ANNUAL REPORT 2011

上海復旦微電子集團股份有限公司

Shanghai Fudan Microelectronics Group Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8102)

* for identification only

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This report, for which the directors (the "Directors") of Shanghai Fudan Microelectronics Group Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Chairman's Statement

On behalf of the board of directors (the "Board") of Shanghai Fudan Microelectronics Group Company Limited (the "Company" and formerly known as Shanghai Fudan Microelectronics Company Limited), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

During 2011, the world was seriously suffered from the concern of double dips in the economy of the United States and the European debt crisis, the worldwide economical growth was slowed down, and however, the economy of China continued to keep a considerable growth. The Group, because of its concentration in core business which has steady product demands and continuous growth in the related markets and also with the PRC as its predominant market, has recorded a successive growth in its turnover over the years.

The results of the Group for the year was slightly reduced as compared to last year, even thought the turnover and other income and gains were recorded with satisfactory increases, profit margin dropped due to increase in cost of sales. In addition, the total comprehensive income decreased as a result of significant increase in operating costs as a consequence of inflation in the PRC.

Base on its striving in research and development for over ten years, the Group has accumulated lots of advanced technologies and experiences, and has generated a diversified industrial chain that provides a good business development and stable financial position as well as a continuous increasing market share. During the year under review, the Company was awarded with "Best Under A Billion" presented by the Forbes Asia as one of the best top small companies. Besides, the Company had its logo being certified as a "Famous Trademark" in Shanghai and also was awarded with "The Best 10 IC Design Companies in the PRC" granted by the EE Times Asia. The predominance of the Group and its technologies in research and development as well as the leading position in the industry were proven.

The Group has completed the development and research of certain products and the continually launching of these products into the market has received satisfactory sales effects. Besides continuously striving to explore domestic markets, the Group has established overseas liaison offices with a view to explore overseas markets in order to expand market spaces. The Group has kept its business objectives and targets not only by market promotion, but also by unceasing application of resources on project development and research in order to bring forth new products and keep close to the market. The directors believe that despite of the adverse effects of uncertainties in economies of other regions and the lowering of the PRC's GDP growth target, the Group's business and results of 2012 will keep a stable development.

The success of the Group is a result of the long term support and trust obtained from our shareholders and business partners together with the team spirit of the management and staff. I believe that under the enterprise spirit of superior management and endless endeavours of our staff, the Group's business would be steady developed with continuous growth.

Jiang Guoxing
Chairman

Shanghai, the PRC, 21 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the Group's business has not been affected by the slowdown of economies in the other regions. Even thought there was a lack of the similar benefits brought from the Shanghai World Expo in last year, the fast growing domestic economy in the PRC and the eager demand in the domestic electronics market together with the market acceptance of the Group's new products, the Group was enabled to keep a constant growth in its business during the year.

For the year ended 31 December 2011, the Group recorded a new high in its turnover with both sales growth in the Mainland China and overseas regions. In order to expand the overseas sales, the Group has established liaison offices in Singapore and Taiwan respectively through its Hong Kong subsidiary in order to strengthen overseas business development.

During the year, the Group still concentrated on the diversification of its core business of IC card chips design, in addition to the participation of government projects in varies provinces and cities and the provision of technical support to substantial activities, the Group has extensively promoted its technologies to cover social security and financial cross-industries applications as well as the attendances in various discussion groups and exhibitions. The Group has completed the research and development of certain products during the year, some of them have been launched into market and their satisfactory sales effects brought a continuous growth in the Group's turnover over the years.

Details of the performance of the Group's products and business during the year are as follows:

IC Smart Card Chips

IC card chips use to be a major source of the Group's profit and its sales for the year accounted for over half of the Group's total turnover with only an increase of approximately 7% but increased by approximately 19% in sales volume over the last year. As sales of these products in last year were benefited by the World Expo held in Shanghai with increases in both turnover and volume, the turnover for the year has relatively and comparatively slowed down. Because of the strength in exploring new markets in other provinces and cities, turnover and sales volume were both recorded with increases over the years. Most of the Group's IC cards chips are specified for the usages in public and railway transportation and the stability in selling prices of these products has resulted a slightly increase in profit margin as compared with last year.

Consumer Electronics Chips

Because of the continuous economic growth in the PRC during the year, consumer electronic products still benefited from the increase in market demand with increases of approximately 26% in turnover and 30% in sales volume, respectively. These products ranked the second in the total turnover of the Group and provided a definite contribution to the Group's results. The market demand in consumer electronic products has been unceasingly expanded, however, the expedition in consumers' needs for product renewals has shortened the product life and as such, the Group has to apply more resources in their research and development. The profit margin for the year was more or less the same as last year due to stable market prices.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Power Electronics Chips

During the year, a new version of smart electronics meter IC chips that was jointly developed by the Company with Fukong Hualong has been successfully launched into the market in the second half of the year. The product, with its technologies, provides specific IC chips and a total system solution to the industry chain of electricity grid in the areas of smart metering, electricity leakage and electricity automation, and also, with the design that complied with specifications formulated by the State Grid Corporation of China, has popularly adopted by many enterprises since its launching into the market. The sales of this series for the year have increased by 121% as compared with last year, however, profit margin was dropped due to price adjustment made to suit market condition. The sales growth of this product category has made a good contribution to the results of the year.

Motor and Mobile Electronics Chips

The turnover of motor and mobile electronics chips for the year has significantly slipped approximately 29% with drop in profit margin as well when compared with last year. Because of facing long term keen competition, the Group has already slowed down and reduced resources in its research and development and the sales of this category accounted for a very small portion of the Group's turnover.

Telecommunication Electronics Chips

Sales of the telecommunication electronics chips products for the year slightly dropped by approximately 3% with similar profit margin as compared with last year. Since the market of these products is well saturated with very keen competition, the Group has terminated the research and development of these products and only marketed with old models that resulted with a minimal contribution to the overall turnover and profits.

IC Testing Services

The IC testing services are provided by the Company's subsidiary, Sino IC and with the benefit of continuous growth in the domestic market of electronic products and with its substantial experience and technologies in the industry, income has been increased over the years. The service income for the year increased by approximately 72% over the last year together with a growth in profit even though there was a drop in profit margin due to increase in operating costs. The IC testing services are good supports to the Company's product testing with synergy effect and more than half of the services income was derived from internal sales within the Group.

Other IC Chips and products

Sales of other IC chips and products during the year have decreased by approximately 17% with similar profit margin when compared to last year, it has little effect on the Group's performance as these products were not the Group's main series. These products usually have higher profit margins than others and could help the diversification of the Groups' business with a synergy effect to the major products.

FINANCE REVIEW

The Group recorded a total revenue of approximately RMB609,544,000 (2010: RMB489,083,000) for the year ended 31 December 2011 represents a rise of approximately 25% as compared to the previous financial year. The profit attributable to owners of the parent was approximately RMB106,372,000 (2010: RMB117,039,000) and the basic earnings per share was RMB17.23 cents (2010: RMB18.96 cents), representing decreases of approximately 9% over the last year. The Directors recommend the payment of a final dividend of RMB8 cents (2010: RMB5 cents) per ordinary share in respect of the year ended 31 December 2011.

FINANCE REVIEW *(continued)*

For the year under review, despite there was a rise of revenue, the profit margin was dropped from 46% in last year to approximately 43% due to increases in cost of raw materials and sub-contracting charges. Other income and gains increased by approximately 13% as compared to last year as interest income increased following the increase in deposit rates, and in addition, the government grants received for research activities also increased over the last year.

With regard to the selling and distribution costs, there was an increase of approximately 48% during the year as compared to last year. Basic expenditure increased as a result of increase in turnover as well as adjustment in staff costs. Besides, the exploration of new domestic markets in other cities has incurred additional travelling expenses and the establishment of overseas liaison offices also brought with additional business expenses. The administrative expenses increased by approximately 15% when compared to last year, this is because the expenses increased in line with the increase in turnover. The other expenses for the year increased by approximately 49% over the last year, it is because of the increase in research and development costs and the significant application of resources amounted to RMB121,849,000 and there was also a slight increase of provision for doubtful debts compared with last year.

In income tax, because there was an overprovision of RMB8,063,000 written back in last year in respect of previous years, hence, the income tax for the year was comparatively and relatively high. If the said effect is disregarded, the income tax provision for the year is approximately 14% lower than that of last year due to decrease in profits.

During the year, there was an increase in non-current assets of the Group, besides the addition of RMB10,190,000 in office premises pending for title execution acquired for the purpose of business development, there were additions in intangible assets of RMB11,528,000 arising from internal project development.

At the reporting date, the accounts receivable of the Group increased significantly, however, the majority of these receivable are related to new credit sales within the credit terms and details of which are set out in note 8. The provision of impairment on accounts receivable as at the reporting date has been reviewed and appropriately provided.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group's wholly owned subsidiary, Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint"), has undergone a corporate restructuring during the year by introducing new shareholders for raising addition capital to cope with its business development. Upon the completion of increase in registered capital of Dobulepoint, the Group's equity interest held has dropped to approximately 26.4%.

Save as disclosed above, the Group has no material investment and there was no material change in the subsidiaries of the Group during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group is still actively seeking for strategic cooperation and has no other material investment plan at present.

Management Discussion and Analysis

TECHNOLOGICAL COOPERATION

The Company has entered into a co-operation agreement with the Shanghai subsidiary of China United Network Communications Group Co., Ltd. ("Shanghai Unicom") in last year for the development of related technologies in "The Internet of Things". With the help of related information, technologies and resources provided by Shanghai Unicom, the Group would be facilitated to develop its business in The Internet of Things in the near future.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2011, net assets of the Group amounted to approximately RMB550,393,000 (2010: RMB474,247,000), an increase of approximately 16% as compared to last year; of which, current assets amounted to approximately RMB563,553,000 (2010: RMB517,552,000), a rise of approximately 9% over the previous year, and including cash and bank deposits amounted to approximately RMB256,017,000 (2010: RMB267,200,000), a decrease of approximately 4% when compared to last year.

Except the fund raising in the initial public offer and the placing of new shares in 2001, the Group's has been generating its cash flows internally to meet its operation needs. The Group's financial resources and liquidity are in healthy status that are sufficient for the Group to meet its daily business operations and present development.

As at 31 December 2011, the Group has no deposit pledged as guarantee (2010: nil) and has not pledged any of its assets to any third parties (2010: nil).

CAPITAL STRUCTURE

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

GEARING RATIO

As at 31 December 2011, the Group's current liabilities amounted to approximately RMB179,935,000 (2010: RMB168,277,000), an increase of approximately 7% as compared to last year. Non-current liabilities of approximately RMB41,000 (2010: RMB2,099,000), a decrease of approximately 98% when compared with last year. The net assets value per share of the Group was approximately RMB0.89 (2010: RMB0.77), a growth of approximately 16% over the last year. The Group's ratio of current liabilities over current assets was approximately 31.9% (2010: 32.5%) and the gearing ratio was approximately 32.7% (2010: 35.9%) on the basis of total liabilities over net assets. As at 31 December 2011, the Group and the Company had no bank or other borrowings (2010: nil).

INTEREST AND FOREIGN EXCHANGE RISK

The Board believes that the Group is not exposed to any material interest rate risk in view that the Group does not have any debt obligations that are subject to fluctuations in market interest rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 11% (2010: 23%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 77% (2010: 80%) of costs are denominated in the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

During the reporting period, the fluctuations in foreign exchange have no material effect on the Group's operations and cash flows.

Management Discussion and Analysis

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. At the end of the reporting period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. 21% (2010: 27%) of the Group's trade and bills receivables were due from the Group's five largest customers within the design, development and sale of IC products segment. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

CAPITAL COMMITMENTS

As at 31 December 2011, the Group had capital commitments of approximately RMB1,299,000 related to acquisition of property, plant and equipment (2010: RMB1,445,000).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no contingent liabilities (2010: nil).

USE OF CAPITAL AND FUNDING

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

EMPLOYEES

As at 31 December 2011, the Group employed approximately 614 (2010: 547) employees. The increase in number of employees was due to expansion of the Group's business, increase of research and development projects and market exploration. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend.

The total employees expenses of the Group including directors' remuneration charged to the consolidated statement of comprehensive income for the year ended 31 December 2011 amounted to approximately RMB91,934,000 (2010: RMB64,829,000). The increase in total employees expenses was due to the increase in employees and salaries necessary adjusted to keep technical experts which were highly demanded within the industry.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Jiang Guoxing *(Chairman)*
Mr. Shi Lei *(Managing Director)*
Mr. Yu Jun *(Deputy Managing Director)*
Ms. Cheng Junxia
Mr. Wang Su

Non-executive Directors

Ms. Zhang Qianling
Mr. He Lixing
Mr. Shen Xiaozu

Independent Non-executive Directors

Mr. Cheung Wing Keung *FCCA, CPA*
Mr. Guo Li
Mr. Chen Baoying

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

COMPLIANCE OFFICER

Mr. Wang Su

AUTHORISED REPRESENTATIVES

Mr. Shi Lei
Mr. Wang Su

AUDIT COMMITTEE

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

SUPERVISORS' COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

No. 220, Handan Road
Shanghai
People's Republic of China

PLACE OF BUSINESS IN HONG KONG

Flat 6, 5/F., East Ocean Centre
98 Granville Road, Tsimshatsui East
Kowloon

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Shanghai Pudong Development Bank
Shanghai branch

Industrial and Commercial Bank of China
Shanghai branch

STOCK CODE

8102

Directors and Senior Management Biographies

Biographical details of the directors and the senior management of the Company are set out below:

DIRECTORS

Executive directors

Mr. Jiang Guoxing, aged 58, joined the Company in July 1998, is the Chairman of the Company. Mr. Jiang is a professor grade senior engineer and graduated with a degree in computer science from Shanghai Fudan University (the "Fudan University"). He is also the director and general manager of Shanghai Fudan Fuhua Technology Company Limited, a company listed on the Stock Exchange of Shanghai. He was the non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd., a company listed on the GEM.

Mr. Shi Lei, aged 45, joined the Company in July 1998, is the Managing Director of the Company and a director of the Company's subsidiary, Shanghai Fudan Microelectronics (HK) Limited ("Fudan HK"). He is a professor grade senior engineer and was graduated with a Bachelor degree and a Master degree in management respectively from the China University of Technology and the Fudan University. Prior to joining the Company, Mr. Shi was the deputy manager in the Development Division of Shanghai Agricultural Investments Company and the general manager of Shanghai Pacific Commercial Trust Company Limited. He is also the chairman of the Company's substantial shareholders, Shanghai Commerce and Invest (Group) Corporation ("SCI") and Shanghai Fudan Technology Enterprise Holdings Limited.

Mr. Yu Jun, aged 44, joined the Company in July 1998, is the Deputy Managing Director of the Company and a director respectively of the Company's subsidiaries namely, Beijing Fudan Microelectronics Technology Company Limited, Sino IC and Fukong Hualong. He has a Master's degree and is a senior engineer. Mr. Yu was the deputy director of the Research Institute for Integrated Circuit Designs of the Fudan University as well as the chief engineer of Shanghai Fudan High Tech Company and has extensive knowledge and experience in the design of integrated circuits and systems.

Ms. Cheng Junxia, aged 65, joined the Company in July 1998, is the Chief Engineer of the Company. She was a professor and a director of the Research Institute for Integrated Circuit Designs of the Fudan University and the general manager of Shanghai Fudan High Tech Company. She has extensive knowledge and experience in the design and manufacture of integrated circuits.

Mr. Wang Su, aged 58, joined the Company in July 1998, is an accountant. He is the Financial Controller and a member respectively of the nomination committee and remuneration committee of the Company, and a director respectively of the Company's subsidiaries namely, Shenzhen Fudan Microelectronics Company Limited, Fudan HK, Sino IC and Fukong Hualong. He is also a director of SCI and was previously its fund manager as well as the deputy manager of the Finance Department and the financial controller of Shanghai Pacific Commercial Trust Company Limited.

Non-executive directors

Ms. Zhang Qianling, aged 75, joined the Company in July 1998, was a principal professor and tutor to doctorate students at Fudan University. She is a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of the Fudan University.

Directors and Senior Management Biographies

Non-executive directors *(continued)*

Mr. He Lixing, aged 77, joined the Company in July 1998, is a senior economist. He was previously the chief economist of SCI and director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government.

Mr. Shen Xiaozu, aged 62, is a senior economist. He joined the Company in July 1998 and was previously the assistant to the general manager of SCI, the deputy general manager Shanghai Xinlian Real Estate Company, the deputy general manager of Shanghai General Electric Machinery Corporation and the headmaster of Shanghai Mechanical Engineering Industrial College.

Independent non-executive directors

Mr. Cheung Wing Keung, aged 47, joined the Company in May 2004 and is also a member of the audit committee, the remuneration committee and nomination committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years' working experience in auditing, accounting, corporate management and consultancy. He has worked in accounting firms and the Hong Kong Inland Revenue Department and has held senior positions in certain Hong Kong's private group companies.

Mr. Guo Li, aged 65, joined the Company in May 2006, is a professor and doctoral supervisor. He is a senior member of China Electronics Academy and a member of China Image and Graphics Academy. He is now the director of the Academic Committee of Department of Science and Technology in the University of Science and Technology as well as its Laboratory of Circuit and System. Mr. Guo has been carrying the researches in digital signal processing, image processing and IC design etc. and was a visiting scholar in the Department of Computer in the University of Notre Dome in the United States.

Mr. Chen Baoying, aged 82, joined the Company in October 2007, is a part-time professor of Nankai University. He graduated with a bachelor degree in Nankai University, the PRC and a master degree in Renmin University of China both in international trade and finance. He has around 40 years working experience in research of international trade and finance. He was the researcher of the Institute of International Trade of the Ministry of Foreign Trade and Economic Cooperation, the PRC, which he worked for 30 years. He was the vice director of the Hong Kong and Macao Research Centre of the Hong Kong and Macao Affairs Office of the State Council since 1986 and retired in 1995, and was primarily responsible for research of economic and finance in these areas. He was appointed member respectively of the Join Working Group of the Mainland and Hong Kong Securities Affairs and the Expert Group on Commodities of the China Securities Regulatory Commission. He was an independent non-executive director of China National Resources Development Holdings Limited, a company listed on the main board of the Stock Exchange.

SUPERVISORS

Mr. Li Wei, aged 40, joined the Company in July 1998, is the Technical Officer of the Company. He has a Master's degree. Mr. Li specializes in integrated circuit design and has conducted in-depth research on the coding and integrated protocol bases.

Ms. Lu Beili, aged 49, joined the Company in June 2008, has a Master degree in business management and administration. She was the deputy general manager and chief accountant of the Shanghai Foreign Trade and Investment Development Limited. She had worked for the Industry and Commerce Bank of China and the Shanghai Foreign Trade and Investment Development Limited.

Directors and Senior Management Biographies

SUPERVISORS *(continued)*

Mr. Wei Ran, aged 56, joined the Company in May 2009, holds a degree of graduate student and is a fellow economist. He is a director of Fukong Hualong and is the deputy general manager of SCI, the chairman of Shanghai Commercial Investment Enterprise Limited and the vice chairman of Shanghai Xujiahui Shopping Mall Company Limited. He was the fund manager and assistant to general manager of SCI and has substantial experience in corporate merger, re-structuring, investment and financing.

SENIOR MANAGEMENT

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

Mr. Shi Jin, aged 55, joined the Company in October 1999 until March 2002 and re-joined the Company in March 2007. He is the Deputy General Manager of the Company and the chairman of Sino IC. He holds a Master’s degree in business administration and is an assistant research fellow. He was previously the director of the Research Institute of Shanghai Planning Commission, the general manager of Shanghai Industrial Investment Consultation Company, the chairman of Shanghai Industrial Investment Finance and Management Company, the deputy head of the Economics Department of Shanghai Municipal Research Institute and the chief executive of Tian You High Technology Enterprise Investment Ltd.

Ms. Ji Lanhua, aged 61, joined the Company in July 1998, is the Deputy General Manager and Production Officer of the Company. She holds a bachelor degree and was previously the sales manager of Fudan High Tech Company. She had engaged in the design and development of the Company’s motorcycle ignition controller circuits and telephone transmission circuits. Ms. Ji is very experienced in the design and sales of IC chips.

Mr. Da Zhongdong, aged 43, joined the Company in June 2001, is the Deputy General Manager of the Company. He holds a bachelor degree and is a researcher in microelectronics and chief engineer. Before joining the Company, he worked for China Spaces Technology Research College and was the manager of design department of the Company. He has substantial experience in IC design and specific application management.

Mr. Diao Linshan, aged 46, joined the Company in January 1999, is the Deputy Operation Officer and General Manager of the Sales Department of the Company. Before joining the Company, he had worked for Oxford and Cambridge International Group as assistant to general manager and Beijing Wantong Industrial Corporation Limited as deputy general manager. He had worked as sales manager in the smart card division after joining the Company and has substantial experience in marketing of IC chips and operation management.

Mr. Li Wing Sum Steven, aged 55, joined the Company in July 2000, is the Qualified Accountant and Company Secretary of the Company. He is a fellow member respectively of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong and a member of the Hong Kong Institute of Directors. He has over 30 years’ experience in auditing, accounting, taxation and financial management. He has worked in an international accounting firm and had been employed as group financial controller of various companies including a listed company in Hong Kong as well as a multi-national organization. He is also the independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd., a company listed on the main board of the Stock Exchange.

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 2011, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditor on the financial statements are set out in the "Independent Auditors' Report" on pages 26 to 27.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). In the opinion of the directors, the Company has complied with the code provisions set out in the CCGP throughout the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions by the Directors throughout the year ended 31 December 2011.

BOARD OF DIRECTORS AND BOARD MEETING

Board of Directors

The Board comprises five executive Directors, three non-executive directors and three independent non-executive directors. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 10 to 11, with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The Management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees. Details of these committees are set out below in this report.

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

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Board Meetings

The Board held four full board meetings in each year and meets as and when required. During the year ended 31 December 2011, the attendances of the Directors at the board meetings are as follows:

Directors	Number of attendance
Mr. Jiang Guoxing	4/4
Mr. Shi Lei	3/4
Mr. Yu Jun	4/4
Ms. Cheng Junxia	3/4
Mr. Wang Su	4/4
Ms. Zhang Qianling	4/4
Mr. He Lixing	4/4
Mr. Shen Xiaozu	4/4
Mr. Cheung Wing Keung	4/4
Mr. Guo Li	4/4
Mr. Chen Baoying	4/4

The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Board Minutes are kept by the company secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

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. In addition, the Board also comprises of independent non-executive directors who can provide the Board with independent judgements, knowledge and experience.

Executive Directors

All of the five executive directors have each entered into a service contract with the Company for a term of three years which commenced on 19 July 2009 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 and Independent Non-executive Directors

All of the three non-executive directors have each entered into a service contract with the Company with effect from 19 July 2009 for a term of three years and shall continue thereafter unless terminated by a three month's prior written notice to be given by either party without payment of compensation.

All of the three independent non-executive directors have each entered into a service contract with the Company for one year commencing from 27 May 2011 until the forthcoming annual general meeting to be held in or about May 2012 and are subject to termination by either party giving no less than one month's written notice.

The Company has received annual confirmations of independence from the three independent non-executive directors in accordance with Rule 5.09 of the GEM Listing Rules and considers them to be independent.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Remuneration of Directors

The Company has set up a remuneration committee which consists of two independent non-executive directors, Mr. Cheung Wing Keung and Mr. Guo Li and an executive director, Mr. Wang Su.

The roles and functions of the remuneration committee included the determination of the remuneration packages of all executive directors, including their benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board for the remuneration of non-executive directors. The remuneration committee also considers factors such as salaries of comparable companies, time commitment and responsibilities of the directors, employment conditions within the Group and performance.

During the year under review, one meeting of the remuneration committee was held and details of the attendance are as follows:

Directors	Number of attendance
Mr. Cheung Wing Keung	1/1
Mr. Wang Su	1/1
Mr. Guo Li	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and considers that the existing terms of employment contracts of the executive Directors are fair and reasonable.

Appointment, re-election and removal of Directors

Subject to article 87 of the Company's articles of association, directors shall be elected at the shareholders' general meeting each for a term of not more than three years and one-third of the directors shall retire from office at the annual general meeting. Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years; and that any director appointed as an addition or to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after his appointment.

The Company has established a nomination committee which comprises two independent non-executive directors, Mr. Cheung Wing Keung and Mr. Guo Li and an executive director, Mr. Wang Su. The main roles and functions of the nomination committee include the appointment and removal of directors, reviews the past performance, qualifications, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship. The Committee also identifies suitable candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of a strong and diverse Board.

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Appointment, re-election and removal of Directors (continued)

The Nomination Committee has held one meeting during the year under review as following.

Committee member	Number of attendance
Mr. Cheung Wing Keung	1/1
Mr. Wang Su	1/1
Mr. Guo Li	1/1

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, except the statutory audit fee, the Group has not paid any fees to the external auditors for any other non-audit services.

Audit Committee

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, Mr. Cheung Wing Keung and Mr. Guo Li and a non-executive director, Mr. Shen Xiaozu. The Company's and the Group's financial statements for the year ended 31 December 2011 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the GEM and legal requirements, and that adequate disclosures had been made.

The audit committee members are well experienced in management, accounting, finance, commercial and industrial sectors.

The audit committee held four meetings during the year under review and details of its attendance are as follows:

Directors	Number of attendance
Mr. Cheung Wing Keung	4/4
Mr. Guo Li	4/4
Mr. Shen Xiaozu	4/4

Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

The Audit Committee meets the external auditors at least once a year to discuss issues concerning the statutory audit. The Audit Committee reviews the quarterly, interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Group's quarterly, interim and annual reports.

Corporate Governance Report

BOARD OF DIRECTORS AND BOARD MEETING *(continued)*

Internal Control

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

Shareholders' Relations

The Company has been publishing all of its announcements including annual, interim and quarterly reports in time in accordance with the GEM Listing Rules. In addition to the post of spokesman established to liaise with shareholders, the Company also provides the most updated information on its website to maintain a different communication channel with its shareholders. Besides, all executive directors and the Company's external auditors have presented in the annual general meeting of the Company to communicate and answer to the questions raised by shareholders and significant issues were put as separate proposed resolutions.

Report of the Directors

The directors present their report and the audited financial statements of Shanghai Fudan Microelectronics Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of designing, developing and selling products of application-specific integrated circuits. Details of the principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 107.

The directors recommend the payment of a final dividend of RMB8 cents per ordinary share in respect of the year to shareholders on the register of members on 1 June 2012. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 108. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China (the "PRC") which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

According to the relevant regulations of the PRC, the amount of retained profits available for distribution is the lower of the amount determined under PRC accounting standards and the amount determined under Hong Kong Financial Reporting Standards ("HKFRSs"). At 31 December 2011, the Company's reserves available for distribution amounted to RMB239,050,000, of which RMB49,386,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of RMB168,486,000, may be distributed in the form of a future capitalisation issue.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 52% of the total purchases for the year and purchases from the largest supplier included therein amounted to 17%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Jiang Guoxing
Mr. Shi Lei
Mr. Yu Jun
Ms. Cheng Junxia
Mr. Wang Su

Non-executive directors:

Ms. Zhang Qianling
Mr. He Lixing
Mr. Shen Xiaozu

Independent non-executive directors:

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

Report of the Directors

DIRECTORS *(continued)*

In accordance with article 87 of the Company's amended articles of association, with effect from 19 May 2006, the directors shall be elected at the general meeting each for a term of not more than three years. One-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office at the annual general meeting (the "AGM"). Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years. Any person appointed as a director either to fill a casual vacancy or as an addition to the board of directors shall be subject to election by shareholders at the first annual general meeting after the appointment.

The Company has received annual confirmations of independence from Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying, 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 2009 and will continue thereafter unless terminated by a three months' prior written notice to be given by either party without payment of compensation.

Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying, who are the independent non-executive directors of the Company, have signed letters of appointment with the Company for a period of one year commencing from 27 May 2011, until the forthcoming AGM in or about May 2012 and are subject to termination by either party giving no less than one month's written notice.

No director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

Report of the Directors

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

At 31 December 2011, the interests and short positions of the directors and supervisors of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in domestic shares of the Company:

	Number of issued shares held, capacity and nature of interest					
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust (Note)	Total	Percentage of the Company's issued share capital
Directors						
Mr. Jiang Guoxing	7,210,000	–	–	1,442,300	8,652,300	1.40
Mr. Shi Lei	7,210,000	–	–	12,980,000	20,190,000	3.27
Mr. Yu Jun	–	–	–	10,961,530	10,961,530	1.78
Ms. Cheng Junxia	–	–	–	8,076,920	8,076,920	1.31
Mr. Wang Su	–	–	–	7,211,530	7,211,530	1.17
Ms. Zhang Qianling	–	–	–	1,733,650	1,733,650	0.28
Mr. He Lixing	–	–	–	1,442,300	1,442,300	0.23
Mr. Shen Xiaozu	–	–	–	1,442,300	1,442,300	0.23
	14,420,000	–	–	45,290,530	59,710,530	9.67
Supervisors						
Mr. Li Wei	–	–	–	6,057,690	6,057,690	0.98
Mr. Wei Ran	–	–	–	288,460	288,460	0.05
	–	–	–	6,346,150	6,346,150	1.03

Note:

These shares are held by the Staff Shareholding Association of the Company (the "SSAC") which is constituted by members consisting of the executive and non-executive directors, supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University (the "University Laboratory") and Shanghai Commerce and Invest (Group) Corporation ("SCI"), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

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

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

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

Save as disclosed above, as at 31 December 2011, none of the directors or supervisors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Report of the Directors

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

At 31 December 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in domestic shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
SSAC		Directly beneficially owned	144,230,000	23.36
Shanghai Fudan High Tech Company	(1)	Directly beneficially owned	106,730,000	17.29
Shanghai Fudan Technology Enterprise Holdings Limited	(2)	Directly beneficially owned	109,620,000	17.76
SCI	(2)	Through a controlled corporation	109,620,000	17.76

Notes:

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

(2) The ordinary shares are directly held by Shanghai Fudan Technology Enterprise Holdings Limited ("SFTE"), which is 90% owned by SCI. SCI is a state-owned enterprise wholly owned by the Shanghai Municipal Government.

Save as disclosed above, as at 31 December 2011, no person, other than the directors and supervisors of the Company, whose interests are set out in the section headed "Directors' and supervisors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries, or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

Details of the connected transactions of the Group are set out in note 29 to the financial statements.

Continuing connected transactions

On 12 August 2003, the Company and Shanghai 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 annual technical support fee payable to SFU for the year ended 31 December 2011 amounted to RMB369,000.

On 1 December 2010, the Company entered into a Special FPGA Agreement with SFU. According to the Special FPGA Agreement, SFU will cooperate with the Company to conduct the research and development of highly reliable anti-irradiation FPGA circuits. As such, the Company expects that the total distribution to SFU will be with an annual cap of RMB2,600,000, RMB5,000,000 and RMB5,000,000, respectively, during 2010, 2011 and 2012. The Company paid no distribution of profit to SFU during 2011.

On 29 September 2010, two of the Company's non wholly-owned subsidiaries, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") and Sino IC Technology Co., Ltd. ("Sino IC") entered into a sales and purchase agreement with each other. According to the agreement, Sino IC agreed to purchase raw wafer of approximately RMB5,170,000 from Fukong Hualong and to sell well developed, authenticated and tested wafer of approximately RMB5,615,000 to Fukong Hualong as well. For the year ended 31 December 2011, Sino IC actually purchased wafer of RMB1,474,000 from Fukong Hualong and sold well developed, authenticated and tested wafer of RMB1,606,000 to Fukong Hualong.

On 18 January 2010, the Company entered into a co-operation agreement with Fukong Hualong for the research and development of electricity meter IC chips ("Co-operating 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 Co-operating 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. The Company expected that the transaction amount would be gradually increased and the estimated annual profit sharing payable to Fukong Hualong during 2011 and 2012 will be RMB2,160,000 and RMB3,680,000, respectively. The Company paid RMB2,158,000 to Fukong Hualong during 2011.

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 GEM Listing Rules 20.38. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the accounting period covered by the annual report.

A report on the principal corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of the annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 33 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Chairman

Shanghai, the PRC
21 March 2012

Independent Auditors' Report

Ernst & Young
安 永

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

We have audited the consolidated financial statements of Shanghai Fudan Microelectronics Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 27 to 107, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditors' Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
21 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
REVENUE	5	**609,544**	489,083
Cost of sales		**(343,284)**	(266,265)
Gross profit		**266,260**	222,818
Other income and gains	5	**59,390**	52,602
Selling and distribution costs		**(31,303)**	(21,081)
Administrative expenses		**(40,523)**	(35,092)
Other expenses		**(131,818)**	(88,198)
PROFIT BEFORE TAX	6	**122,006**	131,049
Income tax expense	9(a)	**(14,665)**	(10,515)
PROFIT FOR THE YEAR		**107,341**	120,534
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(328)**	(222)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(328)**	(222)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**107,013**	120,312
Profit attributable to:			
Owners of the parent		**106,372**	117,039
Non-controlling interests		**969**	3,495
		107,341	120,534
Total comprehensive income attributable to:			
Owners of the parent		**106,044**	116,817
Non-controlling interests		**969**	3,495
		107,013	120,312
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the year	12	**17.23 cents**	18.96 cents

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**125,161**	93,925
Intangible assets	14	**29,956**	24,980
Investment in an associate	16	**870**	–
Available-for-sale investments	17	**500**	–
Deferred tax assets	9(c)	**10,329**	8,166
Total non-current assets		**166,816**	127,071
CURRENT ASSETS			
Inventories	18	**136,205**	127,152
Trade and bills receivables	19	**142,473**	95,355
Prepayments, deposits and other receivables	20	**28,858**	27,845
Cash and cash equivalents	21	**256,017**	267,200
Total current assets		**563,553**	517,552
CURRENT LIABILITIES			
Trade and bills payables	22	**64,403**	56,971
Accruals, other payables and deferred income	23	**97,894**	94,003
Tax payable	9(b)	**17,638**	17,303
Total current liabilities		**179,935**	168,277
NET CURRENT ASSETS		**383,618**	349,275
TOTAL ASSETS LESS CURRENT LIABILITIES		**550,434**	476,346

Consolidated Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**550,434**	476,346
NON-CURRENT LIABILITIES			
Long term payables	23	**–**	1,672
Deferred tax liabilities	9(c)	**41**	427
Total non-current liabilities		**41**	2,099
Net assets		**550,393**	474,247
EQUITY			
Equity attributable to owners of the parent			
Issued capital	24	**61,733**	61,733
Reserves	25	**404,314**	347,656
Proposed final dividend	11	**49,386**	30,867
		515,433	440,256
Non-controlling interests		**34,960**	33,991
Total equity		**550,393**	474,247

Jiang Guoxing
Director

Shi Lei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent								
	Note	Issued share capital RMB'000 (Note 24)	Share premium account RMB'000 (Note 25)	Statutory surplus reserve RMB'000 (Note 25)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010		61,733	168,486	17,086	(2,665)	78,799	30,867	354,306	29,443	383,749
Profit for the year		–	–	–	–	117,039	–	117,039	3,495	120,534
Exchange differences on translation of foreign operations		–	–	–	(222)	–	–	(222)	–	(222)
Total comprehensive income for the year		–	–	–	(222)	117,039	–	116,817	3,495	120,312
Final 2009 dividend declared		–	–	–	–	–	(30,867)	(30,867)	–	(30,867)
Additional capital contribution from non-controlling shareholders in a subsidiary		–	–	–	–	–	–	–	1,053	1,053
Proposed final 2010 dividend	11	–	–	–	–	(30,867)	30,867	–	–	–
Transfer from retained profits		–	–	9,930	–	(9,930)	–	–	–	–
At 31 December 2010 and 1 January 2011		61,733	168,486*	27,016*	(2,887)*	155,041*	30,867	440,256	33,991	474,247
Profit for the year		–	–	–	–	106,372	–	106,372	969	107,341
Exchange differences on translation of foreign operations		–	–	–	(328)	–	–	(328)	–	(328)
Total comprehensive income for the year		–	–	–	(328)	106,372	–	106,044	969	107,013
Final 2010 dividend declared		–	–	–	–	–	(30,867)	(30,867)	–	(30,867)
Proposed final 2011 dividend	11	–	–	–	–	(49,386)	49,386	–	–	–
Transfer from retained profits		–	–	11,367	–	(11,367)	–	–	–	–
At 31 December 2011		**61,733**	**168,486***	**38,383***	**(3,215)***	**200,660***	**49,386**	**515,433**	**34,960**	**550,393**

* *These reserve accounts comprise the consolidated reserves of RMB404,314,000 (2010: RMB347,656,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**122,006**	131,049
Adjustments for:			
Bank interest income	5, 6	**(4,939)**	(3,884)
Loss on disposal of items of property, plant and equipment	6	**71**	117
Gain on disposal of a subsidiary	26	**(365)**	–
Depreciation	13	**14,712**	12,237
Amortisation of intangible assets	14	**3,502**	2,162
Impairment of available-for-sale investments	6	**–**	7,980
		134,987	149,661
Increase in inventories		**(9,053)**	(71,240)
Increase in trade and bills receivables		**(47,118)**	(38,948)
Increase in prepayments, deposits and other receivables		**(3,135)**	(16,197)
Increase in trade and bills payables		**7,432**	22,611
Increase in accruals, other payables and deferred income		**3,898**	53,730
Cash generated from operations		**87,011**	99,617
Hong Kong profits tax recovered	9(b)	**–**	63
PRC tax paid	9(b)	**(16,879)**	(11,367)
Net cash flows from operating activities		**70,132**	88,313
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in time deposits with original maturity of over three months when acquired	21	**38,277**	8,059
Bank interest received		**7,061**	4,055
Purchases of items of property, plant and equipment		**(50,497)**	(35,277)
Proceeds from disposal of items of property, plant and equipment		**2,785**	169
Additions to intangible assets	14	**(8,478)**	(12,492)
Disposal of a subsidiary	26	**(492)**	–
Purchase of available-for-sale investments	17	**(500)**	–
Net cash flows used in investing activities		**(11,844)**	(35,486)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Net cash flows used in investing activities		**(11,844)**	(35,486)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from additional capital contribution in a subsidiary from non-controlling shareholders		**–**	1,053
Dividends paid		**(30,867)**	(30,867)
Net cash flows used in financing activities		**(30,867)**	(29,814)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**27,421**	23,013
Cash and cash equivalents at beginning of year		**120,887**	98,096
Effect of foreign exchange rate changes, net		**(327)**	(222)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**147,981**	120,887
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**80,770**	93,874
Non-pledged time deposits	21	**175,247**	173,326
Cash and cash equivalents as stated in the consolidated statement of financial position	21	**256,017**	267,200
Time deposits with original maturity of over three months when acquired	21	**(108,036)**	(146,313)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**147,981**	120,887

Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**69,521**	63,466
Intangible assets	14	**26,098**	20,384
Investments in subsidiaries	15	**48,972**	49,972
Investment in an associate	16	**870**	–
Available-for-sale investments	17	**500**	–
Deferred tax assets	9(c)	**6,811**	5,329
Total non-current assets		**152,772**	139,151
CURRENT ASSETS			
Inventories	18	**132,581**	122,546
Due from subsidiaries	15	**16,912**	13,157
Trade and bills receivables	19	**126,742**	78,156
Prepayments, deposits and other receivables	20	**26,468**	25,105
Cash and cash equivalents	21	**170,461**	169,921
Total current assets		**473,164**	408,885
CURRENT LIABILITIES			
Due to subsidiaries	15	**1,861**	2,339
Trade and bills payables	22	**59,606**	55,053
Accruals, other payables and deferred income	23	**46,521**	45,659
Tax payable		**13,201**	13,700
Total current liabilities		**121,189**	116,751
NET CURRENT ASSETS		**351,975**	292,134

Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**504,747**	431,285
NON-CURRENT LIABILITIES			
Long term payables	23	**–**	1,672
Net assets		**504,747**	429,613
EQUITY			
Issued capital	24	**61,733**	61,733
Reserves	25	**393,628**	337,013
Proposed final dividend	11	**49,386**	30,867
Total equity		**504,747**	429,613

Jiang Guoxing
Director

Shi Lei
Director

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Notes to Financial Statements

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010 (Include other standards as appropriate)*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

The principal effects of adopting these HKFRSs are as follows:

The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 29 to the consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

The Group used to present government grants related to assets in the statement of financial position by deducting the grant in arriving at the carrying amount of the assets.

In 2011, the accounting policy for government grants related to assets has been changed to be presented in the statement of financial position by setting up the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

This change in accounting policy is to unify the accounting policy for government grants related to assets under both HKFRSs and Accounting Standards for Business Enterprises in China.

Notes to Financial Statements

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

(b) *(continued)*

This change in accounting policy was adopted retrospectively and the impact on the financial statements is analysed as follows:

Group

	After change		Before change	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Other income and gains	**59,390**	52,602	**57,405**	51,052
Other expenses	**(131,818)**	(88,198)	**(129,833)**	(86,648)
Property, plant and equipment	**125,161**	93,925	**105,447**	87,096
Accruals, other payables and deferred income	**97,894**	94,003	**78,180**	87,174

Company

	After change		Before change	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Property, plant and equipment	**69,521**	63,466	**66,365**	60,111
Accruals, other payables and deferred income	**46,521**	45,659	**43,365**	42,304

The above change in accounting policy for government grants related to assets has no impact on profit for the year 2011 and 2010, nor impact on net assets as at 31 December 2011 and 31 December 2010.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

Notes to Financial Statements

31 December 2011

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

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

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

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

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

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

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt the amendments from 1 January 2012.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint venture

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture *(continued)*

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 of the subsidiary 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.

Notes to Financial Statements

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

Where goodwill forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

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

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

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

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

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

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

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

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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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:

Buildings	1.9%
Machinery and office equipment	19%
Motor vehicles	19%

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

An item of property, plant and equipment and 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. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as 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 income statement as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Research and development costs (continued)

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

The Group's financial assets include cash and bank balances, trade and other receivables, and available-for-sale investments.

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.

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 other income and gains or finance costs in 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 policy set out for "Revenue recognition" below.

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments 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 fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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 at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments (continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments

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

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

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

Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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 income statement. 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 income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants *(continued)*

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

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

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Pension schemes

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Company and these subsidiaries are required to contribute 22% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period.

All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised initially in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified from equity to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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

The functional currency of the Group's subsidiary in Hong Kong is the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and its statement of comprehensive income is translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2011

3. SIGNIFICANT ACCOUNTING 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 the disclosure of contingent liabilities, at the end of the reporting period. However, 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other time differences to the extent that it is probable that taxable profit will be available against which the losses 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 2011 was RMB726,000 (2010: RMB151,000). Further details are contained in note 9 to the financial statements.

Impairment of financial assets carried at cost

The unquoted equity instrument that is not carried at fair value because of its fair value cannot be reliably measured is stated at cost less any impairment losses. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. Further details are included in note 17 to the financial statements.

Impairment of trade receivables

The Group records impairment of trade receivables based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of the trade receivables and doubtful debt expenses in the period in which such estimates have been changed.

Useful life of intangible assets

The Group determines the useful life of intangible assets based on an assessment of the expected useful life or expected pattern of consumption of future economic benefits embodied in the assets. The identification of a reasonable useful life requires directors' estimation. 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 estimations have been changed.

Provisions for inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-down requires directors' estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the inventories and write-down of inventories in the period in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

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 14 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit before tax. The profit before tax is measured consistently with the Group's profit before tax except that interest income, and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2011	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	584,935	24,609	609,544
Intersegment sales	–	23,813	23,813
	584,935	48,422	633,357
Reconciliation:			
Elimination of intersegment sales			(23,813)
Revenue			609,544
Segment results	99,466	10,129	109,595
Reconciliation:			
Elimination of intersegment results			226
Interest income			4,939
Unallocated other income and gains			7,246
Profit before tax			122,006
Segment assets	613,090	117,778	730,868
Reconciliation:			
Elimination of intersegment receivables			(1,869)
Corporate and other unallocated assets			1,370
Total assets			730,369
Segment liabilities	124,511	57,334	181,845
Reconciliation:			
Elimination of intersegment payables			(1,869)
Total liabilities			179,976
Other segment information:			
Impairment losses recognised in the income statement	2,196	14	2,210
Depreciation	7,176	7,536	14,712
Amortisation of intangible assets	3,502	–	3,502
Investment in an associate	870	–	870
Capital expenditure	26,557	33,796	60,353*

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	474,760	14,323	489,083
Intersegment sales	–	20,019	20,019
	474,760	34,342	509,102
Reconciliation:			
Elimination of intersegment sales			(20,019)
Revenue			489,083
Segment results	109,911	9,556	119,467
Reconciliation:			
Elimination of intersegment results			118
Interest income			3,884
Unallocated other income and gains			7,580
Profit before tax			131,049
Segment assets	541,555	97,043	638,598
Reconciliation:			
Elimination of intersegment receivables			(2,141)
Corporate and other unallocated assets			8,166
Total assets			644,623
Segment liabilities	122,011	50,079	172,090
Reconciliation:			
Elimination of intersegment payables			(2,141)
Corporate and other unallocated liabilities			427
Total liabilities			170,376
Other segment information:			
Impairment losses recognised in the income statement	9,354	107	9,461
Depreciation	6,016	6,221	12,237
Amortisation of intangible assets	2,162	–	2,162
Capital expenditure	32,727	17,160	49,887*

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

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4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2011 RMB'000	2010 RMB'000
Mainland China	**543,630**	435,198
Asia Pacific (excluding Mainland China)	**51,495**	44,702
Others	**14,419**	9,183
	609,544	489,083

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

(b) Non-current assets

	2011 RMB'000	2010 RMB'000
Mainland China	**155,095**	118,895
Asia Pacific (excluding Mainland China)	**22**	10
	155,117	118,905

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

Information about a major customer

Revenue of approximately RMB35,205,000 (2010: RMB45,655,000) was derived from sales by the design, development and sale of IC products segment to a single customer.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods	**584,935**	474,760
Rendering of services	**24,609**	14,323
	609,544	489,083
Other income and gains		
Bank interest income	**4,939**	3,884
Subsidy income	**3,542**	3,877
Government grants received for research activities (note 6)	**47,205**	41,138
Gain on disposal of a subsidiary	**365**	–
Others	**3,339**	3,703
	59,390	52,602

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6. PROFIT BEFORE TAX

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

	2011 RMB'000	2010 RMB'000
Cost of inventories sold	**330,346**	261,741
Cost of services provided	**12,938**	4,524
Depreciation	**14,712**	12,237
Research and development costs:		
Deferred development costs amortised* (note 14)	**3,502**	2,162
Current year expenditure	**121,849**	75,403
	125,351	77,565
Minimum lease payments under operating leases:		
Land and buildings	**5,805**	4,255
Auditors' remuneration	**1,075**	1,050
Employee benefit expense (excluding directors' remuneration – (note 7)):		
Wages and salaries	**80,425**	55,099
Pension scheme contributions	**8,064**	6,380
	88,489	61,479
Less: Amounts capitalised as development costs	**(7,142)**	(7,191)
	81,347	54,288
Foreign exchange differences, net	**1,831**	193
Impairment of trade and bills receivables (note 19)	**1,706**	487
Provision for inventories to net realisable value	**504**	994
Impairment of available-for-sale investments (note 17)	**–**	7,980
Loss on disposal of items of property, plant and equipment	**71**	117
Bank interest income	**(4,939)**	(3,884)
Subsidy income	**(3,542)**	(3,877)
Government grants received for research activities**	**(47,205)**	(41,138)
Gain on disposal of a subsidiary	**(365)**	–

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

** *Various government grants have been received for setting up research activities in Shanghai, Mainland China, to support domestic technology development. The government grants received for certain research activities have been recognised as other income. There are no unfulfilled conditions or contingencies relating to these grants and they are not matched with the related costs which they are intended to compensate. Government grants received for which related expenditure has not yet been undertaken are included in "accruals, other payables and deferred income" in the consolidated statement of financial position.*

7. DIRECTORS' REMUNERATION

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

	Group	
	2011 RMB'000	2010 RMB'000
Fees	**50**	52
Other emoluments:		
Other benefits	**72**	72
Salaries, allowances and benefits in kind	**3,323**	3,226
	3,445	3,350

(a) Independent non-executive directors

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

	Fees		Other benefits received	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Mr. Cheung Wing Keung	**50**	52	**–**	–
Mr. Guo Li	**–**	–	**36**	36
Mr. Chen Baoying	**–**	–	**36**	36
	50	52	**72**	72

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7. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

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

7. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors *(continued)*

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Other benefits received RMB'000	Total remuneration RMB'000
2010				
Executive directors:				
Mr. Jiang Guoxing	300	–	–	300
Mr. Shi Lei	1,161	–	–	1,161
Mr. Yu Jun	804	–	–	804
Ms. Cheng Junxia	502	–	–	502
Mr. Wang Su	459	–	–	459
	3,226	–	–	3,226
Non-executive directors:				
Ms. Zhang Qianling	–	–	–	–
Mr. He Lixing	–	–	–	–
Mr. Shen Xiaozu	–	–	–	–
	–	–	–	–
	3,226	–	–	3,226

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2010: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2010: one) non-director, highest paid employee of the Group for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**523**	443
Pension scheme contributions	**10**	10
	533	453

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8. FIVE HIGHEST PAID EMPLOYEES *(continued)*

The remuneration of the non-director, highest paid employee of the Group fell within the band of Nil to HK$1,000,000 (2010: Nil to HK$1,000,000).

During the year, no emoluments were paid by the Group to the directors or the highest paid employee either as an inducement to join the Group, or as compensation for loss of office.

9. INCOME TAX

Under the PRC Corporate Income Tax Law (the "CIT Law"), which became effective on 1 January 2008, the Company is subject to income tax at a base rate of 25%. The Company is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise ("HNT Enterprise"). For the financial year ended 31 December 2011, income taxes on assessable income of the Company have been provided at the rate of 15% (2010: 15%).

Under the CIT Law, the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") is subject to income tax at a base rate of 25%. Sino IC is entitled to a preferential income tax rate of 15% as a HNT Enterprise. For the financial year ended 31 December 2011, income taxes on assessable income of Sino IC have been provided at the rate of 15% (2010: 15%).

Under the CIT Law, the Company's subsidiary, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") is subject to income tax at a base rate of 25%. In the meantime, pursuant to an approval document dated 15 May 2009 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2008, Fukong Hualong is exempted from corporate income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Fukong Hualong was still in its fourth profit making year and was entitled to a 50% concession on income tax. For the financial year ended 31 December 2011, income taxes on assessable income of Fukong Hualong have been provided at the rate of 12.5% (2010: 12.5%).

Under the CIT Law, two of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited ("SZFM") and Beijing Fudan Microelectronics Technology Company Limited ("BJFM"), are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2011, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2010: 25%).

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the year (2010: 16.5%).

9. INCOME TAX *(continued)*

	2011 RMB'000	2010 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**–**	263
Underprovision in prior years	**–**	5
Current – Mainland China		
Charge for the year	**18,122**	21,043
Overprovision in prior years	**(908)**	(8,063)
Deferred (note 9(c))	**(2,549)**	(2,733)
Total tax charge for the year	**14,665**	10,515

(a) Income tax expense

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

Group – 2011

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

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9. INCOME TAX *(continued)*

(a) Income tax expense *(continued)*

Group – 2010

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	129,473		1,576		131,049	
Tax at the applicable tax rates	32,368	25.0	260	16.5	32,628	24.8
Lower tax rate enacted by local authority	(13,027)	(10.1)	–	–	(13,027)	(9.9)
Adjustment in respect of current tax of previous years	(8,063)	(6.2)	5	0.3	(8,058)	(6.1)
Accelerated deduction for research and development activities	(2,339)	(1.8)	–	–	(2,339)	(1.8)
Expenses not deductible for tax	1,793	1.4	3	0.2	1,796	1.4
Temporary differences not recognised as deferred tax assets in previous years	(636)	(0.5)	–	–	(636)	(0.5)
Tax losses not recognised	151	0.1	–	–	151	0.1
Tax charge at the Group's effective rate	10,247	7.9	268	17.0	10,515	8.0

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

	2011	2010
	RMB'000	RMB'000
At beginning of year	**17,303**	15,359
Provision for the year	**17,214**	13,248
Payment during the year	**(16,879)**	(11,304)
At end of year	**17,638**	17,303

9. INCOME TAX *(continued)*

(c) Deferred tax

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

Group – 2011

Deferred tax assets

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

Deferred tax liabilities

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

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

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	10,329
Net deferred tax liabilities recognised in the consolidated statement of financial position	41

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

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

Group – 2010

Deferred tax assets

	At 1 January 2010 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2010 RMB'000
Impairment of assets	3,240	(668)	2,572
Depreciation of property, plant and equipment	–	324	324
Government grants	3,135	2,488	5,623
Temporary differences related to accruals, other payables and deferred income	794	(49)	745
Total	7,169	2,095	9,264

Deferred tax liabilities

	At 1 January 2010 RMB'000	Deferred tax charged to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2010 RMB'000
Deferred development costs	2,140	(635)	1,505
Depreciation of property, plant and equipment	23	(3)	20
Total	2,163	(638)	1,525

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	8,166
Net deferred tax liabilities recognised in the consolidated statement of financial position	427

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

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

Company – 2011

Deferred tax assets

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

Deferred tax liabilities

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

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

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

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9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

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

Company – 2010

Deferred tax assets

	At 1 January 2010 RMB'000	Deferred tax credited/(charged) to profit or loss during the year RMB'000	Deferred tax assets at 31 December 2010 RMB'000
Impairment of assets	2,357	174	2,531
Depreciation of property, plant and equipment	–	324	324
Government grants	2,719	121	2,840
Temporary differences related to accruals, other payables and deferred income	674	(39)	635
Total	5,750	580	6,330

Deferred tax liabilities

	At 1 January 2010 RMB'000	Deferred tax charged to profit or loss during the year RMB'000	Deferred tax liabilities at 31 December 2010 RMB'000
Deferred development costs	1,850	(849)	1,001

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 Company for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the statement of financial position	5,329

9. INCOME TAX *(continued)*

(c) Deferred tax *(continued)*

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Tax losses	**726**	151	**–**	–
Deductible temporary difference	**267**	–	**–**	–
	993	151	**–**	–

The Group has tax losses arising in Hong Kong of RMB106,000 (2010: Nil) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. The Group also has tax losses arising in Mainland China of RMB620,000 (2010: RMB151,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB106,001,000 (2010: profit of RMB108,175,000) which has been dealt with in the financial statements of the Company (note 25).

11. DIVIDEND

	2011 RMB'000	2010 RMB'000
Proposed final – RMB8 cents (2010: RMB5 cents) per ordinary share	**49,386**	30,867

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 617,330,000 (2010: 617,330,000) in issue during the year.

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

	2011 **RMB'000**	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**106,372**	117,039

	Number of shares '000	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**617,330**	617,330

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011					
Cost:					
At beginning of year	**57,547**	**103,834**	**4,440**	**5,570**	**171,391**
Additions	**1,683**	**21,655**	**597**	**24,890**	**48,825**
Transfers	**3,128**	**15,748**	**129**	**(19,005)**	**–**
Disposals	**–**	**(4,546)**	**(196)**	**(211)**	**(4,953)**
Disposal of a subsidiary	**–**	**(22)**	**–**	**–**	**(22)**
Exchange realignment	**–**	**(229)**	**–**	**–**	**(229)**
At 31 December 2011	**62,358**	**136,440**	**4,970**	**11,244**	**215,012**
Accumulated depreciation:					
At beginning of year	**9,102**	**66,141**	**2,223**	**–**	**77,466**
Provided during the year	**2,441**	**11,629**	**642**	**–**	**14,712**
Disposals	**–**	**(1,909)**	**(188)**	**–**	**(2,097)**
Disposal of a subsidiary	**–**	**(2)**	**–**	**–**	**(2)**
Exchange realignment	**–**	**(228)**	**–**	**–**	**(228)**
At 31 December 2011	**11,543**	**75,631**	**2,677**	**–**	**89,851**
Net book value:					
At 31 December 2011	**50,815**	**60,809**	**2,293**	**11,244**	**125,161**
At 31 December 2010	**48,445**	**37,693**	**2,217**	**5,570**	**93,925**

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

Group *(continued)*

	Buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010					
Cost:					
At beginning of year	48,321	82,599	3,242	3,234	137,396
Additions	105	13,317	1,217	22,756	37,395
Transfers	9,256	11,164	–	(20,420)	–
Disposals	(135)	(3,080)	(19)	–	(3,234)
Exchange realignment	–	(166)	–	–	(166)
At 31 December 2010	57,547	103,834	4,440	5,570	171,391
Accumulated depreciation:					
At beginning of year	6,675	59,835	1,833	–	68,343
Provided during the year	2,432	9,396	409	–	12,237
Disposals	(5)	(2,924)	(19)	–	(2,948)
Exchange realignment	–	(166)	–	–	(166)
At 31 December 2010	9,102	66,141	2,223	–	77,466
Net book value:					
At 31 December 2010	48,445	37,693	2,217	5,570	93,925
At 31 December 2009	41,646	22,764	1,409	3,234	69,053

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

Company

	Buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011					
Cost:					
At beginning of year	55,089	47,946	2,509	1,513	107,057
Additions	–	2,587	–	10,393	12,980
Transfers	–	906	–	(906)	–
Disposals	–	(847)	–	(211)	(1,058)
At 31 December 2011	55,089	50,592	2,509	10,789	118,979
Accumulated depreciation:					
At beginning of year	8,074	34,214	1,303	–	43,591
Provided during the year	1,740	4,633	288	–	6,661
Disposals	–	(794)	–	–	(794)
At 31 December 2011	9,814	38,053	1,591	–	49,458
Net book value:					
At 31 December 2011	45,275	12,539	918	10,789	69,521
At 31 December 2010	47,015	13,732	1,206	1,513	63,466

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

Company *(continued)*

	Buildings RMB'000	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010					
Cost:					
At beginning of year	47,289	38,841	1,458	580	88,168
Additions	–	9,059	1,051	9,776	19,886
Transfers	7,935	908	–	(8,843)	–
Disposals	(135)	(862)	–	–	(997)
At 31 December 2010	55,089	47,946	2,509	1,513	107,057
Accumulated depreciation:					
At beginning of year	6,364	31,139	1,151	–	38,654
Provided during the year	1,715	3,889	152	–	5,756
Disposals	(5)	(814)	–	–	(819)
At 31 December 2010	8,074	34,214	1,303	–	43,591
Net book value:					
At 31 December 2010	47,015	13,732	1,206	1,513	63,466
At 31 December 2009	40,925	7,702	307	580	49,514

14. INTANGIBLE ASSETS

	Deferred development costs	
	Group	Company
	RMB'000	RMB'000
31 December 2011		
Cost:		
At beginning of year	56,593	49,751
Additions – internal development	11,528	8,946
Disposals – internal development	(3,050)	–
At 31 December 2011	65,071	58,697
Accumulated amortisation and impairment:		
At beginning of year	31,613	29,367
Amortisation provided during the year	3,502	3,232
At 31 December 2011	35,115	32,599
Net book value:		
At 31 December 2011	29,956	26,098
At 31 December 2010	24,980	20,384
31 December 2010		
Cost:		
At beginning of year	44,418	39,537
Additions – internal development	12,492	10,214
Exchange realignment	(317)	–
At 31 December 2010	56,593	49,751
Accumulated amortisation and impairment:		
At beginning of year	29,768	27,210
Amortisation provided during the year	2,162	2,157
Exchange realignment	(317)	–
At 31 December 2010	31,613	29,367
Net book value:		
At 31 December 2010	24,980	20,384
At 31 December 2009	14,650	12,327

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15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**48,972**	49,972

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB16,912,000 (2010: RMB13,157,000) and RMB1,861,000 (2010: RMB2,339,000), respectively, are unsecured, interest-free and repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity directly attributable to the Company	Principal activities
Sino IC*	People's Republic of China/ Mainland China 28 April 2001	RMB31,000,000	64.9	Provision of testing services for IC products; designing, developing and selling IC testing software; production of probe cards; and the provision of research and consultancy services of IC technology
Shanghai Fudan Micro-electronics (HK) Limited	Hong Kong 23 January 2002	HK$7,000,000	100	Developing and selling IC products
SZFM**	People's Republic of China/ Mainland China 16 August 2007	RMB5,000,000	100	Designing, developing and selling IC products

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity directly attributable to the Company	Principal activities
BJFM**	People's Republic of China/ Mainland China 25 December 2007	RMB1,000,000	100	Designing, developing and selling IC products
Fukong Hualong***	People's Republic of China/ Mainland China 8 October 2007	RMB30,000,000	51	Designing, developing and selling products of MicroSystem and application-specific IC and software; the provision of investment, investment management and consultancy services; as well as the provision of research and consultancy services of MicroSystem technology

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

** *SZFM and BJFM are wholly-owned subsidiaries of the Company incorporated in 2007. Both of them are registered as limited liability companies under PRC law. None of the companies was audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.*

*** *Fukong Hualong is a subsidiary of the Company acquired during 2008, which is registered as a contractual joint venture company under PRC law. Fukong Hualong is treated as a subsidiary, as the Group/Company has unilateral control directly over Fukong Hualong. Fukong Hualong was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.*

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16. INVESTMENT IN AN ASSOCIATE

	Group and Company	
	2011 **RMB'000**	2010 RMB'000
Unlisted equity investment, share of net assets	**870**	–
Provision for impairment	**–**	–
	870	–

Particulars of the associate are as follows:

Name	Place and date of registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity directly attributable to the Company	Principal activities
Shanghai Doublepoint Information Technology Co., Ltd. ("Doublepoint")	People's Republic of China/ Mainland China 4 August 2009	RMB3,790,000	26.4	Provision of research and consultancy services in computer and network technology area; developing and selling hardware and software of computers, electronic products, and communication equipment; designing, manufacturing and agency services for advertising; electronic commerce

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

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

16. INVESTMENT IN AN ASSOCIATE *(continued)*

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

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

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Assets	**3,302**	917
Liabilities	**(7)**	–
Revenue	**–**	–
Profit	**(412)**	(59)

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Unlisted equity investments, at cost	**13,943**	13,443
Impairment provision	**(13,443)**	(13,443)
	500	–

As at 31 December 2011, the unlisted equity investments with a carrying amount of RMB13,943,000 (2010: RMB13,443,000) were stated at cost less impairment, because the directors are of the opinion that the information to be applied in the valuation techniques cannot be obtained on a continuous basis so that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

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17. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

The movements in the provision for impairment of available-for-sale investments are as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
At 1 January	**13,443**	5,463
Impairment losses recognised (note 6)	**–**	7,980
	13,443	13,443

Included in the above impairment of available-for-sale investments is a provision for individually impaired available-for-sale investments of RMB13,443,000 (2010: RMB13,443,000) with a carrying amount before provision of RMB13,443,000 (2010: RMB13,443,000). The individually impaired available-for-sale investments related to investments from which a measurable decrease in estimated future cash flows is evidenced. The Group does not hold any collateral as security over these investments.

18. INVENTORIES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**42,883**	34,797	**42,225**	34,967
Work in progress	**42,117**	36,788	**41,350**	36,265
Finished goods	**51,205**	55,567	**49,006**	51,314
	136,205	127,152	**132,581**	122,546

19. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**156,707**	107,884	**140,727**	90,461
Impairment	**(14,234)**	(12,529)	**(13,985)**	(12,305)
	142,473	95,355	**126,742**	78,156

19. TRADE AND BILLS RECEIVABLES *(continued)*

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally between 30 and 90 days. The Group's sales are made to several major customers and there is concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 3 months	**117,525**	73,890	**102,864**	57,870
3 to 6 months	**16,745**	14,012	**16,014**	13,370
6 to 12 months	**5,346**	6,886	**5,045**	6,515
Over 12 months	**2,857**	567	**2,819**	401
	142,473	95,355	**126,742**	78,156

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
At 1 January	**12,529**	12,489	**12,305**	12,143
Impairment losses recognised (note 6)	**1,706**	487	**1,680**	355
Amount written off as uncollectible	**–**	(444)	**–**	(193)
Exchange realignment	**(1)**	(3)	**–**	–
	14,234	12,529	**13,985**	12,305

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB6,615,000 (2010: RMB6,595,000) with a carrying amount before provision of RMB8,537,000 (2010: RMB8,280,000). The individually impaired trade and bills receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

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19. TRADE AND BILLS RECEIVABLES *(continued)*

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**126,157**	75,032	**112,070**	60,080
Less than 1 month past due	**4,768**	2,088	**4,768**	2,088
1 to 3 months past due	**2,551**	2,565	**1,824**	1,922
3 to 6 months past due	**4,948**	459	**4,674**	88
6 to 12 months past due	**2,127**	35	**2,127**	–
	140,551	80,179	**125,463**	64,178

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**3,066**	3,861	**2,378**	2,611
Deposits and other receivables	**25,792**	23,984	**24,090**	22,494
	28,858	27,845	**26,468**	25,105

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**80,770**	93,874	**46,449**	48,975
Time deposits with original maturity of less than three months when acquired	**67,211**	27,013	**38,000**	19,000
Time deposits with original maturity of over three months when acquired	**108,036**	146,313	**86,012**	101,946
	256,017	267,200	**170,461**	169,921
Less: Time deposits with original maturity of over three months when acquired	**(108,036)**	(146,313)	**(86,012)**	(101,946)
Cash and cash equivalents	**147,981**	120,887	**84,449**	67,975

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB234,736,000 (2010: RMB242,981,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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22. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 3 months	**64,070**	56,412	**59,553**	54,807
3 to 6 months	**–**	502	**–**	189
6 to 12 months	**–**	4	**–**	4
Over 12 months	**333**	53	**53**	53
	64,403	56,971	**59,606**	55,053

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

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

23. ACCRUALS, OTHER PAYABLES AND DEFERRED INCOME

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Payable for purchase of software	**1,672**	3,344	**1,672**	3,344
Portion classified as long term	**–**	1,672	**–**	1,672
Current portion	**1,672**	1,672	**1,672**	1,672
Accruals	**1,456**	1,164	**907**	700
Deferred income	**67,388**	65,026	**25,654**	21,576
Other payables	**27,378**	26,141	**18,288**	21,711
	97,894	94,003	**46,521**	45,659

Included in the Group's accruals, other payables and deferred income as at 31 December 2011, the amount due to an entity controlled by Shanghai Commerce and Invest (Group) Corporation ("SCI") is Nil (2010: RMB900).

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

24. SHARE CAPITAL

	2011 RMB'000	2010 RMB'000
Authorised, issued and fully paid:		
375,000,000 (2010: 375,000,000) unlisted domestic shares of RMB0.10 each	**37,500**	37,500
242,330,000 (2010: 242,330,000) H shares of RMB0.10 each	**24,233**	24,233
	61,733	61,733

25. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

Company

	Share premium account RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	168,486	15,557	72,066	256,109
Total comprehensive income for the year	–	–	111,771	111,771
Proposed 2010 final dividend (note 11)	–	–	(30,867)	(30,867)
Transfer from retained profits	–	9,321	(9,321)	–
At 31 December 2010 and 1 January 2011	**168,486**	**24,878**	**143,649**	**337,013**
Total comprehensive income for the year	**–**	**–**	**106,001**	**106,001**
Proposed 2011 final dividend (note 11)	**–**	**–**	**(49,386)**	**(49,386)**
Transfer from retained profits	**–**	**10,600**	**(10,600)**	**–**
At 31 December 2011	**168,486**	**35,478**	**189,664**	**393,628**

25. RESERVES *(continued)*

Company *(continued)*

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

The directors of the Company have proposed to transfer RMB10,600,000 (2010: RMB9,321,000) to the SSR. The transfer represents 10% of the Company's profit after tax for the year, as determined in accordance with the PRC accounting standards. The transfer has been incorporated in these financial statements.

The directors of the Company's PRC subsidiaries have proposed to transfer RMB767,000 (2010: RMB609,000) in total to the SSR. The transfer represents 10% of the Company's PRC subsidiaries' profit after tax, as determined in accordance with the PRC accounting standards. The transfer has been incorporated in these financial statements.

At 31 December 2011, in accordance with the Company Law of the PRC, approximately RMB168,486,000 (2010: RMB168,486,000) of the Company's share premium account was available for distribution by way of a future capitalisation issue.

According to the relevant regulations of the PRC, the amount of retained profits available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under HKFRSs.

26. DISPOSAL OF A SUBSIDIARY

	Note	2011 RMB'000	2010 RMB'000
Net assets disposed of:			
Cash and bank balances		**492**	–
Property, plant and equipment		**20**	–
Tax payable		**(7)**	–
		505	–
Gain on disposal of a subsidiary		**365**	–
		870	–
Satisfied by:			
Investment in an associate	16	**870**	–

	2011 RMB'000	2010 RMB'000
An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:		
Cash consideration	**–**	–
Cash and bank balances disposed of	**492**	–
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**492**	–

27. CONTINGENT LIABILITIES

As at 31 December 2011, neither the Group nor the Company had any significant contingent liabilities.

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28. COMMITMENTS

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

(a) Capital commitments

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Contracted, but not provided for:				
Property, plant and equipment	**1,299**	1,445	**–**	–

(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 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within one year	**5,533**	3,896	**1,278**	1,640
In the second to fifth years, inclusive	**8,334**	5,577	**292**	1,796
	13,867	9,473	**1,570**	3,436

29. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	**2011 RMB'000**	2010 RMB'000
Technical and equipment support fee paid to: the owner of a substantial shareholder of the Company	(i)	**369**	387
Purchases of plant, vehicles, furniture and fixtures from: an entity controlled by SCI	(ii)	**–**	40

Notes:

(i) On 12 August 2003, the Company and Shanghai Fudan University ("SFU"), a substantial shareholder of the Company, entered into an agreement under which the Company was required to pay technical and equipment support fee to SFU based on a price mutually agreed by the two parties. The annual technical support fee payable to SFU for the year ended 31 December 2011 amounted to RMB369,000 (2010: RMB387,000).

(ii) During the year ended 31 December 2010, Fukong Hualong purchased RMB40,000 of plant, vehicles, furniture and fixtures from Shanghai Fukong Hualong Information Technology Development Center ("FHIT"), an entity controlled by SCI. The items of property, plant and equipment were acquired at their net book values. During the year ended 31 December 2011, no similar transaction took place.

In addition, on 1 December 2010, the Company entered into a Special FPGA Agreement with SFU to cooperatively conduct the research and development of highly reliable anti-irradiation FPGA circuits. As such, the Company expects that the distribution to SFU will be with an annual cap of RMB2,600,000, RMB5,000,000 and RMB5,000,000, respectively, during 2010, 2011 and 2012. The Company paid no distribution of profit to SFU during 2011.

These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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29. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties:

Details of the Group's payable balances with FHIT are disclosed in note 23 to the financial statements.

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

	2011 **RMB'000**	2010 RMB'000
Fees	**50**	52
Other emoluments:		
Salaries, allowances and benefits in kind	**3,395**	3,298
Total compensation paid to key management personnel	**3,445**	3,350

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

30. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	Loans and receivables RMB'000	**Available-for-sale financial assets** RMB'000	**Total** RMB'000
31 December 2011			
Available-for-sale investments	**–**	**500**	**500**
Trade and bills receivables	**142,473**	**–**	**142,473**
Financial assets included in prepayments, deposits and other receivables	**25,792**	**–**	**25,792**
Cash and cash equivalents	**256,017**	**–**	**256,017**
	424,282	**500**	**424,782**
31 December 2010			
Trade and bills receivables	95,355	–	95,355
Financial assets included in prepayments, deposits and other receivables	23,984	–	23,984
Cash and cash equivalents	267,200	–	267,200
	386,539	–	386,539

30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

Financial liabilities

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

	Financial liabilities at amortised cost RMB'000
31 December 2010	
Trade and bills payables	56,971
Financial liabilities included in accruals, other payables and deferred income	16,912
	73,883

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
31 December 2011			
Available-for-sale investments	**–**	**500**	**500**
Due from subsidiaries	**16,912**	**–**	**16,912**
Trade and bills receivables	**126,742**	**–**	**126,742**
Financial assets included in prepayments, deposits and other receivables	**24,090**	**–**	**24,090**
Cash and cash equivalents	**170,461**	**–**	**170,461**
	338,205	**500**	**338,705**

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30. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
31 December 2010			
Due from subsidiaries	13,157	–	13,157
Trade and bills receivables	78,156	–	78,156
Financial assets included in prepayments, deposits and other receivables	22,494	–	22,494
Cash and cash equivalents	169,921	–	169,921
	283,728	–	283,728

Financial liabilities

31 December 2011

	Financial liabilities at amortised cost RMB'000
Due to subsidiaries	**1,861**
Trade and bills payables	**59,606**
Financial liabilities included in accruals, other payables and deferred income	**18,606**
	80,073

	Financial liabilities at amortised cost RMB'000
31 December 2010	
Due to subsidiaries	2,339
Trade and bills payables	55,053
Financial liabilities included in accruals, other payables and deferred income	14,925
	72,317

31. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Financial assets				
Available-for-sale investments	**500**	–	**500**	–
Trade and bills receivables	**142,473**	95,355	**142,473**	95,355
Financial assets included in prepayments, deposits and other receivables	**25,792**	23,984	**25,792**	23,984
Cash and cash equivalents	**256,017**	267,200	**256,017**	267,200
	424,782	386,539	**424,782**	386,539
Financial liabilities				
Trade and bills payables	**64,403**	56,971	**64,403**	56,971
Financial liabilities included in accruals, other payables and deferred income	**22,801**	16,912	**22,801**	16,912
	87,204	73,883	**87,204**	73,883

Company

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Financial assets				
Available-for-sale investments	**500**	–	**500**	–
Due from subsidiaries	**16,912**	13,157	**16,912**	13,157
Trade and bills receivables	**126,742**	78,156	**126,742**	78,156
Financial assets included in prepayments, deposits and other receivables	**24,090**	22,494	**24,090**	22,494
Cash and cash equivalents	**170,461**	169,921	**170,461**	169,921
	338,705	283,728	**338,705**	283,728

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

Company *(continued)*

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Financial liabilities				
Due to subsidiaries	**1,861**	2,339	**1,861**	2,339
Trade and bills payables	**59,606**	55,053	**59,606**	55,053
Financial liabilities included in accruals, other payables and deferred income	**18,606**	14,925	**18,606**	14,925
	80,073	72,317	**80,073**	72,317

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

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

The fair value of the unlisted available-for-sale equity investments cannot be measured reliably, because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

Fair value hierarchy

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

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

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

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

The Group and the Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2011 and 31 December 2010.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 11% (2010: 23%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 77% (2010: 80%) of costs are denominated in the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

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) and equity (due to changes in foreign currency exchange realignment).

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

Group

	Increase/ (decrease) in foreign currency exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2011			
If RMB weakens against United States dollar ("US$")	**+5**	**488**	**415**
If RMB strengthens against US$	**–5**	**(488)**	**(415)**
If RMB weakens against Hong Kong dollar ("HK$")	**+5**	**317**	**264**
If RMB strengthens against HK$	**–5**	**(317)**	**(264)**
2010			
If RMB weakens against United States dollar ("US$")	+5	1,338	1,137
If RMB strengthens against US$	–5	(1,338)	(1,137)
If RMB weakens against Hong Kong dollar ("HK$")	+5	–	364
If RMB strengthens against HK$	–5	–	(364)

Company

	Increase/ (decrease) in foreign currency exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2011			
If RMB weakens against US$	+5	488	415
If RMB strengthens against US$	–5	(488)	(415)
2010			
If RMB weakens against US$	+5	1,338	1,137
If RMB strengthens against US$	–5	(1,338)	(1,137)

32. 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.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. 21% (2010: 27%) of the Group's trade and bills receivables were due from the Group's five largest customers within the design, development and sale of IC products segment. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 19 to the financial statements.

Liquidity risk

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

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

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

Liquidity risk *(continued)*

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

Group

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2011						
Trade and bills payables	**12,389**	**52,014**	**–**	**–**	**–**	**64,403**
Financial liabilities included in accruals, other payables and deferred income	**9,753**	**7,918**	**5,130**	**–**	**–**	**22,801**
	22,142	**59,932**	**5,130**	**–**	**–**	**87,204**
31 December 2010						
Trade and bills payables	265	56,706	–	–	–	56,971
Financial liabilities included in accruals, other payables and deferred income	7,457	1,638	7,817	–	–	16,912
	7,722	58,344	7,817	–	–	73,883

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

Liquidity risk *(continued)*

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

Company

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
31 December 2011						
Trade and bills payables	**12,109**	**47,497**	**–**	**–**	**–**	**59,606**
Financial liabilities included in accruals, other payables and deferred income	**6,696**	**6,780**	**5,130**	**–**	**–**	**18,606**
Due to subsidiaries	**–**	**1,861**	**–**	**–**	**–**	**1,861**
	18,805	**56,138**	**5,130**	**–**	**–**	**80,073**
31 December 2010						
Trade and bills payables	247	54,806	–	–	–	55,053
Financial liabilities included in accruals, other payables and deferred income	6,549	559	7,817	–	–	14,925
Due to subsidiaries	–	2,339	–	–	–	2,339
	6,796	57,704	7,817	–	–	72,317

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 2011 and 31 December 2010.

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

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is the total debt divided by the capital plus the total debt. The total debt includes trade and bills payables, accruals, other payables and deferred income and long term payables. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Trade and bills payables	**64,403**	56,971
Accruals, other payables and deferred income	**97,894**	94,003
Long term payables	**–**	1,672
Total debt	**162,297**	152,646
Equity attributable to owners of the parent	**515,433**	440,256
Capital and total debt	**677,730**	592,902
Gearing ratio	**24%**	26%

33. EVENT AFTER THE REPORTING PERIOD

The directors recommend the payment of a final dividend of RMB8 cents per ordinary share in respect of the year to shareholders on the register of members on 1 June 2012.

34. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statement, to unify the accounting policy for government grants related to assets under both HKFRSs and Accounting Standards for Business Enterprises in China, the presentation of certain items in the financial statements has been revised. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2012.

Five Year Financial Summary

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

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**609,544**	489,083	321,374	281,348	315,967
Cost of sales	**(343,284)**	(266,265)	(186,407)	(173,239)	(222,434)
Gross profit	**266,260**	222,818	134,967	108,109	93,533
Other income and gains	**59,390**	52,602	43,405	20,739	28,767
Selling and distribution costs	**(31,303)**	(21,081)	(14,944)	(12,365)	(10,312)
Administrative expenses	**(40,523)**	(35,092)	(28,350)	(22,144)	(23,512)
Other expenses	**(131,818)**	(88,198)	(74,955)	(54,433)	(36,451)
PROFIT BEFORE TAX	**122,006**	131,049	60,123	39,906	52,025
Tax	**(14,665)**	(10,515)	(4,139)	(6,607)	(12,028)
PROFIT FOR THE YEAR	**107,341**	120,534	55,984	33,299	39,997
Attributable to:					
Owners of the parent	**106,372**	117,039	53,006	31,288	38,250
Non-controlling interests	**969**	3,495	2,978	2,011	1,747
	107,341	120,534	55,984	33,299	39,997

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**730,369**	644,623	471,714	417,026	370,031
TOTAL LIABILITIES	**(179,976)**	(170,376)	(87,965)	(91,820)	(73,963)
NON-CONTROLLING INTERESTS	**(34,960)**	(33,991)	(29,443)	(23,891)	(6,740)
	515,433	440,256	354,306	301,315	289,328