# 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

2017

* for identification only

# Contents

# Chairman's Statement

**Dear Shareholders,**

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 2017.

Looking back at 2017, the world economy was in steady recovery. The economic growth of China and the United States were still the major forces to promote global economic upturn. The global IC market has been flourishing in the recent decade. As the market gradually matures, the growth rate in recent years has slightly slowed down. However, the Chinese IC market still has a great demand. In addition to the high-speed growth of Chinese economy and continuous increase of domestic demand, the construction of smart city, electronic payment, electronization of financial services, application of Internet of Things, smart home, continued update of various electronic products and other factors, as well as the government's vigorous promotion and reinforcement of support for industrial development, are conducive to the rapid growth of IC industry.

For the year ended 31 December 2017, the Group recorded general growth in revenue. However, the slight decrease in overall gross margin, together with the substantial drop in other income and increase in various expenditures, resulted in a light decline in the profit for the year as compared with the last year, but the profit attributable to owners of the parent approximated with that of last year. Due to the issuance of shares in the year, the earnings per share attributable to owners of the parent decreased over the last year. Having considered that more funds will be required for research and development according to the future development plan of the Group, the Board does not recommend the payment of final dividend for 2017.

In the year, the Company successfully completed placing of an aggregate of 42,000,000 H shares with the nominal value of RMB0.1 per share at the placing price of HK$5.33 per placing share (equivalent to approximately RMB4.50). The net proceeds (after deduction of the fees, commissions and expenses) from the placing of H shares are approximately RMB184,203,000, and will be used for supplementing the general working capital of the Company.

Looking forward into 2018, driven by the national policy support, technological advancement and innovation, enhancement of market share in the domestic chip market, investment by the investment foundations of national IC industry and other factors, the IC design industry of the PRC is expected to maintain high-speed growth. The Group has nearly twenty years of experience in fundamental research, technological development, professional talents cultivation, strategic cooperation with important enterprises in the industry, and research, development and industrialization of high-end IC chip and system terminal solutions, and has formed a certain industrial scale and certain advantages in market competition. The Directors are convinced that, riding on the high speed growth of the industry, the product sales of the Group may also maintain stable growth. However, the increasing entrants in the industry have caused cutthroat competition, posing certain challenges over maintenance of product price and market share. The Directors are optimistic and confident in the business growth in the coming year and expect that the results will see ideal growth.

Taking this opportunity, the Board wishes to thank the management and all staff of the Group for their dedication and relentless efforts, and extend its gratitude to the Company's shareholders and business partners for their valuable support and trust in the long term.

**Jiang Guoxing**
*Chairman*

Shanghai, the PRC, 28 March 2018

# Management Discussion and Analysis

## BUSINESS REVIEW

In the year, the principal activities of the Group remained design, development and sales of specific application integrated circuit product and provision of testing services. The Group's products are applied in all fields mainly including city one-cards, financial IC cards, social security and citizen cards, smart meters, electronics payment, memory chips and Internet of Things and maintain a leading position in the industry. The Group's overall revenue recorded an increase by approximately 17.7% compared to the previous year due to the continued increase in the sales of security and identification IC chips which represented a higher sales proportion and the considerate increase in revenue from the ideal sales of non-volatile memory chips. However, the fierce completion forced us to lower the price of certain security and identification IC chips so as to maintain the market share, resulting in a decrease in the overall gross margin from 53.2% of the last year to 49.5%.

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

### Security and Identification IC Chips

For the year ended 31 December 2017, sales of security and identification chips only recorded a growth of around 13% with gross margin decreased by approximately 13% compared to last year. High-end chip products applied in public transit cards, resident cards, social security cards, citizen cards and electronic payments etc. were not affected by competition due to early occupation of market and high technical threshold. Of these products, the smart card chips saw a decrease in sales due to the demand saturation in the market. However, the Company maintained continued sales and ideal gross margin for this product. With the technical maturity of domestic chips and under the influence of national policies, the demand for financial IC card chips increased rapidly, which, however, also caused exceptionally fierce competition. Despite of the substantial rise in sales due to the increase bid winning rate, the gross margin dropped due to the adjustment to price strategy by the Group in order to maintain the market share.

Other products such as contactless RF card chip and contactless chips have benefited from the quality and price superior to competitors, thus, having satisfactory increases in sales.

### Smart Meter ASIC Chips

The sales of the smart meter ASIC chips plummeted by approximately 30% as compared to last year. As old products have been launched for many years and are gradually replaced by new products, and the sale of products is affected by the decrease in tender and purchase by the State Grid Corporation, the Group acquired an ideal market share for the new generation of products after being put into the market as they can satisfy functional demands. The overall gross margin of this product had a slight increase due to enhanced product structure.

### Non-volatile Memory Chips

The products of this category mainly comprises the EEPROM series and the NOR flash memory products, which are widely applied in the field of consumer electronics and computer peripheral equipment market. The Group's EEPROM and NOR flash memory products currently cover different memory storages together with remarkably high reliability. As the sales amount and profit of this product depend on the size of storage of products and market prosperity, the sales amount and gross margin are exposed to great fluctuations. The sales soared by approximately 78% in the year and the gross margin dropped a bit due to severe market competition. The proportion of this product in the overall sales of the Group gradually increased and made great contributions to the results for the year.

## BUSINESS REVIEW *(Continued)*

### Specific Analog Circuits

Specific Analog Circuits mainly consist of leakage protection chips, motor vehicle specific chips, communication chips and lighting chips; they are widely applied in leakage protection devices, home appliances, telecommunication equipment and lighting control system, etc. The sales amount of the product decreased by approximately 29.7% and the gross margin decreased by approximately 10.5% in the year. This product was affected by the lag of leakage protection device due to delayed real estate development and switch of new and old products. This type of products contributes only a small portion in the total sales and it does not have a material impact on the Group's performance as a whole.

### Other Chips

The sales of specific proprietary products increase significantly by approximately 92% in the year due to increase in market demand. As a result of high requirements on process and technology and the substantial research and development expenses incurred at the early stage, the gross margin of these products is higher than other products and has a good contribution to the overall gross margin of the Group.

### IC Testing Services

During the year, the total segment revenue of the IC testing services provided to external customers decreased by approximately 8%. The gross margin slightly decreased by approximately 1% due to the downward regulation of charge as a result of increase in market participants. For the business segment, the Company increased testing equipment in recent years in order to expand the capacity of testing services and started to lease testing equipment externally to acquire rental in the year. IC testing service also backed the Group. In the year, the revenue from provision of testing service to the Group increased by approximately 10%.

## FINANCE REVIEW

For the year ended 31 December 2017, the Group recorded a total revenue of approximately RMB1,398,230,000 (2016: RMB1,187,490,000), representing an increase of 17.7% as compared to last year; gross margin decreased from 53.2% of last year to 49.5%. Compared with the last year, other income and gains decreased by approximately 11.4%, and selling and distribution costs, administrative expenses and other expenses went up by 12.7%, 12.3% and 9.8%, respectively. The profit for the year was approximately RMB228,069,000 (2016: RMB240,090,000), representing a decrease of approximately 5.0% over the last year. The audited profit attributable to owners of the parent was approximately RMB212,122,000 (2016: RMB212,258,000), which was close to that of the last year. Due to the placement of 42,000,000 H shares and slight decrease in profit, the basic earnings per share was approximately RMB33.88 cents (2016: RMB34.38 cents), representing a decrease of approximately 1.5% year-on-year. The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2017 (2016: nil).

For the year under review ended 31 December 2017, the Group recorded an overall sales growth due to the ideal sales of IC chips, which was under review sufficient to offset the effects caused by the decrease in the income from IC testing services income. During the year, the sales still concentrated in the domestic market of China and the overseas sales only accounted for a small proportion. The price adjustment to certain products due to market competition resulted in a decrease in comprehensive gross margin from approximately 53.2% of the last year to approximately 49.5%. Other income and gains substantially decreased by approximately RMB18,552,000 compared with last year. Although the other government grants in the year increased by approximately RMB13,130,000 over the last year, as the government grants received for research activities that fulfilled the recognition conditions were far more in last year, there was a decrease in current year of approximately RMB25,971,000.

## FINANCE REVIEW *(Continued)*

The sales and distribution expenses increased by approximately RMB8,670,000 as compared to the last year because the Group had to increase sales personnel to meet the demands for marketing and maintain market share so as to cope with the fierce competition in the market of certain products. Administrative expenses increased by approximately RMB10,757,000 over last year due to increase in employee expense as a result of the increase in staff members and up-regulation of industry level. Other expenses during the year increased by approximately RMB37,115,000 as compared to last year, as a result of continuous updating of market's demand for products in recent years. In the meantime, due to the increase in investment in research and development project for research of new products, the research and development costs incurred during the year increased significantly, while the impairment on intangible assets decreased over the year.

In respect of taxation, the Group's tax expense for the year decreased by approximately RMB2,309,000 over the last year mainly attributable to the decrease in profit before tax and provision for income tax for the year at the preferential tax rate of 10% for assessable profit of key IC design enterprises in the national plan (2016: provision at the preferential tax rate of 15% for high-tech enterprises).

The Group's non-current assets increased by approximately RMB69,784,000 over last year because of the increases in acquisition of plant and equipment, and in decoration and auxiliary office equipment as we moved in the offices previously purchased. In addition, the deferred development costs of intangible assets amounted to approximately RMB92,908,000 in the year, representing an increase of RMB21,108,000 as compared to the last year after deducting the write-off, impairment and amortisation. In the year, the Group invested approximately RMB3,276,000 in a newly-established enterprise in the industry, with a view to expanding the Group's product fields and enhancing technological level through cooperation. Deferred tax assets decreased by approximately RMB12,923,000 due to temporary differences related to the deduction of assets impairment, depreciation and amortisation, governmental grants and decrease in applicable Tax rate.

Current assets increased substantially by approximately RMB334,704,000 than last year, where inventories has greatly increased by approximately RMB86,494,000 as compared with last year in order to cope with increasing seasonal sales at the end of the year. Trade and bills receivables increased by approximately RMB99,818,000 as compared with last year, mainly attributable to the increasing sales in the fourth quarter of the year and that most of them were still within the normal credit period. As the prepaid tax exceeded the actual tax amount due to difference in tax rates and the accelerated deduction for research and development activities, the refundable tax amounted to approximately RMB28,506,000. In the year, the Company conducted placement of new shares and raised net proceeds of approximately RMB184,203,000, certain of which has been used as daily working capital. The Group's cash and bank balances increased by approximately RMB105,885,000.

Current liabilities increased by approximately RMB7,689,000 over the last year mainly due to the increase in trade and other payables as a result of an increase in sales. Besides, as the tax prepaid by the Company was more than the actual tax payable, the tax payable only represented the tax payable by subsidiaries, resulting in a decrease in approximately RMB15,249,000 as compared to the last year.

Equity of non-controlling interests slightly increased by RMB1,568,000 because Sino IC Technology Co., Ltd., a subsidiary held as to 50.3% by the Group, distributed dividend in the year, resulting in a decrease in the equity of non-controlling interests by approximately RMB12,526,000; and also due to the de-registration of Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint"), a subsidiary held as to approximately 61.9% by the Group.

# Management Discussion and Analysis

## MATERIAL INVESMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

In the year, the Company invested USD3,000,000 in Fudan Microelectronics (USA) Inc., an indirectly wholly-owned subsidiary of the Company, to increase its capital.

Doublepoint has de-registered in the year through legal procedures as the projects developed by it failed to meet expectations.

Other than above mentioned, the Group had no material investment and there was no acquisition and disposal of subsidiaries during the year.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group will focus on its core business development and has no material investment plan at present apart from orderly increase in research and development projects.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2017, net assets of the Group amounted to approximately RMB1,771,276,000 (2016: RMB1,374,432,000), an increase of approximately 28.9% over last year; of which current assets amounted to approximately RMB1,646,351,000 (2016: RMB1,311,647,000), a rise of approximately 25.5% over last year, and including cash and bank deposits of approximately RMB646,109,000 (2016: RMB540,224,000), an increase of approximately 19.6% over last year.

As the Group keeps profiting for the past years, profit and internal cash flows generated have been used to meet the operations and business development needs. In addition, the proceeds from placement of new H shares in the year further consolidated the Group's financial resources. Furthermore, the Group has adopted a cautions monetary policy which is sufficient to cope with daily operation and future development.

The net cash flows from operating activities for the year was approximately RMB158,809,000 (2016: RMB249,660,000), mainly due to increase in profit and accounts payable, which offset the increase in inventory and accounts receivable. The net cash flows used in investing activities was approximately RMB305,415,000 (2016: RMB105,249,000), an increase of approximately RMB200,166,000 over the previous year, mainly due to the increase in deferred development costs of intangible assets, addition of machinery and equipment, and purchase of office decoration and equipment for new offices. Besides, deposits with maturity over 3 months also increased by approximately RMB82,049,000. Due to the placement of new shares, the net cash inflow from financing activities amounted to approximately RMB171,491,000. The cash and short-term deposits decreased by approximately RMB8,438,000 over the last year due to remittance arrangements giving consideration to traditional long vacation at the end of the year. The cash and cash equivalents as at the balance sheet date increased by approximately RMB23,836,000 to approximately RMB310,193,000 (2016: RMB286,357,000).

As at 31 December 2017, the Group has not pledged any of its assets to any third parties (2016: nil).

## CAPITAL STRUCTURE

The Company published an announcement on 29 September 2017 in relation to placing of new H shares with a nominal value of RMB0.10 per share under general mandate and subsequently completed placing of an aggregate of 42,000,000 new H shares on 16 October 2017. The Company's issued H shares increased from 242,330,000 shares to 284,330,000 shares. In addition, there were 375,000,000 issued domestic shares. Therefore, the total issued shares were 659,330,000 shares and the share capital increased from RMB61,733,000 to RMB65,933,000.

In 2017, Sino IC increased its share capital from RMB126,000,000 to RMB189,000,000 shares by distribution of bonus shares with RMB63,000,000 out of the retained earnings.

In the year, the Company made a capital increase in cash amounting to HK$23,400,000 to its subsidiary Shanghai Fudan Microelectronics (Hong Kong) Limited ("Fudan Hong Kong") to increase its issued share capital from HK$7,000,000 to HK$30,400,000. Subsequently, Fudan Hong Kong made a capital increase in cash amounting to USD3,000,000 to Fudan Microelectronics (USA) Inc., a subsidiary owned by it, to increase its issued share capital from USD100 to USD3,000,100.

Except the above disclosures, there was no other change in the capital structure of the Group in the year.

## GEARING RATIO

As at 31 December 2017, the Group's current liabilities amounted to approximately RMB424,047,000 (2016: RMB416,358,000), an increase of approximately 1.8% over last year. Non-current liabilities amounted to approximately RMB12,033,000 (2016: RMB12,078,000), similar to that of the previous year. Net asset value per share was approximately RMB2.69 (2016: RMB2.23), a growth of approximately 20.6% over last year. The Group's ratio of current liabilities over current assets was approximately 25.8% (2016: 31.7%), indicating that the Group's short-term debt paying ability was ideal and the asset realisation capacity was further enhanced, and the gearing ratio was approximately 24.6% (2016: 31.2%) on the basis of total liabilities over net assets, indicating that the Group's capital was mainly from shareholders and the credit risk in relation to provision of financing to the Group decreased.

As at 31 December 2017, the Company and the Group had no bank or other borrowings (2016: nil).

## PRINCIPAL RISKS AND UNCERTAINTIES

The Directors believe that developing and implementing rigorous risk management practices can efficiently and effectively reduce operational risks. The Board has delegated the responsibilities to relevant departments and will monitor, review and improve the practices from time to time.

The Directors believe that the Group is not exposed to risks associated with business regulations in view that there is no specific legislative control over the design, development and sales of integrated circuit where Group focuses its business on at present, and national policies are all advantageous to the development of the industry. In addition, the Group's business maintained a stable and healthy growth over the years. With the Group's existing customers and suppliers are all long-term partners, and business of the industry is still in the growth phase driven by national policies and huge market demands in most of its products, the Directors believe there will be no uncertainties.

# Management Discussion and Analysis

## 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.

### 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 7% (2016: 6%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 62% (2016: 61%) 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 Group was exposed to no material difficulties or no material influence was arisen on the Group's operations and cash flows due to the fluctuations in foreign exchange.

### 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. 28% (2016: 27%) 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.

### 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.

## CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments contracted but not provided for in the amount of approximately RMB12,318,000 (2016: RMB7,637,000), which were related to the acquisition of property, plant and equipment.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no contingent liabilities (2016: nil).

## USE OF CAPITAL AND FUNDING

### Proceeds from placing of new H shares

On 16 October 2017, the Company completed placing of an aggregate of 42,000,000 new H shares at the placing price of HK$5.33 per placing share. The net proceeds (after deduction of the fees, commissions and expenses) from the placing amounted to approximately RMB184,203,000 and shall be used in the way as disclosed in the announcement of the Company dated 29 September 2017. The proceeds utilised as at 31 December 2017 are as follows:

| | Net proceeds RMB'000 | Utilised amount RMB'000 | Unutilised amount RMB'000 |
|---|---|---|---|
| Supplement the general working capital of the Company | 184,203 | 40,887 | 143,316 |

The proceeds currently unutilised are deposited in the special account with a domestic bank in the PRC and will be used as general working capital in the future.

The Group has sufficient working capital and a stable financial position, which will be applied to the research and development of new products and the identification of cooperation opportunities.

## EMPLOYEES

As at 31 December 2017, the Group has approximately 1,100 (2016: 1,040) employees. The increase in the number of employees was due to recruitments to meet increasing research and development projects, and this division engages more than half of the total employees. The remuneration of employees was determined in accordance with their performance, qualifications, experience and contribution to the Group with reference to the market trend recently or from time to time in the industry.

As at 31 December 2017, the employee benefit expense (including directors' remuneration) as recorded in the consolidated statement of profit or loss was approximately RMB273,561,000 (2016: RMB203,670,000). The significant increase in employee benefit expense was due to the rise in number of employees and increase of salaries as driven by the rapid development of the industry; in addition, the employee benefit expense of RMB58,546,000 (2016: RMB55,601,000) was capitalized as development costs during the year.

# Management Discussion and Analysis

## COMPLIANCE WITH LAWS AND REGULATIONS

The Directors deem the compliance with laws and regulations as the cornerstone of a business and attach considerable importance to it. The Group strictly complies with relevant laws and regulations of each country and region where the subsidiaries perform business activities. Furthermore, as the H shares of the Company are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company shall be bound by the Rules Governing the Listing of Securities on the Stock Exchange and the Securities and Futures Ordinance of Chapter 571 of the Laws of Hong Kong. The Group's operating business is not subject to any specific regulation at the time being.

## RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group provides in service training, technological exchange, series of lectures and group study to staff members and management team; this can deepen their understanding on technological development and the industry's trend, strengthen their professional skills and knowledge, in order to help with the long-term development of the business. Besides, the Group provides suitable employees benefits, arranges regular health checkups, participates in social events, recreational activities and competitions, in favor of the staff's healthy living and their sense of belonging to the Company.

The Group's employee remuneration package is determined with reference to industry standards and individual qualifications and performance. The Group will conduct annual assessment regarding the performance and skill development of employees to adjust salaries and bonuses and develop incentive programs.

Understanding that customer is the key factor for generating revenue and business development, the Group actively maintains close and long term partnerships with customers. With more than ten years of business experience and expertise, the Group strives to fulfil the requirements of customers. The Group currently does not have any customer whose income arising from transactions accounted for 10% or more of the Group's total revenue. The Group's 5 largest customers include manufacturers of security IC chips and agents of smart meters ASIC chips, all of which are renowned enterprise in the industry with business relationship with the Group for 5 to 10 years. 4 of these customers are trade with 90 days credit, which is the same credit term given by the Group to other customers and the other 1 customer is traded on the payment to delivery basis. For the year ended 31 December 2017, the abovementioned 4 customers have no record of overdue payment nor doubtful debt provision. In accordance with the risk management policies adopted by the Group, its customers and products are managed in well-balanced portfolios, there is no exposure on heavy reliance on individual products nor these major customers' orders. In addition, the sales currency is mainly RMB, the functional currency of the Group. Therefore, there is no exchange risk.

The Group sees the suppliers as valued business partners, and is committed to maintain long term relationships with them and protect interests of both sides to ensure reasonable prices and stable supply by the Group. The Group does not rely on any main supplier that might lead to a significant impact on the operation.

# 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

### Non-executive Directors

Ms. Zhang Qianling
Mr. Ma Zhicheng
Mr. Yao Fuli
Ms. Zhang Huajing

### 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. Li Wing Sum, Steven

## AUDIT COMMITTEE

Mr. Cheung Wing Keung *(Chairman)*
Mr. Guo Li
Mr. Lin Fujiang

## NOMINATION COMMITTEE

Mr. Cheung Wing Keung *(Chairman)*
Mr. Guo Li
Ms. Cheng Junxia

## REMUNERATION COMMITTEE

Mr. Cheung Wing Keung *(Chairman)*
Mr. Guo Li
Ms. Cheng Junxia

## SUPERVISORS' COMMITTEE

Mr. Li Wei
Mr. Wei Ran
Mr. Xu Zhihan

## 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, Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 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 64, 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 was the vice chairman and general manager of Shanghai Fudan Forward Science and Technology Co., Limited, a company listed on the Shanghai Stock Exchange, the chief of the Office of Research-product Industrialization and University Enterprise Management of the Fudan University and 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 51, 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 University of Science and Technology of China (the "USTC") 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.

**Mr. Yu Jun**, aged 50, joined the Company in July 1998, is the Deputy Managing Director of the Company and a director respectively of the Company's subsidiaries namely, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") and Sino IC Technology Co., Ltd. ("Sino IC"). He graduated with a Bachelor's degree in Electronics Engineering and a Master's degree in Electronics and Information Systems from the Fudan University and is a senior engineer. Mr. Yu was the deputy director and tutor of the Research Institute for Integrated Circuit Designs of the Fudan University as well as the chief engineer of Shanghai Fudan High Tech Company. He has extensive knowledge and experience in the design of integrated circuits and systems.

**Ms. Cheng Junxia**, aged 71, joined the Company in July 1998, is a member of the remuneration committee and the nomination committee. She is also the Chief Engineer of the Company and a director of the Company's subsidiary namely, Shanghai Fudan Microelectronics (Hong Kong) Limited ("Fudan Hong Kong"). 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.

### Non-executive directors

**Ms. Zhang Qianling**, aged 81, joined the Company in July 1998. She was the supervisor of Sino IC She was graduated from the Department of Physics of Fudan University and was a principal professor and tutor to doctorate students at 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.

**Mr. Ma Zhicheng**, aged 57, joined the Company in July 2015, is a qualified senior operating manager. He was awarded the post-graduate degree of Business Administration from the Shanghai Academy of Social Sciences. He is the Deputy General Manager of Shanghai Commerce and Invest (Group) Corporation ("SCI") which is a substantial shareholders of the Company. He is also the Managing Director of Shanghai Fudan Technology Enterprise Holdings Limited, a subsidiary of SCI. Mr. Ma is the Chairman of Shanghai Fudan Digi-medical Technology Co., Ltd. He was the Assistant General Manager of SCI, the General Manager of Shanghai Commercial Investment Venture Capital Co., Ltd., the Chairman of Shanghai Hualong Information Technology Development Center, the Deputy General Manager of Shanghai Xinlian Real Estates Co. and the Office Manager of Shanghai Aeronautic Machinery Co.

## DIRECTORS *(Continued)*

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

**Mr. Yao Fuli**, aged 43, joined the Company in July 2015. He was awarded Bachelor Degree and Master Degree of Business Administration from Fudan University. He is the Director and General Manager of Shanghai Cyber Galaxy Investment Co., Limited. Mr. Yao was the Deputy General Manager of SCI and Managing Director of Shanghai Commercial Investment Venture Capital Co., Ltd, the Chairman of Shanghai Aijian Capital Management Co., Ltd., the Deputy General Manager of Shanghai Aijian Trustees Co., Ltd. and the Asset Management Manager of Shanghai Aijian Corporation as well as a member of its General Manager Council and Management Committee.

**Ms. Zhang Huajing**, aged 57, joined the Company in July 2015. She was awarded a Bachelor Degree from Shanghai University of Finance and Economics and is a senior accountant. She is the Deputy Chief Accountant and Finance Manager of SCI. Ms. Zhang was the Assistant Manager of Finance Department and Audit Director of SCI. She was also the Chief Accountant of Yangtze River Economic United Development (Group) Co., Ltd. She was the Chief Accountant of Finance Department of Changfa Group Shanghai Trading and Industrial Holding Co.

### Independent non-executive directors

**Mr. Cheung Wing Keung**, aged 53, joined the Company in May 2004 and is also a member of the audit committee, the remuneration committee and nomination committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 25 years' working experience in auditing, accounting, taxation, corporate management and consultancy. He has worked in accounting firms and the Hong Kong Inland Revenue Department and has held senior positions in certain Hong Kong's private group companies.

**Mr. Guo Li**, aged 71, 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 USTC and is a professor and doctoral supervisor as well as a senior member of China Electronics Academy and a member of 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 the researches in digital signal processing, digital 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 88, joined the Company in October 2007, is a part-time professor of Nankai University. He graduated with a Bachelor degree of Trade Finance in the Nankai University and a Master degree in 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 and Senior Management Biographies

## DIRECTORS *(Continued)*

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

**Mr. Lin Fujiang**, aged 59, joined the Company in December 2012, 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 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. Mr. Lin was a national special recruited expert selected under the “One Thousand Talents Plan” in 2009 and has been engaged for a long-term multidisciplinary research of microwave and microelectronics, especially with a series of achievements in advanced radio frequency semi-conductors and circuit integration modeling and simulation, and is also a renowned practical radio frequency modeling expert. He has presented more than a hundred fifty scholarly essays in subscriptions, magazines and conferences and holds several 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 46, 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 is an expert in IC design and has conducted in-depth researches on the mobile payment and satellite navigation system.

**Mr. Wei Ran**, aged 62, joined the Company in May 2009, holds a master degree and is a senior economist. He is the general manager of SCI and chairman of Shanghai Commercial Investment Enterprise 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.

**Mr. Xu Zhihan**, aged 54, joined the Company in October 2015. He is a certified public accountant of the PRC and graduated from School of Management of Fudan University in 1985 with a Bachelor Degree. He was also awarded the Doctor designation from the Faculty of Business Management in Accountancy of Fudan University in 2007. Mr. Xu was the speaker, associate professor and associate director of School of Management of Fudan University. He is currently the associate professor of accountancy in School of Management of Fudan University.

## SENIOR MANAGEMENT

**Mr. Li Wei**, (see personal details set out in the paragraph headed “Supervisors” above).

**Mr. Shi Jin**, aged 61, 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.

## SENIOR MANAGEMENT *(Continued)*

**Mr. Diao Linshan**, aged 52, joined the Company in January 1999, is the Deputy Operation Officer and General Manager of the Sales Department of the Company, and a director of Fudan Hong Kong. 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 61, joined the Company in July 2000, 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 35 years' experience in auditing, accounting, taxation, company secretarial 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. He is the independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd. and Wang On Properties Limited, both companies are listed on the main board of the Stock Exchange. He is also the company secretary of China National Culture Group Limited, a company listed on the main board of the Stock Exchange and Sino-Life Group Limited, a company listed on GEM of the Stock Exchange.

# Corporate Governance Report

## 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 2017, 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 Auditor's Report" on pages 39 to 43.

## 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 2017, 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 2 June 2017 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 2017.

## BOARD OF DIRECTORS AND BOARD MEETING

### Composition and role

During the year ended 31 December 2017, the Board has 12 members and comprises four executive Directors, four non-executive Directors and four independent non-executive Directors. There was no change in the members of the Board during the year. 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 in the "Directors and Senior Management Biographies" on pages 12 to 15, 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 2017, 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 annual general meeting after his appointment. A retiring Director is eligible for re-election.

### Terms of Appointment of Directors

*Executive Directors*

Each of the four executive Directors has entered into a service contract with the Company for a term of three years which commenced on 19 July 2015 until 18 July 2018 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 2015 until 18 July 2018 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 a letter of appointment with the Company for a period commencing from 2 June 2017 until the conclusion of the forthcoming annual general meeting of the Company to be held in or about May 2018 and is 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 according to Rule 3.31 under the Listing Rules and recognized 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 and related documentary materials for decision and to make sure they have sufficient information in advance of each board meeting.

Board minutes are kept by the company secretary of the Company (the "Company Secretary") 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 as well as risk management of the Group. The audit committee comprises three independent non-executive Directors, Mr. Cheung Wing Keung (Chairman), Mr. Guo Li and Mr. Lin Fujiang. The audit committee members are well experienced in management, accounting, finance, commercial and electronic industry sectors.

   The Group's financial statements for the year ended 31 December 2017 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 four meetings during the year under review. Besides, the committee also held two meetings with the external auditors for the discussions on issues including the accounting policies adopted by the Group, internal control, risk management 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, Ms. Cheng Junxia. 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 periodical review on the structure, number of members and composition of the Board, including their skill, knowledge and experience, and the independence of independent non-executive Directors and to make recommendation as to the changes of Directors. The Committee identifies suitable candidates who can add value to the management through their contributions in the relevant strategic business areas, and makes recommendation to the Board in respect of the appointment and reappointment of Directors which 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, Ms. Cheng Junxia. 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 in the same industry, 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 non-executive Directors, and considers that the existing terms of employment contracts of the executive Directors and non-executive Directors as well as the letters of appointment of the independent non-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 2017, the number of regular 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 | 4/4 | N/A | 1/1 | 1/1 |
| Ms. Zhang Qianling | 1/1 | 4/4 | N/A | N/A | N/A |
| Mr. Ma Zhicheng | 1/1 | 3/4 | N/A | N/A | N/A |
| Mr. Yao Fuli | 1/1 | 2/4 | N/A | N/A | N/A |
| Ms. Zhang Huajing | 1/1 | 4/4 | N/A | N/A | N/A |
| Mr. Cheung Wing Keung | 0/1 | 4/4 | 4/4 | 1/1 | 1/1 |
| Mr. Guo Li | 0/1 | 4/4 | 4/4 | 1/1 | 1/1 |
| Mr. Chen Baoying | 0/1 | 4/4 | 1/1* | N/A | N/A |
| Mr. Lin Fujiang | 1/1 | 3/4 | 4/4 | N/A | N/A |

* Mr. Chen Baoying is not a member of the audit committee but attended the annual review of the continuing connected transactions of the Company.

### 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 responsibility for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.

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

### Directors training *(Continued)*

During the year ended 31 December 2017, 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 |
| Ms. Zhang Qianling | A, B |
| Mr. Ma Zhicheng | A, B |
| Mr. Yao Fuli | A, B |
| Ms. Zhang Huajing | A, B |
| Mr. Cheung Wing Keung | A, B |
| Mr. Guo Li | A, B |
| Mr. Chen Baoying | A, 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 has undertaken no less than 15 hours of professional training to update his skills and knowledge.

## AUDITOR'S REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, 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 fee to the external auditor and which has been reviewed and approved by the audit committee:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Annual audit | **1,613** | 1,576 |

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Company and each subsidiary have to conduct at least annually to enable the Board to perform a review on the Group's system of internal control and risk management to ensure the effective and adequate internal control system including finance, compliance control, 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 and the risk management team will submit their findings and the proposed audit plan to the audit committee for its approval. A review of the system of internal control and risk management has been undergone during the year under review and the Directors are satisfied that the Group has maintained sound and effective internal controls and risk management.

## CONSTITUTIONAL DOCUMENTS

The constitutional documents of the Company have been published both on the websites of the Stock Exchange and the Company. The Company has published an announcement on 21 November 2017 for the proposal of amendments to the articles of association of the Company and was approved by the shareholders at the extraordinary general meeting held on 12 January 2018. The amendments to the articles will be effective upon completion of the requisite business registration procedures.

## 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 to convene an extraordinary shareholders' general meeting or a class meeting of shareholders and stating the subject of the meeting. The Board 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; and

(2) if the Board 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 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.

### 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 reports and inside information in time in accordance with the Listing Rules. In addition to the post of spokesman established to liaise with shareholders and institutional investors, 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.

# Environmental, Social and Governance Report

The Board is pleased to present the environmental, social and governance report (the "ESG Report") of the Group for the year ended 31 December 2017. The report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 to the Listing Rules. The report covers the overall environmental, social and governance policy of the Company and its subsidiaries (the "Group") for the period from 1 January 2017 to 31 December 2017.

The Board shoulders full responsibility for the Group's environmental, social and governance strategy and report and is responsible for evaluation and determination the environmental, social and governance risks exposed to the Group and ensuring the Group has the proper and efficient environmental, social and governance risk management and internal monitoring system. The management has provided a confirmation in relation to the effectiveness of the relevant system to the Board. The ESG Report sets out the Group's environmental, social and governance policy, strategy, relevant significance and targets, and has explained how they are related to the Group's businesses. The report sets out the management, measurement and supervision system for execution of its environmental, social and governance strategy. In addition, the ESG Report also covers the scope of business of the Group.

The table below summarizes the environmental, social and governance issues covered by the ESG Report:

## ENVIRONMENT

### Emissions

The Group's principal activities consist of designing, developing and selling products of application-specific IC, provision of testing services for IC products; designing, developing and selling specific IC testing software and products; as well as the provision of research and consultancy services of IC technology. The Group operates in a fabless model and does not have significant impact to the environment and does not generate pollution nor hazardous waste. At the time being, there are no specific environmental laws or regulations governing the industry for the Group to comply.

The Group has proactively reduced its resources consumption and implemented the best environmental protection practices, and conducted inspection from time to time, to highlight the Group's commitments in terms of environmental protection and improvement. The Group complies with environmental protection laws. In addition to encouragement and promotion of all employees' environmental protection awareness, the Group also pays attention to suppliers' environmental protection measures in respect of production.

*Greenhouse gases emissions*

The Group places great value on environmental protection and has passed the inspection by the green gases emissions management in accordance with the ISO14064-1 standard in 2012. Currently, the Group engages Bureau Veritas to conduct an annual verification of the Group's greenhouse gases emissions per year. By knowing the situation of greenhouse gases emissions based on data, the Group hopes to develop policies that can reduce carbon footprint, achieve the sustainable development targets of energy saving and carbon emissions reduction, and create a green corporate image.

During the reporting period, the total greenhouses emission generated by the Group was 6,875.17 tonnes with the per capita intensity of 6.29. Details are set out below:

## ENVIRONMENT *(continued)*

### Emissions *(continued)*

#### *Greenhouse gases emissions (continued)*

| Scope of greenhouse gases emissions | | Unit (tonne) | Intensity (per capita consumption) |
|---|---|---|---|
| Direct emissions | – gasoline consumption | 118.20 | 0.108 |
| Indirect emissions | – electricity consumption | 6,718.13 | 6.147 |
| | – Consumption of paper and water | 38.84 | 0.036 |

#### *Wastes management*

In order to protect the environment, the Group has engaged the environmental recycling company to regularly implement "physical smashing" for the unqualified wastes of the Company. Physical smashing can separate recyclable metals to achieve the purpose of recycling resources. During the reporting period, the non-hazardous wastes generated by the Group were paper and printing supplies of office:

| Name of non-hazardous wastes | Unit | Intensity (per capita consumption) |
|---|---|---|
| Paper | Tonne | 0.003 |
| Printing supplies | Piece | 0.075 |

During the reporting period, the Group did not find any violation of environmental laws or regulations.

### Use of Resources

The Group's business nature does not involve much in consumptions of electricity and water. The Group pursues the principal and practice of recycling and saving.

During the reporting period, the energy consumption of the Group in business operations is as follows:

| Type of energy | Unit | Consumption | Intensity (per capita consumption) |
|---|---|---|---|
| Gasoline | Litre | 51,432.33 | 47.06 |
| Electricity | kWh | 8,281,721.99 | 7,577.06 |

The water consumption of the Group is mainly for normal office operations which do not consume significant water. As the office premises that the Group operates do not have separate water meter, therefore, data for water supply and discharge are not available.

The Group advocates the concept of green office and implemented measures such as installation of french windows to allow more sunlight in order to reduce the use of lighting, resettlement of old office furniture, encouraging employees to use emails instead of hardcopies, use of recycled papers during printing and copying, promotion of double-sided printing and copying, as well as turning off idle lighting, air conditioning and electricity to reduce energy consumptions. In order to further strengthen environmental protection, the Group cancelled free group transportation for our employees for going on and off duty, and also encouraged our employees to travel in public transits or choose bicycle sharing, in order to reduce the effects of emission of pollutants from motor vehicles on the environment. The Group thinks that the above measures have achieved ideal results in terms of reduction of greenhouse gases emission and saving resources.

## ENVIRONMENT *(continued)*

### Use of Resources *(continued)*

#### *Environmental and Natural Resources*

The Group's business activities have not had any significant impact on the environment and natural resources. To improve the environment and air quality, the Group advocates the concept of a greened office and takes environmental protection measures in order to reduce any pollutants production from business operations. The Group manages the number of its motor vehicles strictly and properly arranges logistics.

The Group has adopted the plant-free operation model to minimize our damage to the environment and natural resources. The Group has prepared the Physical Standards on Environmental Management and undertaken that the lead-free and halogen-free products provided by it meet requirements. The Group will pay continuous attention to the new management and control requirements on environmental management substances of customers and under laws and regulations, and proactively use new materials and new technologies to provide products satisfactory to customers and make our contributions to environmental protection.

## SOCIAL

### Employment and Labor Practices

#### *Employment*

The Group provides a proper working environment conforms with labor regulations to our employees. Therefore, we have set up a human resources management system, which listed out detailed information relating to recruitment, promotion, working hours and other employee benefits, in order to comply with related labour laws and regulations. We also provide our employees with a pleasant and green working environment, follow the anti-discrimination laws, and encourage diversification of skills of working teams.

Our equal opportunity policy ensures applicants or employees are treated equally when seeking a job or working in the Group, and will not deprive of their rights because of their sex, age, race, pregnancy, disability, marital or family status. The management takes review from time to time on the salary level within the industry and makes adjustment to the Group's salary policy accordingly.

#### *Health and Safety*

In addition to standard employee benefits, the Group also provides regular physical examination, and arranges internal recreation club activities and competitions to ensure the physical and mental health of employees and enhance their sense of belongings to the Group.

#### *Development and Training*

The Group provides on-the-job training, technical exchanges, holds seminars and group learning activities for employees and managements to enhance their understanding on the industry trends and technological development and strengthen their professional skills and knowledge. All of which will help to employees' long-term technology and business development.

#### *Labor Standards*

The Group strictly abides the Labor Law of the People's Republic of China and any social insurance related laws and regulations; overseas subsidiaries and branch offices also comply with related labor laws and regulations enforced in the countries and regions they operated. The Group sets up a system to state clear guidelines for hiring, salary levels, promotion, benefits, and retirement etc., in order to guarantee the relationship, rights and interest of both employer and employees.

## SOCIAL *(continued)*

### Operating Practices

*Supply Chain Management*

The Group has a complete supplier selection system, all the suppliers have to pass the assessment on their qualifications and material supplies. All the suppliers of the Group are well-known enterprises in the industry, having large equipment configuration and considerable technical capabilities. The Group assesses the elements of cost, working environment, compliance with labor and social environmental laws and the protection of intellectual property, so as to evaluate and select suitable suppliers comprehensively.

*Product Responsibility*

The basis for the survival of the Group is to provide satisfactory products and services to the customers; take the development of customers as the Group's foundation of development; and protecting the environment for the survival of the Group and its customers is the premise of sustainable operations. The Group's products completely meet the design of functional specifications; thus, its products provided to the customers are with competitiveness in the international markets. The Group develops relevant management policies, include strict quality control, satisfaction survey and after-sales services, to ensure the Group's products are produced by qualified materials and manufacturing processes in accordance with product safety requirements from related laws and regulations.

The Group has many self-developed intellectual property rights, and the industry has paid great attention on intellectual property rights. The Group's operations must involve the use of the intellectual property rights of itself, customers or suppliers. Therefore, an extremely rigorous system for the protection of intellectual property rights has been established, includes adding intellectual property protection clauses when entering into contracts with customers or suppliers in order to protect the intellectual property rights of all parties, and to ensure the related staff to comply with all relevant laws and regulations.

The Group has established the Physical Standards on Environmental Management, using environmental technology to manufacture and provide environmentally friendly products, and do not use any prohibited raw materials in our products and manufacturing processes.

*Anti-corruption*

The operations of companies in the Group comply with the laws and regulations in China and the counties and regions where they operated, and it is forbidden to use any opportunity or authority to obtain personal benefits or interest, as stated in the employment contract.

The Group has internal monitor system to avoid conflicts of interest and different levels of approvals in its business operations.

### Community

*Community Investment*

The Group promotes its staff to join activities and contribute to the local communities in which the group companies operate. The Group educates and cultivates staff with a view to improve their social responsibility awareness, and actively encourages staff to volunteer their leisure hours to participate in activities for improving of local communities and environment. The Group will try its best endeavors to increase investment in communities in order to build a better environment.

# Report of the Directors

The directors present their report and the audited financial statements of Shanghai Fudan Microelectronics Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company consist of designing, developing and selling products of application-specific integrated circuits. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 3 to 10 of this annual report. This discussion forms part of this directors' report.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 44 to 47.

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 116. This summary does not form part of the audited financial statements.

## SHARE CAPITAL

A summary of movements in the Company's share capital is set out in note 21 to the financial statements.

## 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.

## 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. At 31 December 2017, the Company's reserves available for distribution amounted to RMB1,054,887,000, and no final dividend has been proposed for the year.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 23% of the total sales for the year and sales to the largest customer included therein amounted to 9%. Purchases from the Group's five largest suppliers accounted for 73% of the total purchases for the year and purchase from the largest supplier included therein amounted to 42%.

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

### Non-executive directors:

Ms. Zhang Qianling
Mr. Ma Zhicheng
Mr. Yao Fuli
Ms. Zhang Huajing

### Independent non-executive directors:

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

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.

## DIRECTORS *(continued)*

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 2015 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 June 2017, until the forthcoming AGM in or about May 2018 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.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, incurred by Directors to a third party.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company or any of the Company's 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 IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 31 December 2017, the interests 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 | Total | Percentage of the Company's issued share capital |
| **Directors** | | | | | |
| Mr. Jiang Guoxing | 7,210,000 | – | – | 7,210,000 | 1.09 |
| Mr. Shi Lei | 7,210,000 | – | – | 7,210,000 | 1.09 |
| | 14,420,000 | – | – | 14,420,000 | |

## DIRECTORS' AND SUPERVISORS' INTERESTS 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 the associated corporation's issued share capital |
|---|---|---|---|---|---|---|
| **Supervisor** | | | | | | |
| Mr. Li Wei | Sino IC Technology Co., Ltd. | Company's subsidiary | Ordinary shares | 189,000 | Directly beneficially owned | 0.10 |

Save as disclosed above, as at 31 December 2017, 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 2017, 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 positions in shares of the Company:

| Name | Notes | Capacity and nature of interest | Number of Ordinary shares held | Long Positions (L)/ Short Positions (S) | Class of shares | Percentage of shareholding on relevant class of shares | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|---|---|
| Shanghai Fudan High Tech Company ("Fudan High Tech") | (1) | Directly beneficially owned | 106,730,000 | (L) | Domestic shares | 28.46 | 16.19 |
| Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset") | (1) | Interest of corporation controlled | 106,730,000 | (L) | Domestic shares | 28.46 | 16.19 |
| Fudan University | (1) | Interest of corporation controlled | 106,730,000 | (L) | Domestic shares | 28.46 | 16.19 |
| Shanghai Fudan Technology Enterprise Holdings Limited ("Fudan Technology") | (2) | Directly beneficially owned | 109,620,000 | (L) | Domestic shares | 29.23 | 16.63 |
| Shanghai Commerce and Invest (Group) Corporation ("SCI") | (2) | Interest of corporation controlled | 109,620,000 | (L) | Domestic shares | 29.23 | 16.63 |
| Bailian Group Company Limited ("Bailian Group") | (2) | Interest of corporation controlled | 109,620,000 | (L) | Domestic shares | 29.23 | 16.63 |
| Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben") | (3) | Directly beneficially owned | 52,167,270 | (L) | Domestic shares | 13.91 | 7.91 |
| Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun") | (3) | Interest of corporation controlled | 66,845,110 | (L) | Domestic shares | 17.83 | 10.14 |
| Zhang Yong | (3) | Interest of corporation controlled | 66,845,110 | (L) | Domestic shares | 17.83 | 10.14 |
| Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise ("Shanghai Zhenghua") | (4) | Directly beneficially owned | 47,443,420 | (L) | Domestic shares | 12.65 | 7.20 |

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

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

| Name | Notes | Capacity and nature of interest | Number of Ordinary shares held | Long Positions (L)/ Short Positions (S) | Class of shares | Percentage of shareholding on relevant class of shares | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|---|---|
| Shanghai Shanyao Industrial Limited ("Shanghai Shanyao") | (4) | Interest of corporation controlled | 47,443,420 | (L) | Domestic shares | 12.65 | 7.20 |
| Zhou Yufeng | (4) | Interest of corporation controlled | 47,443,420 | (L) | Domestic shares | 12.65 | 7.20 |
| Shanghai Guonian Corporate Management Consultant Partnership Enterprise ("Shanghai Guonian") | (5) | Directly beneficially owned | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Shanghai Danruo Investment Management Partnership Enterprise ("Shanghai Danruo") | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Dazi Country Dingcheng Capital Investment Limited ("Dingcheng Capital") | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Beijing Zhongrong Dingxin Investment Management Limited ("Zhongrong Dingxin") | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Zhongrong International Trust Limited ("Zhongrong International") | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Jingwei Textile Machinery Co., Ltd. ("Jingwei Textile") | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Beijing Huacheng Lihe Investment Limited ("Huacheng Lihe") | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Wang Shumin and Wang Jizhuo | (5) | Interest of corporation controlled | 29,941,470 | (L) | Domestic shares | 7.98 | 4.54 |
| Springs China Opportunities Master Fund ("Spring China") | (6) | Directly beneficially owned | 17,088,000 | (L) | H shares | 6.01 | 2.59 |

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

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

| Name | Notes | Capacity and nature of interest | Number of Ordinary shares held | Long Positions (L)/ Short Positions (S) | Class of shares | Percentage of shareholding on relevant class of shares | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|---|---|
| Springs China Limited | (6) | Interest of corporation controlled | 17,088,000 | (L) | H shares | 6.01 | 2.59 |
| Zhao Jun | (6) | Interest of corporation controlled | 17,088,000 | (L) | H shares | 6.01 | 2.59 |
| Haitong International Financial Solutions Limited ("Haitong International Financial") | (7) | Directly beneficially owned | 37,522,000<br>(37,522,000) | (L)<br>(S) | H shares<br>H shares | 13.2<br>(13.2) | 5.69<br>(5.69) |
| Haitong International Finance Company Limited ("Haitong International Finance") | (7) | Interest of corporation controlled | 37,522,000<br>(37,522,000) | (L)<br>(S) | H shares<br>H shares | 13.2<br>(13.2) | 5.69<br>(5.69) |
| Haitong International (BVI) Limited. ("Haitong International") | (7) | Interest of corporation controlled | 37,522,000<br>(37,522,000) | (L)<br>(S) | H shares<br>H shares | 13.2<br>(13.2) | 5.69<br>(5.69) |
| Haitong International Securities Group Limited ("Haitong International Securities") | (7) | Interest of corporation controlled | 37,522,000<br>(37,522,000) | (L)<br>(S) | H shares<br>H shares | 13.2<br>(13.2) | 5.69<br>(5.69) |
| Haitong International Holdings Limited ("Haitong International Holdings") | (7) | Interest of corporation controlled | 37,522,000<br>(37,522,000) | (L)<br>(S) | H shares<br>H shares | 13.2<br>(13.2) | 5.69<br>(5.69) |
| Haitong Securities Co., Ltd. ("Haitong Securities") | (7) | Interest of corporation controlled | 37,522,000<br>(37,522,000) | (L)<br>(S) | H shares<br>H shares | 13.2<br>(13.2) | 5.69<br>(5.69) |

Notes:

(1) Fudan High Tech is a state-owned enterprise wholly owned by Fudan Asset and Fudan Asset is wholly owned by Fudan University.

(2) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Technology. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Technology's interest in the Company.

(3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben. Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben's interest in the Company. Shanghai Yikun and Zhang Yong further held the Company's interest through another controlled corporation.

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

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

Notes: *(continued)*

(4) Zhou Yufeng held 99% of the equity interest in Shanghai Shanyao, and Shanghai Shanyao held 99.79% of the equity interest in Shanghai Zhenghua. Accordingly, each of Shanghai Shanyao and Zhou Yufeng is deemed to be interested in Shanghai Zhenghua's interest in the Company.

(5) Jingwei Textile holds 37.47% of the equity interest in Zhongrong International, Zhongrong International holds the entire equity interest in Zhongrong Dingxin, Zhongrong Dingxin holds the entire equity interest in Dingcheng Capital, Dingcheng Capital holds 0.01% of the equity interest in Shanghai Danruo and is the general partner thereof. Wang Shumin and Wang Jizhuo together wholly and beneficially owns Huacheng Lihe which holds the remaining 99.99% of the equity interest in Shanghai Danruo. Shanghai Danruo and Dingcheng holds 72.69% and 0.33% of the equity interest in Shanghai Guonian, respectively. Accordingly, each of Shanghai Danruo, Dingcheng Capital, Zhongrong Dingxin, Zhongrong International, Jingwei Textile Huacheng Lihe, Wang Shumin and Wang Jizhuo is deemed to be interested in Shanghai Guonian's interest in the Company.

(6) Spring China is beneficially owned by Spring China Limited, which is beneficially owned by Zhao Jun. Accordingly, each of Spring China Limited and Zhao Jun is deemed to be interested in Spring China's interest in the Company.

(7) Haitong Securities holds the entire equity interest in Haitong International Holdings, Haitong International Holdings holds 61.74% of the equity interest in Haitong International Securities, Haitong International Securities holds the entire equity interest in Haitong International, Haitong International holds the entire equity interest in Haitong International Finance, Haitong International Finance holds the entire equity interest in Haitong International Financial. Accordingly, each of Haitong International Finance, Haitong International, Haitong International Securities, Haitong International Holdings and Haitong Securities is deemed to be interested in Haitong International Financial's interest in the Company.

Save as disclosed above, as at 31 December 2017, no person, other than the directors and supervisors of the Company, whose interests are set out in the section headed "Directors' and supervisors' interests 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 certain connected transactions of the Group are set out in note 27 to the financial statements.

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

### Continuing connected transactions

On 12 August 2003, the Company and Fudan University ("SFU") entered into an agreement under which the Company was required to pay a technical and equipment support fee to SFU based on a price mutually agreed by the two parties. The Company expects that the total transaction amount with SFU will be with an annual cap during 2017 of RMB800,000 (2016: RMB800,000), and the Company paid RMB67,000 in 2017 (2016: RMB105,000).

On 18 January 2010, the Company entered into a co-operation agreement with Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong"), a 38.25% owned subsidiary of the Company, for the research and development of electricity meter IC chips ("Smart Meter 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 Smart Meter 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 the products contemplated under the Smart Meter IC Chips Agreement have to be upgraded to a new version due to market changes, on 16 April 2015, the Company entered into a supplementary agreement with Fukong Hualong with a single revised revenue sharing of 88% to 12% for a term of two years. On 10 April 2017, the Company further entered into a supplementary agreement with Fukong Hualong to extend the original contract for three years. The annual caps for the profit sharing payable to Fukong Hualong for the two years ended 31 December 2016 and 2017 are RMB3,000,000 and RMB1,000,000. During 2017, the Company has paid profit sharing of RMB306,000 to Fukong Hualong (2016: RMB1,533,000).

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 satellite navigation IC chips ("Satellite Navigation 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 Satellite Navigation Agreement, the Company and Fukong Hualong will carry out two cooperation modules respectively in project mode and product sales mode. The cooperation agreement expired on 22 April 2015 and because of further function upgrade requirements, on 16 April 2015, the Company renewed the original agreement for another two years. On 10 April 2017 the Company further renewed the original agreement for another three years.

According to the renewed Satellite Navigation Agreement, under the project mode, the Company will be the primary applicant for the government grants. The Company will use the grants for research and development expenditures of government grant projects, and will pay part of the grants to Fukong Hualong according to Fukong Hualong's contributions in the projects and negotiations between the parties, with annual caps of RMB5,000,000 and RMB4,500,000 for the years ended 31 December 2016 and 2017. During 2017, the Company has distributed RMB2,450,000 (2016:RMB1,920,000) of R&D income to Fukong Hualong.

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

### Continuing connected transactions *(continued)*

Based on the above-mentioned project sales mode, both parties, having realised that there are prospects in product industrialisation, have entered into cooperation under 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"). According to the renewed Satellite Navigation Agreement, the Company will sell products to Fukong Hualong at a price based on production costs plus a gross profit (according to the Satellite Navigation Agreement signed in April 2012: production cost plus 50% gross profit) and with reference to Market Selling Price. The annual caps relating to the Company's sales of products to Fukong Hualong are RMB6,000,000 and RMB9,000,000 for the years ended 31 December 2016 and 2017. In 2017, the Company sold related products of RMB2,835,000 (2016: RMB3,047,000) to Fukong Hualong.

On 10 April 2017, the Company entered into a co-operation agreement with Fukong Hualong for the research and development of electronic identification IC chips ("Electronic Identification IC Chips Agreement") with effective from the date of the agreement to the completion of the pilot program, which is expected to last for two years. The Company will pay Fukong Hualong technical support fees amounted to RMB200,000 and RMB300,000 within 60 days of provision of full set of technical specifications and signing of contract for the pilot program respectively. The technical support fees have been negotiated by both parties and determined after considering the technical needs, equipment engaged, time taken for research and development, and professionals involved. The annual cap relating to the Company's technical service payment is RMB200,000 for the year ended 31 December 2017. In 2017, the Company made a payment of RMB189,000 to Fukong Hualong.

As the nature of the transactions contemplated under the Smart Meter Agreement, the Satellite Navigation Agreement and the Electronic Identification IC Chips Agreement is similar and will continue, pursuant to rule 14A.81 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 2016 and 2017 of RMB14,000,000 and RMB14,700,000, respectively. The Company paid RMB306,000 for Smart Meter Agreement (2016: RMB1,533,000), RMB2,450,000 for Satellite Navigation Agreement (2016:RMB1,920,000) of R&D expense compensation to Fukong Hualong, and RMB189,000 for Electronic Identification IC Chips Agreement, while Fukong Hualong paid RMB2,835,000 (2016: RMB3,047,000) to the Company for the purchase of products during 2017.

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.

# Report of the Directors

## SUFFICIENCY OF PUBLIC FLOAT

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

## DONATIONS

In the current year, the Group made charitable contributions totaling RMB1,000,000.

## 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 (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, save and except the code provision A.6.7 of the CG Code.

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
28 March 2018

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

## OPINION

We have audited the consolidated financial statements of Shanghai Fudan Microelectronics Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 115, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Deferred development costs* | |
| As at 31 December 2017, the carrying amount of deferred development costs was RMB160,655,000. Expenditure incurred in developing new products is capitalised and deferred upon meeting the criteria as described in Hong Kong Accounting Standard 38 *Intangible Assets*. The balance and transaction of deferred development costs is material to the consolidated financial statements and management exercised judgement and estimation in determining the eligibility of the costs for capitalisation, the useful commercial lives and impairment, if any, of the capitalised development costs.<br><br>The Group's disclosures about development costs capitalised are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates and note 13 Intangible Assets to the financial statements. | Our audit procedures included, among others, evaluating the internal controls adopted by management in capitalising the deferred development costs, performing tests on criteria for initial recognition, costs capitalised and assessing the timeliness of the commencement of amortisation when the asset is available for use. We reviewed the assumptions and methodologies used by management in estimating the useful economic lives and performing impairment assessment on development costs focusing on the estimates surrounding future economic cash flows. |
| *Provisions for inventories* | |
| As at 31 December 2017, the carrying amount of inventories was RMB367,106,000. The balance of inventories is material to the consolidated financial statements and management exercised estimation in determining the write-down of inventories to net realisable value based on an assessment of the realisability of inventories and the provision for slow-moving inventories based on the analysis of historical and subsequent usage or sales of inventories.<br><br>The Group's disclosures about inventories are included in note 2.4 Summary of Significant Accounting Policies, note 3 Significant Accounting Judgements and Estimates, note 6 Profit before Tax and note 15 Inventories to the financial statements. | We assessed the process, methods and assumptions used to develop the provision for inventories. These included comparing management's calculations for consistency against those used in the prior year and considering whether there was any indication of management bias.<br><br>We tested the underlying data used by management to calculate the provision for obsolete inventories, typically an aged inventory analysis, by re-performing the ageing calculation. We compared the historical and subsequent sales and usage information of inventories. We also tested the calculation by assessing the calculation criteria, testing the estimated selling prices and estimated costs to be incurred to completion and disposal, and recalculating the provision for inventories on a sampling basis. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ling.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 March 2018

# Consolidated Statement of Profit or Loss

Year ended 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **1,398,230** | 1,187,490 |
| Cost of sales | | **(706,174)** | (556,198) |
| Gross profit | | **692,056** | 631,292 |
| Other income and gains | 5 | **144,433** | 162,985 |
| Selling and distribution expenses | | **(77,098)** | (68,428) |
| Administrative expenses | | **(98,057)** | (87,300) |
| Other expenses | | **(415,807)** | (378,692) |
| PROFIT BEFORE TAX | 6 | **245,527** | 259,857 |
| Income tax expense | 9(a) | **(17,458)** | (19,767) |
| PROFIT FOR THE YEAR | | **228,069** | 240,090 |
| Profit attributable to: | | | |
| Owners of the parent | 11 | **212,122** | 212,258 |
| Non-controlling interests | | **15,947** | 27,832 |
| | | **228,069** | 240,090 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | | | |
| For profit for the year | 11 | **RMB33.88 cents** | RMB34.38 cents |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **228,069** | 240,090 |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | |
| Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences: | | |
| Exchange differences on translation of a foreign operation | **(1,049)** | 756 |
| Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods | **(1,049)** | 756 |
| OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX | **(1,049)** | 756 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **227,020** | 240,846 |
| Total comprehensive income attributable to: | | |
| Owners of the parent | **211,073** | 213,014 |
| Non-controlling interests | **15,947** | 27,832 |
| | **227,020** | 240,846 |

# Consolidated Statement of Financial Position

31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | **367,034** | 308,702 |
| Intangible assets | 13 | **160,655** | 139,547 |
| Available-for-sale investments | 14 | **3,267** | – |
| Deferred tax assets | 9(c) | **30,049** | 42,972 |
| Total non-current assets | | **561,005** | 491,221 |
| CURRENT ASSETS | | | |
| Inventories | 15 | **367,106** | 280,612 |
| Trade and bills receivables | 16 | **566,434** | 466,616 |
| Prepayments, deposits and other receivables | 17 | **38,196** | 24,195 |
| Tax recoverable | 9(b) | **28,506** | – |
| Cash and bank balances | 18 | **646,109** | 540,224 |
| Total current assets | | **1,646,351** | 1,311,647 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 19 | **131,149** | 113,922 |
| Accruals, other payables and deferred income | 20 | **292,376** | 286,665 |
| Tax payable | 9(b) | **522** | 15,771 |
| Total current liabilities | | **424,047** | 416,358 |
| NET CURRENT ASSETS | | **1,222,304** | 895,289 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,783,309** | 1,386,510 |

# Consolidated Statement of Financial Position

31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,783,309** | 1,386,510 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 20 | **12,033** | 12,078 |
| Net assets | | **1,771,276** | 1,374,432 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 21 | **65,933** | 61,733 |
| Reserves | 22 | **1,551,109** | 1,160,033 |
| | | **1,617,042** | 1,221,766 |
| **Non-controlling interests** | | **154,234** | 152,666 |
| Total equity | | **1,771,276** | 1,374,432 |

**Shi Lei**
*Director*

**Cheng Junxia**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2017

| | | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued share capital RMB'000 (Note 21) | Share premium account RMB'000 (Note 22) | Statutory surplus reserve RMB'000 (Note 22) | Exchange fluctuation reserve RMB'000 | Other reserves RMB'000 (Note 22) | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2016 | | 61,733 | 168,486 | 44,717 | (2,808) | 7,821 | 721,881 | 1,001,830 | 111,756 | 1,113,586 |
| Profit for the year | | – | – | – | – | – | 212,258 | 212,258 | 27,832 | 240,090 |
| Exchange differences related to foreign operations | | – | – | – | 756 | – | – | 756 | – | 756 |
| Total comprehensive income for the year | | – | – | – | 756 | – | 212,258 | 213,014 | 27,832 | 240,846 |
| Capital contribution from non-controlling interests | | – | – | – | – | 6,922 | – | 6,922 | 13,078 | 20,000 |
| Transfer | 23 | – | – | 3,051 | – | – | (3,051) | – | – | – |
| At 31 December 2016 | | **61,733** | **168,486*** | **47,768*** | **(2,052)*** | **14,743*** | **931,088*** | **1,221,766** | **152,666** | **1,374,432** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **212,122** | **212,122** | **15,947** | **228,069** |
| Exchange differences related to foreign operations | | **–** | **–** | **–** | **(1,049)** | **–** | **–** | **(1,049)** | **–** | **(1,049)** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **(1,049)** | **–** | **212,122** | **211,073** | **15,947** | **227,020** |
| Issue of share | 21 | **4,200** | **184,595** | **–** | **–** | **–** | **–** | **188,795** | **–** | **188,795** |
| Share issue expenses | 21 | **–** | **(4,592)** | **–** | **–** | **–** | **–** | **(4,592)** | **–** | **(4,592)** |
| Dividends paid to non-controlling shareholders | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(12,526)** | **(12,526)** |
| De-registration of a subsidiary | 1 | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,853)** | **(1,853)** |
| Transfer | 23 | **–** | **–** | **1,704** | **–** | **–** | **(1,704)** | **–** | **–** | **–** |
| **At 31 December 2017** | | **65,933** | **348,489*** | **49,472*** | **(3,101)*** | **14,743*** | **1,141,506*** | **1,617,042** | **154,234** | **1,771,276** |

* These reserve accounts comprise the consolidated reserves of RMB1,551,109,000 (2016: RMB1,160,033,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **245,527** | 259,857 |
| Adjustments for: | | | |
| Bank interest income | 5, 6 | **(9,087)** | (9,169) |
| Bank interest expense | | **186** | 116 |
| Loss on disposal of items of property, plant and equipment and intangible assets | 6 | **35,549** | 13,553 |
| Depreciation | 12 | **62,957** | 68,055 |
| Impairment of intangible assets | 13 | **1,064** | 36,126 |
| Amortisation of intangible assets | 13 | **34,323** | 44,417 |
| | | **370,519** | 412,955 |
| Increase in inventories | | **(86,494)** | (66,502) |
| Increase in trade and bills receivables | | **(99,818)** | (100,599) |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(2,816)** | 2,910 |
| Increase/(decrease) in trade and bills payables | | **17,227** | (10,781) |
| Increase in accruals, other payables and deferred income | | **8,481** | 33,750 |
| Cash generated from operations | | **207,099** | 271,733 |
| Hong Kong profits tax (paid)/refunded | 9(b) | **(8)** | 205 |
| United States profits tax paid | 9(b) | **(5)** | – |
| Mainland China tax paid | 9(b) | **(48,277)** | (22,278) |
| Net cash flows from operating activities | | **158,809** | 249,660 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| (Increase)/decrease in time deposits with original maturity of over three months when acquired | 18 | **(82,049)** | 10,860 |
| Bank interest received | | **9,001** | 7,207 |
| Purchases of items of property, plant and equipment | | **(135,754)** | (50,610) |
| Proceeds from disposal of items of property, plant and equipment | | **1,415** | 116 |
| Additions to intangible assets | 13 | **(92,908)** | (72,822) |
| Increase in available-for-sale investments | | **(3,267)** | – |
| De-registration of a subsidiary | 1 | **(1,853)** | – |
| Net cash flows used in investing activities | | **(305,415)** | (105,249) |

# Consolidated Statement of Cash Flows

Year ended 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Net cash flows used in investing activities | | **(305,415)** | (105,249) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **25,424** | 35,811 |
| Repayment of bank loans | | **(25,424)** | (35,811) |
| Interest paid | | **(186)** | (116) |
| Proceeds from issue of shares | | **188,795** | – |
| Share issue expenses | | **(4,592)** | – |
| Dividends paid to non-controlling shareholders | | **(12,526)** | – |
| Capital contribution from non-controlling interests | | **–** | 20,000 |
| Net cash flows generated from financing activities | | **171,491** | 19,884 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **24,885** | 164,295 |
| Cash and cash equivalents at beginning of year | | **286,357** | 121,306 |
| Effect of foreign exchange rate changes, net | | **(1,049)** | 756 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **310,193** | 286,357 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash on hand and demand deposits | 18 | **183,398** | 191,836 |
| Non-pledged time deposits | 18 | **462,711** | 348,388 |
| Cash and bank balances as stated in the consolidated statement of financial position | 18 | **646,109** | 540,224 |
| Time deposits with original maturity of over three months when acquired | 18 | **(335,916)** | (253,867) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | **310,193** | 286,357 |

## 1. CORPORATE AND GROUP INFORMATION

Shanghai Fudan Microelectronics Group Company Limited (the "Company", formerly known as Shanghai Fudan Microelectronics Company Limited) is a limited liability company established 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 the design, development and sale of products of application-specific IC.

### Information about subsidiaries

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation/ registration and place of operations | Issued ordinary/ registered share capital | Percentage of equity directly attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Sino IC Technology Co., Ltd. ("Sino IC") * | People's Republic of China/Mainland China | RMB189,000,000 | 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 – Microelectronics (HK) Limited | Hong Kong | HK$30,400,000 | 100 | – | Developing and selling IC products |
| Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") ** | People's Republic of China/Mainland China | RMB40,000,000 | 38.25 | – | 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 |
| Shenzhen Fudan Microelectronics Company Limited ("SZFM") *** | People's Republic of China/Mainland China | RMB5,000,000 | 100 | – | Designing, developing and selling IC products |

## 1. CORPORATE AND GROUP INFORMATION *(continued)*

### Information about subsidiaries *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

| Name | Place of incorporation/ registration and place of operations | Issued ordinary/ registered share capital | Percentage of equity directly attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Beijing Fudan Microelectronics Technology Co., Ltd. ("BJFM")*** | People's Republic of China/Mainland China | RMB3,000,000 | 100 | – | Designing, developing and selling IC products |
| Fudan Microelectronics (USA) Inc.**** | United States of America | USD3,000,100 | – | 100 | Developing and selling IC products |

* 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. 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%. In 2016, Sino IC increased its share capital from 84,000,000 shares to 126,000,000 shares by transferring RMB42,000,000 out of the retained earnings to the share capital. In 2017, Sino IC increased its share capital from 126,000,000 shares to 189,000,000 shares by transferring RMB63,000,000 out of the retained earnings to the share capital.

** Fukong Hualong is a subsidiary of the Company acquired during 2008, which is registered as a contractual joint venture company under PRC law. In December 2016, Fukong Hualong increased its issued capital from 30,000,000 shares to 40,000,000 shares, of which the Company subscribed nil shares. Upon completion of the capital injection, the Company's equity holding in Fukong Hualong decreased from 51% to 38.25%. The new equity holder, which holds a 25% equity interest in Fukong Hualong, has agreed to act in concert with the Company over Fukong Hualong's operating, investing and financing decisions. The directors of the Company consider that Fukong Hualong is under the unilateral control of the Group and regarded Fukong Hualong as a subsidiary of the Company which is consolidated in the Group's financial statements. Fukong Hualong was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

*** SZFM and BJFM are wholly-owned subsidiaries of the Company established 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.

**** Fudan Microelectronics (USA) Inc. is a wholly-owned subsidiary incorporated in 2016. Fudan Microelectronics (USA) Inc. was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

***** During the year ended December 31, 2017, Shanghai Doublepoint Information Technology Co., Ltd. ("Shanghai Doublepoint"), a subsidiary of the Company completed de-registration on 25 December 2017. Amount of RMB1,853,000 was paid to the minority shareholders of Shanghai Doublepoint upon the de-registration.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. 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 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is to be provided in note 24(a) to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption

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 will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9 and the expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

### (a) Classification and measurement

The Group expects that the adoption of HKFRS 9 will have impact on the classification and measurement of its financial assets. It expects to measure all its equity investments currently held as available for sale at fair value. All equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

### (b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

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 previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, issued in July 2014, establishes a new five-step model to account for 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt the standard from January 1, 2018 using the modified retrospective approach. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15. Based on the assessment, the Group anticipated that the adoption of HKFRS 15 in the future is unlikely to have a significant impact on the recognition of sales of goods and rendering of services. However, there will be additional disclosures upon the adoption of HKFRS 15.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 26(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB24,012,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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.

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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

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

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

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.

### 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.

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

### Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

### Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | 1.9% |
| Machinery and office equipment | 19%-33% |
| Motor vehicles | 19% |

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

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

Construction in progress represents machinery and other items of property, plant and equipment under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction and capitalised borrowing costs on related borrowed 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.

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

### 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.

### 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.

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

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

*Subsequent measurement*

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the 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.

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.

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

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is 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.

#### *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.

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

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

#### *Financial assets carried at amortised cost (continued)*

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 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.

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.

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

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

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

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 loans and borrowings or other financial liabilities, 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.

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

*Loans and borrowings*

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

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

### Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the 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 weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

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

For the purpose of the consolidated 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.

### 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.

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

### Income tax *(continued)*

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, 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, 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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 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 14% to 20% 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 are recognised as a liability when they are approved by the shareholders in a general meeting.

### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional 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. (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of the entity are translated into RMB at the exchange rate prevailing at the end of the reporting period and its statement of profit and loss 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 2017 was RMB19,063,000 (2016: RMB24,658,000). 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 14 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. Further details are contained in note 16 to the financial statements.

*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 inventories*

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories and makes provision for slow-moving inventories based on the analysis of inventories' turnover and their historical and subsequent usage or sales. The assessment of write-down and provision for slow-moving inventories 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. Further details are contained in note 15 to the financial statements.

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

### Estimation uncertainty *(continued)*

#### *Deferred development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash flows generated from the assets, discount rates to be applied and the expected period of benefits. Further details are contained in note 13 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- the design, development and sale of IC products segment ("Design, development and sale of IC products"); and

- the provision of testing services for IC products segment ("Testing services for IC products").

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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, 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 2017 | 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 | 1,321,651 | 76,579 | 1,398,230 |
| Intersegment sales | – | 46,132 | 46,132 |
| | 1,321,651 | 122,711 | 1,444,362 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (46,132) |
| Revenue | | | 1,398,230 |
| **Segment results** | 185,896 | 33,525 | 219,421 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | (9,355) |
| Interest income | | | 9,087 |
| Unallocated other income and gains | | | 26,374 |
| Profit before tax | | | 245,527 |
| **Segment assets** | 1,829,411 | 351,899 | 2,181,310 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (4,003) |
| Corporate and other unallocated assets | | | 30,049 |
| Total assets | | | 2,207,356 |
| **Segment liabilities** | 364,615 | 75,468 | 440,083 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (4,003) |
| Total liabilities | | | 436,080 |
| **Other segment information:** | | | |
| Impairment loss recognised in the statement of profit or loss | 6,677 | 86 | 6,763 |
| Impairment loss reversed in the statement of profit or loss | (17) | – | (17) |
| Depreciation | 22,268 | 40,689 | 62,957 |
| Amortisation of intangible assets | 34,323 | – | 34,323 |
| Capital expenditure* | 142,783 | 71,965 | 214,748 |

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

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

| Year ended 31 December 2016 | 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 | 1,104,382 | 83,108 | 1,187,490 |
| Intersegment sales | – | 41,943 | 41,943 |
| | 1,104,382 | 125,051 | 1,229,433 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (41,943) |
| Revenue | | | 1,187,490 |
| **Segment results** | 177,676 | 69,806 | 247,482 |
| *Reconciliation:* | | | |
| Elimination of intersegment results | | | (10,038) |
| Interest income | | | 9,169 |
| Unallocated other income and gains | | | 13,244 |
| Profit before tax | | | 259,857 |
| **Segment assets** | 1,401,681 | 366,083 | 1,767,764 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (7,868) |
| Corporate and other unallocated assets | | | 42,972 |
| Total assets | | | 1,802,868 |
| **Segment liabilities** | 335,031 | 101,273 | 436,304 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (7,868) |
| Total liabilities | | | 428,436 |
| **Other segment information:** | | | |
| Impairment loss recognised in the statement of profit or loss | 52,500 | 288 | 52,788 |
| Impairment loss reversed in the statement of profit or loss | (7,322) | (166) | (7,488) |
| Depreciation | 24,250 | 43,805 | 68,055 |
| Amortisation of intangible assets | 44,417 | – | 44,417 |
| Capital expenditure* | 97,590 | 20,270 | 117,860 |

* 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*

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Mainland China | **1,325,679** | 1,136,058 |
| Asia Pacific (excluding Mainland China) | **54,056** | 38,163 |
| Others | **18,495** | 13,269 |
| | **1,398,230** | 1,187,490 |

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

*(b) Non-current assets*

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Mainland China | **527,650** | 448,240 |
| United States of America | **27** | – |
| Asia Pacific (excluding Mainland China) | **12** | 9 |
| | **527,689** | 448,249 |

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

### Information about a major customer

In 2017, no single customer contributed to 10% or more of the Group's revenue.

In 2016, revenue of approximately RMB164,651,000 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 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:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | **1,321,651** | 1,104,382 |
| Rendering of services | **76,579** | 83,108 |
| | **1,398,230** | 1,187,490 |
| **Other income and gains** | | |
| Bank interest income (note 6) | **9,087** | 9,169 |
| Government grants received for research activities (note 6) | **67,995** | 93,966 |
| Other government grants (note 6) | **26,374** | 13,244 |
| Others | **40,977** | 46,606 |
| | **144,433** | 162,985 |

## 6. PROFIT BEFORE TAX

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Cost of inventories sold | **665,600** | 519,095 |
| Cost of services provided | **40,574** | 37,103 |
| Depreciation (note 12) | **62,957** | 68,055 |
| Research and development costs: | | |
| Deferred development costs amortised* (note 13) | **34,323** | 44,417 |
| Current year expenditure | **373,663** | 345,284 |
| Less: Government grants received for research activities** (note 5) | **(67,995)** | (93,966) |
| | **339,991** | 295,735 |
| Minimum lease payments under operating leases | **13,929** | 12,454 |
| Auditor's remuneration | **1,613** | 1,576 |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 7)): | | |
| Wages and salaries | **292,229** | 225,885 |
| Pension scheme contributions | **32,615** | 25,787 |
| | **324,844** | 251,672 |
| Less: Amounts capitalised as development costs | **(58,546)** | (55,601) |
| | **266,298** | 196,071 |
| Foreign exchange differences, net | **3,969** | 477 |
| Impairment of intangible assets (note 13) | **1,064** | 36,126 |
| Impairment/(reversal of impairment) of trade and bills receivables (note 16) | **991** | (3,621) |
| Write-down of inventories to net realisable value | **4,691** | 12,795 |
| Write-off/loss on disposal of items of property, plant and equipment and intangible assets | **35,549** | 13,553 |
| Bank interest income (note 5) | **(9,087)** | (9,169) |
| Other government grants (note 5) | **(26,374)** | (13,244) |

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

** 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383 (1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Fees | **87** | 78 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **7,022** | 7,371 |
| Other benefits | **108** | 108 |
| Pension scheme contributions | **46** | 42 |
| | **7,176** | 7,521 |
| | **7,263** | 7,599 |

### (a) Independent non-executive directors

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

| | Fees<br>RMB'000 | Other benefits received<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **2017** | | | |
| Mr. Cheung Wing Keung | **87** | **–** | **87** |
| Mr. Guo Li | **–** | **36** | **36** |
| Mr. Chen Baoying | **–** | **36** | **36** |
| Mr. Lin Fujiang | **–** | **36** | **36** |
| Total | **87** | **108** | **195** |
| 2016 | | | |
| Mr. Cheung Wing Keung | 78 | – | 78 |
| Mr. Guo Li | – | 36 | 36 |
| Mr. Chen Baoying | – | 36 | 36 |
| Mr. Lin Fujiang | – | 36 | 36 |
| Total | 78 | 108 | 186 |

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

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

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

| | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Other benefits received RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|
| **2017** | | | | |
| Executive directors: | | | | |
| Mr. Jiang Guoxing | 300 | – | – | 300 |
| Mr. Shi Lei | 3,135 | 46 | – | 3,181 |
| Mr. Yu Jun | 2,413 | – | – | 2,413 |
| Ms. Cheng Junxia | 1,174 | – | – | 1,174 |
| | 7,022 | 46 | – | 7,068 |
| Non-executive directors: | | | | |
| Ms. Zhang Qianling | – | – | – | – |
| Mr. Ma Zhicheng | – | – | – | – |
| Mr. Yao Fuli | – | – | – | – |
| Ms. Zhang Huajing | – | – | – | – |
| | – | – | – | – |
| | 7,022 | 46 | – | 7,068 |

## 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 |
|---|---|---|---|---|
| 2016 | | | | |
| Executive directors: | | | | |
| Mr. Jiang Guoxing | 300 | – | – | 300 |
| Mr. Shi Lei | 3,045 | 42 | – | 3,087 |
| Mr. Yu Jun | 2,697 | – | – | 2,697 |
| Ms. Cheng Junxia | 1,329 | – | – | 1,329 |
| | 7,371 | 42 | – | 7,413 |
| Non-executive directors: | | | | |
| Ms. Zhang Qianling | – | – | – | – |
| Mr. Ma Zhicheng | – | – | – | – |
| Mr. Yao Fuli | – | – | – | – |
| Ms. Zhang Huajing | – | – | – | – |
| | – | – | – | – |
| | 7,371 | 42 | – | 7,413 |

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 (2016: two directors and one director/chief executive), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2016: two) highest paid employees who are neither a director nor chief executive of the Group are as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **5,091** | 2,700 |
| Pension scheme contributions | **46** | – |
| | **5,137** | 2,700 |

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 | |
|---|---|---|
| | **2017** | 2016 |
| HK$1,000,001 to HK$1,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **2** | 2 |
| HK$2,000,001 to HK$2,500,000 | **1** | – |
| | **3** | 2 |

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 employees 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"), the Company is subject to income tax at a base rate of 25%. The Company is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise ("HNT Enterprise"). For the year ended 31 December 2016, income tax provision on assessable income of the Company was made at the rate of 15%. 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 Several Policies on Enterprise Income Tax of Software and Integrated Circuit Industries" (Cai Shui (2016) No. 49) issued by the Ministry of Finance of the PRC, the Company was subsequently qualified as "key integrated circuit design enterprise falling within the State's planned arrangement" for its 2016 annual tax filing. Accordingly, the Company enjoyed a preferential tax rate of 10% and received a tax refund which represented the difference between the paid amount according to the original 15% corporate income tax rate and the aforesaid preferential tax rate of 10%. For the year ended 31 December 2017, income tax on assessable income of the Company has been provided at the rate of 10% as a key integrated circuit design enterprise falling within the State's planned arrangement.

Under the CIT Law, the Company's subsidiaries, Sino IC and Fukong Hualong are subject to income tax at a base rate of 25%. Sino IC and Fukong Hualong are entitled to a preferential income tax rate of 15% as an HNT Enterprise. For the financial year ended 31 December 2017, income tax on assessable income of Sino IC and Fukong Hualong have been provided at the rate of 15% (2016: 15%).

Under the CIT Law, two of the Company's subsidiaries, SZFM and BJFM, are subject to income taxes at a base rate of 25%. For the year ended 31 December 2017, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2016: 25%).

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The Company's subsidiary incorporated and operating in the United States is subject to federal corporation income tax at a rate of 21% during the year (2016: 34%), as well as state tax at a rate of 8.84% (2016: 8.84%).

## 9. INCOME TAX *(continued)*

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **219** | – |
| Overprovision in prior years | **–** | (7) |
| Current – United States | | |
| Charge for the year | **5** | – |
| Current – Mainland China | | |
| Charge for the year | **8,696** | 26,425 |
| Overprovision in prior years | **(4,385)** | (1,943) |
| Deferred (note 9(c)) | **12,923** | (4,708) |
| Total tax charge for the year | **17,458** | 19,767 |

### (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:

**2017**

| | Mainland China | | Hong Kong | | United States | | Total | |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit before tax | 245,407 | | 2,275 | | (2,155) | | 245,527 | |
| Tax at the statutory tax rates | 61,352 | 25.0 | 375 | 16.5 | (643) | 29.8 | 61,084 | 24.9 |
| Lower tax rates enacted by local authority | (35,368) | (14.4) | – | – | – | – | (35,368) | (14.4) |
| Effect on opening deferred tax of decrease in rates | 11,673 | 4.8 | – | – | – | – | 11,673 | 4.8 |
| Adjustment in respect of current tax of previous years – overprovisions | (4,385) | (1.8) | – | – | – | – | (4,385) | (1.8) |
| Accelerated deduction for research and development activities | (17,116) | (7.0) | – | – | – | – | (17,116) | (7.0) |
| Expenses not deductible for tax | 309 | 0.1 | – | – | 5 | (0.2) | 314 | 0.1 |
| Tax losses utilised from previous periods | – | – | (156) | (6.9) | – | – | (156) | (0.1) |
| Tax losses and temporary differences not recognised | 769 | 0.3 | – | – | 643 | (29.8) | 1,412 | 0.6 |
| Tax charge at the Group's effective rate | 17,234 | 7.0 | 219 | 9.6 | 5 | (0.2) | 17,458 | 7.1 |

## 9. INCOME TAX *(continued)*

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

2016

| | Mainland China | | Hong Kong | | Total | |
|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit before tax | 260,420 | | (563) | | 259,857 | |
| Tax at the statutory tax rates | 65,105 | 25.0 | (93) | 16.5 | 65,012 | 25.0 |
| Lower tax rates enacted by local authority | (26,102) | (10.0) | – | – | (26,102) | (10.0) |
| Adjustment in respect of current tax of previous years – overprovisions | (1,943) | (0.7) | (7) | 1.2 | (1,950) | (0.8) |
| Accelerated deduction for research and development activities | (19,034) | (7.3) | – | – | (19,034) | (7.3) |
| Expenses not deductible for tax | 1,289 | 0.5 | – | – | 1,289 | 0.5 |
| Tax losses and temporary differences not recognised | 459 | 0.1 | 93 | (16.5) | 552 | 0.2 |
| Tax charge at the Group's effective rate | 19,774 | 7.6 | (7) | 1.2 | 19,767 | 7.6 |

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

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| At beginning of year | **15,771** | 13,369 |
| Provision for the year | **4,535** | 24,475 |
| Hong Kong tax (paid)/refunded during the year | **(8)** | 205 |
| United States tax paid during the year | **(5)** | – |
| Mainland China tax paid during the year | **(48,277)** | (22,278) |
| At end of year | **(27,984)** | 15,771 |
| *Inclusive of* | | |
| *Tax payable* | ***522*** | *15,771* |
| *Tax recoverable* | ***(28,506)*** | – |

## 9. INCOME TAX *(continued)*

### (c) Deferred tax

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

**2017**

**Deferred tax assets**

| | At 1 January 2017 RMB'000 | Deferred tax (charged)/ credited to the statement of profit or loss during the year RMB'000 | Deferred tax assets at 31 December 2017 RMB'000 |
|---|---|---|---|
| Inventories | 257 | 6 | 263 |
| Impairment of assets | 15,307 | (4,454) | 10,853 |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | 7,052 | (2,193) | 4,859 |
| Government grants | 15,501 | (4,536) | 10,965 |
| Temporary differences related to accruals and other payables | 4,855 | (1,746) | 3,109 |
| Total | 42,972 | (12,923) | 30,049 |

## 9. INCOME TAX *(continued)*

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

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

2016

**Deferred tax assets**

| | At 1 January 2016 RMB'000 | Deferred tax (charged)/ credited to the statement of profit or loss during the year RMB'000 | Deferred tax assets at 31 December 2016 RMB'000 |
|---|---|---|---|
| Inventories | 294 | (37) | 257 |
| Impairment of assets | 10,686 | 4,621 | 15,307 |
| Depreciation of property, plant and equipment, and amortisation of intangible assets | 3,722 | 3,330 | 7,052 |
| Government grants | 20,363 | (4,862) | 15,501 |
| Temporary differences related to accruals and other payables | 3,709 | 1,146 | 4,855 |
| Total | 38,774 | 4,198 | 42,972 |

## 9. INCOME TAX *(continued)*

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

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

2016 *(continued)*

**Deferred tax liabilities**

| | At 1 January 2016 RMB'000 | Deferred tax charged/ (credited) to the statement of profit or loss during the year RMB'000 | Deferred tax liabilities at 31 December 2016 RMB'000 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 510 | (510) | – |

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 | 42,972 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | – |

## 9. INCOME TAX *(continued)*

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

In respect of deferred tax assets that are not recognized, the amount of tax losses and deductible temporary differences are as follows:

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Tax losses | **19,063** | 25,277 |
| Deductible temporary differences | **4,537** | 3,513 |
| | **23,600** | 28,790 |

The Group has no tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose (2016: HK$737,000). The Group has tax losses arising in United States of USD320,000 (2016: none) that will expire in one to five years for offsetting against future taxable profits. The Group has tax losses arising in Mainland China of RMB16,770,000 (2016: RMB24,658,000) 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. DIVIDENDS

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

## 11. 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 626,075,000 (2016: 617,330,000) in issue during the year.

The calculation of basic earnings per share is based on:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **212,122** | 212,258 |

| | Number of shares '000 | |
|---|---|---|
| | 2017 | 2016 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **626,075** | 617,330 |

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2017 and 2016. The diluted earnings per share amount is the same as the basic earnings per share amount.

## 12. PROPERTY, PLANT AND EQUIPMENT

**31 December 2017**

| | 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 2016 and at 1 January 2017: | | | | | |
| Cost | 80,162 | 338,394 | 9,430 | 135,161 | 563,147 |
| Accumulated depreciation | (29,355) | (220,312) | (4,778) | – | (254,445) |
| Net carrying amount | 50,807 | 118,082 | 4,652 | 135,161 | 308,702 |
| At 1 January 2017, net of accumulated depreciation | 50,807 | 118,082 | 4,652 | 135,161 | 308,702 |
| Additions | 7,070 | 16,010 | 601 | 98,159 | 121,840 |
| Transfers | 134,246 | 53,094 | – | (187,340) | – |
| Disposals | – | (543) | (8) | – | (551) |
| Depreciation provided during the year | (3,409) | (58,048) | (1,500) | – | (62,957) |
| At 31 December 2017, net of accumulated depreciation | 188,714 | 128,595 | 3,745 | 45,980 | 367,034 |
| At 31 December 2017: | | | | | |
| Cost | 217,819 | 394,692 | 9,833 | 45,980 | 668,324 |
| Accumulated depreciation | (29,105) | (266,097) | (6,088) | – | (301,290) |
| Net carrying amount | 188,714 | 128,595 | 3,745 | 45,980 | 367,034 |

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

31 December 2016

| | 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 2015 and at 1 January 2016: | | | | | |
| Cost | 79,608 | 296,086 | 7,544 | 139,407 | 522,645 |
| Accumulated depreciation | (24,356) | (162,276) | (4,002) | – | (190,634) |
| Net carrying amount | 55,252 | 133,810 | 3,542 | 139,407 | 332,011 |
| At 1 January 2016, net of accumulated depreciation | 55,252 | 133,810 | 3,542 | 139,407 | 332,011 |
| Additions | 554 | 20,991 | 2,069 | 21,424 | 45,038 |
| Transfers | – | 25,670 | – | (25,670) | – |
| Disposals | – | (223) | (69) | – | (292) |
| Depreciation provided during the year | (4,999) | (62,166) | (890) | – | (68,055) |
| At 31 December 2016, net of accumulated depreciation | 50,807 | 118,082 | 4,652 | 135,161 | 308,702 |
| At 31 December 2016: | | | | | |
| Cost | 80,162 | 338,394 | 9,430 | 135,161 | 563,147 |
| Accumulated depreciation | (29,355) | (220,312) | (4,778) | – | (254,445) |
| Net carrying amount | 50,807 | 118,082 | 4,652 | 135,161 | 308,702 |

## 13. INTANGIBLE ASSETS

| | Deferred development costs RMB'000 |
|---|---|
| **31 December 2017** | |
| Cost at 31 December 2016 and 1 January 2017, net of accumulated amortisation and impairment | **139,547** |
| Additions – internal development | **92,908** |
| Write-off – internal development | **(36,413)** |
| Impairment during the year | **(1,064)** |
| Amortisation provided during the year | **(34,323)** |
| At 31 December 2017 | **160,655** |
| At 31 December 2017: | |
| Cost | **377,664** |
| Accumulated amortisation and impairment | **(217,009)** |
| Net carrying amount | **160,655** |
| **31 December 2016** | |
| Cost at 31 December 2015 and 1 January 2016, net of accumulated amortisation and impairment | 160,645 |
| Additions – internal development | 72,822 |
| Write-off – internal development | (13,377) |
| Impairment during the year | (36,126) |
| Amortisation provided during the year | (44,417) |
| At 31 December 2016 | 139,547 |
| At 31 December 2016: | |
| Cost | 321,169 |
| Accumulated amortisation and impairment | (181,622) |
| Net carrying amount | 139,547 |

## 14. AVAILABLE-FOR-SALE INVESTMENTS

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Unlisted equity investments, at cost | **16,710** | 13,443 |
| Impairment provision | **(13,443)** | (13,443) |
| | **3,267** | – |

As at 31 December 2017, the unlisted equity investments with a carrying amount of RMB16,710,000 (2016: RMB13,443,000) 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 (2016: RMB13,443,000) with a carrying amount before provision of RMB13,443,000 (2016: 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.

## 15. INVENTORIES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Raw materials | **163,986** | 123,458 |
| Work in progress | **85,787** | 72,999 |
| Finished goods | **117,333** | 84,155 |
| | **367,106** | 280,612 |

## 16. TRADE AND BILLS RECEIVABLES

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Trade and bills receivables | **580,863** | 480,265 |
| Impairment | **(14,429)** | (13,649) |
| | **566,434** | 466,616 |

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:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within 3 months | **359,758** | 379,442 |
| 3 to 6 months | **133,428** | 74,466 |
| 6 to 12 months | **61,198** | 10,448 |
| Over 12 months | **12,050** | 2,260 |
| | **566,434** | 466,616 |

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

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| At beginning of year | **13,649** | 18,144 |
| Impairment losses recognised (note 6) | **5,496** | 3,867 |
| Impairment losses reversed (note 6) | **(4,505)** | (7,488) |
| Amount written off as uncollectible | **(211)** | (874) |
| | **14,429** | 13,649 |

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB1,628,000 (2016: RMB1,628,000) with a carrying amount before provision of RMB1,628,000 (2016: RMB1,628,000). The individually impaired trade and bills receivables relate to customers that were in financial difficulties and are not expected to be recovered.

The remaining provision of RMB12,801,000 (2016: RMB12,021,000) relates to impaired trade receivables with a carrying amount before provision of RMB42,144,000 (2016: RMB41,961,000) as at 31 December 2017 of which in the opinions of the directors, only a portion of the receivables is 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:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | **438,566** | 374,100 |
| Less than 1 month past due | **70,237** | 32,170 |
| 1 to 3 months past due | **28,288** | 30,406 |
| | **537,091** | 436,676 |

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.

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

At 31 December 2017, 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 RMB22,821,000 (2016: RMB5,629,000). The Derecognised Bills had a maturity 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.

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Prepayments | **9,616** | 7,263 |
| Deposits and other receivables (note 28) | **28,580** | 16,932 |
| | **38,196** | 24,195 |

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.

## 18. CASH AND BANK BALANCES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **310,193** | 286,357 |
| Including: Time deposits with original maturity of less than three months when acquired | **126,795** | 94,521 |
| Cash on hand and demand deposits | **183,398** | 191,836 |
| Time deposits with original maturity of over three months when acquired | **335,916** | 253,867 |
| Cash and bank balances | **646,109** | 540,224 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB394,750,000 (2016: RMB500,266,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods 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.

## 19. 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:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Within 3 months | **130,465** | 112,699 |
| 3 to 6 months | **195** | 604 |
| 6 to 12 months | **37** | – |
| Over 12 months | **452** | 619 |
| | **131,149** | 113,922 |

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 30 to the financial statements.

## 20. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Current liabilities: | | |
| Payable for the purchase of software | **5,984** | 5,671 |
| Accruals | **6,729** | 9,267 |
| Deferred income | **130,692** | 138,018 |
| Advance from customers | **7,749** | 6,094 |
| Other payables | **141,222** | 127,615 |
| | **292,376** | 286,665 |
| Non-current liability: | | |
| Deferred income | **12,033** | 12,078 |

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

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

## 21. SHARE CAPITAL

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Registered, issued and fully paid: | | |
| 375,000,000 (2016: 375,000,000) unlisted domestic shares of RMB0.10 each | **37,500** | 37,500 |
| 28,433,000 (2016: 242,330,000) H shares of RMB0.10 each | **28,433** | 24,233 |
| | **65,933** | 61,733 |

## 21. SHARE CAPITAL *(continued)*

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital |
|---|---|---|
| At 1 January 2016, 31 December 2016 and 1 January 2017 | **617,330,000** | **61,733,000** |
| Placing of shares (Note (a)) | **42,000,000** | **4,200,000** |
| At 31 December 2017 | **659,330,000** | **65,933,000** |

Note (a):

Placing of shares was completed on 16 October 2017, at an issue price of RMB4.50 per share, resulting in the issue of 42,000,000 shares for a total cash consideration, before expenses, of RMB188,795,000.

## 22. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 48 of the financial statements.

### (i) Share premium

On 16 October 2017, the Company completed the placing of shares at an issue price of RMB4.50 per share, resulting in the issue of 42,000,000 shares for a total cash consideration, before expenses, of RMB188,795,000. The total share issue expense amounted to RMB4,592,000.

At 31 December 2017, in accordance with the Company Law of the PRC, the Company's share premium account of approximately RMB348,489,000 (2016: RMB168,486,000) was available for distribution by way of a future capitalisation issue.

## 22. RESERVES *(continued)*

### (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 have 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 RMB1,704,000 (2016: RMB3,051,000) 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 is 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 shares 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 for 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.

In December 2016, Fukong Hualong increased its issued shares from 30,000,000 shares to 40,000,000 shares. The issue price was RMB2 per share. The Company subscribed for nil shares in the transaction. The excess of the consideration contributed by the non-controlling interests over the net asset value of Fukong Hualong shared by the non-controlling interests upon completion of the capital injection, amounting to RMB6,922,000, was recognised directly in the other reserves account.

### (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.

## 23. A PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

| | **2017** | 2016 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests | | |
| Sino IC | **49.7%** | 49.7% |

| | **2017**<br>**RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests | | |
| Sino IC | **16,379** | 30,131 |
| Dividends paid to non-controlling interests | | |
| Sino IC | **12,526** | – |
| Accumulated balances of non-controlling interests at the reporting dates: | | |
| Sino IC | **138,695** | 134,842 |

## 23. A PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

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

| Sino IC | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Revenue | **122,711** | 125,051 |
| Other income | **52,687** | 86,621 |
| Total costs and expenses | **(138,395)** | (136,622) |
| Income tax | **(3,138)** | (14,376) |
| Profit for the year | **33,865** | 60,674 |
| Total comprehensive income for the year | **33,865** | 60,674 |
| Current assets | **235,810** | 281,145 |
| Non-current assets | **121,295** | 93,100 |
| Current liabilities | **(66,813)** | (91,102) |
| Non-current liabilities | **(8,651)** | (10,168) |
| Net cash flows from operating activities | **46,553** | 109,932 |
| Net cash flows used in investing activities | **(8,403)** | (78,322) |
| Net cash flows used in financing activities | **(25,200)** | – |
| Net increase in cash and cash equivalents | **12,950** | 31,610 |

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

## 24. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Bank loan RMB'000 | Interest payable RMB'000 | Dividend payable to non-controlling shareholders RMB'000 |
|---|---|---|---|
| At 1 January 2017 | – | – | – |
| Changes from financing cash flows | – | (186) | (12,526) |
| Inclusive of: | | | |
| *New bank loans* | 25,424 | – | – |
| *Repayment of bank loans* | (25,424) | – | – |
| *Interest paid* | – | (186) | – |
| *Dividend paid to non-controlling shareholders* | – | – | (12,526) |
| Declaration of dividends | – | – | 12,526 |
| Interest expense | – | 186 | – |
| At 31 December 2017 | – | – | – |

## 25. CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no significant contingent liabilities.

## 26. COMMITMENTS

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

### (a) Capital commitments

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | **12,318** | 7,637 |

**(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

*As lessee*

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Within one year | **12,537** | 9,777 |
| In the second to fifth years, inclusive | **8,062** | 12,228 |
| More than five years | **3,413** | – |
| | **24,012** | 22,005 |

## 27. 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:

| | Note | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|---|
| Technical and equipment support fee paid to the owner of one of the shareholders of the Company | (i) | **67** | 105 |

Note:

(i) On 12 August 2003, the Company and Fudan University the owner of one of the substantial shareholder of the Company, entered into an agreement under which the Company was required to pay a technical and equipment support fee to Fudan University based on a price mutually agreed by the two parties. The annual technical support fee payable to Fudan University for the year ended 31 December 2017 amounted to RMB67,000 (2016: RMB105,000).

The related party transaction in respect of item (i) above also constitutes a connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

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

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

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Directors' and chief executive's remuneration | **7,263** | 7,599 |
| Salaries, allowances and benefits in kind – other key management team members | **2,705** | 4,217 |
| Total compensation paid to key management team | **9,968** | 11,816 |

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

(c) In December 2016, Fukong Hualong issued 10,000,000 shares of RMB1 each at a subscription price of RMB2 each to Zhoushanshi Kangxin Investment Partners Enterprise ("Kangxin Investment"), a limited partnership enterprise established in the PRC. Mr. Li Wei, a supervisor of the Company, Mr. Dai Zhongdong, and Kangxin Investment Zhoushanshi Dongwei Investment Consultancy Limited, in which Mr. Li Wei and Mr. Dai Zhongdong hold a 50% interest each, hold 24.8%, 29.8% and 0.4%, respectively, of the capital contributions in Kangxin Investment.

## 28. 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:

### Financial assets

| | Loans and receivables<br>RMB'000 | Available-for-sale financial assets<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **31 December 2017** | | | |
| Trade and bills receivables | **566,434** | **–** | **566,434** |
| Financial assets included in prepayments, deposits and other receivables (note 17) | **28,580** | **–** | **28,580** |
| Cash and bank balances | **646,109** | **–** | **646,109** |
| Available-for-sale investments | **–** | **3,267** | **3,267** |
| | **1,241,123** | **3,267** | **1,244,390** |

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

### Financial assets *(continued)*

| | Loans and receivables RMB'000 |
|---|---|
| 31 December 2016 | |
| Trade and bills receivables | 466,616 |
| Financial assets included in prepayments, deposits and other receivables (note 17) | 16,932 |
| Cash and bank balances | 540,224 |
| | 1,023,772 |

### Financial liabilities

| | **Financial liabilities at amortised cost RMB'000** |
|---|---|
| **31 December 2017** | |
| Trade and bills payables | **131,149** |
| Financial liabilities included in accruals, other payables and deferred income (note 20) | **153,935** |
| | **285,084** |

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| 31 December 2016 | |
| Trade and bills payables | 113,922 |
| Financial liabilities included in accruals, other payables and deferred income (note 20) | 142,553 |
| | 256,475 |

## 29. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group'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 did not have any financial assets or financial liabilities measured at fair value as at 31 December 2017 and 31 December 2016.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, deposits and other receivables, trade and bills payables and accruals and other payables, which arise directly from its operations.

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

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

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

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 7% (2016: 6%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 62% (2016: 61%) of costs are denominated in the units' functional currencies. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | Increase/(decrease) in foreign currency exchange rate % | Increase/ (decrease) in profit before tax RMB'000 | Increase/ (decrease) in equity* RMB'000 |
|---|---|---|---|
| **2017** | | | |
| If RMB weakens against the United States dollar ("US$") | **+5** | **3,791** | **–** |
| If RMB strengthens against US$ | **-5** | **(3,791)** | **–** |
| If RMB weakens against the Hong Kong dollar ("HK$") | **+5** | **7,178** | **–** |
| If RMB strengthens against HK$ | **-5** | **(7,178)** | **–** |
| 2016 | | | |
| If RMB weakens against US$ | +5 | 1,368 | – |
| If RMB strengthens against US$ | -5 | (1,368) | – |

* 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.

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

### Credit risk *(continued)*

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, 28% (2016: 27%) 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 16 to the financial statements.

### Liquidity risk

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

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

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:

| | On demand<br>RMB'000 | Less than<br>3 months<br>RMB'000 | 3 to less<br>than 12<br>months<br>RMB'000 | 1 year to<br>5 years<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| Trade and bills payables | **462** | **130,687** | **–** | **–** | **131,149** |
| Financial liabilities included in accruals, other payables and deferred income | **83,830** | **51,934** | **15,967** | **2,204** | **153,935** |
| | **84,292** | **182,621** | **15,967** | **2,204** | **285,084** |
| 31 December 2016 | | | | | |
| Trade and bills payables | 993 | 112,929 | – | – | 113,922 |
| Financial liabilities included in accruals, other payables and deferred income | 72,671 | 58,326 | 8,449 | 3,107 | 142,553 |
| | 73,664 | 171,255 | 8,449 | 3,107 | 256,475 |

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

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions 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 2017 and 31 December 2016.

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:

| | **2017<br>RMB'000** | 2016<br>RMB'000 |
|---|---|---|
| Total liabilities | **436,080** | 428,436 |
| Net assets | **1,771,276** | 1,374,432 |
| Gearing ratio | **24.6%** | 31.2% |

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | **248,782** | 220,552 |
| Intangible assets | **148,673** | 135,397 |
| Investments in subsidiaries | **73,561** | 56,581 |
| Deferred tax assets | **24,579** | 34,764 |
| Total non-current assets | **495,595** | 447,294 |
| **CURRENT ASSETS** | | |
| Inventories | **358,578** | 281,215 |
| Due from subsidiaries | **14,965** | 4,168 |
| Trade and bills receivables | **533,888** | 442,283 |
| Prepayments, deposits and other receivables | **15,932** | 12,629 |
| Tax recoverable | **28,506** | – |
| Cash and bank balances | **409,834** | 252,651 |
| Total current assets | **1,361,703** | 992,946 |
| **CURRENT LIABILITIES** | | |
| Due to subsidiaries | **4,068** | 8,433 |
| Trade and bills payables | **118,174** | 113,367 |
| Accruals, other payables and deferred income | **221,964** | 203,986 |
| Tax payable | **–** | 604 |
| Total current liabilities | **344,206** | 326,390 |
| **NET CURRENT ASSETS** | **1,017,497** | 666,556 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **1,513,092** | 1,113,850 |
| **NON-CURRENT LIABILITIES** | | |
| Deferred income | **3,382** | 1,802 |
| Net assets | **1,509,710** | 1,112,048 |

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| **EQUITY** | | |
| Share capital | **65,933** | 61,733 |
| Reserves (note) | **1,443,777** | 1,050,315 |
| Total equity | **1,509,710** | 1,112,048 |

| **Shi Lei** | **Cheng Junxia** |
|---|---|
| *Director* | *Director* |

Note:

A summary of the Company's reserves is as follows:

| | Share premium account RMB'000 | Statutory surplus reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2016 | 168,486 | 35,478 | 661,432 | 865,396 |
| Total comprehensive income for the year | – | – | 184,919 | 184,919 |
| At 31 December 2016 | 168,486 | 35,478 | 846,351 | 1,050,315 |
| Total comprehensive income for the year | **–** | **–** | **213,459** | **213,459** |
| Issue of shares | **184,595** | **–** | **–** | **184,595** |
| Share issue expenses | **(4,592)** | **–** | **–** | **(4,592)** |
| **At 31 December 2017** | **348,489** | **35,478** | **1,059,810** | **1,443,777** |

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

# Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| **RESULTS** | | | | | |
| REVENUE | **1,398,230** | 1,187,490 | 1,039,725 | 843,913 | 816,931 |
| Cost of sales | **(706,174)** | (556,198) | (489,416) | (443,131) | (419,472) |
| Gross profit | **692,056** | 631,292 | 550,309 | 400,782 | 397,459 |
| Other income and gains | **144,433** | 162,985 | 83,080 | 102,722 | 104,234 |
| Selling and distribution expenses | **(77,098)** | (68,428) | (61,887) | (55,566) | (58,637) |
| Administrative expenses | **(98,057)** | (87,300) | (80,579) | (71,894) | (60,573) |
| Other expenses | **(415,807)** | (378,692) | (297,598) | (192,402) | (213,343) |
| Share of profit and loss of an associate | **–** | – | – | – | (110) |
| PROFIT BEFORE TAX | **245,527** | 259,857 | 193,325 | 183,642 | 169,030 |
| Tax | **(17,458)** | (19,767) | (15,335) | (6,653) | (4,753) |
| PROFIT FOR THE YEAR | **228,069** | 240,090 | 177,990 | 176,989 | 164,277 |
| Attributable to: | | | | | |
| Owners of the parent | **212,122** | 212,258 | 158,898 | 167,963 | 159,398 |
| Non-controlling interests | **15,947** | 27,832 | 19,092 | 9,026 | 4,879 |
| | **228,069** | 240,090 | 177,990 | 176,989 | 164,277 |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2017 RMB'000** | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| TOTAL ASSETS | **2,207,356** | 1,802,868 | 1,518,463 | 1,276,461 | 1,046,443 |
| TOTAL LIABILITIES | **(436,080)** | (428,436) | (404,877) | (341,533) | (289,102) |
| NON-CONTROLLING INTERESTS | **(154,234)** | (152,666) | (111,756) | (92,664) | (41,486) |
| | **1,617,042** | 1,221,766 | 1,001,830 | 842,264 | 715,855 |