at beginning of year | | **191,140** | 215,785 |
| Effect of foreign exchange rate changes, net | | **11** | (269) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **161,167** | 191,140 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash on hand and demand deposits | 21 | **139,493** | 148,608 |
| Non-pledged time deposits | 21 | **206,701** | 191,772 |
| Cash and bank balances as stated in the consolidated statement of financial position | 21 | **346,194** | 340,380 |
| Time deposits with original maturity of over three months when acquired | 21 | **(185,027)** | (149,240) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **161,167** | 191,140 |

# Statement of Financial Position

31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **218,287** | 148,592 |
| Intangible assets | 14 | **131,702** | 55,973 |
| Investments in subsidiaries | 16 | **51,658** | 54,356 |
| Available-for-sale investments | 17 | **–** | 500 |
| Deferred tax assets | 9(c) | **27,345** | 13,928 |
| Total non-current assets | | **428,992** | 273,349 |
| CURRENT ASSETS | | | |
| Inventories | 18 | **210,390** | 201,949 |
| Due from subsidiaries | 16 | **4,866** | 2,439 |
| Trade and bills receivables | 19 | **228,870** | 187,629 |
| Prepayments, deposits and other receivables | 20 | **12,267** | 16,082 |
| Cash and bank balances | 21 | **178,396** | 236,846 |
| Total current assets | | **634,789** | 644,945 |
| CURRENT LIABILITIES | | | |
| Due to subsidiaries | 16 | **5,271** | 7,790 |
| Trade and bills payables | 22 | **72,320** | 86,880 |
| Accruals, other payables and deferred income | 23 | **194,705** | 130,225 |
| Tax payable | | **9,102** | 2,809 |
| Total current liabilities | | **281,398** | 227,704 |
| NET CURRENT ASSETS | | **353,391** | 417,241 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **782,383** | 690,590 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 23 | **2,588** | 4,203 |
| Net assets | | **779,795** | 686,387 |
| EQUITY | | | |
| Issued capital | 24 | **61,733** | 61,733 |
| Reserves | 25 | **718,062** | 575,268 |
| Proposed final dividend | 11 | **–** | 49,386 |
| Total equity | | **779,795** | 686,387 |

**Jiang Guoxing**
*Director*

**Shi Lei**
*Director*

## 1. CORPORATE INFORMATION

Shanghai Fudan Microelectronics Group Company Limited (the "Company", formerly known as Shanghai Fudan Microelectronics Company Limited) is a limited liability company incorporated in Shanghai, the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 220 Handan Road, Shanghai, the PRC. The Company has established a place of business in Hong Kong, which is located at Flat 6, 5/F., East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon.

The principal activities of the subsidiaries are the provision of testing services for integrated circuit ("IC") products; designing, developing and selling IC testing software and products; the production of probe cards; as well as the provision of research and consultancy services of IC technology.

The Company's principal activities have not changed during the year and consist of designing, developing and selling products of application-specific IC.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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 2014. 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION *(continued)*

### Basis of consolidation *(continued)*

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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | *Investment Entities* |
| Amendments to HKAS 32 | *Offsetting Financial Assets and Financial Liabilities* |
| Amendments to HKAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting* |
| HK(IFRIC)-Int 21 | *Levies* |
| Amendment to HKFRS 2 included in Annual Improvements 2010 -2012 Cycle | *Definition of Vesting Condition*[1] |
| Amendment to HKFRS 3 included in Annual Improvements 2010 -2012 Cycle | *Accounting for Contingent Consideration in a Business Combination*[1] |
| Amendment to HKFRS 13 included in Annual Improvements 2010 -2012 Cycle | *Short-term Receivables and Payables* |
| Amendment to HKFRS 1 included in Annual Improvements 2011 -2013 Cycle | *Meaning of Effective HKFRSs* |

[1] Effective from 1 July 2014

The adoption of the revised standards and new interpretation has had no significant financial effect on these financial statements.

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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 9 | *Financial Instruments*[4] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to HKFRS10, HKFRS 12 and IAS 28 | *Investment Entities: Applying the Consolidation Exception* |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[2] |
| HKFRS 14 | *Regulatory Deferral Accounts*[5] |
| HKFRS 15 | *Revenue from Contracts with Customers*[3] |
| Amendments to IAS 1 | *Disclosure Initiative* |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[2] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[2] |
| Amendments to HKAS 19 | *Defined Benefit Plans: Employee Contributions*[1] |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements*[2] |
| Annual Improvements 2010-2012 Cycle | *Amendments to a number of HKFRSs*[1] |
| Annual Improvements 2011-2013 Cycle | *Amendments to a number of HKFRSs*[1] |
| Annual Improvements 2012-2014 Cycle | *Amendments to a number of HKFRSs*[2] |

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss 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 Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

### Investments in associates

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in associates *(continued)*

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 other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. 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 assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates are included in the Company's statement of profit or loss 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*.

### 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 measure 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations and goodwill *(continued)*

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 of 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 of disposal, 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 statement of profit or loss 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;

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties *(continued)*

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

(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).

### 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%-20% |
| 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 funds 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.

*Research and development costs*

All research costs are charged to the statement of profit or loss as incurred.

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

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

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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.

*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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss in other gains or losses. 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 statement of profit or loss 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

*Available-for-sale financial investments (continued)*

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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 statement of profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of 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 statement of profit or loss.

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

*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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

*Available-for-sale financial investments (continued)*

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "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 statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, 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.

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 and interest-bearing bank and other borrowings.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities *(continued)*

*Subsequent measurement*

*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 statement of profit or loss 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 statement of profit or loss.

### 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 statement of profit or loss.

### Offsetting of financial instruments

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

### 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.

### 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 bank balances comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax

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

Current tax assets and liabilities 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 statement of profit or loss 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 statement of profit or loss by way of a reduced depreciation charge.

### Revenue recognition

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

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

(b) from the rendering of services, in the period in which the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts 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 statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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

## 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 statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. 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 statement of profit or loss.

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 2014 was RMB24,864,000 (2013: RMB21,155,000). 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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 property, plant and equipment*

The Group determines the useful lives of property, plant 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 property, plant 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. 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 segment profit before tax is measured consistently with the Group's profit before tax except that interest income and other unallocated income and gains are excluded from such measurement.

Segment assets exclude deferred tax assets, available-for-sale financial investments, 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.

## 4. OPERATING SEGMENT INFORMATION *(continued)*

| Year ended 31 December 2014 | 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 | 799,294 | 44,619 | 843,913 |
| Intersegment sales | – | 35,744 | 35,744 |
| *Reconciliation:* | 799,294 | 80,363 | 879,657 |
| Elimination of intersegment sales | | | (35,744) |
| Revenue | | | 843,913 |
| **Segment results** | 144,973 | 26,743 | 171,716 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | (6,195) |
| Interest income | | | 6,352 |
| Unallocated other income and gains | | | 11,769 |
| Profit before tax | | | 183,642 |
| **Segment assets** | 1,018,240 | 228,729 | 1,246,969 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (4,245) |
| Corporate and other unallocated assets | | | 33,737 |
| Total assets | | | 1,276,461 |
| **Segment liabilities** | 286,653 | 59,126 | 345,779 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (4,246) |
| Corporate and other unallocated liabilities | | | – |
| Total liabilities | | | 341,553 |
| **Other segment information:** | | | |
| Gain on disposal of an available-for-sale investment | (3,276) | – | (3,276) |
| Impairment loss recognised in the statement of profit or loss | 17,251 | 253 | 17,504 |
| Impairment loss reversed in the statement of profit or loss | (6,576) | – | (6,576) |
| Depreciation | 10,006 | 15,870 | 25,876 |
| Amortisation of intangible assets | 9,940 | – | 9,940 |
| Capital expenditure | 168,755 | 35,438 | 204,193* |

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

## 4. OPERATING SEGMENT INFORMATION *(continued)*

| Year ended 31 December 2013 | 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 | 791,200 | 25,731 | 816,931 |
| Intersegment sales | – | 49,273 | 49,273 |
| | 791,200 | 75,004 | 866,204 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (49,273) |
| Revenue | | | 816,931 |
| **Segment results** | 126,871 | 24,452 | 151,323 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | (830) |
| Interest income | | | 7,070 |
| Unallocated other income and gains | | | 11,467 |
| Profit before tax | | | 169,030 |
| **Segment assets** | 884,988 | 149,262 | 1,034,250 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (9,440) |
| Corporate and other unallocated assets | | | 21,633 |
| Total assets | | | 1,046,443 |
| **Segment liabilities** | 230,565 | 65,538 | 296,103 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (7,001) |
| Corporate and other unallocated liabilities | | | – |
| Total liabilities | | | 289,102 |
| **Other segment information:** | | | |
| Share of losses of an associate | 110 | – | 110 |
| Impairment loss recognised in the statement of profit or loss | 20,672 | 103 | 20,775 |
| Impairment loss reversed in the statement of profit or loss | (5,468) | – | (5,468) |
| Depreciation | 9,840 | 13,501 | 23,341 |
| Amortisation of intangible assets | 9,973 | – | 9,973 |
| Capital expenditure | 82,362 | 43,744 | 126,106* |

* 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*

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Mainland China | **804,892** | 743,241 |
| Asia Pacific (excluding Mainland China) | **30,502** | 70,542 |
| Others | **8,519** | 3,148 |
| | **843,913** | 816,931 |

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

*(b) Non-current assets*

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Mainland China | **427,394** | 263,861 |
| Asia Pacific (excluding Mainland China) | **4** | 9 |
| | **427,398** | 263,870 |

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

### Information about a major customer

In 2014, no revenue from sales to a single customer contributed to 10% or more of the group's revenue.

In 2013, Revenue of approximately RMB125,957,000 was derived from sales by the design, development and sale of IC products segment to a single customer, which contributed to 10% or more of the Group's revenue.

## 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:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | **799,294** | 791,200 |
| Rendering of services | **44,619** | 25,731 |
| | **843,913** | 816,931 |
| **Other income and gains** | | |
| Bank interest income (note 6) | **6,352** | 7,070 |
| Government grants received for research activities (note 6) | **70,346** | 75,499 |
| Gain on disposal of an available-for-sale Investment (note 6) | **3,276** | – |
| Other government grants (note 6) | **11,364** | 11,582 |
| Others | **11,384** | 10,083 |
| | **102,722** | 104,234 |

## 6. PROFIT BEFORE TAX

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Cost of inventories sold | **427,446** | 407,050 |
| Cost of services provided | **15,685** | 12,422 |
| Depreciation (note 13) | **25,876** | 23,341 |
| Research and development costs: | | |
| Deferred development costs amortised* (note 14) | **9,940** | 9,973 |
| Current year expenditure | **178,507** | 203,723 |
| Less: Government grants received for research activities** (note 5) | **(70,346)** | (75,499) |
| | **118,101** | 138,197 |
| Impairment of goodwill (note 15) | **827** | – |
| Minimum lease payments under operating leases: | | |
| – Land and buildings | **9,552** | 6,401 |
| Auditors' remuneration | | |
| – Annual audit | **1,203** | 1,087 |
| – Transfer of listing | **–** | 402 |
| | **1,203** | 1,489 |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 7)): | | |
| Wages and salaries | **180,874** | 154,405 |
| Pension scheme contributions | **20,245** | 14,508 |
| | **201,119** | 168,913 |
| Less: Amounts capitalised as development costs | **(46,032)** | (31,048) |
| | **155,087** | 137,865 |
| Foreign exchange differences, net | **1,135** | (130) |
| Impairment of intangible assets (note 14) | **2,334** | – |
| Reversal of impairment of trade and bills receivables (note 19) | **(336)** | (1,126) |
| Write-down of inventories to net realisable value | **8,103** | 16,433 |
| Gain on disposal of an available-for-sale Investment (note 5) | **(3,276)** | – |
| Loss on disposal of items of property, plant and equipment and intangible assets | **521** | 20 |
| Bank interest income (note 5) | **(6,352)** | (7,070) |
| Other government grants (note 5) | **(11,364)** | (11,582) |
| Government grants received for research activities** (note 5) | **(70,346)** | (75,499) |

## 6. PROFIT BEFORE TAX *(continued)*

* The amortisation of deferred development costs for the year is included in "Other expenses" on the face of the consolidated statement of comprehensive income.

** Various government grants have been received for setting up research activities in Shanghai, Mainland China, to support domestic technology development. Conditions or contingencies relating to these grants are fulfilled and they are not deducted from the related costs which they are intended to compensate, but recorded in other income. Government grants received for which related expenditure has not yet been incurred or to which there were unfulfilled conditions 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 Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | Group | |
|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 |
| Fees | **72** | 65 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **4,588** | 4,783 |
| Other benefits | **108** | 108 |
| | **4,696** | 4,891 |
| | **4,768** | 4,956 |

### (a) Independent non-executive directors

The fees and other benefits paid to independent non-executive directors during the year were as follows:

| | Fees RMB'000 | Other benefits received RMB'000 | Total RMB'000 |
|---|---|---|---|
| **2014** | | | |
| Mr. Cheung Wing Keung | 72 | – | 72 |
| Mr. Guo Li | – | 36 | 36 |
| Mr. Chen Baoying | – | 36 | 36 |
| Mr. Lin Fujiang | – | 36 | 36 |
| Total | 72 | 108 | 180 |

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

### (a) Independent non-executive directors *(continued)*

| | Fees RMB'000 | Other benefits received RMB'000 | Total RMB'000 |
|---|---|---|---|
| 2013 | | | |
| Mr. Cheung Wing Keung | 65 | – | 65 |
| Mr. Guo Li | – | 36 | 36 |
| Mr. Chen Baoying | – | 36 | 36 |
| Mr. Lin Fujiang | – | 36 | 36 |
| Total | 65 | 108 | 173 |

### (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 |
|---|---|---|---|---|
| **2014** | | | | |
| Executive directors: | | | | |
| Mr. Jiang Guoxing | **300** | **–** | **–** | **300** |
| Mr. Shi Lei | **1,150** | **–** | **–** | **1,150** |
| Mr. Yu Jun | **1,774** | **–** | **–** | **1,774** |
| Ms. Cheng Junxia | **928** | **–** | **–** | **928** |
| Mr. Wang Su | **436** | **–** | **–** | **436** |
| | **4,588** | **–** | **–** | **4,588** |
| Non-executive directors: | | | | |
| Ms. Zhang Qianling | **–** | **–** | **–** | **–** |
| Mr. He Lixing | **–** | **–** | **–** | **–** |
| Mr. Shen Xiaozu | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** |
| | **4,588** | **–** | **–** | **4,588** |

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 |
|---|---|---|---|---|
| 2013 | | | | |
| Executive directors: | | | | |
| Mr. Jiang Guoxing | 300 | – | – | 300 |
| Mr. Shi Lei | 1,735 | – | – | 1,735 |
| Mr. Yu Jun | 1,225 | – | – | 1,225 |
| Ms. Cheng Junxia | 818 | – | – | 818 |
| Mr. Wang Su | 705 | – | – | 705 |
| | 4,783 | – | – | 4,783 |
| Non-executive directors: | | | | |
| Ms. Zhang Qianling | – | – | – | – |
| Mr. He Lixing | – | – | – | – |
| Mr. Shen Xiaozu | – | – | – | – |
| | – | – | – | – |
| | 4,783 | – | – | 4,783 |

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.

## 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director and one director/chief executive (2013: one director 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 three (2013: three) highest paid employees who is neither a director nor chief executive of the Group are as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **3,715** | 3,403 |
| Pension scheme contributions | **80** | 78 |
| | **3,795** | 3,481 |

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2014** | 2013 |
| HK$1,000,001 to HK$1,500,000 | **3** | 3 |

During the year, no emoluments were paid by the Group to the directors and the 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"). Further pursuant to the notice of the State Council on "Issuing Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries" (Guo Fa (2011) No. 4) and "Notice Concerning Policies on Enterprise Income Tax for Further Encouraging the Development of Software and Integrated Circuit Industries" (Cai Shui (2012) No. 27) issued by the Ministry of Finance of the PRC, the Company's application as a "key software enterprise falling within the State's planned arrangement" was approved and a notice of approval results for enjoying the preferential tax rate of 10% for 2013 and 2014 was issued by the State Administration of Taxation, Yangpu, Shanghai on 18 March 2014. Therefore, for the financial year ended 31 December 2014, income tax on assessable income of the Company has been provided at the rate of 10%. (2013: 10%).

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 2014, income tax on assessable income of Sino IC has been provided at the rate of 15% (2013: 15%).

## 9. INCOME TAX *(continued)*

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%. For the financial year ended 31 December 2014, Fukong Hualong is entitled to a preferential income tax rate of 15% as an HNT Enterprise, and therefore, income tax on assessable income of Fukong Hualong has been provided at the rate of 15% (2013: 15%).

Under the CIT Law, three of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited ("SZFM"), Beijing Fudan Microelectronics Technology Company Limited ("BJFM") and Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint"), are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2014, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2013: 25%).

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | **228** | 411 |
| Overprovision in prior years | **(8)** | (110) |
| Current – Mainland China | | |
| Charge for the year | **20,849** | 23,219 |
| Tax Refund | **–** | (11,541) |
| Overprovision in prior years | **(985)** | (643) |
| Deferred (note 9(c)) | **(13,431)** | (6,583) |
| Total tax charge for the year | **6,653** | 4,753 |

## 9. INCOME TAX *(continued)*

### (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 – 2014**

| | Mainland China | | Hong Kong | | Total | |
|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit before tax | 182,260 | | 1,382 | | 183,642 | |
| Tax at the statutory tax rates | 45,565 | 25.0 | 228 | 16.5 | 45,793 | 24.9 |
| Lower tax rates enacted by local authority | (26,075) | (14.3) | – | – | (26,075) | (14.2) |
| Effect of change in rate on deferred tax | (8,931) | (4.9) | – | – | (8,931) | 4.9 |
| Adjustment in respect of current tax of previous years' – overprovisions | (985) | (0.5) | (8) | (0.6) | (993) | (0.5) |
| Accelerated deduction for research and development activities | (4,081) | (2.2) | – | – | (4,081) | (2.2) |
| Expenses not deductible for tax | 461 | 0.2 | – | – | 461 | 0.2 |
| Temporary differences not recognised as deferred tax assets from previous years | (168) | (0.1) | – | – | (168) | (0.1) |
| Tax losses and temporary differences not recognised | 647 | 0.4 | – | – | 647 | 0.4 |
| Tax charge at the Group's effective rate | 6,433 | 3.6 | 220 | 15.9 | 6,653 | 3.6 |

## 9. INCOME TAX *(continued)*

### (a) Income tax expense *(continued)*

Group – 2013

| | Mainland China | | Hong Kong | | Total | |
|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit before tax | 166,543 | | 2,487 | | 169,030 | |
| Tax at the statutory tax rates | 41,636 | 25.0 | 410 | 16.5 | 42,046 | 24.9 |
| Lower tax rates enacted by local authority | (26,588) | (16.0) | – | – | (26,588) | (15.7) |
| Effect of change in rate on deferred tax | 2,588 | 1.6 | – | – | 2,588 | 1.5 |
| Adjustment in respect of current tax of previous years | | | | | | |
| – overprovisions | (643) | (0.4) | (110) | (4.4) | (753) | (0.5) |
| – Tax refund | (11,541) | (6.9) | – | – | (11,541) | (6.8) |
| Accelerated deduction for research and development activities | (4,614) | (2.8) | – | – | (4,614) | (2.7) |
| Expenses not deductible for tax | 2,776 | 1.7 | 1 | (0.0) | 2,777 | 1.6 |
| Temporary differences not recognised as deferred tax assets from previous years | (627) | (0.4) | – | – | (627) | (0.4) |
| Tax losses and temporary differences not recognised | 1,465 | 0.9 | – | – | 1,465 | 0.9 |
| Tax charge at the Group's effective rate | 4,452 | 2.7 | 301 | 12.1 | 4,753 | 2.8 |

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

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of year | **10,662** | 21,826 |
| Provision for the year | **20,084** | 11,336 |
| Hong Kong tax paid during the year | **(489)** | (398) |
| PRC tax paid during the year | **(17,552)** | (22,102) |
| At end of year | **12,705** | 10,662 |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax

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

**Group – 2014**

**Deferred tax assets**

| | At 1 January 2014 RMB'000 | Effect of change in rate on deferred tax RMB'000 | Deferred tax (charged)/ credited to profit or loss during the year RMB'000 | Deferred tax assets at 31 December 2014 RMB'000 |
|---|---|---|---|---|
| Inventories | 739 | – | (294) | 445 |
| Impairment of assets | 3,680 | 2,080 | 529 | 6,289 |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | 1,641 | 791 | 489 | 2,921 |
| Government grants | 10,334 | 2,702 | 492 | 13,528 |
| Temporary differences related to accruals, and other payables | 4,032 | 3,367 | 3,246 | 10,645 |
| Total | 20,426 | 8,940 | 4,462 | 33,828 |

**Deferred tax liabilities**

| | At 1 January 2014 RMB'000 | Effect of change in rate on deferred tax RMB'000 | Deferred tax (charged)/ credited to profit or loss during the year RMB'000 | Deferred tax liabilities at 31 December 2014 RMB'000 |
|---|---|---|---|---|
| Deferred development costs | 120 | (9) | (88) | 23 |
| Depreciation of property, plant and equipment | – | – | 68 | 68 |
| Total | 120 | (9) | (20) | 91 |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax *(continued)*

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

**Group – 2014** *(continued)*

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 | **33,737** |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **–** |

Group – 2013

**Deferred tax assets**

| | At 1 January 2013 RMB'000 | Effect of change in rate on deferred tax RMB'000 | Deferred tax (charged)/ credited to profit or loss during the year RMB'000 | Deferred tax assets at 31 December 2013 RMB'000 |
|---|---|---|---|---|
| Inventories | – | – | 739 | 739 |
| Impairment of assets | 3,507 | (1,157) | 1,330 | 3,680 |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | 682 | (227) | 1,186 | 1,641 |
| Government grants | 8,608 | (1,204) | 2,930 | 10,334 |
| Temporary differences related to accruals, and other payables | 1,427 | (167) | 2,772 | 4,032 |
| Total | 14,224 | (2,755) | 8,957 | 20,426 |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax *(continued)*

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

Group – 2013 *(continued)*

**Deferred tax liabilities**

| | At 1 January 2013 RMB'000 | Effect of change in rate on deferred tax RMB'000 | Deferred tax (charged)/ credited to profit or loss during the year RMB'000 | Deferred tax liabilities at 31 December 2013 RMB'000 |
|---|---|---|---|---|
| Deferred development costs | 500 | 167 | (547) | 120 |
| Depreciation of property, plant and equipment | 1 | – | (1) | – |
| Total | 501 | 167 | (548) | 120 |

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 | 20,306 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | – |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax *(continued)*

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

**Company – 2014**

**Deferred tax assets**

| | At 1 January 2014 RMB'000 | Deferred tax credited profit or loss during the year RMB'000 | Deferred tax assets at 31 December 2014 RMB'000 |
|---|---|---|---|
| Impairment of assets | **3,658** | **2,584** | **6,242** |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | **1,641** | **1,280** | **2,921** |
| Government grants | **4,897** | **3,208** | **8,105** |
| Temporary differences related to accruals, and other payables | **3,852** | **6,248** | **10,100** |
| Total | **14,048** | **13,320** | **27,368** |

**Deferred tax liabilities**

| | At 1 January 2014 RMB'000 | Deferred tax credited to profit or loss during the year RMB'000 | Deferred tax liabilities at 31 December 2014 RMB'000 |
|---|---|---|---|
| Deferred development costs | **120** | **(97)** | **23** |

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

| | RMB'000 |
|---|---|
| Net deferred tax assets recognised in the statement of financial position | **27,345** |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax *(continued)*

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

Company – 2013

**Deferred tax assets**

| | At 1 January 2013 RMB'000 | Deferred tax credited to profit or loss during the year RMB'000 | Deferred tax assets at 31 December 2013 RMB'000 |
|---|---|---|---|
| Impairment of assets | 3,470 | 188 | 3,658 |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | 682 | 959 | 1,641 |
| Government grants | 3,613 | 1,284 | 4,897 |
| Temporary differences related to accruals, and other payables | 1,049 | 2,803 | 3,852 |
| Total | 8,814 | 5,234 | 14,048 |

**Deferred tax liabilities**

| | At 1 January 2013 RMB'000 | Deferred tax credited to profit or loss during the year RMB'000 | Deferred tax liabilities at 31 December 2013 RMB'000 |
|---|---|---|---|
| Deferred development costs | 500 | (380) | 120 |

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 | 13,928 |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax *(continued)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** **RMB'000** | 2013 RMB'000 | **2014** **RMB'000** | 2013 RMB'000 |
| Tax losses | **4,114** | 3,439 | **–** | – |
| Deductible temporary differences | **224** | 252 | **–** | – |
| | **4,338** | 3,691 | **–** | – |

The Group has tax losses arising in Mainland China of RMB24,864,000 (2013: RMB21,155,000) 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 and deductible temporary differences 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 2014 includes a profit of RMB142,794,000 (2013: RMB145,580,000) which has been dealt with in the financial statements of the Company (note 25).

## 11. DIVIDENDS

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|
| Proposed final – nil (2013: RMB8 cents) per ordinary share | **–** | 49,386 |

The board of directors do not propose final dividend for the year.

## 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 (2013: 617,330,000) in issue during the year.

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

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **167,963** | 159,398 |

| | **Number of shares '000** | |
|---|---|---|
| | **2014** | 2013 |
| **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 2014 and 2013.

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

*31 December 2014*

| | Land and buildings RMB'000 | Machinery and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2013 and at 1 January 2014: | | | | | |
| Cost | 74,105 | 186,901 | 5,210 | 70,290 | 336,506 |
| Accumulated depreciation | (19,029) | (107,413) | (3,381) | – | (129,823) |
| Net carrying amount | 55,076 | 79,488 | 1,829 | 70,290 | 206,683 |
| At 1 January 2014, net of accumulated depreciation | 55,076 | 79,488 | 1,829 | 70,290 | 206,683 |
| Additions | 7,162 | 12,323 | – | 99,005 | 118,490 |
| Transfers | – | 18,013 | – | (18,013) | – |
| Transfers to intangible assets | – | – | – | (1,553) | (1,553) |
| Disposals | – | (2,109) | – | – | (2,109) |
| Depreciation provided during the year | (3,341) | (21,965) | (570) | – | (25,876) |
| At 31 December 2014, net of accumulated depreciation | 58,897 | 85,750 | 1,259 | 149,729 | 295,635 |
| At 31 December 2014: | | | | | |
| Cost | 81,267 | 213,375 | 5,210 | 149,729 | 449,581 |
| Accumulated depreciation | (22,370) | (127,625) | (3,951) | – | (153,946) |
| Net carrying amount | 58,897 | 85,750 | 1,259 | 149,729 | 295,635 |

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

**Group** *(continued)*

*31 December 2013*

| | Land and buildings RMB'000 | Machinery and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2012 and at 1 January 2013: | | | | | |
| Cost | 74,105 | 147,333 | 5,369 | 17,502 | 244,309 |
| Accumulated depreciation | (15,730) | (89,229) | (3,333) | – | (108,292) |
| Net carrying amount | 58,375 | 58,104 | 2,036 | 17,502 | 136,017 |
| At 1 January 2013, net of accumulated depreciation | 58,375 | 58,104 | 2,036 | 17,502 | 136,017 |
| Additions | – | 15,529 | 408 | 78,660 | 94,597 |
| Transfers | – | 25,872 | – | (25,872) | – |
| Disposals | – | (672) | (28) | – | (700) |
| Acquisition of a subsidiary | – | 110 | – | – | 110 |
| Depreciation provided during the year | (3,299) | (19,455) | (587) | – | (23,341) |
| At 31 December 2013, net of accumulated depreciation | 55,076 | 79,488 | 1,829 | 70,290 | 206,683 |
| At 31 December 2013: | | | | | |
| Cost | 74,105 | 186,901 | 5,210 | 70,290 | 336,506 |
| Accumulated depreciation | (19,029) | (107,413) | (3,381) | – | (129,823) |
| Net carrying amount | 55,076 | 79,488 | 1,829 | 70,290 | 206,683 |

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

### Company

*31 December 2014*

| | Land and buildings RMB'000 | Machinery and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2013 and at 1 January 2014: | | | | | |
| Cost | 66,341 | 73,738 | 2,518 | 66,972 | 209,569 |
| Accumulated depreciation | (13,586) | (45,781) | (1,610) | – | (60,977) |
| Net carrying amount | 52,755 | 27,957 | 908 | 66,972 | 148,592 |
| At 1 January 2014, net of accumulated depreciation | 52,755 | 27,957 | 908 | 66,972 | 148,592 |
| Additions | 7,162 | 11,565 | | 64,009 | 82,736 |
| Transfers | – | 6,190 | – | (6,190) | – |
| Transfers to intangible assets | – | – | – | (1,553) | (1,553) |
| Disposals | – | (2,077) | – | – | (2,077) |
| Depreciation provided during the year | (2,176) | (6,925) | (310) | – | (9,411) |
| At 31 December 2014, net of accumulated depreciation | 57,741 | 36,710 | 598 | 123,238 | 218,287 |
| At 31 December 2014 | | | | | |
| Cost | 73,503 | 87,719 | 2,517 | 123,238 | 286,977 |
| Accumulated depreciation | (15,762) | (51,009) | (1,919) | – | (68,690) |
| Net carrying amount | 57,741 | 36,710 | 598 | 123,238 | 218,287 |

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

**Company** *(continued)*

*31 December 2013*

| | Land and buildings RMB'000 | Machinery and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2012 and at 1 January 2013: | | | | | |
| Cost | 66,341 | 58,415 | 2,906 | 1,993 | 129,655 |
| Accumulated depreciation | (11,802) | (40,109) | (1,855) | – | (53,766) |
| Net carrying amount | 54,539 | 18,306 | 1,051 | 1,993 | 75,889 |
| At 1 January 2013, net of accumulated depreciation | 54,539 | 18,306 | 1,051 | 1,993 | 75,889 |
| Additions | – | 13,223 | 179 | 68,922 | 82,324 |
| Transfers | – | 3,943 | – | (3,943) | – |
| Disposals | – | (672) | (28) | – | (700) |
| Depreciation provided during the year | (1,784) | (6,843) | (294) | – | (8,921) |
| At 31 December 2013, net of accumulated depreciation | 52,755 | 27,957 | 908 | 66,972 | 148,592 |
| At 31 December 2013: | | | | | |
| Cost | 66,341 | 73,738 | 2,518 | 66,972 | 209,569 |
| Accumulated depreciation | (13,586) | (45,781) | (1,610) | – | (60,977) |
| Net carrying amount | 52,755 | 27,957 | 908 | 66,972 | 148,592 |

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 RMB'000 | Company RMB'000 |
| 31 December 2014 | | |
| Cost at 1 January 2014, net of accumulated amortisation and impairment | **57,187** | **55,973** |
| Additions - internal development | **85,703** | **85,703** |
| Transferred from construction in progress | **1,553** | **1,553** |
| Write-off – internal development | **(406)** | **–** |
| Impairment during the year | **(2,334)** | **(2,334)** |
| Amortisation provided during the year | **(9,940)** | **(9,193)** |
| At 31 December 2014 | **131,763** | **131,702** |
| At 31 December 2014: | | |
| Cost | **193,932** | **190,616** |
| Accumulated amortisation and impairment | **(62,169)** | **(58,914)** |
| Net carrying amount | **131,763** | **131,702** |

| | Deferred development costs | |
|---|---|---|
| | Group RMB'000 | Company RMB'000 |
| 31 December 2013 | | |
| Cost at 1 January 2013, net of accumulated amortisation and impairment | 35,651 | 33,366 |
| Additions – internal development | 31,509 | 31,509 |
| Amortisation provided during the year | (9,973) | (8,902) |
| At 31 December 2013 | 57,187 | 55,973 |
| At 31 December 2013: | | |
| Cost | 108,761 | 103,360 |
| Accumulated amortization and impairment | (51,574) | (47,387) |
| Net carrying amount | 57,187 | 55,973 |

## 15. GOODWILL

### Group

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Cost at 1 January, net of accumulated impairment | **827** | – |
| Acquisition of a subsidiary | **–** | 827 |
| Impairment during the year | **(827)** | – |
| Cost and net carrying amount at 31 December | **–** | 827 |
| At 31 December: | | |
| Cost | **827** | 827 |
| Accumulated impairment | **(827)** | – |
| Net carrying amount | **–** | 827 |

Doublepoint ceased operation and became dormant in 2014 and management considered that the goodwill was fully impaired as at 31 December 2014.

## 16. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **61,384** | 54,356 |
| Impairment provision | **(9,726)** | – |
| | **51,658** | 54,356 |

For impairment testing of investments in subsidiaries, namely Fukong Hualong and Doublepoint, each investment in the subsidiary is considered an individual cash generating unit ("CGU"). The recoverable amount of the CGU has been determined based on fair value less costs to sell by using the income approach (discounted cash flow method in particular). As a result, according to the impairment test result, the recoverable amount of each individual CGU is lower than its respective carrying amount, and provision for impairment of RMB9,726,000 was recorded in statement of profit or loss for the year ended 31 December 2014 (31 December 2013: Nil). As at 31 December 2014, the provision for impairment of investment in subsidiaries was RMB9,726,000 (31 December 2013: Nil).

The balances with subsidiaries included in the Company's current assets and current liabilities of RMB4,866,000 (2013: RMB2,439,000) and RMB5,271,000 (2013: RMB7,790,000), respectively, are unsecured, interest-free and repayable on demand or within one year.

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

| Name | Place and date of incorporation/ registration and place of operations | 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 | RMB42,000,000 | 50.3 | Provision of testing services for IC products; designing, developing and selling IC testing software; production of probe cards; and the provision of research and consultancy services of IC technology |
| Shanghai Fudan Micro-Electronics (HK) Limited | Hong Kong 23 January 2002 | HK$7,000,000 | 100 | Developing and selling IC products |
| SZFM** | People's Republic of China/ Mainland China 16 August 2007 | RMB5,000,000 | 100 | Designing, developing and selling IC products |
| BJFM** | People's Republic of China/ Mainland China 25 December 2007 | RMB3,000,000 | 100 | Designing, developing and selling IC products |

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows: *(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 |
|---|---|---|---|---|
| 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 |
| Doublepoint**** | People's Republic of China/ Mainland China 4 August 2009 | RMB9,700,000 | 61.9 | 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; and electronic commerce |

* Sino IC is registered as a contractual joint venture company under PRC law. Sino IC is treated as a subsidiary, as the Company has unilateral control directly over Sino IC. Sino IC was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network. In April 2014, Sino IC increased its issued capital from 31,000,000 shares to 42,000,000 shares, of which the Company subscribed and paid up 1,006,000 shares. Upon completion of the capital injection, the Company's shareholding in the equity interest of Sino IC decreased from 64.9% to 50.3%.

** 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.

**** Upon completion of the capital injection on 25 January 2013 and change of registration with the authority on 25 February 2013, Doublepoint changed from an associate company with 26.4% of equity interests held by the Company into a subsidiary of the Company, as the Group/Company has unilateral control directly over Doublepoint.

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

## 16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | **2014** | 2013 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests | | |
| Sino IC | **49.7%** | 35.1% |

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests | | |
| Sino IC | **11,449** | 8,600 |
| Dividends paid to non-controlling interests | **–** | 2,503 |
| Accumulated balances of non-controlling interests at the reporting dates: | | |
| Sino IC | **85,589** | 31,988 |

The following tables illustrate the summarised information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Sino IC | | |
| Revenue | **80,363** | 75,009 |
| Other income | **25,499** | 17,205 |
| Total costs and expenses | **(76,450)** | (64,321) |
| Income tax | **(3,333)** | (3,392) |
| Profit for the year | **26,079** | 24,501 |
| Total comprehensive for the year | **26,079** | 24,501 |
| Current assets | **152,353** | 92,455 |
| Non-current assets | **83,666** | 64,217 |
| Current liabilities | **(57,570)** | (56,009) |
| Non-current liabilities | **(6,237)** | (9,529) |
| Net cash flows from operating activities | **36,520** | 39,799 |
| Net cash flows used in investing activities | **(96,593)** | (35,250) |
| Net cash flows from/(used in) financing activities | **55,000** | (7,130) |
| Net decrease in cash and cash equivalents | **(5,073)** | (2,581) |

The profit or loss and net assets of the other subsidiaries attributable to the non-controlling interests are not material to the Group.

## 17. AVAILABLE-FOR-SALE INVESTMENTS

| | Group and Company | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Unlisted equity investments, at cost | **13,443** | 13,943 |
| Impairment provision | **(13,443)** | (13,443) |
| | **–** | 500 |

As at 31 December 2014, the unlisted equity investments with a carrying amount of RMB13,443,000 (2013: 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.

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB13,443,000 (2013: RMB13,443,000) with a carrying amount before provision of RMB13,443,000 (2013: 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.

## 18. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **101,364** | 63,092 | **100,785** | 62,386 |
| Work in progress | **42,106** | 49,583 | **44,007** | 49,237 |
| Finished goods | **66,563** | 87,118 | **65,598** | 90,326 |
| | **210,033** | 199,793 | **210,390** | 201,949 |

## 19. TRADE AND BILLS RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade and bills receivables | **255,369** | 213,486 | **243,174** | 202,539 |
| Impairment | **(14,629)** | (15,130) | **(14,304)** | (14,910) |
| | **240,740** | 198,356 | **228,870** | 187,629 |

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

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.

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 | |
|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| Within 3 months | **202,713** | 148,841 | **191,197** | 138,525 |
| 3 to 6 months | **23,755** | 39,660 | **23,619** | 39,436 |
| 6 to 12 months | **5,054** | 4,776 | **5,016** | 4,623 |
| Over 12 months | **9,218** | 5,079 | **9,038** | 5,045 |
| | **240,740** | 198,356 | **228,870** | 187,629 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| At 1 January | **15,130** | 16,256 | **14,910** | 15,992 |
| Impairment losses recognised (note 6) | **6,240** | 3,662 | **5,987** | 3,497 |
| Impairment losses reversed (note 6) | **(6,576)** | (4,788) | **(6,511)** | (4,579) |
| Amount written off as uncollectible | **(165)** | – | **(82)** | – |
| | **14,629** | 15,130 | **14,304** | 14,910 |

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB5,830,000 (2013: RMB5,830,000) with a carrying amount before provision of RMB5,830,000 (2013: RMB5,830,000). The individually impaired trade and bills receivables relate to customers that were in financial difficulties and are not expected to be recovered.

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** **RMB'000** | 2013 RMB'000 | **2014** **RMB'000** | 2013 RMB'000 |
| Neither past due nor impaired | **185,047** | 140,387 | **182,263** | 134,097 |
| Less than 1 month past due | **7,308** | 21,719 | **7,093** | 21,534 |
| 1 to 3 months past due | **9,754** | 11,302 | **9,754** | 11,192 |
| 3 to 6 months past due | **2,662** | 195 | **2,638** | 195 |
| 6 to 12 months past due | **–** | 9 | **–** | 9 |
| | **204,771** | 173,612 | **201,748** | 167,027 |

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.

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

At 31 December 2014, the Group endorsed certain bills receivable accepted by banks in Mainland China (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 RMB5,906,000 (2013: RMB6,234,000). The Derecognised Bills had a maturity of within one month 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 is 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 period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised 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 | |
|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| Prepayments | **6,724** | 10,878 | **6,280** | 10,064 |
| Deposits and other receivables (note 30) | **11,635** | 11,533 | **5,987** | 6,018 |
| | **18,359** | 22,411 | **12,267** | 16,082 |

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 BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and cash equivalents | **161,167** | 191,140 | **111,865** | 142,153 |
| Including: time deposits with original maturity of less than three months when acquired | **21,674** | 42,532 | **18,173** | 34,366 |
| cash on hand and demand deposits | **139,493** | 148,608 | **93,692** | 107,787 |
| Time deposits with original maturity of over three months when acquired | **185,027** | 149,240 | **66,531** | 94,693 |
| Cash and bank balances | **346,194** | 340,380 | **178,396** | 236,846 |

At the end of the reporting period, the cash and bank balances of the Group and the Company denominated in RMB amounted to RMB327,354,000 (2013: RMB325,616,000) and RMB174,250,000 (2013: RMB231,378,000), respectively. 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 six 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.

## 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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **71,953** | 87,018 | **70,880** | 86,130 |
| 3 to 6 months | **13** | 615 | **–** | 615 |
| 6 to 12 months | **1,309** | 82 | **1,307** | 82 |
| Over 12 months | **1,114** | 1,360 | **133** | 53 |
| | **74,389** | 89,075 | **72,320** | 86,880 |

## 22. TRADE AND BILLS PAYABLES *(continued)*

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

A maturity analysis of the above financial liabilities is set out in note 32 to the financial statements.

## 23. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| Current liabilities: | | | | |
| Payable for purchase of software | **4,536** | 4,630 | **4,536** | 4,630 |
| Accruals | **5,100** | 3,064 | **4,808** | 2,678 |
| Deferred income | **138,791** | 104,841 | **92,923** | 63,409 |
| Advance from customers | **15,743** | 16,735 | **13,994** | 16,402 |
| Other payables | **81,444** | 46,411 | **78,444** | 43,106 |
| | **245,614** | 175,681 | **194,705** | 130,225 |
| Non-current liability: | | | | |
| Deferred income | **8,825** | 13,684 | **2,588** | 4,203 |

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, and also related to expenses to be incurred in subsequent periods, and should be recorded as deferred income that was recognised in profit or loss over the periods in which the related costs are recognised.

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

## 24. SHARE CAPITAL

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 375,000,000 (2013: 375,000,000) unlisted domestic shares of RMB0.10 each | **37,500** | 37,500 |
| 242,330,000 (2013: 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 37 of the financial statements.

*(i) Share premium*

At 31 December 2014, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2013: RMB168,486,000) of the Company's share premium account was available for distribution by way of a future capitalisation issue.

*(ii) Statutory surplus reserve*

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 had reached 50% of the registered capital of the Company before 31 December 2012, the directors of the Company has not proposed any transfer of profit after tax to the SSR since 31 December 2012.

The directors of the Company's PRC subsidiaries have proposed to transfer RMB1,462,000 (2013: RMB1,590,000) 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, and attributable to the owners of the parent. The transfer has been incorporated in these financial statements.

*(iii) Other reserves*

In April 2014, Sino IC increased its issued capital from 31,000,000 shares to 42,000,000 shares. The issue price was RMB5 per share. The Company and the non-controlling shareholders subscribed 1,006,000 shares and 9,994,000 shares, respectively. The excess of the consideration contributed by the non-controlling interests over the net asset value of Sino IC shared by the non-controlling interests upon completion of the capital injection, amounting to RMB7,821,000, was recognised directly in the other reserves account.

## 25. RESERVES *(continued)*

### Group *(continued)*

#### *(iv) Retained profits*

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.

### Company

| | Share premium account RMB'000 | Statutory surplus reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2013 | 168,486 | 35,478 | 275,110 | 479,074 |
| Net profit and total comprehensive income for the year | – | – | 145,580 | 145,580 |
| Proposed 2013 final dividend (note 11) | – | – | (49,386) | (49,386) |
| At 31 December 2013 | 168,486 | 35,478 | 371,304 | 575,268 |
| Net profit and total comprehensive income for the year | – | – | 142,794 | 142,794 |
| Proposed 2014 final dividend (note 11) | – | – | – | – |
| At 31 December 2014 | 168,486 | 35,478 | 514,098 | 718,062 |

## 26. BUSINESS COMBINATION

Doublepoint used to be an associate of the Company, which held equity interests of 26.4%. Pursuant to the board resolution dated on 12 January 2013, the Company increased investment in Doublepoint by injection of additional capital of RMB5,000,000 and meanwhile other individual equity holders of the Company injected additional capital of RMB910,000. As such, the Company's voting power held and percentage of equity directly attributable to the Company increased from 26.4% to 61.9%. Upon completion of the capital injection on 25 January 2013 and change of registration with the authority on 25 February 2013, Doublepoint became a subsidiary of the Company, as the Company has unilateral control directly over Doublepoint.

## 26. BUSINESS COMBINATION *(continued)*

| | Note | Fair value recognised on acquisition RMB'000 |
|---|---|---|
| Property, plant and equipment | 13 | 110 |
| Cash and bank balances | | 6,017 |
| Trade receivables | | 118 |
| Prepayments, deposits and other receivables | | 112 |
| Inventories | | 1,899 |
| Trade payables | | (1,184) |
| Other payables | | 291 |
| Total identifiable net assets at fair value | | 7,363 |
| Non-controlling interests | | (2,806) |
| | | 4,557 |
| Goodwill on acquisition | | 827 |
| Investment in an associate | | (384) |
| Satisfied by cash | | 5,000 |

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | RMB'000 |
|---|---|
| Cash consideration | (5,000) |
| Cash and bank balances acquired | 6,017 |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | 1,017 |

Since the acquisition, Doublepoint contributed RMB2,812,000 to the Group's turnover and loss of RMB1,774,000 against the consolidated profit for the year ended 31 December 2013.

Had the combination taken place at the beginning of the year, the revenue from the Group and the profit of the Group for 2013 would have been RMB816,931,000 and RMB163,859,000, respectively.

## 27. CONTINGENT LIABILITIES

As at 31 December 2014, neither the Group nor the Company had any significant contingent liabilities.

## 28. COMMITMENTS

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

### (a) Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Contracted, but not provided for: Property, plant and equipment | **2,340** | 70,778 | **288** | 67,963 |

**(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 2014, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

*As lessee*

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **8,517** | 8,012 | **5,054** | 4,346 |
| In the second to fifth years, inclusive | **17,644** | 2,672 | **3,486** | 1,926 |
| | **26,161** | 10,684 | **8,540** | 6,272 |

## 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 | |
|---|---|---|---|
| | Note | **2014 RMB'000** | 2013 RMB'000 |
| Technical and equipment support fee paid to the owner of a shareholder of the Company | (i) | **402** | 400 |
| Profit sharing related to project research and development costs to the owner of a shareholder of the Company | (i) | **–** | 6,960 |

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 2014 amounted to RMB402,000 (2013: RMB400,000).

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. According to the Special FPGA Agreement, SFU would cooperate with the Company to conduct the research and development of highly reliable anti-irradiation FPGA circuits. As the expected outcome of research and development on the special high reliable FPGA circuits could not be achieved by both parties, the project has been delayed and the related subsidy income could not be recognised. In this regard, the Company entered into a supplementary agreement with SFU on 14 March 2013 and both parties agreed to adjust the latter stage cooperation and related expenses so as to expedite the project progress. The Company originally expects that the total distribution to SFU would be RMB12,600,000, with an annual cap of RMB2,600,000, RMB5,000,000, and RMB5,000,000, respectively, during 2010, 2011 and 2012. As a result of project delay, there were no distributions paid to SFU in these three years. The Company distributed nil to SFU during 2014 (2013: RMB6,960,000), which included technical service for chip test.

These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the 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.

## 29. RELATED PARTY TRANSACTIONS *(continued)*

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Director's and chief executive's remuneration | **4,768** | 4,956 |
| Salaries, allowances and benefits in kind-other key management team members | **3,661** | 3,614 |
| Total compensation paid to key management team | **8,429** | 8,570 |

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 2014 | | | |
| Trade and bills receivables | **240,740** | **–** | **240,740** |
| Financial assets included in prepayments, deposits and other receivables (note 20) | **11,635** | **–** | **11,635** |
| Cash and bank balances | **346,194** | **–** | **346,194** |
| | **598,569** | **–** | **598,569** |

## 30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

### Group *(continued)*

*Financial assets (continued)*

| | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| 31 December 2013 | | | |
| Available-for-sale investments | – | 500 | 500 |
| Trade and bills receivables | 198,356 | – | 198,356 |
| Financial assets included in prepayments, deposits and other receivables (note 20) | 11,533 | – | 11,533 |
| Cash and bank balances | 340,380 | – | 340,380 |
| | 550,269 | 500 | 550,769 |

*Financial liabilities*

| | **Financial liabilities at amortised cost RMB'000** |
|---|---|
| 31 December 2014 | |
| Trade and bills payables | **74,389** |
| Financial liabilities included in accruals, other payables and deferred income (note 23) | **91,080** |
| | **165,469** |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| 31 December 2013 | |
| Trade and bills payables | 89,075 |
| Financial liabilities included in accruals, other payables and deferred income (note 23) | 54,054 |
| | 143,129 |

## 30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

### Company

*Financial assets*

| | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| 31 December 2014 | | | |
| Due from subsidiaries | **4,866** | **–** | **4,866** |
| Trade and bills receivables | **228,870** | **–** | **228,870** |
| Financial assets included in prepayments, deposits and other receivables (note 20) | **5,987** | **–** | **5,987** |
| Cash and bank balances | **178,396** | **–** | **178,396** |
| | **418,119** | **–** | **418,119** |
| 31 December 2013 | | | |
| Available-for-sale investments | – | 500 | 500 |
| Due from subsidiaries | 2,439 | – | 2,439 |
| Trade and bills receivables | 187,629 | – | 187,629 |
| Financial assets included in prepayments, deposits and other receivables (note 20) | 6,018 | – | 6,018 |
| Cash and bank balances | 236,846 | – | 236,846 |
| | 432,932 | 500 | 433,432 |

## 30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

### Company *(continued)*

*Financial liabilities*

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| 31 December 2014 | |
| Due to subsidiaries | **5,271** |
| Trade and bills payables | **72,320** |
| Financial liabilities included in accruals, other payables and deferred income (note 23) | **87,788** |
| | **165,379** |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| 31 December 2013 | |
| Due to subsidiaries | 7,790 |
| Trade and bills payables | 86,880 |
| Financial liabilities included in accruals, other payables and deferred income (note 23) | 50,414 |
| | 145,084 |

## 31. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and bank balances, 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 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 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, and therefore such investments are stated at cost less any impairment losses.

### Fair value hierarchy

The Group and the Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2014 and 31 December 2013.

## 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 the Group does not have any debt obligations that are subject to fluctuations in market interest rates. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### 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 10% (2013: 13%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 76% (2013: 83%) 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.

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

### Foreign currency risk *(continued)*

The following tables demonstrate 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 |
| **2014** | | | |
| If RMB weakens against United States dollar ("US$") | **+5** | **(897)** | **–** |
| If RMB strengthens against US$ | **-5** | **897** | **–** |
| If RMB weakens against Euro ("EUR€") | **+5** | **12** | **–** |
| If RMB strengthens against EUR€ | **-5** | **(12)** | **–** |
| 2013 | | | |
| If RMB weakens against United States dollar ("US$") | +5 | 481 | 421 |
| If RMB strengthens against US$ | -5 | (481) | (421) |
| If RMB weakens against Hong Kong dollar ("HK$") | +5 | 487 | 406 |
| If RMB strengthens against HK$ | -5 | (487) | (406) |

* Excluding retained profits.

## 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 |
|---|---|---|---|
| **2014** | | | |
| If RMB weakens against US$ | **+5** | **(1,009)** | **(908)** |
| If RMB strengthens against US$ | **-5** | **1,009** | **908** |
| If RMB weakens against EUR€ | **+5** | **12** | **11** |
| If RMB strengthens against EUR€ | **-5** | **(12)** | **(11)** |
| 2013 | | | |
| If RMB weakens against US$ | +5 | 305 | 275 |
| If RMB strengthens against US$ | -5 | (305) | (275) |

* Excluding retained profits.

### 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 bank balances, 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. 29% (2013: 26%) 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.

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

### Liquidity risk

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

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

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

### Group

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 year to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Trade and bills payables | **7,424** | **66,965** | **–** | **–** | **74,389** |
| Financial liabilities included in accruals, other payables and deferred income | **62,630** | **22,401** | **4,951** | **1,098** | **91,080** |
| | **70,054** | **89,366** | **4,951** | **1,098** | **165,469** |
| 31 December 2013 | | | | | |
| Trade and bills payables | 1,359 | 87,018 | 698 | – | 89,075 |
| Financial liabilities included in accruals, other payables and deferred income | 40,925 | 6,075 | 3,009 | 4,045 | 54,054 |
| | 42,284 | 93,093 | 3,707 | 4,045 | 143,129 |

## 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 | 1 year to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Trade and bills payables | **6,428** | **65,892** | **–** | **–** | **72,320** |
| Financial liabilities included in accruals, other payables and deferred income | **59,946** | **21,969** | **4,951** | **922** | **87,788** |
| Due to subsidiaries | **–** | **5,271** | **–** | **–** | **5,271** |
| | **66,374** | **93,132** | **4,951** | **922** | **165,379** |
| 31 December 2013 | | | | | |
| Trade and bills payables | 53 | 86,129 | 698 | – | 86,880 |
| Financial liabilities included in accruals, other payables and deferred income | 38,060 | 5,520 | 3,009 | 3,825 | 50,414 |
| Due to subsidiaries | – | 7,790 | – | – | 7,790 |
| | 38,113 | 99,439 | 3,707 | 3,825 | 145,084 |

### 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 2014 and 31 December 2013.

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

### Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is the total liabilities divided by the net assets. The gearing ratios as at the end of the reporting periods were as follows:

### Group

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Total liabilities | **341,533** | 289,102 |
| Net assets | **934,928** | 757,341 |
| Gearing ratio | **36.5%** | 38.2% |

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2015.

# 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 | | | | |
|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| **RESULTS** | | | | | |
| REVENUE | **843,913** | 816,931 | 704,064 | 609,544 | 489,083 |
| Cost of sales | **(443,131)** | (419,472) | (367,919) | (343,284) | (266,265) |
| Gross profit | **400,782** | 397,459 | 336,145 | 266,260 | 222,818 |
| Other income and gains | **102,722** | 104,234 | 105,277 | 59,390 | 52,602 |
| Selling and distribution expenses | **(55,566)** | (58,637) | (36,861) | (31,303) | (21,081) |
| Administrative expenses | **(71,894)** | (60,573) | (58,168) | (40,523) | (35,092) |
| Other expenses | **(192,402)** | (213,343) | (183,380) | (131,818) | (88,198) |
| Share of losses of an associate | **–** | (110) | (376) | – | – |
| PROFIT BEFORE TAX | **183,642** | 169,030 | 162,637 | 122,006 | 131,049 |
| Tax | **(6,653)** | (4,753) | (19,049) | (14,665) | (10,515) |
| PROFIT FOR THE YEAR | **176,989** | 164,277 | 143,588 | 107,341 | 120,534 |
| Attributable to: | | | | | |
| Owners of the parent | **167,963** | 159,398 | 140,068 | 106,372 | 117,039 |
| Non-controlling interests | **9,026** | 4,879 | 3,520 | 969 | 3,495 |
| | **176,989** | 164,277 | 143,588 | 107,341 | 120,534 |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| TOTAL ASSETS | **1,276,461** | 1,046,443 | 846,868 | 730,369 | 644,623 |
| TOTAL LIABILITIES | **(341,533)** | (289,102) | (204,452) | (179,976) | (170,376) |
| NON-CONTROLLING INTERESTS | **(92,664)** | (41,486) | (36,304) | (34,960) | (33,991) |
| | **842,264** | 715,855 | 606,112 | 515,433 | 440,256 |