



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 2018



# Contents

	Pages
<b>CHAIRMAN'S STATEMENT</b>	2
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	3
<b>CORPORATE INFORMATION</b>	11
<b>DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES</b>	12
<b>CORPORATE GOVERNANCE REPORT</b>	16
<b>ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT</b>	26
<b>REPORT OF THE DIRECTORS</b>	31
<b>INDEPENDENT AUDITOR'S REPORT</b>	44
<b>AUDITED FINANCIAL STATEMENTS</b>	
Consolidated Statement of Profit or Loss	49
Consolidated Statement of Comprehensive Income	50
Consolidated Statement of Financial Position	51
Consolidated Statement of Changes in Equity	53
Consolidated Statement of Cash Flows	55
<b>NOTES TO FINANCIAL STATEMENTS</b>	58
<b>FIVE YEAR FINANCIAL SUMMARY</b>	147

# 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 2018.

Looking back at 2018, the world economy was complex and volatile, the international situation was complex and severe, and the economic environment is subject to greater uncertainty. The global IC market has been flourishing in the recent decade, and the growth rate has slightly slowed down. However, the Chinese IC market still has a great demand. Artificial Intelligence, Mobile Internet, Cloud Computing, Big Data, application of Internet of Things, 5G, 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 2018, the Group recorded overall revenue similar to that of last year. However, the decrease in overall gross margin, together with the increase in various expenditures, resulted in a significant decline in the profit for the year as compared with last year, but the profit attributable to owners of the parent greatly decreased as compared with last year. Due to the issuance of domestic 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 2018.

In the year, the Company successfully completed placing of an aggregate of 35,172,000 domestic shares with the nominal value of RMB0.1 per share at the placing price of RMB5.73 (equivalent to approximately HK\$6.49) per placing share. The net proceeds (after deduction of the fees, commissions and expenses) from the placing of domestic shares are approximately RMB200,715,000, and will be used for supplementing the general working capital of the Company. All the related business registration procedures contemplated under the share subscription agreement were completed in early 2019.

Looking forward into 2019, driven by the national policy support, technological advancement and innovation, enhancement of market share in the domestic chip market, the steady and improving growth of Chinese economy, and the easement of international trade frictions and other factors, the IC design industry of the PRC is expected to maintain stable growth. The Group has nearly twenty years of experience in fundamental research, technological development, professional talents cultivation, cooperation with national laboratories and laboratories of reputable universities as well as favorable conditions for setting up packaging and testing services, and has formed a certain industrial scale and certain advantages in market competition. The Directors are convinced that, riding on the recovery 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, 30 March 2019

# 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 for this year recorded an increase by approximately 0.82% compared to the previous year, of which the sales for smart meter ASIC chips recorded a slight increase and the sales for non-volatile memory chips was satisfactory and recorded a considerable increase, except that the sales for security and identification chips accounting for a relative higher proportion declined, which was due to the fierce competition forced us to lower the price so as to maintain the market share, resulting in a decrease in the overall gross margin from 49.5% of the last year to 45.6%.

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 2018, sales of security and identification chips recorded a decline of around 9.2% with gross margin decreased by approximately 7.9% compared to last year. The smart card chips of the existing projects saw a decrease in sales due to the demand saturation in the market. High-end chip products applied in fields including financial IC cards, city one-cards, social security and citizen cards, electronics payment and identification saw a significant increase in sales due to the rising demand for domestic chips in recent years, and made a good contribution to the growth of revenue. However, due to the extremely keen competition and the decrease in price, the gross margin dropped due to the adjustment to chip's price by the Group in order to maintain the market share.

Other products such as contactless RF card chips and contactless logic security chips which are mainly applied in fields including door lock, entrance guard, financial POS, metro gate machine, public bicycle system, with ideal increase in sales volume, provided that the sales amount declined due to adjusting the price strategy for capturing the market share under the fierce market competition.

### Smart Meter ASIC Chips

The sales of the smart meter ASIC chips for the year were slightly up by approximately 4.7% as compared to last year. After the new generation of products put into the market, as they can satisfy functional demands. Both of the market share and sales volume also increased.

### 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 interface unit 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 market prosperity, the sales amount and gross margin are exposed to great fluctuations. The sales increased by approximately 19.6% in the year, and as relevant high fluctuation occurred in the market in the second half of 2018, the market price plummeted in the second half of the year, resulting in a decrease of 7.3% in the gross margin.



# Management Discussion and Analysis

## BUSINESS REVIEW *(Continued)*

### Specific Analog Circuits

Specific Analog Circuits mainly consist of leakage protection chips, motor vehicle specific chips and communication chips; they are widely applied in leakage protection devices, home appliances and telecommunication equipment, etc. The sales amount and the gross margin of the product of this type slightly increased by approximately 7.9% and 1.1% respectively during the year. 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 was approximate to that of last year mainly because these products have a longer time of R&D, the uncertainty in certification of project has highly affected the recognition of revenue. 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 increased by approximately 26.4%. Benefiting from application of the high-end testing platform in the technology development of new product fields, the number of customers of testing service and the demands increased, and the gross margin also increased significantly.

## FINANCE REVIEW

For the year ended 31 December 2018, the Group recorded a total revenue of approximately RMB1,409,630,000 (2017: RMB1,398,230,000), representing a slight increase of approximately 0.8% as compared to last year; gross margin decreased from 49.5% of last year to 45.6%. Compared with the last year, other income and gains increased by approximately RMB4,738,000 or 3.3%, and selling and distribution costs, administrative expenses and other expenses went up by 12.4%, 21.1% and 2.6%, respectively. The profit for the year was approximately RMB129,352,000 (2017: RMB228,069,000), representing a significant decrease of approximately 43.3% over last year. The audited profit attributable to owners of the parent was approximately RMB107,482,000 (2017: RMB212,122,000), representing a significant decrease of approximately 49.3% as compared to last year. The earnings per share was RMB16.27 cents, representing a decrease of approximately RMB17.61 cents from last year of RMB33.88 cents. The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2018 (2017: nil).

For the year under review ended 31 December 2018, the Group recorded an overall sales close to that of the last year. Due to keen competition in sales of security and identification chips and prices cut for better sales within the industry, the Group also shall lower the price of chip to occupy the market, which reduced the overall gross profit margin. Other income and gains increased by approximately RMB4,738,000 compared with last year, as the government grants received for research activities and other government grants during the year increased by approximately RMB27,318,000 in total over the last year, which is offset by the decrease in other technical services charges of approximately RMB24,093,000.

# Management Discussion and Analysis

## FINANCE REVIEW *(Continued)*

The sales and distribution expenses increased by approximately RMB9,598,000 as compared to the last year because the Group increased sales personnel to maintain market share so as to cope with the fierce competition in chip market. Administrative expenses increased by approximately RMB20,655,000 over last year due to the increase of office space in recent years in line with business expansion, the increase in depreciation expenses of office equipment, and the 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 RMB10,727,000 as compared to last year, as a result of continuous updating products in market, as well as the increase in investment in research and development project for research of new products.

In respect of taxation, pursuant to Cai Shui [2018] No.99 “Notice on Increasing the Ratio of Pre-tax Super Deduction of Research and Development (“R&D”) Expenses” jointly released by the State Administration of Taxation, the Ministry of Finance and the Ministry of Science and Technology of the PRC in September 2018, during the period from 1 January 2018 to 31 December 2020, the Company can now enjoy an extra 75% accelerated deduction on its R&D expenses instead of 50% previously allowed. The Group expects to increase its application of resource in R&D continuously for the coming 5 years and having considered the tax effect of this policy on the accelerated deduction for R&D expenses, the conditions for recognition of deferred tax assets arising from deductible temporary differences will not be satisfied. Thus, the impact was an increase in the tax expense of the Company for the year by approximately RMB24,579,000. The tax expense for the year recorded a substantial increase of approximately RMB12,886,000, or approximately 73.8%, despite the decrease in income tax due to the decrease in profit and the difference arising from income tax deduction in research and development expenses and the utilisation of the previous tax losses.

The Group’s non-current assets increased by approximately RMB73,269,000 over last year because of (i) the increase in decoration, auxiliary office equipment and acquisition of assets, prepayments for purchasing of equipment in respect of new office; (ii) increase in the deferred development costs of intangible assets; (iii) the increase in equity investments designated at fair value through other comprehensive income; and (iv) the decrease in deferred tax assets put through profit or loss arising from derecognition.

Current assets increased substantially by approximately RMB266,169,000 than last year, where inventories has greatly increased by approximately RMB238,942,000 or 65% as compared with last year, mainly attributable to the supply of financial IC cards and storage products in order to cope with seasonal sales at the end of the year. Trade and bills receivables decreased by approximately RMB3,943,000 as compared with last year, and most of them were still within the normal credit period. As the prepaid tax exceeded the actual tax amount due to the factor of tax rate for the previous period, there was refundable tax in last year, provide that there was no change in tax rate this year, the recoverable excessive prepaid tax significantly decreased by approximately RMB17,242,000. In the year, the Company conducted placement of new domestic shares and raised net proceeds of approximately RMB200,715,000, certain of which has been used as daily working capital. The Group’s cash and bank balances increased by approximately RMB49,241,000.

Non-current liabilities increased by approximately RMB10,165,000 over the last year mainly due to the increase in assets related projects having certified and recognised during the year and related government grants could be deferred in long term.

The non-controlling interests increased by RMB10,600,000 as compared with last year, mainly attributable to the profit net of dividends paid of Sino IC Technology Co., Ltd. for the year attributable to non-controlling interests.

# Management Discussion and Analysis

## MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

In the year, the Company invested approximately RMB8,148,000 in four technology companies, whose businesses are all related to the existing business of the Group, whereby the Group could conduct strategic business cooperation.

Save as the 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 2018, net assets of the Group amounted to approximately RMB2,107,440,000 (2017: RMB1,771,276,000), an increase of approximately 19% over last year; of which current assets amounted to approximately RMB1,912,520,000 (2017: RMB1,646,351,000), a rise of approximately 16.2% over last year, and including cash and bank deposits of approximately RMB695,350,000 (2017: RMB646,109,000), an increase of approximately 7.6% 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 placement of new H shares in the previous year and from the placement of domestic shares for the year provided additional funds for the Group. Furthermore, the Group has adopted a cautious 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 RMB62,863,000 (2017: RMB158,809,000), representing a significant decline as compared with last year, which was mainly due to decrease in profit and increase in inventories. The net cash outflows used in investing activities was approximately RMB258,817,000 (2017: RMB305,415,000), due to the decrease in growth of deposits with maturity over 3 months of approximately RMB27,493,000. Due to the placement of new domestic shares, the net cash inflows from financing activities amounted to approximately RMB189,317,000, representing an increase of approximately RMB17,826,000 as compared with last year. The total cash and cash equivalents as at the balance sheet date decreased by approximately RMB5,315,000 to approximately RMB304,878,000 (2017: RMB310,193,000).

As at 31 December 2018, the Group has not pledged any of its assets to any third parties (2017: nil).

## CAPITAL STRUCTURE

The Company published an announcement on 29 October 2018 in relation to placing a total of 35,172,000 domestic shares with a nominal value of RMB0.10 per share under general mandate. The proceeds from the Placing were received before the end of 2018 and the procedures for the Placing were subsequently completed in early 2019. With the issuance of 35,172,000 domestic shares, together with the issued 375,000,000 domestic shares, the total issued domestic shares have increased to 410,172,000 shares; together with the issued 284,330,000 H shares, the total number of issued shares amounted to 694,502,000 shares; the share capital increased from RMB65,933,000 to RMB69,450,200.

During the year, the Company made a capital injection of RMB3,000,000 to Beijing Fudan Microelectronics Technology Co., Ltd, a wholly-owned subsidiary of the Company, to increase its paid-in capital from RMB3,000,000 to RMB6,000,000, so as to strengthen its business expansion capabilities.

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

# Management Discussion and Analysis

## GEARING RATIO

As at 31 December 2018, the Group's current liabilities amounted to approximately RMB417,156,000 (2017: RMB424,047,000), a decrease of approximately 1.6% over last year. Non-current liabilities amounted to approximately RMB22,198,000 (2017: RMB12,033,000), an increase of approximately 84.5% over the previous year. Net asset value per share was approximately RMB3.03 (2017: RMB2.69), a growth of approximately 12.6% over last year. The Group's ratio of current liabilities over current assets was approximately 21.8% (2017: 25.8%), 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 20.8% (2017: 24.6%) 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 further decreased.

As at 31 December 2018, the Company and the Group had no bank or other borrowings (2017: 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.

## 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.

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 10% (2017: 7%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 40% (2017: 62%) 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.



# Management Discussion and Analysis

## 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. 19% (2017: 28%) 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 2018, the Group had capital commitments contracted but not provided for in the amount of approximately RMB8,523,000 (2017: RMB12,318,000), which were related to the acquisition of property, plant and equipment.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liabilities (2017: nil).

## USE OF CAPITAL AND FUNDING

### Proceeds from placing of 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.

The Company has entered into a share subscription agreement on 12 December 2018, in relation to placing a total of 35,172,000 new domestic shares at a placing price of RMB5.73 per share. The proceeds from the Placing were received before the end of 2018 and the net proceeds from the Placing after deducting relevant fee is approximately RMB200,715,000.

# Management Discussion and Analysis

The above proceeds have been utilised in the way disclosed by the Company in the relevant announcements. The proceeds utilised as at 31 December 2018 are as follows:

	Note	Net proceeds RMB'000	Utilised amount RMB'000	Unutilised amount RMB'000
<b>H shares placement</b>				
Supplement the general working capital of the Company	(a)	184,203	139,171	45,032
<b>Domestic shares placement</b>				
Supplement the general working capital of the Company	(b)	200,715	71,844	128,871

Note:

- (a) It is expected that the unutilized proceeds of approximately RMB45,032,000 will be fully utilized in the first half of 2019.
- (b) It is expected that the unutilized proceeds of approximately RMB128,871,000 will be fully utilized in the first half of 2019.

The proceeds currently unutilised are deposited in accounts with domestic banks in the PRC and will be used as general working capital in the future.

## EMPLOYEES

As at 31 December 2018, the Group has approximately 1,240 (2017: 1,100) 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 2018, the employee benefit expense (including directors' remuneration) as recorded in the consolidated statement of profit or loss was approximately RMB336,258,000 (2017: RMB273,561,000). The increase in employee expenses was due to an increase of 140 employees in the year, as well as the increase in wages in the industry due to continued industry development and talent hunger. The employee benefit expense of RMB56,068,000 (2017: RMB58,546,000) was capitalized as development costs during the year.

## 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 subsidiary companies perform business activities. Furthermore, as the H shares of the Company are listed on the main board of Stock Exchange of Hong Kong Limited ("SEHK"), the Company shall be bound by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Securities and Futures Ordinance on Chapter 571 of the Laws of Hong Kong. The Group's operating business is not subjected to any specific regulation at the time being.

# Management Discussion and Analysis

## 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 fulfill the requirements of customers. The Group has currently no customer whose income arising from transactions accounted for 10% or more of the Group's total revenue. All the Group's five largest customers were manufacturers of security IC chips, which are government authorities and renowned enterprises in the industry with business relationship with the Group for 5 to 10 years. These customers are traded with 90 days credit that is the same credit term given by the Group to other customers. As at 31 December 2018, the above-mentioned 5 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.

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 of 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

## STRATEGIC AND INVESTMENT COMMITTEE

Mr. Jiang Guoxing  
Mr. Shi Lei  
Mr. Yu Jun  
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 65, 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 52, 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 51, 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. He is also the general manager of Shanghai Fudan High Tech Company, a substantial shareholder of the Company. 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 72, 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 82, 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..

# Directors and Senior Management Biographies

## DIRECTORS *(Continued)*

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

**Mr. Ma Zhicheng**, aged 58, 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..

**Mr. Yao Fuli**, aged 44, 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 58, 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 54, 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 72, 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.

# Directors and Senior Management Biographies

## DIRECTORS *(Continued)*

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

**Mr. Chen Baoying**, aged 89, 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 Joint Working Group of the Mainland and Hong Kong Securities Affairs and the Expert Group on Commodities of the China Securities Regulatory Commission. He was an independent non-executive director of China National Resources Development Holdings Limited, a company listed on the main board of the Stock Exchange.

**Mr. Lin Fujiang**, aged 60, 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 47, joined the Company from July 1998 and up to December 2017 was the Technical Officer of the Company and he is currently 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 63, 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, restructuring, investment and financing.

**Mr. Xu Zhihan**, aged 55, 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.

# Directors and Senior Management Biographies

## SENIOR MANAGEMENT

**Mr. Diao Linshan**, aged 53, 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. Zeng Shaobin**, aged 50, joined the Company in 2016, is the Deputy General Manager of the Company. Mr. Zeng holds a Master's degree in Economics and a Doctorate degree in Management Engineering. From 1989 to 2007, he served as Secretary of the Youth League Committee of Nanyang Normal University in Henan and the director of headmaster's office. From 2007 to 2016, he served as the director of the United Front Work Department of Shanghai Municipal Committee.

**Ms. Fang Jing**, aged 52, joined the Company in March 2003, is the Chief Finance Officer and the General Manager of the Administrative and Finance Department of the Company. She graduated with a degree in distance education college of the Fudan University and is also a senior accountant.



# Corporate Governance Report

## DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018, 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 44 to 48.

## 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 2018, 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 non-executive Directors, Mr. Ma Zhicheng, Mr. Yao Fuli and Ms. Zhang Huajing, the independent non-executive Directors, Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying were unable to attend the extraordinary general meeting of the Company held on 12 January 2018 due to their other business engagements. The non-executive Directors, Mr. Ma Zhicheng and Ms. Zhang Huajing, 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 8 June 2018 due to their other business engagements. In respect of their absence, the Company has separately reminded each director to comply with the relevant code provisions.

## 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 2018.

## BOARD OF DIRECTORS AND BOARD MEETING

### Composition of the Board

During the year ended 31 December 2018, 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's businesses. In addition, the Board has also delegated various responsibilities to the Board committees. Details of these committees are set out below in this report.

# Corporate Governance Report

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

### Composition of the Board *(Continued)*

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

For the year ended 31 December 2018, the Company has complied with the Listing Rules that the independent nonexecutive 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 nonexecutive Directors can provide the Board with independent judgments, 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 2018 until 18 July 2021 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 2018 until 18 July 2021 and will continue thereafter unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

# Corporate Governance Report

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

### Terms of Appointment of Directors *(Continued)*

#### *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 6 June 2018 until the conclusion of the forthcoming annual general meeting of the Company to be held in or about June 2019 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 3.13 under the Listing Rules and recognized their independence.

#### **Board meetings**

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

The 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 2018 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 auditor of the Company for the discussions on issues including the accounting policies adopted by the Group, internal control, risk management and financial statements.

# Corporate Governance Report

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

### Committees *(Continued)*

#### 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 diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board, and to assess 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.

#### Nomination policy

The nomination policy sets out the procedures and criteria for the nomination process, selection and recommendation of suitable director candidates for the purpose of achieving diversity of members.

When considering and assessing suitable candidates, the Nomination Committee will consider the diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and understanding of Group's business and achievements in the industry, and will also consider the adequacy of time commitment by candidate, the commitment to perform relevant duties and the assessment of the contribution to the Group. The Nomination Committee will review the nomination policy from time to time in response to changes in the business of the Group and specific needs to ensure that the relevant policies continue to be effective. The Nomination Committee is responsible for adopting the measurable objectives for achieving diversity on the Board and monitoring the achievement of measurable objectives and reporting the progress.

For the year ended 31 December 2018, the Nomination Committee didn't nominate any Director candidates as there was no change on members of the Board, except for some Directors who were re-elected in accordance with the Articles of Association, in such case, the Nomination Committee assessed the re-elected directors according to the above criteria.

The Nomination Committee has held one meeting during the year under review. The meeting reviewed the current structure, number of members and diversity of the Board and the effectiveness of the Nomination Policy, and assessed the independence of independent non-executive Directors.



# Corporate Governance Report

## 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 period under review, one meeting of the Remuneration Committee was held.

#### 4. *The Strategic and Investment Committee*

The Strategic and Investment Committee (formerly known as “Investment Committee”) was established on 16 October 2018 with the following duties:

- a) To review, evaluate and approve investment project worth not exceeding RMB50 million;
- b) To review, evaluate and propose to the Board for approval investment project worth over RMB50 million;
- c) To supervise the implementation and to keep all investment projects within the limit approved by the Board;
- d) An investment project can fall into either of the following three categories:
  - (i) Investment in real property;
  - (ii) Investment in listed securities and bonds; and
  - (iii) Investment in unlisted securities.

# Corporate Governance Report

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

### Committees *(Continued)*

#### 4. *The Strategic and Investment Committee (Continued)*

- e) To determine whether the proposed investment project is in the interests of the Company and the shareholders of the Company as a whole;
- f) If the proposed investment projects constitute disclosable transactions, inside information or connected transactions under the Listing Rules, the Secretary must be notified immediately for taking necessary actions and information disclosures; and
- g) To carry out other duties as may be assigned from time to time by the Board.

The Strategic and Investment Committee comprises of four members and all of which are executive directors of the Company. The committee held a meeting during the year for the discussion of potential investment opportunities available to the Company.

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

During the year ended 31 December 2018, the number of regular Board and committee meetings and Directors' attendance are set out below:

Directors	General meeting	Board of Directors	Audit Committee	Nomination Committee	Remuneration Committee	Strategic and Investment Committee
Mr. Jiang Guoxing	2/2	4/4	N/A	N/A	N/A	1/1
Mr. Shi Lei	2/2	3/4	N/A	N/A	N/A	1/1
Mr. Yu Jun	1/2	3/4	N/A	N/A	N/A	1/1
Ms. Cheng Junxia	1/2	4/4	N/A	1/1	1/1	1/1
Ms. Zhang Qianling	2/2	4/4	N/A	N/A	N/A	N/A
Mr. Ma Zhicheng	0/2	4/4	N/A	N/A	N/A	N/A
Mr. Yao Fuli	1/2	3/4	N/A	N/A	N/A	N/A
Ms. Zhang Huajing	0/2	4/4	N/A	N/A	N/A	N/A
Mr. Cheung Wing Keung	0/2	4/4	4/4	1/1	1/1	N/A
Mr. Guo Li	0/2	4/4	4/4	1/1	1/1	N/A
Mr. Chen Baoying	0/2	4/4	1/1*	N/A	N/A	N/A
Mr. Lin Fujiang	2/2	4/4	4/4	N/A	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 Group.

# Corporate Governance Report

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

### Record of number of Board and committee meetings and Directors' attendance *(Continued)*

During the year under review, the chairman of the Board and non-executive Directors (including independently non-executive Directors) held one meeting without the executive Directors present, to discuss and review the performance of the executive Directors and management and the adequacy and effectiveness of risk management and internal control systems to safeguard the interests of the Group. During the meeting, the chairman of the Board and non-executive Directors sought improvement suggestions from the Directors who attended the meeting on the development of strategies and policies of the Group.

During the year, the independent non-executive Directors also held meeting with external auditor without the executive Directors present, to discuss audit fees, issues arising from the audit process and matters of concern, and any other matters raised by external auditors.

### 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. The Group also provide Directors seminars regularly, to provide and update the Listing Rules amended from time to time, the changes in companies law, the amendment to the accounting standards, and materials including corporate governance and references of non-compliance cases.

During the year ended 31 December 2018, 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	B
Mr. Ma Zhicheng	B
Mr. Yao Fuli	B
Ms. Zhang Huajing	B
Mr. Cheung Wing Keung	A, B
Mr. Guo Li	A, B
Mr. Chen Baoying	B
Mr. Lin Fujiang	A, B

#### Notes:

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

# Corporate Governance Report

## 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:

	2018 RMB'000	2017 RMB'000
Audit fees	1,613	1,613

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

An internal control department was formed by the Company. 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 requisite business registration procedures for amendments to the articles were completed in April 2018 and became effective.

# Corporate Governance Report

## 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 given 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 chairman of the Board of Directors, 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.



# Corporate Governance Report

## DIVIDEND POLICY

The Company adopted a policy on payment of dividends (the “Dividend Policy”) in March 2019, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company’s ability to pay dividends, which will depend on a number of factors, including but not limited to:

- (i) the Group’s actual and expected financial performance;
- (ii) the Group’s expected working capital requirements, capital expenditure requirements and future expansion plans;
- (iii) retained earnings and distributable reserves of the Company and each of the members of the Group;
- (iv) the Group’s liquidity position;
- (v) the general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- (vi) any other factors that the Board deems relevant.

The Board has complete discretion on whether to pay a dividend, subject to Shareholders’ approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group. The Board may also consider declaring interim dividends from time to time.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

# 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 2018. 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 2018 to 31 December 2018.

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.

# Environmental, Social and Governance Report

## ENVIRONMENT *(continued)*

### Emissions *(continued)*

During the reporting period, the total greenhouses emission generated by the Group was 8,317.38 tonnes with the per capita intensity of 6.768. Details are set out below:

Scope of greenhouse gases emissions	2018		2017	
	Unit (tonne)	Intensity (per capita consumption)	Unit (tonne)	Intensity (per capita consumption)
Direct emissions – gasoline consumption	129.84	0.106	118.20	0.108
Indirect emissions – electricity consumption	8,134.82	6.619	6,718.13	6.147
– consumption of paper and water	52.72	0.043	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)	
		2018	2017
Paper	Tonne	0.004	0.003
Printing supplies	Piece	0.121	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	2018		2017	
		Consumption	Intensity (per capita consumption)	Consumption	Intensity (per capita consumption)
Gasoline	Litre	48,964.03	39.84	51,432.33	47.06
Electricity	kWh	12,056,442.80	9,809.96	8,281,721.99	7,577.06

# Environmental, Social and Governance Report

## ENVIRONMENT *(continued)*

### Use of Resources *(continued)*

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 and electronic messages 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.

The usage of resources for the year was comparatively higher than last year. The main reason is that the Group has additional warehouse facilities and a significant increase in office spaces to cope with its business expansion. The management has paid special attention to the increase in usage of resources and has adopted certain measures for the save of resources including restriction of public car parking spaces to encourage the usage of public transports for staff; turning off of air-conditioning and public lightings on schedule etc. with a view to further reduce the usage of resources.

### *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.

# Environmental, Social and Governance Report

## 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.

### 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.



# Environmental, Social and Governance Report

## **SOCIAL** *(continued)*

### **Operating Practices**

#### *Product Responsibility*

##### Quality control

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.

##### Intellectual property rights protection

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.

##### Physical standards

The Group has established the Physical Standards on Environmental Management, using environmental technology in order to manufacture and provide environmentally friendly products, and disallows the usage of any prohibited raw materials in our products and manufacturing processes.

The Group provides our customers with lead-free and halogen-free solutions, and complies with the standards set under the RoHS2.0 on the restriction of the use of certain hazardous substances in electrical and electronic equipment and the REACH on the restriction of chemicals regulated by the European Union

#### *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 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 2018.

## 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 2018 and the Group’s financial position at that date are set out in the financial statements on pages 49 to 52.

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 147 to 148. 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 23 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.

# Report of the Directors

## 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 2018, the Company's reserves available for distribution amounted to RMB1,157,884,000, 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 19% of the total sales for the year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for 77% of the total purchases for the year and purchase from the largest supplier included therein amounted to 45%.

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.

# Report of the Directors

## **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 2018 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 2018, until the forthcoming AGM in or about May 2019 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.

# Report of the Directors

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

At 31 December 2018, 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			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
<b>Directors</b>					
Mr. Jiang Guoxing	7,210,000	–	–	7,210,000	1.04
Mr. Shi Lei	7,210,000	–	–	7,210,000	1.04
	14,420,000	–	–	14,420,000	



# Report of the Directors

## 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
<b>Supervisor</b>					
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 2018, 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.

# Report of the Directors

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

At 31 December 2018, 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	26.02	15.37
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(1)	Interest of corporation controlled	106,730,000	(L)	Domestic shares	26.02	15.37
Fudan University	(1)	Interest of corporation controlled	106,730,000	(L)	Domestic share	26.02	15.37
Shanghai Fudan Technology Enterprise Holdings Limited ("Fudan Technology")	(2)	Directly beneficially owned	109,620,000	(L)	Domestic shares	26.73	15.78
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	(L)	Domestic shares	26.73	15.78
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	(L)	Domestic shares	26.73	15.78
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	(L)	Domestic shares	12.72	7.51

# Report of the Directors

## 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 Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	66,845,110	(L)	Domestic shares	16.29	9.62
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	(L)	Domestic shares	16.29	9.62
Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise ("Shanghai Zhenghua")	(4)	Directly beneficially owned	47,443,420	(L)	Domestic shares	11.57	6.83
Shanghai Shanyao Industrial Limited ("Shanghai Shanyao")	(4)	Interest of corporation controlled	47,443,420	(L)	Domestic shares	11.57	6.83
Zhou Yufeng	(4)	Interest of corporation controlled	47,443,420	(L)	Domestic shares	11.57	6.83
Shanghai Guonian Corporate Management Consultant Partnership Enterprise ("Shanghai Guonian")	(5)	Directly beneficially owned	29,941,470	(L)	Domestic shares	7.30	4.31
Shanghai Danruo Investment Management Partnership Enterprise ("Shanghai Danruo")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31

# Report of the Directors

## 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
Dazi County Dingcheng Capital Investment ("Dingcheng Capital")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Beijing Zhongrong Dingxin Investment Management Limited ("Zhongrong Dingxin")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Zhongrong International Trust Limited ("Zhongrong International")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Jingwei Textile Machinery Co., Ltd. ("Jingwei Textile")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Beijing Huacheng Lihe Investment Limited ("Huacheng Lihe")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Wang Shumin and Wang Jizhuo	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Springs China Opportunities Master Fund ("Springs China")	(6)	Directly beneficially owned	17,088,000	(L)	H shares	6.01	2.46
Springs China Limited	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.46
Zhao Jun	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.46

# Report of the Directors

## 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
Haitong International Securities ("Haitong International Securities")	(7)	Directly beneficially owned	17,128,349 (17,128,349)	(L) (S)	H shares H shares	6.02 (6.02)	2.47 (2.47)
Haitong International Finance Company Limited ("Haitong International Finance")	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong International (BVI) Limited ("Haitong International")	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong International Securities Group Limited ("Haitong International Securities Group")	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong International Holdings Limited ("Haitong International Holdings")	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong Securities Co., Ltd. ("Haitong Securities")	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)

#### 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.



# Report of the Directors

## 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 63.08% of the equity interest in Haitong International Securities Group, Haitong International Securities Group 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 Securities. Accordingly, each of Haitong International Finance, Haitong International, Haitong International Securities Group, Haitong International Holdings and Haitong Securities is deemed to be interested in Haitong International Securities's interest in the Company. Haitong International Finance also holds an indirect interest of 1,893,651 H Shares through a controlled enterprise.

Save as disclosed above, as at 31 December 2018, 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 also set out in note 30 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 2018 of RMB800,000 (2017: RMB800,000), and the Company paid RMB69,000 in 2018 (2017: RMB67,000).

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 2017 and 2018 are RMB RMB1,000,000 and RMB800,000. During 2018, the Company has paid profit sharing of RMB130,000 to Fukong Hualong (2017: RMB306,000).

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 RMB4,500,000 and RMB4,500,000 for the years ended 31 December 2017 and 2018. During 2018, the Company has distributed RMB849,000 (2017: RMB2,450,000) of R&D income to Fukong Hualong.

# Report of the Directors

## 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 RMB9,000,000 and RMB5,000,000 for the years ended 31 December 2017 and 2018. In 2018, the Company sold related products of RMB1,867,000 (2017: RMB2,835,000) 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 and RMB300,000 for the year ended 31 December 2017 and 2018. On 13 March 2018, two parties agreed to terminate the agreement as the failure to meet expected profit caused by market change. Except the RMB189,000 for Phrase I paid to Fukong Hualong in 2017, no more relevant rights and obligations of the agreement was claimed in 2018. And the annual cap with Fukong Hualong in 2018 therefore decreased to RMB10,300,000 in total.

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 2017 and 2018 of RMB14,700,000 and RMB10,300,000, respectively. The Company paid RMB130,000 for Smart Meter Agreement (2017: RMB306,000), RMB849,000 for Satellite Navigation Agreement (2017: RMB2,450,000) of R&D expense compensation to Fukong Hualong, and nil for Electronic Identification IC Chips Agreement (2017: RMB189,000), while Fukong Hualong paid RMB1,867,000 (2017: RMB2,835,000) to the Company for the purchase of products during 2018.

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.

# Report of the Directors

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

### Continuing connected transactions *(continued)*

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Listing Rules 14A.56. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

## SUFFICIENCY OF PUBLIC FLOAT

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

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

## CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions set out in the Corporate Governance Code (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  
30 March 2019

# Independent auditor's report



**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 49 to 146, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("HKSAAs") 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.



# Independent auditor's report

## KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Deferred development costs</i></p> <p>As at 31 December 2018, the carrying amount of deferred development costs was RMB191,068,000. 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 balances and transactions of deferred development costs were 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.</p> <p>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.</p> <p><i>Provisions for inventories</i></p> <p>As at 31 December 2018, the carrying amount of inventories was RMB606,048,000. The balance of inventories was 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.</p> <p>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 17 Inventories to the financial statements.</p>	<p>Our audit procedures included, among others, evaluating the internal controls adopted by management in capitalising the deferred development costs, performing tests on the criteria for initial recognition, costs capitalised and assessing the timeliness of the commencement of amortisation when the asset was 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.</p> <p>We assessed the process, methods and assumptions used to determine 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.</p> <p>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.</p>



# Independent auditor's report

## 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 HKSAAs 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.

# Independent auditor's report

## 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.

# Independent auditor's report

## 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

30 March 2019

# Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	<b>1,409,630</b>	1,398,230
Cost of sales		<b>(766,461)</b>	(706,174)
Gross profit		<b>643,169</b>	692,056
Other income and gains	5	<b>149,171</b>	144,433
Selling and distribution expenses		<b>(86,696)</b>	(77,098)
Administrative expenses		<b>(118,712)</b>	(98,057)
Impairment losses on financial assets		<b>(702)</b>	–
Other expenses		<b>(426,534)</b>	(415,807)
PROFIT BEFORE TAX	6	<b>159,696</b>	245,527
Income tax expense	9(a)	<b>(30,344)</b>	(17,458)
PROFIT FOR THE YEAR		<b>129,352</b>	228,069
Profit attributable to:			
Owners of the parent	11	<b>107,482</b>	212,122
Non-controlling interests		<b>21,870</b>	15,947
		<b>129,352</b>	228,069
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit for the year	11	<b>RMB16.27 cents</b>	RMB33.88 cents

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	129,352	228,069
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of a foreign operation	1,488	(1,049)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	1,488	(1,049)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	2,002	-
Income tax effect	(200)	-
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	1,802	-
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	3,290	(1,049)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	132,642	227,020
Total comprehensive income attributable to:		
Owners of the parent	110,772	211,073
Non-controlling interests	21,870	15,947
	132,642	227,020

# Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	395,163	367,034
Prepayments for equipment		8,946	–
Intangible assets	13	191,068	160,655
Investment in an associate	14	3,000	–
Equity investments designated at fair value through other comprehensive income	15	28,475	–
Available-for-sale investments	15	–	3,267
Financial assets at fair value through profit or loss	16	1,373	–
Deferred tax assets	9(c)	6,249	30,049
<b>Total non-current assets</b>		<b>634,274</b>	<b>561,005</b>
<b>CURRENT ASSETS</b>			
Inventories	17	606,048	367,106
Trade and bills receivables	18	562,491	566,434
Prepayments, other receivables and other assets	19	37,367	38,196
Tax recoverable	9(b)	11,264	28,506
Cash and bank balances	20	695,350	646,109
<b>Total current assets</b>		<b>1,912,520</b>	<b>1,646,351</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	21	147,317	131,149
Accruals, other payables and deferred income	22	267,895	292,376
Tax payable	9(b)	1,944	522
<b>Total current liabilities</b>		<b>417,156</b>	<b>424,047</b>
<b>NET CURRENT ASSETS</b>		<b>1,495,364</b>	<b>1,222,304</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,129,638</b>	<b>1,783,309</b>



# Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,129,638</b>	1,783,309
<b>NON-CURRENT LIABILITIES</b>			
Deferred revenue	22	20,070	12,033
Deferred tax liabilities	9(c)	2,128	–
<b>Total non-current liabilities</b>		<b>22,198</b>	12,033
<b>Net assets</b>		<b>2,107,440</b>	1,771,276
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	23	69,450	65,933
Reserves	25	1,873,156	1,551,109
		<b>1,942,606</b>	1,617,042
<b>Non-controlling interests</b>		<b>164,834</b>	154,234
<b>Total equity</b>		<b>2,107,440</b>	1,771,276

**Shi Lei**  
*Director*

**Cheng Junxia**  
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent									
		Issued	Share	Statutory	Exchange	Other	Retained	Non-	Total	
	Notes	share	premium	surplus	fluctuation	reserves	profits	controlling	equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Note 23)	(Note 25)	(Note 25)			(Note 25)				
At 1 January 2017		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
Other comprehensive income for the year:										
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	23	4,200	184,595	-	-	-	-	188,795	-	188,795
Share issue expenses	23	-	(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 from retained profits	25	-	-	1,704	-	-	(1,704)	-	-	-
<b>At 31 December 2017</b>		<b>65,933</b>	<b>348,489*</b>	<b>49,472*</b>	<b>(3,101)*</b>	<b>14,743*</b>	<b>1,141,506*</b>	<b>1,617,042</b>	<b>154,234</b>	<b>1,771,276</b>

# Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent										
	Notes	Issued	Share	Statutory	Available-	Exchange	Other	Retained	Non-	Total	
		share	premium	surplus	revaluation/	fluctuation	reserves	profits			controlling
	RMB'000	RMB'000	RMB'000	Fair value	reserve	reserve	RMB'000	RMB'000	RMB'000	RMB'000	
	(Note 23)	(Note 25)	(Note 25)	(Note 25)			(Note 25)				
At 1 January 2018		65,933	348,489	49,472	-	(3,101)	14,743	1,141,506	1,617,042	154,234	1,771,276
Effect of adoption of HKFRS 9		-	-	-	8,841	-	-	5,167	14,008	-	14,008
At 1 January 2018 (restated)		65,933	348,489	49,472	8,841	(3,101)	14,743	1,146,673	1,631,050	154,234	1,785,284
Profit for the year		-	-	-	-	-	-	107,482	107,482	21,870	129,352
Other comprehensive income for the year:											
Change in fair value of equity investments at fair value through other comprehensive income, net of tax		-	-	-	1,802	-	-	-	1,802	-	1,802
Exchange differences related to foreign operations		-	-	-	-	1,488	-	-	1,488	-	1,488
Total comprehensive income for the year		-	-	-	1,802	1,488	-	107,482	110,772	21,870	132,642
Issue of share	23	3,517	198,019	-	-	-	-	-	201,536	-	201,536
Share issue expenses	23	-	(821)	-	-	-	-	-	(821)	-	(821)
Equity-settled share-based expenses	24	-	69	-	-	-	-	-	69	-	69
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	(11,270)	(11,270)
Transfer from retained profits	25	-	-	2,531	-	-	-	(2,531)	-	-	-
<b>At 31 December 2018</b>		<b>69,450</b>	<b>545,756*</b>	<b>52,003*</b>	<b>10,643</b>	<b>(1,613)*</b>	<b>14,743*</b>	<b>1,251,624</b>	<b>1,942,606</b>	<b>164,834</b>	<b>2,107,440</b>

\* These reserve accounts comprise the consolidated reserves of RMB1,873,156,000 (2017: RMB1,551,109,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>159,696</b>	245,527
Adjustments for:			
Bank interest income	5, 6	<b>(10,600)</b>	(9,087)
Bank interest expense		<b>128</b>	186
Loss on disposal of items of property, plant and equipment and intangible assets	6	<b>19,474</b>	35,549
Impairment losses on financial assets		<b>702</b>	–
Depreciation	12	<b>81,825</b>	62,957
Impairment of intangible assets	13	<b>–</b>	1,064
Amortisation of intangible assets	13	<b>29,473</b>	34,323
Equity settled share-based expense		<b>69</b>	–
		<b>280,767</b>	370,519
Increase in inventories		<b>(238,942)</b>	(86,494)
Increase in trade and bills receivables		<b>(458)</b>	(99,818)
Decrease/(increase) in prepayments and other assets		<b>1,870</b>	(1,857)
Increase in deposits and other receivables		<b>(439)</b>	(959)
Increase in trade and bills payables		<b>16,170</b>	17,227
(Decrease)/increase in payables and accruals		<b>(8,593)</b>	8,481
		<b>50,375</b>	207,099
Cash generated from operations		<b>50,375</b>	207,099
Hong Kong profits tax paid	9(b)	<b>(409)</b>	(8)
United States profits tax paid	9(b)	<b>(5)</b>	(5)
Mainland China tax refunded/(paid)	9(b)	<b>12,902</b>	(48,277)
		<b>62,863</b>	158,809
Net cash flows from operating activities		<b>62,863</b>	158,809

# Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		<b>62,863</b>	158,809
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in time deposits with original maturity of over three months when acquired	20	<b>(54,556)</b>	(82,049)
Bank interest received		<b>10,600</b>	9,001
Purchases of items of property, plant and equipment		<b>(127,535)</b>	(135,754)
Proceeds from disposal of items of property, plant and equipment		<b>233</b>	1,415
Additions to intangible assets	13	<b>(79,412)</b>	(92,908)
Purchase of equity investments at fair value through other comprehensive income/available-for-sale investments		<b>(3,774)</b>	(3,267)
Purchase of financial assets at fair value through profit or loss		<b>(1,373)</b>	–
Investment in an associate		<b>(3,000)</b>	–
De-registration of a subsidiary	1	<b>–</b>	(1,853)
Net cash flows used in investing activities		<b>(258,817)</b>	(305,415)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		<b>28,398</b>	25,424
Repayment of bank loans		<b>(28,398)</b>	(25,424)
Interest paid		<b>(128)</b>	(186)
Proceeds from issue of shares		<b>201,536</b>	188,795
Share issue expenses		<b>(821)</b>	(4,592)
Dividends paid to non-controlling shareholders		<b>(11,270)</b>	(12,526)
Net cash flows generated from financing activities		<b>189,317</b>	171,491

# Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows generated from financing activities		<b>189,317</b>	171,491
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(6,636)</b>	24,885
Cash and cash equivalents at beginning of year		<b>310,193</b>	286,357
Effect of foreign exchange rate changes, net		<b>1,321</b>	(1,049)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>304,878</b>	310,193
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash on hand and demand deposits	20	<b>172,973</b>	183,398
Non-pledged time deposits	20	<b>522,377</b>	462,711
Cash and bank balances as stated in the consolidated statement of financial position	20	<b>695,350</b>	646,109
Time deposits with original maturity of over three months when acquired	20	<b>(390,472)</b>	(335,916)
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>304,878</b>	310,193



# Notes to Financial Statements

31 December 2018

## 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	50.30	–	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

# Notes to Financial Statements

31 December 2018

## 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		Principal activities
			Direct	Indirect	
Beijing Fudan Microelectronics Technology Co., Ltd. ("BJFM")***	People's Republic of China/Mainland China	RMB6,000,000	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 31 December 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.

# Notes to Financial Statements

31 December 2018

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRS, 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 2018. 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to *Annual Improvements to HKFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

# Notes to Financial Statements

31 December 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

### Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement		ECL RMB'000	Remeasurement RMB'000	HKFRS 9 measurement		
		Category	Amount RMB'000			Reclassification RMB'000	Amount RMB'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income								
(i)	N/A	-	3,267	-	19,267	22,534	FVOCI <sup>1</sup> (equity)	
From: Available-for-sale investments	(i)		3,267	-	-			
Available-for-sale investments	AFS <sup>2</sup>	3,267	(3,267)	-	-		N/A	
To: Equity investments designated at fair value through other comprehensive income								
(i)			(3,267)	-	-			
Trade receivables	(ii)	L&R <sup>3</sup>	462,855	-	(3,699)	459,156	AC <sup>4</sup>	
Bills receivables	(iii)	L&R <sup>3</sup>	103,579	-	-	103,579	FVOCI	
Financial assets included in								
prepayments, other receivables and other assets								
		L&R	28,580	-	-	28,580	AC	
Cash and cash equivalents		L&R	646,109	-	-	646,109	AC	
			1,244,390	-	(3,699)	1,259,958		
Other assets								
Deferred tax assets			-	-	367	367		
Total assets			1,244,390	-	(3,332)	1,260,325		

# Notes to Financial Statements

31 December 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Notes	HKAS 39 measurement		Reclassification RMB'000	ECL RMB'000	Remeasurement RMB'000	HKFRS 9 measurement	
	Category	Amount RMB'000				Amount RMB'000	Category
Financial liabilities							
Trade and bills payables	AC	131,149	-	-	-	131,149	AC
Financial liabilities included in other payables and accruals	AC	153,935	-	-	-	153,935	AC
		285,084	-	-	-	285,084	
Other liabilities							
Deferred tax liabilities		-	-	-	1,927	1,927	
Total liabilities		285,084	-	-	1,927	287,011	

<sup>1</sup> FVOCI: Financial assets at fair value through other comprehensive income

<sup>2</sup> AFS: Available-for-sale investments

<sup>3</sup> L&R: Loans and receivables

<sup>4</sup> AC: Financial assets or financial liabilities at amortised cost

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income. The Group's available-for-sale financial investments were non-derivative financial assets in unlisted equity investments, which were stated at cost less impairment. The Group has remeasured the fair value of the equity investments designated at fair value through other comprehensive income as of the beginning of 2018.
- (ii) The gross carrying amounts of the trade and bills receivables and the contract assets under the column "HKAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.2(c) to the financial statements.



# Notes to Financial Statements

31 December 2018

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) *(continued)*

### Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December		ECL allowances under HKFRS 9 at 1 January 2018
	2017 RMB'000	Re-measurement RMB'000	RMB'000
Trade and bills receivables	(14,429)	(3,699)	(18,128)

### Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	10,768
Deferred tax in relation to the above	(1,927)
Balance as at 1 January 2018 under HKFRS 9	8,841
Retained profits	
Balance as at 31 December 2017 under HKAS 39	1,141,506
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	8,499
Recognition of expected credit losses for trade receivables under HKFRS 9	(3,699)
Deferred tax in relation to the above	367
Balance as at 1 January 2018 under HKFRS 9	1,146,673

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 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 disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB7,749,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

Except the reclassification of other payables to contract liabilities as described in the above paragraph, there were no adjustments which have had a significant effect on the financial statements from adoption of HKFRS 15.

- (d) HK(IFRIC)-Int 22 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. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

# Notes to Financial Statements

31 December 2018

## 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 3	<i>Definition of a Business</i> <sup>2</sup>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
HKFRS 16	<i>Leases</i> <sup>1</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>2</sup>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> <sup>1</sup>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> <sup>1</sup>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> <sup>1</sup>
Annual Improvements 2015-2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> 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 described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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 16 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB14,339,000 and lease liabilities of RMB14,190,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 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

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.



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

### **Investments in associates and joint ventures** *(continued)*

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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

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

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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.



# Notes to Financial Statements

31 December 2018

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### **Fair value measurement**

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

### **Fair value measurement** *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **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.

# Notes to Financial Statements

31 December 2018

## 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.

# Notes to Financial Statements

31 December 2018

## 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.

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

### Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Subsequent measurement*

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

#### *Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.



# Notes to Financial Statements

31 December 2018

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

### **Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)***

#### *Financial assets designated at fair value through other comprehensive income (equity investments) *(continued)**

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

### Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

#### *Initial recognition and measurement*

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Subsequent measurement*

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

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

# Notes to Financial Statements

31 December 2018

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

### **Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)***

#### *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” (applicable before 1 January 2018)” 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 (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)**

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 (policies under HKFRS 9 applicable from 1 January 2018)**

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

# Notes to Financial Statements

31 December 2018

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

### **Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)***

#### *General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

### **Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)***

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### *Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### **Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)**

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.



# Notes to Financial Statements

31 December 2018

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

### Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

#### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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

### **Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)***

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

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

### **Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)**

#### *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.

# Notes to Financial Statements

31 December 2018

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

### **Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(continued)***

#### *Initial recognition and measurement (continued)*

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

#### *Subsequent measurement*

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

#### *Loans and borrowings*

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### **Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)**

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)**

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.

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

### Cash and cash equivalents

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

For the purpose of the 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.

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:

# Notes to Financial Statements

31 December 2018

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

### **Income tax** *(continued)*

- 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.

### **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.

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

### Revenue recognition (applicable from 1 January 2018)

#### *Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

(b) Testing services

Revenue from testing services is recognised upon completion of testing, generally on acceptance of the tested goods.

#### *Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

#### *Other income*

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.



# Notes to Financial Statements

31 December 2018

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

### Revenue recognition (applicable before 1 January 2018)

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, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services (applicable before 1 January 2018)” below;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) 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
- (e) dividend income, when the shareholders’ right to receive payment has been established.

### Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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

### **Contract costs (applicable from 1 January 2018)**

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

### **Contracts for services (applicable before 1 January 2018)**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

# Notes to Financial Statements

31 December 2018

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

### Share-based payments

The Company operates a share subscription plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer, further details of which are given in note 24 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

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

### **Share-based payments** *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### **Other employee benefits**

#### *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.

### **Dividends**

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

# Notes to Financial Statements

31 December 2018

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

### 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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 subsidiaries 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 generate 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.

#### *Provision for expected credit losses on trade receivables and contract assets*

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.



# Notes to Financial Statements

31 December 2018

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

### *Estimation uncertainty (continued)*

#### *Provision for expected credit losses on trade receivables and contract assets (continued)*

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements, respectively.

#### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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.

#### *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 2018 was RMB15,413,000 (2017: RMB19,063,000). Further details are contained in note 9 to the financial statements.

#### *Fair value of unlisted equity investments*

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 51 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3.

#### *Impairment of available-for-sale financial assets*

Before 1 January 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the statement of profit or loss.

#### *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 generation of the assets, discount rates to be applied and the expected period of benefits. Further details are contained in note 13 to the financial statements.

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

#### *Estimation uncertainty (continued)*

##### *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 17 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.

### 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.

# Notes to Financial Statements

31 December 2018

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

Year ended 31 December 2018	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
<b>Segment revenue (note 5):</b>			
Sales to external customers	1,312,821	96,809	1,409,630
Intersegment sales	–	33,894	33,894
	1,312,821	130,703	1,443,524
<i>Reconciliation:</i>			
Elimination of intersegment sales			(33,894)
Revenue			1,409,630
<b>Segment results</b>	<b>92,822</b>	<b>32,127</b>	<b>124,949</b>
<i>Reconciliation:</i>			
Elimination of intersegment results			(14,520)
Interest income			10,600
Unallocated other income and gains			38,667
Profit before tax			159,696
<b>Segment assets</b>	<b>2,171,207</b>	<b>373,098</b>	<b>2,544,305</b>
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(3,760)
Corporate and other unallocated assets			6,249
Total assets			2,546,794
<b>Segment liabilities</b>	<b>353,039</b>	<b>87,947</b>	<b>440,986</b>
<i>Reconciliation:</i>			
Elimination of intersegment payables			(3,760)
Corporate and other unallocated liabilities			2,128
Total liabilities			439,354
<b>Other segment information:</b>			
Impairment loss recognised in the statement of profit or loss	14,473	239	14,712
Depreciation	38,103	43,722	81,825
Amortisation of intangible assets	29,473	–	29,473
Capital expenditure*	136,826	52,720	189,546

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

# Notes to Financial Statements

31 December 2018

## 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
<b>Segment revenue:</b>			
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
<i>Reconciliation:</i>			
Elimination of intersegment sales			(46,132)
Revenue			1,398,230
<b>Segment results</b>	185,896	33,525	219,421
<i>Reconciliation:</i>			
Elimination of intersegment results			(9,355)
Interest income			9,087
Unallocated other income and gains			26,374
Profit before tax			245,527
<b>Segment assets</b>	1,829,411	351,899	2,181,310
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(4,003)
Corporate and other unallocated assets			30,049
Total assets			2,207,356
<b>Segment liabilities</b>	364,615	75,468	440,083
<i>Reconciliation:</i>			
Elimination of intersegment payables			(4,003)
Total liabilities			436,080
<b>Other segment information:</b>			
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.

# Notes to Financial Statements

31 December 2018

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

### Geographical information

#### (a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	1,329,633	1,325,679
Asia Pacific (excluding Mainland China)	74,018	54,056
Others	5,979	18,495
	<b>1,409,630</b>	1,398,230

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

#### (b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	598,138	527,650
United States of America	24	27
Asia Pacific (excluding Mainland China)	15	12
	<b>598,177</b>	527,689

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

### Information about major customers

In 2018 and 2017, no sales to a single customer contributed to 10% or more of the Group's revenue.

# Notes to Financial Statements

31 December 2018

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods	1,313,867	1,321,651
Rendering of services	91,500	76,579
<i>Revenue from other sources</i>		
Gross rental income	4,263	–
	<b>1,409,630</b>	1,398,230

### Revenue from contracts with customers

#### (i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	IC products RMB'000	Testing service RMB'000	Total RMB'000
<b>Type of goods or services</b>			
Sale of goods	1,313,867	–	1,313,867
Rendering of services	–	91,500	91,500
Total revenue from contracts with customers	1,313,867	91,500	1,405,367
<b>Geographical markets</b>			
Mainland China	1,233,870	91,500	1,325,370
Asia Pacific (excluding Mainland China)	74,018	–	74,018
Other countries/regions	5,979	–	5,979
Total revenue from contracts with customers	1,313,867	91,500	1,405,367
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	1,313,867	–	1,313,867
Services transferred at a point in time	–	91,500	91,500
Total revenue from contracts with customers	1,313,867	91,500	1,405,367



# Notes to Financial Statements

31 December 2018

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

#### (i) *Disaggregated revenue information (continued)*

Set out below is the reconciliation of the revenue from customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	IC products RMB'000	Testing service RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	1,313,867	91,500	1,405,367
Intersegment sales	–	33,894	33,894
	1,313,867	125,394	1,439,261
Intersegment adjustments and eliminations	–	(33,894)	(33,894)
<b>Total revenue from contracts with customers</b>	<b>1,313,867</b>	<b>91,500</b>	<b>1,405,367</b>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of goods	5,834
Rendering of services	1,915
	<b>7,749</b>

# Notes to Financial Statements

31 December 2018

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

#### *(ii) Performance obligations*

Information about the Group's performance obligations is summarised below:

##### *Sale of goods*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

##### *Rendering of services*

The performance obligation is satisfied upon completion of the testing services and payment is generally due within 30 to 90 days from completion, except for new customers, where payment in advance is normally required.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	RMB'000
Within one year	18,406
More than one year	2,556
	20,962

The remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	Notes	2018 RMB'000	2017 RMB'000
Other income and gains			
Bank interest income	6	<b>10,600</b>	9,087
Government grants received for research activities	6	<b>83,020</b>	67,995
Other government grants	6	<b>38,667</b>	26,374
Others		<b>16,884</b>	40,977
		<b>149,171</b>	144,433

# Notes to Financial Statements

31 December 2018

## 6. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of inventories sold	729,590	665,600
Cost of services provided	36,871	40,574
Depreciation (note 12)	81,825	62,957
Research and development costs:		
Deferred development costs amortised* (note 13)	29,473	34,323
Current year expenditure	394,180	373,663
Less: Government grants received for research activities** (note 5)	(83,020)	(67,995)
	<b>340,633</b>	339,991
Minimum lease payments under operating leases	14,319	13,929
Auditor's remuneration	1,613	1,613
Employee benefit expense (excluding directors' and chief executive's remuneration (note 7):		
Wages and salaries	345,914	292,229
Pension scheme contributions	38,425	32,615
Less: Amounts capitalised as development costs	(56,068)	(58,546)
	<b>328,271</b>	266,298

# Notes to Financial Statements

31 December 2018

## 6. PROFIT BEFORE TAX (continued)

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

	2018 RMB'000	2017 RMB'000
Foreign exchange differences, net	810	3,969
Impairment of intangible assets (note 13)	–	1,064
Impairment of trade and bills receivables (note 18)	702	991
Write-down of inventories to net realisable value	14,010	4,691
Write-off/loss on disposal of items of property, plant and equipment and intangible assets	19,474	35,549
Bank interest income (note 5)	(10,600)	(9,087)
Other government grants (note 5)	(38,667)	(26,374)
Government grants received for research activities**	(83,020)	(67,995)

\* 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, for the government's support to 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.

# Notes to Financial Statements

31 December 2018

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

Directors' and chief executive's remuneration for the year is as follows:

	2018 RMB'000	2017 RMB'000
Fees	86	87
Other emoluments:		
Salaries, allowances and benefits in kind	7,743	7,022
Other benefits	108	108
Pension scheme contributions	50	46
	<b>7,901</b>	7,176
	<b>7,987</b>	7,263

### (a) Independent non-executive directors

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

	Fees RMB'000	Other benefits received RMB'000	Total RMB'000
<b>2018</b>			
Mr. Cheung Wing Keung	86	–	86
Mr. Guo Li	–	36	36
Mr. Chen Baoying	–	36	36
Mr. Lin Fujiang	–	36	36
Total	<b>86</b>	<b>108</b>	<b>194</b>
<b>2017</b>			
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

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

# Notes to Financial Statements

31 December 2018

## 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
2018				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	3,494	50	–	3,544
Mr. Yu Jun	2,682	–	–	2,682
Ms. Cheng Junxia	1,267	–	–	1,267
	<b>7,743</b>	<b>50</b>	<b>–</b>	<b>7,793</b>
Non-executive directors:				
Ms. Zhang Qianling	–	–	–	–
Mr. Ma Zhicheng	–	–	–	–
Mr. Yao Fuli	–	–	–	–
Ms. Zhang Huajing	–	–	–	–
	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	<b>7,743</b>	<b>50</b>	<b>–</b>	<b>7,793</b>



# Notes to Financial Statements

31 December 2018

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

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

	Salaries, allowances benefits in kind RMB'000	Pension scheme contributions RMB'000	Other and 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

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 (2017: one director and one director/chief executive), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Group are as follows:

# Notes to Financial Statements

31 December 2018

## 8. FIVE HIGHEST PAID EMPLOYEES (continued)

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	5,157	5,091
Pension scheme contributions	50	46
	<b>5,207</b>	<b>5,137</b>

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	
	2018	2017
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	1
	<b>3</b>	<b>3</b>

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”). In addition, 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 is qualified as “a key integrated circuit design enterprise falling within the State’s planned arrangement”. For the years ended 31 December 2017 and 2018, income tax provision on assessable income of the Company was made at the rate of 10% applied to key integrated circuit design enterprises falling within the State’s planned arrangement.

# Notes to Financial Statements

31 December 2018

## 9. INCOME TAX (continued)

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 2018, income tax on assessable income of Sino IC and Fukong Hualong has been provided at the rate of 15% (2017: 15%).

Under the CIT Law, two of the Company's subsidiaries, SZFM and BJFM, are subject to income tax at a base rate of 25%. For the year ended 31 December 2018, income tax on assessable income of these subsidiaries has been provided at the rate of 25% (2017: 25%).

Hong Kong profits tax has been provided at the rate of 8.25% on assessable profits up to HK\$2,000,000; and 16.5% on any part of assessable profits over HK\$2,000,000 (2017: 16.5%) arising in Hong Kong during the year.

The Company's subsidiary incorporated and operating in the United States of America is subject to federal corporation income tax at a rate of 21% during the year (2017: 21%), as well as state tax at a rate of 8.84% (2017: 8.84%).

	2018 RMB'000	2017 RMB'000
Current – Hong Kong		
Charge for the year	495	219
Overprovision in prior years	(35)	–
Current – United States of America		
Charge for the year	5	5
Current – Mainland China		
Charge for the year	5,067	8,696
Underprovision/(overprovision) in prior years	644	(4,385)
Deferred (note 9(c))	24,168	12,923
Total tax charge for the year	30,344	17,458

# Notes to Financial Statements

31 December 2018

## 9. INCOME TAX (continued)

### (a) Income tax expense

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries/ jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

#### 2018

	Mainland China		Hong Kong		United States of America		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	158,606		3,853		(2,763)		159,696	
Tax at the statutory tax rates	39,651	25.0	494	12.8	(824)	29.8	39,321	24.6
Lower tax rates enacted by local authority	(21,557)	(13.6)	-	-	-	-	(21,557)	(13.5)
Adjustment in respect of current tax of previous years – underprovisions/ (overprovisions)	644	0.4	(35)	(0.9)	-	-	609	0.4
Accelerated deduction for research and development activities	(25,490)	(16.1)	-	-	-	-	(25,490)	(16.0)
Expenses not deductible for tax	892	0.6	(5)	(0.1)	5	(0.2)	892	0.6
Tax losses utilised from previous periods	(2,556)	(1.6)	-	-	-	-	(2,556)	(1.6)
Tax losses and temporary differences not recognised	38,295	24.1	6	0.2	824	(29.8)	39,125	24.5
Tax charge at the Group's effective rate	29,879	18.8	460	12.0	5	(0.2)	30,344	19.0

# Notes to Financial Statements

31 December 2018

## 9. INCOME TAX (continued)

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

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

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

	2018 RMB'000	2017 RMB'000
At beginning of year	(27,984)	15,771
Provision for the year	6,176	4,535
Hong Kong tax paid during the year	(409)	(8)
United States tax paid during the year	(5)	(5)
Mainland China tax refunded/(paid) during the year	12,902	(48,277)
At end of year	(9,320)	(27,984)
Inclusive of		
Tax payable	1,944	522
Tax recoverable	(11,264)	(28,506)

# Notes to Financial Statements

31 December 2018

## 9. INCOME TAX (continued)

### (c) Deferred tax

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

**2018**

Deferred tax assets

	At 1 January 2018 RMB'000	Effect of adoption of HKFRS 9 RMB'000	At 1 January 2018 (restated) RMB'000	Deferred tax (charged)/ credited to profit or loss during the year* RMB'000	Deferred tax assets at 31 December 2018 RMB'000
Inventories	263	–	263	4	267
Impairment of assets	10,853	368	11,221	(11,098)	123
Depreciation of property, plant and equipment, and amortisation of intangible assets	4,859	–	4,859	(4,859)	–
Government grants	10,965	–	10,965	(5,223)	5,742
Temporary differences related to accruals and other payables	3,109	–	3,109	(2,992)	117
<b>Total</b>	<b>30,049</b>	<b>368</b>	<b>30,417</b>	<b>(24,168)</b>	<b>6,249</b>

\* According to tax rule Notice to Increase R&D Super-deduction Percentage, Caishui [2018] No. 99 jointly published by Ministry of Finance, State Taxation Administration and Ministry of Science and Technology on 20 September 2018, the Company is entitled 75% R&D super-deduction effective from 1 January 2018. The Company estimates that the deductible temporary differences shall not be utilized because of sufficient R&D deduction in the future. Therefore the Company did not recognise deferred tax assets arising from deductible temporary differences as of 31 December 2018.



# Notes to Financial Statements

31 December 2018

## 9. INCOME TAX (continued)

### (c) Deferred tax (continued)

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

2017

Deferred tax assets

	At 1 January 2017 RMB'000	Deferred tax (charged)/ credited to 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
<b>Total</b>	<b>42,972</b>	<b>(12,923)</b>	<b>30,049</b>

2018

Deferred tax liabilities

	At 1 January 2018 RMB'000	Effect of adoption of HKFRS 9 RMB'000	At 1 January 2018 (restated) RMB'000	Deferred tax charged to other comprehensive income during the year RMB'000	Deferred tax assets at 31 December 2018 RMB'000
Fair value Adjustments of equity investments at fair value through other comprehensive income	-	1,927	1,927	201	2,128
<b>Total</b>	<b>-</b>	<b>1,927</b>	<b>1,927</b>	<b>201</b>	<b>2,128</b>

## 9. INCOME TAX (continued)

### (c) Deferred tax (continued)

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

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	6,249
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,128)

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

	2018 RMB'000	2017 RMB'000
Tax losses	15,413	19,063
Deductible temporary differences	38,695	4,537
	<b>54,108</b>	23,600

The Group has no tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies (2017: nil). The Group has tax losses arising in the United States of America of USD734,000 (2017: USD320,000) that will expire in one to five years for offsetting against future taxable profits. The Group has tax losses arising in Mainland China of RMB1,401,000 (2017: RMB16,770,000) 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.

# Notes to Financial Statements

31 December 2018

## 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 660,583,000 (2017: 626,075,000) in issue during the year.

The calculation of basic earnings per share is based on:

	2018 RMB'000	2017 RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	107,482	212,122
	<b>Number of shares '000</b>	
	2018	2017
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	660,583	626,075

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2018 and 2017. The diluted earnings per share amount is the same as the basic earnings per share amount.

# Notes to Financial Statements

31 December 2018

## 12. PROPERTY, PLANT AND EQUIPMENT

31 December 2018

	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 2017 and at 1 January 2018:					
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
At 1 January 2018, net of accumulated depreciation	188,714	128,595	3,745	45,980	367,034
Additions	4,566	23,708	914	80,946	110,134
Transfers	19,505	65,420	–	(84,925)	–
Disposals	–	(138)	(42)	–	(180)
Depreciation provided during the year	(14,713)	(65,837)	(1,275)	–	(81,825)
At 31 December 2018, net of accumulated depreciation	198,072	151,748	3,342	42,001	395,163
At 31 December 2018:					
Cost	237,832	476,584	9,851	42,001	766,268
Accumulated depreciation	(39,760)	(324,836)	(6,509)	–	(371,105)
Net carrying amount	198,072	151,748	3,342	42,001	395,163

# Notes to Financial Statements

31 December 2018

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

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

# Notes to Financial Statements

31 December 2018

## 13. INTANGIBLE ASSETS

	Deferred development costs RMB'000
<b>31 December 2018</b>	
Cost at 31 December 2017 and 1 January 2018, net of accumulated amortisation and impairment	160,655
Additions – internal development	79,412
Write-off – internal development	(19,526)
Impairment during the year	–
Amortisation provided during the year	(29,473)
At 31 December 2018	191,068
At 31 December 2018:	
Cost	435,298
Accumulated amortisation and impairment	(244,230)
Net carrying amount	191,068
<b>31 December 2017</b>	
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



# Notes to Financial Statements

31 December 2018

## 14. INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Share of net assets	3,000	–

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Shanghai West Hongqiao Navigation Technology Co., Ltd (“West Hongqiao”)	Ordinary shares	Shanghai	10	Technology service

The Group’s shareholding in the associate comprises equity shares held by the Company. The financial year of the above associate is coterminous with that of the Group.

The Group’s investment in West Hongqiao is accounted for under the equity method of accounting because the Group has significant influence over West Hongqiao by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group’s equity interests in West Hongqiao were lower than 20% for the year ended December 31, 2018.

The following table illustrates the summarised financial information in respect of West Hongqiao adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000
Current assets	30,003
Net assets	30,003
Reconciliation to the Group’s interest in the associate:	
Proportion of the Group’s ownership	10%
Group’s share of net assets of the associate, excluding goodwill	3,000
Carrying amount of the investment	3,000
Profit for the year	3
Other comprehensive income	3
Total comprehensive income for the year	3

# Notes to Financial Statements

31 December 2018

## 15. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
<b>Equity Investments designated at fair value through other comprehensive income</b>		
Unlisted equity investments, at fair value		
Shanghai Fudan communication co.,Ltd	21,269	–
ScaleFlux, Inc	3,432	–
eTopus Technology, Inc	3,431	–
MuMec, Inc	343	–
	<b>28,475</b>	–
<b>Available-for-sale instruments</b>		
Unlisted equity investments, at cost	–	16,710
Impairment provision	–	(13,443)
	–	3,267

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of RMB3,267,000 were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

## 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Debt investments, at fair value	1,373	–

# Notes to Financial Statements

31 December 2018

## 17. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	285,481	163,986
Work in progress	137,086	85,787
Finished goods	183,481	117,333
	<b>606,048</b>	367,106

## 18. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	455,166	477,284
Bills receivables	126,115	103,579
Impairment	(18,790)	(14,429)
	<b>562,491</b>	566,434

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.

# Notes to Financial Statements

31 December 2018

## 18. TRADE AND BILLS RECEIVABLES (continued)

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	361,119	359,758
3 to 6 months	113,995	133,428
6 to 12 months	44,719	61,198
Over 12 months	42,658	12,050
	<b>562,491</b>	566,434

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	14,429	13,649
Effect of adoption of HKFRS 9	3,699	–
At beginning of year (restated)	18,128	13,649
Impairment losses, net (note 6)	702	991
Amount written off as uncollectible	(40)	(211)
	<b>18,790</b>	14,429

### Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two to three years and are not subject to enforcement activity.

# Notes to Financial Statements

31 December 2018

## 18. TRADE AND BILLS RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Current	Less than 3 months	Past due 3 to 6 months	6 to 9 months	Over 9 months	Total
Expected credit loss rate	1.14%	1.39%	2.01%	2.02%	24.34%	4.13%
Gross carrying amount (RMB'000)	292,826	63,059	27,569	15,333	56,379	455,166
Expected credit losses (RMB'000)	3,328	874	554	309	13,725	18,790

### Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017, was a provision for individually impaired trade receivables of RMB1,628,000 with a carrying amount before provision of RMB1,628,000. The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties and were not expected to be recovered.

The remaining provision of RMB12,801,000 related to impaired trade receivables with a carrying amount before provision of RMB42,144,000 as at 31 December 2017 of which in the opinion of the directors, only a portion of the receivables was expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	438,566
Less than 1 month past due	70,237
1 to 3 months past due	28,288
	537,091

Receivables that were neither past due nor impaired related to certain major customers and a number of diversified customers for whom there was no recent history of default.

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

Receivables that were past due but not impaired related to a number of independent customers that had 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 under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

At 31 December 2018, the Group endorsed certain bills receivables 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 RMB15,140,000 (2017: RMB22,821,000). 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.

## 19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	23,731	9,616
Deposits and other receivables (note 31)	13,636	28,580
	<b>37,367</b>	38,196

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.



# Notes to Financial Statements

31 December 2018

## 20. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	<b>304,878</b>	310,193
<i>Including: Time deposits with original maturity of less than three months when acquired</i>	<b>131,905</b>	126,795
<i>Cash on hand and demand deposits</i>	<b>172,973</b>	183,398
Time deposits with original maturity of over three months when acquired	<b>390,472</b>	335,916
Cash and bank balances	<b>695,350</b>	646,109

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB524,723,000 (2017: RMB394,750,000). 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 one year 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.

# Notes to Financial Statements

31 December 2018

## 21. 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:

	2018 RMB'000	2017 RMB'000
Within 3 months	144,873	130,465
3 to 6 months	964	195
6 to 12 months	1,440	37
Over 12 months	40	452
	<b>147,317</b>	131,149

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 33 to the financial statements.

## 22. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME

	Notes	2018 RMB'000	2017 RMB'000
Current liabilities:			
Payable for the purchase of software		2,201	5,984
Accruals		4,185	6,729
Contract liabilities	(a)	11,231	–
Advance from customers	(a)	–	7,749
Deferred revenue	(b)	110,128	130,692
Other payables	(c)	140,150	141,222
		<b>267,895</b>	292,376
Non-current liability:			
Deferred revenue		20,070	12,033

# Notes to Financial Statements

31 December 2018

## 22. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME (continued)

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	2018 31 December RMB'000	2018 1 January RMB'000
<i>Short-term advances received from customers</i>		
Sale of goods	9,574	5,834
Rendering of services	1,657	1,915
<b>Total contract liabilities</b>	<b>11,231</b>	<b>7,749</b>

Contract liabilities include short-term advances received to deliver IC products and render testing services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the IC products at the end of the year.

(b) Other payables are non-interest-bearing and have an average term of one to three months.

(c) 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.

## 23. SHARE CAPITAL

	2018 RMB'000	2017 RMB'000
Registered, issued and fully paid:		
410,172,000 (2017: 375,000,000) unlisted domestic shares of RMB0.10 each	41,017	37,500
284,330,000 (2017: 284,330,000) H shares of RMB0.10 each	28,433	28,433
	<b>69,450</b>	65,933

# Notes to Financial Statements

31 December 2018

## 23. SHARE CAPITAL (continued)

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2018	659,330,000	65,933
Placing of shares (Note (a))	35,172,000	3,517
At 31 December 2018	694,502,000	69,450

	Number of shares in issue	Share capital RMB'000
At 1 January 2017	617,330,000	61,733
Placing of shares (Note (b))	42,000,000	4,200
At 31 December 2017	659,330,000	65,933

Note (a):

Placing of shares was completed on 18 December 2018, at an issue price of RMB5.73 per share, resulting in the issue of 35,172,000 shares for a total cash consideration, before expenses, of RMB201,536,000.

Note (b):

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.

## 24. SHARE-BASED PAYMENT

The Company operates an employee share subscription plan (the "ESSP") by way of non-public issuance of new domestic shares to four partnership firms for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the ESSP include the Group's core management and technical personnel.

The relevant approval by the directors was obtained on 12 December 2018, pursuant to which the date of grant for the ESSP was set on 12 December 2018.

Pursuant to the ESSP, a total of 35,172,000 shares (RMB0.10 par value) were granted to eligible participants at the cash consideration of RMB5.73 per share through four partnership firms. The lock-up period imposed by the ESSP is to be a term commencing from the date of grant and ending on the expire date of a 3-year service period, which commences from the date when the Company has completed the update of business licence registration for the ESSP. On 14 February 2019, the Company completed the update of business license registration.

# Notes to Financial Statements

31 December 2018

## 24. SHARE-BASED PAYMENT *(continued)*

As of 31 December 2018, the Company received a total of RMB201,536,000 cash consideration for the ESSP, of which RMB3,517,200 was credited to issued capital and RMB197,198,000 to reserve after deduction of issuance expenses. For the year ended 31 December 2018, the Group has recognised an amount of RMB69,000 as equity-settled share-based expenses, which was credited to reserves.

Fair value of the ESSP on the date of grant was determined based on the market-based approach, under which the Company's share price was adjusted for the lack of marketability.

## 25. 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 53 and 54 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.

In 2018, the Company implemented a share incentive scheme and granted a total of 35,172,000 shares to eligible executives and employees through four partnership firms. As of 31 December 2018, the Company received a total of RMB201,536,000 cash consideration for the ESSP, of which RMB3,517,200 was credited to issued capital and RMB197,198,000 to reserve after deduction of issuance expenses. The details are given in note 24 to the financial statements.

At 31 December 2018, in accordance with the Company Law of the PRC, the Company's share premium account of approximately RMB545,756,000 (2017: RMB348,489,000) was available for distribution by way of a future capitalisation issue.

### (ii) Statutory surplus reserve

In accordance with the Company Law of the PRC and the articles of association of the Company and its subsidiaries in Mainland China, the Company and the subsidiaries are required to allocate 10% of their profits after tax (after deducting accumulated losses incurred in previous years), as determined in accordance with the applicable PRC accounting standards and regulations (the "PRC accounting standards"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the respective companies. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association of the Company and its PRC subsidiaries, the SSR may be capitalised as share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

## 25. RESERVES *(continued)*

### (ii) Statutory surplus reserve *(continued)*

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 RMB2,531,000 (2017: RMB1,704,000) 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) Available-for-sale investment revaluation/Fair value reserve

The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income. The Group's available-for-sale financial investments were non-derivative financial assets in unlisted equity investments, which were stated at cost less impairment in 2017 and before. The Group has remeasured the fair value of the equity investments designated at fair value through other comprehensive income/available-for-sale equity investments as of the beginning and end of 2018. The change in fair value net of income tax impact was recorded in the available-for-sale investment revaluation/fair value reserve account.

### (iv) 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.

### (v) 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.



# Notes to Financial Statements

31 December 2018

## 26. 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:

	2018	2017
Percentage of equity interest held by non-controlling interests Sino IC	49.7%	49.7%
	2018 RMB'000	2017 RMB'000
Profit for the year allocated to non-controlling interests Sino IC	15,964	16,379
Dividends paid to non-controlling interests Sino IC	11,270	12,526
Accumulated balances of non-controlling interests at the reporting date: Sino IC	143,659	138,695

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

Sino IC	2018 RMB'000	2017 RMB'000
Revenue	130,703	122,711
Other income	50,793	52,687
Total costs and expenses	(145,028)	(138,395)
Income tax	(4,296)	(3,138)
Profit for the year	32,172	33,865
Total comprehensive income for the year	32,172	33,865
Current assets	241,383	235,810
Non-current assets	137,696	121,295
Current liabilities	(73,502)	(66,813)
Non-current liabilities	(14,445)	(8,651)
Net cash flows from operating activities	95,712	46,553
Net cash flows used in investing activities	(89,830)	(8,403)
Net cash flows used in financing activities	(22,680)	(25,200)
Net (decrease)/increase Net increase/(decrease) in cash and cash equivalents	(17,039)	12,950

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

# Notes to Financial Statements

31 December 2018

## 27. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Bank loans RMB'000	Interest payable RMB'000	Dividend payable to non- controlling shareholders RMB'000
At 1 January 2018	–	–	–
Changes from financing cash flows	–	(128)	(11,270)
Inclusive of:			
New bank loans	28,398	–	–
Repayment of bank loans	(28,398)	–	–
Interest paid	–	(128)	–
Dividend paid to non-controlling shareholders	–	–	(11,270)
Declaration of dividends	–	–	11,270
Interest expense	–	128	–
At 31 December 2018	–	–	–

## 28. CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no significant contingent liabilities.

## 29. COMMITMENTS

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

### (a) Capital commitments

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	8,523	12,318

# Notes to Financial Statements

31 December 2018

## 29. COMMITMENTS (continued)

- (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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

### *As lessee*

	2018 RMB'000	2017 RMB'000
Within one year	13,043	12,537
In the second to fifth years, inclusive	4,997	8,062
More than five years	–	3,413
	<b>18,040</b>	24,012

- (c) The Group leases its equipment under operating lease arrangements, with leases negotiated for terms of three years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

### *As lessor*

	2018 RMB'000	2017 RMB'000
Within one year	3,833	–
In the second to fifth years, inclusive	2,556	–
	<b>6,389</b>	–

## 30. 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:

	Notes	2018 RMB'000	2017 RMB'000
Technical and equipment support fee paid to the owner of one of the shareholders of the Company	(i)	69	67
Technical development fee	(ii)	97	–
		<b>166</b>	<b>67</b>

Notes:

- (i) On 12 August 2003, the Company and Fudan University, the owner of one of the substantial shareholders 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 2018 amounted to RMB69,000 (2017: RMB67,000).
- (ii) On 7 July 2017, Fukong Hualong and Fudan University, entered into an agreement under which the Fukong Hualong was required to pay a technical development fee to Fudan University when the development completed in 2018.

The related party transactions in respect of items above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

- (b) Outstanding balances with related parties:  
The Group had an outstanding contract liability due to Fudan University of RMB868,000 as at the end of the reporting period. This balance is unsecured, interest-free and has no fixed terms of repayment.
- (c) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Directors' and chief executive's remuneration	7,987	7,263
Salaries, allowances and benefits in kind – other key management personnel	2,722	2,705
Equity-settled compensation	4	–
Total compensation paid to key management personnel	<b>10,713</b>	<b>9,968</b>

In 2018, the Company implemented a share incentive scheme and granted a total of 35,172,000 shares to eligible executives and employees through four partnership firms. Three members of key management personnel participated in the share incentive scheme, subscribed 2,140,000 shares in total with a cash consideration of RMB12,262,000, the fair value of which is RMB12,519,000.

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

# Notes to Financial Statements

31 December 2018

## 31. 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:

2018

### *Financial assets*

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss RMB'000	Total RMB'000
		Equity investment RMB'000	Debt investment RMB'000		
Trade and bills receivables	455,166	–	126,115	–	581,281
Financial assets included in prepayments, other receivables and other assets (note 19)	13,636	–	–	–	13,636
Cash and bank balances	695,350	–	–	–	695,350
Equity investments at fair value through other comprehensive income	–	28,475	–	–	28,475
Financial assets at fair value through profit or loss	–	–	–	1,373	1,373
	<b>1,164,152</b>	<b>28,475</b>	<b>126,115</b>	<b>1,373</b>	<b>1,320,115</b>

### *Financial liabilities*

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	147,317
Financial liabilities included in accruals, other payables and deferred income (note 22)	146,536
	<b>293,853</b>

# Notes to Financial Statements

31 December 2018

## 31. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2017

### *Financial assets*

	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
Trade and bills receivables	566,434	–	566,434
Financial assets included in prepayments, other receivables and other assets (note 19)	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

### *Financial liabilities*

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	131,149
Financial liabilities included in accruals, other payables and deferred income (note 22)	153,935
	285,084



# Notes to Financial Statements

31 December 2018

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
<b>Financial assets</b>				
Equity investments designated at fair value through other comprehensive income	28,475	–	28,475	–
Financial assets at fair value through profit or loss	1,373	–	1,373	–
Bills receivables	126,115	–	126,115	–
	<b>155,963</b>	–	<b>155,963</b>	–

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, other receivables and other assets, financial liabilities included in accruals, other payables and deferred income, and 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 values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

# Notes to Financial Statements

31 December 2018

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Discounted cash flow model	Long-term growth rate	2018: 3%	1% increase/(decrease) in multiple would have no material impact on the fair value
		Weighted average cost of capital (WACC)	2018: 14%	1% increase/(decrease) in multiple would have no material impact on the fair value
		Discount for lack of marketability	2018: 20%	1% increase/(decrease) in multiple would have no material impact on the fair value
		Discount for minority interest	2018: 15%	1% increase/(decrease) in multiple would have no material impact on the fair value

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

# Notes to Financial Statements

31 December 2018

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	–	–	28,475	28,475
Financial assets at fair value through profit or loss	–	–	1,373	1,373
Bills receivables	–	–	126,115	126,115
	–	–	155,963	155,963

The principle movements in fair value measurements within Level 3 during the year are as follows:

	2018 RMB'000	2017 RMB'000
Equity investments at fair value through other comprehensive income/available-for-sale investments – unlisted:		
At 1 January	3,267	–
Effect of adoption of HKFRS 9	19,267	–
At 1 January/(restated)	22,534	–
Total gains recognised in other comprehensive income	2,002	–
Purchases	3,774	3,267
Disposals	–	–
Others	165	–
At 31 December	28,475	3,267

## 32. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Fair value hierarchy *(continued)*

#### Assets measured at fair value: *(continued)*

The principle movements in fair value measurements within Level 3 during the year are as follows: *(continued)*

	2018 RMB'000	2017 RMB'000
Financial assets at fair value through profit or loss:		
At 1 January	–	–
Effect of adoption of HKFRS 9	–	–
At 1 January/(restated)	–	–
Total gains recognised in in the statement of profit or loss	–	–
Purchases	<b>1,373</b>	–
Disposals	–	–
At 31 December	<b>1,373</b>	–

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 and 31 December 2018.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

## 33. 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.

# Notes to Financial Statements

31 December 2018

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

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.

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 10% (2017: 7%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 40% (2017: 62%) 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
<b>2018</b>			
If RMB weakens against the United States dollar ("US\$")	+5	4,677	-
If RMB strengthens against US\$	-5	(4,677)	-
If RMB weakens against the Hong Kong dollar ("HK\$")	+5	2,244	-
If RMB strengthens against HK\$	-5	(2,244)	-
<b>2017</b>			
If RMB weakens against 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)	-

\* Excluding retained profits

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

### 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.

### Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs		Lifetime ECLs		Simplified approach	RMB'000
	Stage 1	Stage 2	Stage 3			
	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Trade and bills receivables*	–	–	–		455,166	455,166
Financial assets included in prepayments, other receivables and other assets						
– Normal**	13,636	–	–		–	13,636
Cash and bank balances						
– Not yet past due	695,350	–	–		–	695,350
	708,986	–	–		455,166	1,164,152

\* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

\*\* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

### Maximum exposure as at 31 December 2017

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.

# Notes to Financial Statements

31 December 2018

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

### Maximum exposure as at 31 December 2017 *(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 had certain concentrations of credit risk as the Group's sales are made to several major customers, with 19% (2017: 28%) of the Group's trade and bills receivables 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 18 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 RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 year to 5 years RMB'000	Total RMB'000
<b>31 December 2018</b>					
Trade and bills payables	2,447	144,870	–	–	147,317
Financial liabilities included in accruals, other payables and deferred income	124,564	12,130	9,534	308	146,536
	<b>127,011</b>	<b>157,000</b>	<b>9,534</b>	<b>308</b>	<b>293,853</b>
<b>31 December 2017</b>					
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
	<b>84,292</b>	<b>182,621</b>	<b>15,967</b>	<b>2,204</b>	<b>285,084</b>



## 33. 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 2018 and 31 December 2017.

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:

	2018 RMB'000	2017 RMB'000
Total liabilities	439,354	436,080
Net assets	2,107,440	1,771,276
Gearing ratio	20.8%	24.6%

# Notes to Financial Statements

31 December 2018

## 34. 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:

	2018 RMB'000	2017 RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	267,317	248,782
Intangible assets	175,822	148,673
Investment in an associate	3,000	–
Investments in subsidiaries	76,561	73,561
Equity investments at fair value through other comprehensive income	21,269	–
Deferred tax assets	–	24,579
Prepayments for equipment	2,310	–
<b>Total non-current assets</b>	<b>546,279</b>	495,595
<b>CURRENT ASSETS</b>		
Inventories	597,015	358,578
Due from subsidiaries	47,491	14,965
Trade and bills receivables	510,990	533,888
Prepayments, and other receivables and other assets	27,932	15,932
Tax recoverable	11,264	28,506
Cash and bank balances	420,017	409,834
<b>Total current assets</b>	<b>1,614,709</b>	1,361,703
<b>CURRENT LIABILITIES</b>		
Due to subsidiaries	3,760	4,068
Trade and bills payables	144,732	118,174
Accruals, other payables and deferred income	180,611	221,964
<b>Total current liabilities</b>	<b>329,103</b>	344,206
<b>NET CURRENT ASSETS</b>	<b>1,285,606</b>	1,017,497
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>1,831,885</b>	1,513,092
<b>NON-CURRENT LIABILITIES</b>		
Deferred income	5,624	3,382
Deferred tax liabilities	2,127	–
<b>Total non-current liabilities</b>	<b>7,751</b>	3,382
<b>Net assets</b>	<b>1,824,134</b>	1,509,710
<b>EQUITY</b>		
Share capital	69,450	65,933
Reserves (note)	1,754,684	1,443,777
<b>Total equity</b>	<b>1,824,134</b>	1,509,710

Shi Lei  
Director

Cheng Junxia  
Director

# Notes to Financial Statements

31 December 2018

## 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium account RMB'000	Available- for-sale investment revaluation/Fair value reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	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
At 1 January 2018	<b>348,489</b>	–	<b>35,478</b>	<b>1,059,810</b>	<b>1,443,777</b>
Effect of adoption of HKFRS 9	–	<b>8,841</b>	–	<b>5,197</b>	<b>14,038</b>
At 1 January 2018 (restated)	<b>348,489</b>	<b>8,841</b>	<b>35,478</b>	<b>1,065,007</b>	<b>1,457,815</b>
Profit for the year	–	–	–	<b>97,800</b>	<b>97,800</b>
Other comprehensive income for the year:					
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	<b>1,802</b>	–	–	<b>1,802</b>
Total comprehensive income for the year	–	<b>1,802</b>	–	<b>97,800</b>	<b>99,602</b>
Issue of shares	<b>198,019</b>	–	–	–	<b>198,019</b>
Share issue expenses	<b>(821)</b>	–	–	–	<b>(821)</b>
Equity-settled share- based expenses	<b>69</b>	–	–	–	<b>69</b>
At 31 December 2018	<b>545,756</b>	<b>10,643</b>	<b>35,478</b>	<b>1,162,807</b>	<b>1,754,684</b>

# Notes to Financial Statements

31 December 2018

## 35. EVENTS AFTER THE REPORTING PERIOD

The board of directors, at the Board meeting held on 28 February 2019, approved and resolved to convene the Extra-ordinary General Meeting and Class Meetings to submit a special resolution in relation to the proposed A Share Offering.

Assuming that there are no changes to the total issued share capital of the Company prior to the completion of the A Share Offering, the maximum number of new A Shares to be issued will not be more than 231,500,000 A Shares representing approximately 33.33% of the total existing issued share capital of the Company before the issue of A Shares, and 25% of the total enlarged issued share capital of the Company after the issue of A Shares. All A Shares will be issued as new shares and no transfer arrangement will be made for the old shares.

## 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2019.

## 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				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
<b>RESULTS</b>					
REVENUE	<b>1,409,630</b>	1,398,230	1,187,490	1,039,725	843,913
Cost of sales	<b>(766,461)</b>	(706,174)	(556,198)	(489,416)	(443,131)
Gross profit	<b>643,169</b>	692,056	631,292	550,309	400,782
Other income and gains	<b>149,171</b>	144,433	162,985	83,080	102,722
Selling and distribution expenses	<b>(86,696)</b>	(77,098)	(68,428)	(61,887)	(55,566)
Administrative expenses	<b>(118,712)</b>	(98,057)	(87,300)	(80,579)	(71,894)
Impairment losses on financial assets	<b>(702)</b>	–	–	–	–
Other expenses	<b>(426,534)</b>	(415,807)	(378,692)	(297,598)	(192,402)
PROFIT BEFORE TAX	<b>159,696</b>	245,527	259,857	193,325	183,642
Tax	<b>(30,344)</b>	(17,458)	(19,767)	(15,335)	(6,653)
PROFIT FOR THE YEAR	<b>129,352</b>	228,069	240,090	177,990	176,989
Attributable to:					
Owners of the parent	<b>107,482</b>	212,122	212,258	158,898	167,963
Non-controlling interests	<b>21,870</b>	15,947	27,832	19,092	9,026
	<b>129,352</b>	228,069	240,090	177,990	176,989

# Five Year Financial Summary

As at 31 December

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
<b>ASSETS, LIABILITIES AND NON- CONTROLLING INTERESTS</b>					
TOTAL ASSETS	<b>2,546,794</b>	2,207,356	1,802,868	1,518,463	1,276,461
TOTAL LIABILITIES	<b>(439,354)</b>	(436,080)	(428,436)	(404,877)	(341,533)
NON-CONTROLLING INTERESTS	<b>(164,834)</b>	(154,234)	(152,666)	(111,756)	(92,664)
	<b>1,942,606</b>	1,617,042	1,221,766	1,001,830	842,264