



**上海復旦微電子股份有限公司**  
**Shanghai Fudan Microelectronics Company Limited\***

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

(Stock Code: 8102)

**RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

**Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This announcement, for which the directors of Shanghai Fudan Microelectronics Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange 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:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **HIGHLIGHTS**

The turnover of the Group for the year ended 31 December 2006 was approximately RMB276,171,000 (2005: RMB211,211,000), representing an increase of approximately 31% as compared to that of last year.

The Group recorded a net profit attributable to shareholders of the parent for the year ended 31 December 2006 amounted to approximately RMB21,098,000, an increase of 162% as compared to RMB8,037,000 in previous year.

Basic earnings per share was RMB3.38 cents (2005: RMB1.29 cents)

The directors do not recommend the payment of a dividend for the year ended 31 December 2006.

## AUDITED RESULTS

The board of directors (the “Board”) of Shanghai Fudan Microelectronics Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 along with the comparative audited figures of the Group for the year 31 December 2005 as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2006*

	<i>Notes</i>	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
REVENUE	3	<b>276,171</b>	211,211
Cost of sales		<b>(205,989)</b>	(157,393)
Gross profit		<b>70,182</b>	53,818
Other income and gains	3	<b>4,667</b>	7,341
Selling and distribution costs		<b>(7,436)</b>	(7,914)
Administrative expenses		<b>(24,981)</b>	(22,795)
Other expenses		<b>(16,023)</b>	(20,788)
PROFIT BEFORE TAX	4	<b>26,409</b>	9,662
Tax	5	<b>(4,433)</b>	(1,272)
PROFIT FOR THE YEAR		<b>21,976</b>	8,390
Attributable to:			
Equity holders of the parent		<b>21,098</b>	8,037
Minority interests		<b>878</b>	353
		<b>21,976</b>	8,390
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	6	<b>3.38 cents</b>	1.29 cents

## CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		56,790	57,976
Intangible assets		8,543	9,280
Available-for-sale investments		4,500	4,500
Total non-current assets		<u>69,833</u>	<u>71,756</u>
<b>CURRENT ASSETS</b>			
Inventories		65,293	56,306
Trade and bills receivables	7	51,417	63,179
Prepayments, deposits and other receivables		4,984	3,642
Held-to-maturity investments		1,000	–
Pledged deposits		2,417	1,639
Cash and cash equivalents		140,589	134,994
Total current assets		<u>265,700</u>	<u>259,760</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	8	50,508	66,629
Other payables and accruals		20,906	22,281
Tax payable		4,277	324
Total current liabilities		<u>75,691</u>	<u>89,234</u>
NET CURRENT ASSETS		<u>190,009</u>	<u>170,526</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>259,842</u>	<u>242,282</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term payables		–	2,737
Deferred tax liabilities		384	878
Total non-current liabilities		<u>384</u>	<u>3,615</u>
Net assets		<u><u>259,458</u></u>	<u><u>238,667</u></u>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital		62,364	62,435
Reserves	9	192,101	172,117
Minority interests		<u>254,465</u>	<u>234,552</u>
Total equity		<u><u>259,458</u></u>	<u><u>238,667</u></u>

Notes:

## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include 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.

### 1.1 IMPACT OF NEW AND REVISED HKFRSs

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

HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and revised standards and interpretation above has had no material impact on these financial statements.

## 2. SEGMENT INFORMATION

### (a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Design, development and sale of IC products		Testing services for IC products		Eliminations		Consolidated	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
<b>Segment revenue:</b>								
Sales to external customers	268,581	204,563	7,590	6,648	-	-	276,171	211,211
Intersegment sales	-	-	2,387	1,605	(2,387)	(1,605)	-	-
Total	<u>268,581</u>	<u>204,563</u>	<u>9,977</u>	<u>8,253</u>	<u>(2,387)</u>	<u>(1,605)</u>	<u>276,171</u>	<u>211,211</u>
<b>Segment results</b>	<u>20,373</u>	<u>1,632</u>	<u>1,556</u>	<u>607</u>	<u>(187)</u>	<u>82</u>	<u>21,742</u>	<u>2,321</u>
Interest income and unallocated gains							4,667	7,341
Profit before tax							26,409	9,662
Tax							(4,433)	(1,272)
Profit for the year							<u>21,976</u>	<u>8,390</u>
<b>Assets and liabilities</b>								
Segment assets	232,854	230,551	21,155	18,834	(5,000)	-	249,009	249,385
Interest-bearing time deposits	77,024	77,631	5,000	-	-	-	82,024	77,631
Available-for-sale investments	4,500	4,500	-	-	-	-	4,500	4,500
Total assets	<u>314,378</u>	<u>312,682</u>	<u>26,155</u>	<u>18,834</u>	<u>(5,000)</u>	<u>-</u>	<u>335,533</u>	<u>331,516</u>
Segment liabilities	71,131	87,374	9,944	5,475	(5,000)	-	76,075	92,849
Total liabilities	<u>71,131</u>	<u>87,374</u>	<u>9,944</u>	<u>5,475</u>	<u>(5,000)</u>	<u>-</u>	<u>76,075</u>	<u>92,849</u>
<b>Other segment information:</b>								
Capital expenditure	4,530	11,625	7,173	572	-	-	11,703	12,197
Impairment losses recognised in the income statement	-	747	-	-	-	-	-	747
Depreciation	7,648	8,430	2,583	2,756	-	-	10,231	11,186
Amortisation of intangible assets	3,372	3,201	-	-	-	-	3,372	3,201
Other non-cash expenses	<u>970</u>	<u>3,765</u>	<u>19</u>	<u>134</u>	<u>-</u>	<u>-</u>	<u>1,250</u>	<u>3,899</u>

(b) **Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

	Year ended 31 December 2006				
	Mainland				
	China	Asia Pacific	Others	Eliminations	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>					
Sales to external customers	<u>153,091</u>	<u>131,582</u>	<u>9,768</u>	<u>(18,270)</u>	<u>276,171</u>
<b>Other segment information:</b>					
Segment assets	303,146	54,429	-	(22,042)	335,533
Capital expenditure	<u>11,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,703</u>
	Year ended 31 December 2005				
	Mainland				
	China	Asia Pacific	Others	Eliminations	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>					
Sales to external customers	<u>132,546</u>	<u>87,106</u>	<u>5,570</u>	<u>(14,011)</u>	<u>211,211</u>
<b>Other segment information:</b>					
Segment assets	283,098	64,332	-	(15,914)	331,516
Capital expenditure	<u>6,141</u>	<u>6,056</u>	<u>-</u>	<u>-</u>	<u>12,197</u>

### 3. 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; the value of services rendered and gross rental income received.

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

	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
<b>REVENUE</b>		
Sale of goods	<b>268,581</b>	204,563
Rendering of services	<b>7,590</b>	6,648
	<b><u>276,171</u></b>	<u>211,211</u>
<b>OTHER INCOME AND GAINS</b>		
Bank interest income	<b>2,348</b>	1,479
Value-added tax refunds	<b>263</b>	1,054
Deed tax refunds	<b>83</b>	421
Subsidy income	<b>1,333</b>	1,210
Royalty fee income	-	2,044
Gross rental income	-	404
Others	<b>640</b>	729
	<b><u>4,667</u></b>	<u>7,341</u>



#### 4. PROFIT BEFORE TAX

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Cost of inventories sold	203,400	154,648
Cost of services provided	2,589	2,745
Depreciation	10,231	11,186
Research and development costs:		
Deferred development costs amortised*	3,372	3,201
Current year expenditures	17,050	18,365
Less: Government grants released**	(7,477)	(5,295)
	<u>12,945</u>	<u>16,271</u>
Minimum lease payments under operating leases:		
Land and buildings	2,151	2,160
Auditors' remuneration	800	750
Employees benefit expenses (excluding directors' remuneration):		
Wages and salaries	22,580	20,991
Pension scheme contributions	2,448	2,085
	<u>25,028</u>	<u>23,076</u>
Less: Amounts capitalised as development costs	<u>(3,162)</u>	<u>(3,046)</u>
	<u>21,866</u>	<u>20,030</u>
Foreign exchange difference, net	865	327
Impairment of available-for-sale investments	-	747
Impairment of trade and bills receivables	1,725	159
(Reversal)/write-down of inventories to net realisable value	(475)	3,740
Loss on deemed disposal of equity interest in a subsidiary	-	2,583
Loss on disposal of items of property, plant and equipment	23	46
Bank interest income	(2,348)	(1,479)
Value-added tax refunds	(263)	(1,054)
Deed tax refunds	(83)	(421)
Subsidy income	(1,333)	(1,210)
Royalty fee income	-	(2,044)
Gross rental income	<u>-</u>	<u>(404)</u>

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

\*\* Various government grants have been received for setting up research activities in Shanghai, Mainland China, to support domestic technology development. The government grants released have been deducted from the research and development costs to which they relate. Government grants received for which related expenditure has not yet been undertaken are included in other liabilities in the balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

## 5. TAX

Under the Income Tax Law of the PRC, the Company is subject to income tax at a base rate of 33%. Pursuant to an approval document dated 15 January 2004 issued by the local municipal tax bureau, the Company was subject to a preferential income tax rate of 15% from 1 January 2004 to 31 December 2004. The Company is seeking approval of the relevant tax authorities for its continued entitlement to the aforesaid preferential income tax rate. For the financial year ended 31 December 2006, income taxes on assessable income have been provided at the rate of 33% (2005: The Company had no assessable income and no provision for income tax was required).

Under the Income Tax Law of the PRC, the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") is subject to a preferential income tax rate of 15%. Pursuant to an approval document dated 8 October 2004 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2004, Sino IC is exempt from corporate and local income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Sino IC is in its third profit making year for the financial year ended 31 December 2006 and is entitled to the 50% concession on income tax (2005: Nil).

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	<b>2006</b>	2005
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Group:		
Current – Hong Kong		
Charge for the year	<b>2,149</b>	381
Underprovision in prior years	<b>29</b>	–
Current – Mainland China	<b>2,728</b>	–
Deferred	<b>(473)</b>	891
	<hr/>	<hr/>
Total tax charge for the year	<b><u>4,433</u></b>	<u>1,272</u>

Deferred tax assets have not been recognised in respect of the temporary differences mainly arising from provisions of the Company, as it is uncertain whether the Company will be able to fully utilise the temporary differences after considering tax incentives in relation to the additional deductible allowance for qualified research and development expenses to be incurred by the Company.

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

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of basic earnings per share is based on:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>21,098</u>	<u>8,037</u>
<i>Shares</i>		
	<b>Number of shares</b>	
	2006	2005
Weighted average number of ordinary shares in issue ('000) during the year used in the basic earnings per share calculation	<u>624,265</u>	<u>624,354</u>

Diluted earnings per share for the year ended 31 December 2006 and the comparative diluted earnings per share for the year ended 31 December 2005 have not been presented as no diluting events existed during these years.

## 7. TRADE AND BILLS RECEIVABLES

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 risks. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 3 months	36,717	46,954
3 to 6 months	8,180	9,594
6 to 12 months	2,716	5,021
Over 12 months	<u>3,804</u>	<u>1,610</u>
	<u>51,417</u>	<u>63,179</u>

## 8. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Within 3 months	47,860	54,135
3 to 6 months	1,712	12,494
6 to 12 months	936	-
	<u>50,508</u>	<u>66,629</u>

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

## 9. RESERVES

	Attributable to equity holders of the parent						Retained profits/ (accu- mulated losses)	Total	Minority interests	Total equity
	Issued share capital	Share premium account	Treasury shares	Statutory surplus reserve	Statutory public welfare fund	Exchange fluctuation reserve				
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	62,435	170,717	-	179	89	20	(6,675)	226,765	1,179	227,944
Exchange realignment and total income and expenses for the year recognised directly in equity	-	-	-	-	-	(250)	-	(250)	-	(250)
Profit for the year	-	-	-	-	-	-	8,037	8,037	353	8,390
Total income and expenses for the year	-	-	-	-	-	(250)	8,037	7,787	353	8,140
Deemed disposal of equity interest in a subsidiary	-	-	-	-	-	-	-	-	2,583	2,583
Transfer from retained profits	-	-	-	93	47	-	(140)	-	-	-
At 31 December 2005 and beginning of year	62,435	170,717	-	272	136	(230)	1,222	234,552	4,115	238,667
Exchange realignment and total income and expenses for the year recognised directly in equity	-	-	-	-	-	(629)	-	(629)	-	(629)
Profit for the year	-	-	-	-	-	-	21,098	21,098	878	21,976
Total income and expenses for the year	-	-	-	-	-	(629)	21,098	20,469	878	21,347
Repurchase of shares	(71)	(262)	(223)	-	-	-	-	(556)	-	(556)
Transfer from retained profits	-	-	-	2,997	-	-	(2,997)	-	-	-
Transfer of statutory public welfare fund to statutory surplus reserve	-	-	-	136	(136)	-	-	-	-	-
At 31 December 2006	<u>62,364</u>	<u>170,455</u>	<u>(223)</u>	<u>3,405</u>	<u>-</u>	<u>(859)</u>	<u>19,323</u>	<u>254,465</u>	<u>4,993</u>	<u>259,458</u>

## **DIVIDENDS**

The directors do not recommend the payment of a dividend in respect of the year.

## **CLOSURE OF SHARE REGISTER FOR ANNUAL GENERAL MEETING**

Persons who hold shares of the Company and whose names appear on the Register of Members of the Company as at 25 April 2007 shall be entitled to attend the annual general meeting of the Company (the “AGM”). The Register of Members of the Company will be closed from 25 April 2007 to 24 May 2007 (both days inclusive) for the purposes of Annual General Meeting during which no transfer of shares will be effected.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

During the year under review, the global market demands for IC and IC card chips have been increasing, especially the ongoing surge in demand of domestic market in the PRC where its economy has a continuous growth. Being benefited from the Mainland China market and with the launch of new high-tech products that were well received by the market, the Group recorded a growth of 31% in its turnover during the year and was able to keep an overall gross profit of 25%.

During the year, the Group has continued its exploration on the market base of the existing products, and with the vision of endless innovation, has enhanced the major product lines of IC cards, Radio Frequency Identification (“RFID”) electronic labels, Electrically Erasable Programmable Read-Only Memory (“EEPROM”) and consumer electronics. Furthermore, in view of the global trend on integration of mobile payment, RFID electronic label and mobile terminal, and based on the Group’s accumulated experience in the technology of contactless mobile payment and mobile phone chips together with established market influence, the Group has announced a technique of Smart Mobile Application Platform (“SMAP”) that would be compatible with international standard. Mobile phone samples equipped with the first SMAP solution specialised for various applications like contactless mobile payment system and fake detection have recently been launched into the market for trial testing and feedbacks. In addition, RFID electronic labels developed by the Group are readily available for marketing.

Details of the performance of the Group’s business segments during the year are as follows:

### *IC Card*

IC card chips are the core products of the Group. These products have achieved a considerable increase in sales as compared with last year and following the growth in consumer electronics products like mobile multi-media chips, have generated a diversified cluster effect. At present, the Group’s self-developed contactless application specific IC card chips are well accredited by the market and widely applied to public transportation and railway system, and have been the major source of the Group’s sales and profit.

### *Power Electronics*

The Group's self-developed power electronics products like earth leakage current detector circuit and multi-fee power control meter have gained market acceptance with rather stable market shares and sales trend. The earth leakage current detector circuit has achieved a leading position in the market with a good contribution to the Group's results.

### *Motor and Mobile Electronics*

The Group's motor and mobile electronic products maintained steady market shares. As this product category is not our major spot, the Group has applied little resources just to fulfil market demands.

### *Telecommunication Electronics*

The market of telecommunication is mature and highly competitive with comparatively low contribution. The Group has slowed down the related research and development with a view to keep its existing supply.

### *Consumer Electronics*

Since its launch in the market last year, the Group's multimedia processors chip that applied for mobile phone has been saleable with substantial growth in the year. In addition, the EEPROM products have recorded considerable sales. Both products contributed to the growth in overall turnover and have become major product lines of the Group.

### *IC Testing*

Following the growth in IC market, the results of IC testing business were satisfactory. The revenue during the year increased by approximately 21% with a long term contribution made to the Group.

## **Finance Review**

For the year ended 31 December 2006, the Group's recorded a revenue amounted to approximately RMB276,171,000 (2005: RMB211,211,000), a growth of approximately 31% as compared to the previous year. The audited profit attributable to shareholders of the parent was approximately RMB21,098,000 represents an increase of 162% as compared to RMB8,037,000 of last year. The basic earnings per share was RMB3.38 cents (2005: RMB1.29 cents).

The Group continued to record a growth in revenue during the year. The sale of contactless IC card chips which is a major revenue item, had a considerable increase following the penetration into the markets of public transportation and government projects. Newly released consumer electronics IC chips were well accepted by the market and thus recorded with substantial increase in sales. Sales in power electronics chips were also satisfactory. Overall gross profit rate maintained at the reasonable level of 25% as last year.

In other income and gains, despite the significant increase in bank interest income as a result of rise in savings interest rate, the Group did not have any income derived from royalty fee (2005: 2,044,000); rental income ceased as lease property has changed to self-occupied (2005: RMB404,000); furthermore, value added tax refund sharply decreased to RMB263,000 (2005: RMB1,054,000). These are primarily factors for the drop in other income and gains in the year.

In relation to expenses, despite the increase in turnover, the selling and distribution costs have slightly decreased as compared with previous year due to effective cost control. As a result of salaries and allowances increment and economic inflation, administrative expenses increased by 10% over the last year and were still under control. Other operating expenses have dropped significantly by 23% when compared with last financial year; a major component of which, the research and development costs were effectively under control; in addition, more grants were received from government authorities; provision for bad and doubtful debt increased consequent to sales growth and on the contrary, a reversal of RMB475,000 on provision stock impairment (2005: impairment of RMB3,740,000) was recorded due to implementation of improved stock control.

### **Material Acquisition and Disposals of Subsidiaries**

There was no material change in the subsidiaries of the Group during the year.

### **Future Plans for Material Investments**

The Group has no material investment plan at present and still actively keeps looking for strategic cooperation.

### **Technological Cooperation**

During the year, the Group still co-operated with the IC Engineering Technology Centre and the ASIC System Laboratory jointly operated with the Shanghai Fudan University and the University of Science & Technology of China respectively, and has been enjoying their advanced and superior technological supports.

### **Financial Resources and Liquidity**

As at 31 December 2006, net assets of the Group amounted to approximately RMB254,465,000 (2005: RMB234,552,000); current assets amounted to approximately RMB265,700,000 (2005: RMB259,760,000), of which approximately RMB143,006,000 (2005: RMB136,633,000) were cash and bank deposits.

The Group's financial resources have been generated internally to meet its operation needs. The Group's financial resources and liquidity are in healthy status and enable the Group to meet its daily business operation and present development.

As at 31 December 2006, except a deposit of RMB2,417,000 (2005: RMB1,639,000) pledged as security for letters of credit and project tenders issued by the Company, the Group has not pledged its assets to any third parties (2005: nil).

### **Capital Structure**

During the year, the Company has repurchased certain of its H shares on the Stock Exchange and details are set out in the section headed “Purchase, redemption or sale of listed securities of the company” below. Except as disclosed, the Company’s capital has no change and only comprises of ordinary shares.

### **Gearing Ratio**

As at 31 December 2006, the Group’s current liabilities amounted to approximately RMB75,691,000 (2005: RMB89,234,000) and non-current liabilities of approximately RMB384,000 (2005: RMB3,615,000). The net assets value per share of the Group was approximately RMB0.42 (2005: RMB0.38). The Group’s ratio of current liabilities over current assets was approximately 28.5% (2005: 34.4%) and the gearing ratio was approximately 29.9% (2005: 39.6%) on the basis of total liabilities over net assets. As at 31 December 2006, the Group and the Company had no bank or other borrowings (2005: nil).

### **Interest and Foreign Exchange 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. As most of the Group’s transactions are denominated either in RMB or Hong Kong dollars or US dollars, exchange rates of such currencies have been stable over the past years, therefore, it is the Group’s policy not to enter into forward contracts until a firm commitment is in place.

The Group has maintained a conservative policy on management of interest and foreign exchange risk. In order to minimize the risk of interest and foreign exchange, most of the Group’s deposits are in RMB with different fixed periods and rates to cover the cash flows of its business operations and fluctuation in interest rates. During the reporting period, the fluctuations in foreign exchange have no material effect on the Group’s operations and cash flows.

### **Credit Risk**

The Group’s sales are made to several major customers and there is concentration of credit risks. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimise credit risk.



## **Capital Commitments**

As at 31 December 2006, the Group had capital commitments amounted to approximately RMB6,308,000 (2005: RMB170,000). The capital commitments relate primarily to acquisitions of land and buildings and plant and equipment, repurchase of H shares and capital contribution for a new subsidiary.

## **Contingent Liabilities**

As at 31 December 2006, the Group had no contingent liabilities (2005: 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 cooperative partners as appropriate.

## **Staff**

As at 31 December 2006, the Group employed approximately 301 (2005: 314) staff. 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 staff costs of the Group charged to the income statement for the year ended 31 December 2006 amounted to approximately RMB23,613,000 (2005: RMB21,737,000).

## **Prospects**

Following the rapid changes in technologies, the functions of IC have increasingly widened. In this connection, the IC design industry has been regarded as a major and preferential industry to be developed by most of advanced countries. At present, the IC products that are domestically designed and manufactured and designed attributable to a small portion of the global related market; the domestic IC market still relies on imported products. Accordingly, the Group believes that its core business will continue to gain benefits in view of these favourable factors. To ensure the maintenance of a stable growth, the Group will apply addition resources in enhancing the existing products and the research and development of more new products, and with strengthen in its cost control and market competitiveness, a continuous growth is anticipated in the coming year.

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

At 31 December 2006, the interests and short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares 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 registers required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

*Long positions in domestic shares of the Company:—*

	Number of issued shares held, capacity and nature of interest					Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust (Note)			
<i>Directors</i>							
Mr. Jiang Guoxing	7,210,000	—	—	1,442,300	8,652,300	1.39	
Mr. Shi Lei	7,210,000	—	—	12,980,000	20,190,000	3.24	
Mr. Yu Jun	—	—	—	10,961,530	10,961,530	1.76	
Ms. Cheng Junxia	—	—	—	8,076,920	8,076,920	1.29	
Mr. Wang Su	—	—	—	7,211,530	7,211,530	1.16	
Ms. Zhang Qianling	—	—	—	1,733,650	1,733,650	0.28	
Mr. He Lixing	—	—	—	1,442,300	1,442,300	0.23	
Mr. Shen Xiaozu	—	—	—	1,442,300	1,442,300	0.23	
	<u>14,420,000</u>	<u>—</u>	<u>—</u>	<u>45,290,530</u>	<u>59,710,530</u>	<u>9.58</u>	
<i>Supervisors</i>							
Mr. Li Wei	—	—	—	6,057,690	6,057,690	0.97	
Mr. Ding Shengbiao	—	—	—	7,211,530	7,211,530	1.16	
Mr. Xu Lenian	—	—	—	865,380	865,380	0.14	
	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,134,600</u>	<u>14,134,600</u>	<u>2.27</u>	

*Note:* These shares are held by The Staff Shareholding Association of the Company ("SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("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.

Save as disclosed above, as at 31 December 2006, no directors, supervisors or chief executive had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the 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 spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **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 of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

## **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 its subsidiaries were a party during the year.

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

At 31 December 2006, 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:—*

<b>Name</b>	<b>Notes</b>	<b>Capacity and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
SSAC Shanghai Fudan		Directly beneficially owned	144,230,000	23.13
High Tech Company	(1)	Directly beneficially owned	106,730,000	17.11
SCI	(2)	Directly beneficially owned and through a controlled corporation	95,200,000	15.27

*Notes:*

- (1) Shanghai Fudan High Tech Company is a state-owned enterprise wholly owned by Shanghai Fudan University.
- (2) SCI is a state-owned enterprise wholly-owned by the Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 domestic shares are held in its own name, 34,620,000 domestic shares are held by a wholly-owned subsidiary of SCI, Shanghai Pacific Commercial Trust Company Limited, and 14,420,000 domestic shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Ltd. The 46,160,000 domestic shares held in its own name represents approximately 7.40% of the registered share capital of the Company.

Save as disclosed above, as at 31 December 2006, no person, other than the directors, supervisors and chief executive of the Company, whose interests are set out in the section “Directors’, supervisors’ and chief executive’s interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company’ articles of association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year, the Company repurchased on the Stock Exchange a total of 1,196,000 H shares of RMB0.10 each of the Company for an aggregate consideration of RMB556,000. A summary of shares repurchase transactions during the year is as follows:

<b>Trading date</b>	<b>Number of shares repurchased</b>	<b>Price per share or highest price paid</b> <i>RMB</i>	<b>Lowest price paid</b> <i>RMB</i>
16 November 2006	392,000	0.440	–
17 November 2006	320,000	0.440	–
1 December 2006	224,000	0.453	0.438
18 December 2006	260,000	0.473	0.438
	<u>1,196,000</u>		

In addition, the Company repurchased 900,000 of its H shares on 29 December 2006 for a consideration of RMB381,000. The transaction was settled on 3 January 2007. These shares were subsequently cancelled on 24 January 2007.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **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.

## **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 year.

## **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 the three independent non-executive directors of the Company, Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li. The Company's and the Group's financial statements for the year ended 31 December 2006 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 held four meetings during 2006.

ON BEHALF OF THE BOARD

**Jiang Guoxing**

*Chairman*

Shanghai, the PRC  
22 March 2007

\* *For identification purpose only*

*As at the date of this announcement, the Company's executive Directors are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Ms. Cheng Junxia and Mr. Wang Su; non-executive Directors are Ms. Zhang Qianling, Mr. He Lixing and Mr. Shen Xiaozu and independent non-executive Directors are Mr. Leung Tin Pui, Mr. Cheung Wing Keung and Mr. Guo Li.*

*This announcement will remain on the GEM website on the "Latest Company announcements" page and on the Company's website for at least 7 days from the day of its posting.*