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上海復旦微電子集團股份有限公司  
**Shanghai Fudan Microelectronics Group Company Limited\***  
*(a joint stock limited company incorporated in the People's Republic of China)*

(Stock Code: 1385)

## **RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

### **FINANCIAL HIGHLIGHTS**

The turnover of the Group for the year ended 31 December 2016 was approximately RMB1,187,490,000 (2015: RMB1,039,725,000), increased by approximately 14.2% as compared to the previous year.

The Group recorded a net profit attributable to owners of the parent for the year ended 31 December 2016 of approximately RMB212,258,000 (2015: RMB158,898,000) and the basic earnings per share was RMB34.38 cents (2015: RMB25.74 cents), representing an increase of approximately 33.6% over last year.

The Board does not recommend the payment of final dividend for the year ended 31 December 2016 (2015: Nil).

## AUDITED RESULTS

The board of directors (the “Board”) of Shanghai Fudan Microelectronics Group 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 2016, along with the comparative audited figures for the year ended 31 December 2015 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
<b>REVENUE</b>	3	<b>1,187,490</b>	1,039,725
Cost of sales		<u>(556,198)</u>	<u>(489,416)</u>
Gross profit		<b>631,292</b>	550,309
Other income and gains	3	<b>162,985</b>	83,080
Selling and distribution costs		<b>(68,428)</b>	(61,887)
Administration expenses		<b>(87,300)</b>	(80,579)
Other expenses		<u><b>(378,692)</b></u>	<u>(297,598)</u>
<b>PROFIT BEFORE TAX</b>	4	<b>259,857</b>	193,325
Tax expense	5	<u><b>(19,767)</b></u>	<u>(15,335)</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>240,090</b></u>	<u>177,990</u>
Profit attributable to:			
Owners of the parent	6	<b>212,258</b>	158,898
Non-controlling interests		<u><b>27,832</b></u>	<u>19,092</u>
		<u><b>240,090</b></u>	<u>177,990</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted			
- For profit for the year	6	<u><b>34.38cents</b></u>	<u>25.74cents</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
<b>PROFIT FOR THE YEAR</b>	<b><u>240,090</u></b>	<b><u>177,990</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of a foreign operation	<u>756</u>	<u>668</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>756</u>	<u>668</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b><u>756</u></b>	<b><u>668</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>240,846</u></b>	<b><u>178,658</u></b>
Total comprehensive income attributable to:		
Owners of the parent	213,014	159,566
Non-controlling interests	<u>27,832</u>	<u>19,092</u>
	<b><u>240,846</u></b>	<b><u>178,658</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		308,702	332,011
Intangible assets		139,547	160,645
Deferred tax assets		42,972	38,264
Total non-current assets		<u>491,221</u>	<u>530,920</u>
<b>CURRENT ASSETS</b>			
Inventories		280,612	214,110
Trade and bills receivables	7	466,616	366,017
Prepayments, deposits and other receivables		24,195	21,383
Cash and bank balances		540,224	386,033
Total current assets		<u>1,311,647</u>	<u>987,543</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	8	113,922	124,703
Accruals, other payables and deferred income		286,665	261,067
Tax payable		15,771	13,369
Total current liabilities		<u>416,358</u>	<u>399,139</u>
<b>NET CURRENT ASSETS</b>		<u>895,289</u>	<u>588,404</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,386,510</u>	<u>1,119,324</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income		12,078	5,738
Total non-current liabilities		<u>12,078</u>	<u>5,738</u>
Net assets		<u>1,374,432</u>	<u>1,113,586</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		61,733	61,733
Reserves	9	1,160,033	940,097
<b>Non-controlling interests</b>		<u>1,221,766</u>	<u>1,001,830</u>
		<u>152,666</u>	<u>111,756</u>
Total equity		<u>1,374,432</u>	<u>1,113,586</u>

## Notes

### 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirement 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

#### 1.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

### 2. 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”).

Year ended 31 December 2016	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
<b>Segment revenue</b>			
Sales to external customers	1,104,382	83,108	1,187,490
Intersegment sales	-	41,943	41,943
	<u>1,104,382</u>	<u>125,051</u>	<u>1,229,433</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(41,943)</u>
Revenue			<u><u>1,187,490</u></u>
<b>Segment results</b>	177,676	69,806	247,482
<i>Reconciliation:</i>			
Elimination of intersegment results			(10,038)
Interest income			9,169
Unallocated other income and gains			<u>13,244</u>
Profit before tax			<u><u>259,857</u></u>
<b>Segment assets</b>	1,401,681	366,083	1,767,764
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(7,868)
Corporate and other unallocated assets			<u>42,972</u>
Total assets			<u><u>1,802,868</u></u>
<b>Segment liabilities</b>	335,031	101,273	436,304
<i>Reconciliation:</i>			
Eliminating of intersegment payables			<u>(7,868)</u>
Total liabilities			<u><u>428,436</u></u>
<b>Other segment information</b>			
Impairment loss recognised in the statement of profit or loss	52,500	288	52,788
Impairment loss reversed in the statement of profit or loss	(7,322)	(166)	(7,488)
Depreciation	24,250	43,805	68,055
Amortisation of intangible assets	44,417	-	44,417
Capital expenditure*	<u>97,590</u>	<u>20,270</u>	<u>117,860</u>

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

<b>Year ended 31 December 2015</b>	<b>Design, development and sale of IC products RMB'000</b>	<b>Testing services for IC products RMB'000</b>	<b>Total RMB'000</b>
<b>Segment revenue</b>			
Sales to external customers	972,782	66,943	1,039,725
Intersegment sales	-	41,056	41,056
	972,782	107,999	1,080,781
<i>Reconciliation:</i>			
Elimination of intersegment sales			(41,056)
Revenue			1,039,725
<b>Segment results</b>			
	140,534	43,732	184,266
<i>Reconciliation:</i>			
Elimination of intersegment results			(9,632)
Interest income			7,950
Unallocated other income and gains			10,741
Profit before tax			193,325
<b>Segment assets</b>			
	1,190,448	298,227	1,488,675
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(8,476)
Corporate and other unallocated assets			38,264
Total assets			1,518,463
<b>Segment liabilities</b>			
	319,466	93,887	413,353
<i>Reconciliation:</i>			
Eliminating of intersegment payables			(8,476)
Total liabilities			404,877
<b>Other segment information</b>			
Impairment loss recognised in the statement of profit or loss	28,734	433	29,167
Impairment loss reversed in the statement of profit or loss	(1,191)	(86)	(1,277)
Depreciation	20,082	20,624	40,706
Amortisation of intangible assets	26,042	-	26,042
Capital expenditure*	103,519	53,109	156,628

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

## Geographical information

### (a) Revenue from external customers

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Mainland China	<b>1,136,058</b>	1,020,367
Asia Pacific (excluding Mainland China)	<b>38,163</b>	13,865
Others	<b>13,269</b>	5,493
	<b><u>1,187,490</u></b>	<u>1,039,725</u>

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

### (b) Non-current assets

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Mainland China	<b>448,240</b>	492,651
Asia Pacific (excluding Mainland China)	<b>9</b>	5
	<b><u>448,249</u></b>	<u>492,656</u>

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

## Information about a major customer

In 2016, Revenue of approximately RMB 164,651,000 was derived from sales by the design, development and sale of IC products segment to a single customer, which contributed to 10% or more of the Group's revenue.

In 2015, Revenue of approximately RMB187,465,000 was derived from sales by the design, development and sale of IC products segment to a single customer, which contributed to 10% or more of the Group's revenue.



### 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, and the value of services rendered during the year.

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

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
<b>Revenue</b>		
Sale of goods	<b>1,104,382</b>	972,782
Rendering of services	<b>83,108</b>	66,943
	<b>1,187,490</b>	1,039,725
<b>Other income and gains</b>		
Bank interest income	<b>9,169</b>	7,950
Government grants received for research activities	<b>93,966</b>	61,733
Other government grants	<b>13,244</b>	10,741
Others	<b>46,606</b>	2,656
	<b>162,985</b>	83,080

#### 4. PROFIT BEFORE TAX

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

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Cost of inventories sold	<b>519,095</b>	468,911
Cost of services provided	<b>37,103</b>	20,505
Depreciation	<b>68,055</b>	40,706
Research and development costs:		
Deferred development costs amortised*	<b>44,417</b>	26,042
Current year expenditure	<b>345,284</b>	248,739
Less: Government grants received for research activities**	<b>(93,966)</b>	(61,733)
	<b>295,735</b>	213,048
Minimum lease payments under operation leases:		
Land and buildings	<b>12,454</b>	11,631
Auditors' remuneration	<b>1,576</b>	1,199
Employee benefit expense (excluding Directors' remuneration):		
Wages and salaries	<b>225,885</b>	193,809
Pension scheme contributions	<b>25,787</b>	23,204
	<b>251,672</b>	217,013
Less: Amounts capitalised as development costs	<b>(55,601)</b>	(58,072)
	<b>196,071</b>	158,941
Foreign exchange differences, net	<b>477</b>	2,265
Impairment of intangible assets	<b>36,126</b>	16,389
Impairment/(reversal) of trade and bills receivables	<b>(3,621)</b>	3,540
Provision for inventories to net realisable value	<b>12,795</b>	7,912
Write off/loss on disposal of items of property, plant and equipment and intangible assets	<b>13,553</b>	8,194
Bank interest income	<b>(9,169)</b>	(7,950)
Other government grants	<b>(13,244)</b>	(10,741)

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

\*\* Various government grants have been received for setting up research activities in Shanghai, Mainland China, to support domestic technology development. Conditions or contingencies relating to these grants are fulfilled and they are not deducted from the related costs which they are intended to compensate, but recorded in other income. Government grants received for which related expenditure has not yet been incurred or to which there were unfulfilled conditions are included in "Accruals, other payables and deferred income" in the consolidated statement of financial position.

## 5. 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 year ended 31 December 2015, income tax provision on assessable income of the Company was made at the rate of 15%. Pursuant to the notice of the State Council on “Issuing Several Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries” (Guo Fa (2011) No. 4) and “Notice Concerning Several Policies on Enterprise Income Tax of Software and Integrated Circuit Industries” (Cai Shui (2016) No. 49) issued by the Ministry of Finance of the PRC, the Company was subsequently qualified as “key software enterprise falling within the State’s planned arrangement” for its 2015 annual tax filing. Accordingly, the Company enjoyed a preferential tax rate of 10% and received a tax refund which represented the difference between the paid amount according to original 15% corporate income tax rate and the aforesaid preferential tax rate of 10%. For the year ended 31 December 2016, income tax on assessable income of the Company has been provided at the rate of 15% as an HNT Enterprise .

Under the CIT Law, the Company’s subsidiary, Sino IC Technology Co., Ltd. (“Sino IC”) is subject to income tax at a base rate of 25%. Sino IC is entitled to a preferential income tax rate of 15% as an HNT Enterprise. For the financial year ended 31 December 2016, income tax on assessable income of Sino IC has been provided at the rate of 15% (2015: 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%. For the financial year ended 31 December 2016, Fukong Hualong is entitled to a preferential income tax rate of 15% as an HNT Enterprise, and therefore, income tax on assessable income of Fukong Hualong has been provided at the rate of 15% (2015: 15%).

Under the CIT Law, three of the Company’s subsidiaries, Shenzhen Fudan Microelectronics Company Limited, Beijing Fudan Microelectronics Technology Company Limited and Shanghai Doublepoint Information Technology Co., Ltd. (“Doublepoint”), are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2016, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2015: 25%).

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	<b>2016</b>	2015
	<b>RMB’000</b>	RMB’000
Current – Hong Kong		
Charge for the year	-	(83)
Over provision in prior years	(7)	
Current – Mainland China		
Charge for the year	<b>26,425</b>	19,967
Overprovision in prior years	<b>(1,943)</b>	(22)
Deferred	<b>(4,708)</b>	(4,527)
Total tax charge for the year	<b><u>19,767</u></b>	<u>15,335</u>

## 6. 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 (2015: 617,330,000) in issue during the year.

The calculation of basic earnings per share is based on:

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u><b>212,258</b></u>	<u>158,898</u>
	<u>Number of shares '000</u>	
	<b>2016</b>	2015
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u><b>617,330</b></u>	<u>617,330</u>

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2016 and 2015. The diluted earnings per share is same as basic earnings per share.

## 7. TRADE AND BILLS RECEIVABLES

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Trade and bills receivables	<b>480,265</b>	384,161
Impairment	<u><b>(13,649)</b></u>	<u>(18,144)</u>
	<u><b>466,616</b></u>	<u>366,017</u>

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 the 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:

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Within 3 months	<b>379,442</b>	291,858
3 to 6 months	<b>74,466</b>	48,152
6 to 12 months	<b>10,448</b>	3,397
Over 12 months	<b>2,260</b>	22,610
	<b><u>466,616</u></b>	<u>366,017</u>

## **8. 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:

	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Within 3 months	<b>112,699</b>	122,751
3 to 6 months	<b>604</b>	68
6 to 12 months	<b>-</b>	815
Over 12 months	<b>619</b>	1,069
	<b><u>113,922</u></b>	<u>124,703</u>

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

## 9. RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuatio n reserve RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	168,486	42,701	(3,476)	7,821	564,999	780,531
Profit for the year	-	-	-	-	158,898	158,898
Exchange differences on translation of foreign operations	-	-	668	-	-	668
Total comprehensive income for the year	-	-	668	-	158,898	159,566
Transfer	-	2,016	-	-	(2,016)	-
At 31 December 2015	168,486	44,717	(2,808)	7,821	721,881	940,097
Profit for the year	-	-	-	-	<b>212,258</b>	<b>212,258</b>
Exchange differences on translation of foreign operations	-	-	756	-	-	756
Total comprehensive income for the year	-	-	756	-	<b>212,258</b>	<b>213,014</b>
Capital contribution from non-controlling interests	-	-	-	<b>6,922</b>	-	<b>6,922</b>
Transfer	-	<b>3,051</b>	-	-	<b>(3,051)</b>	-
<b>At 31 December 2016</b>	<b><u>168,486</u></b>	<b><u>47,768</u></b>	<b><u>(2,052)</u></b>	<b><u>14,743</u></b>	<b><u>931,088</u></b>	<b><u>1,160,033</u></b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Focusing on its core business and with products under diversified development, the Group is enabled to maintain a favourable position in the market competition, especially in the business environment of ever-changing technologies and with consumer preference in taking the new. The Group's overall revenue recorded approximately RMB1,187,490,000, increased by 14.2% compared to the previous year. Profit margins of certain products decreased due to price reductions against keen competition; however, due to products with higher gross margin gained more portfolio weight and some products have reductions in production costs following enlarged market shares, thus the overall gross margin increased slightly from 52.9% of last year to 53.2%.

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

#### *Security and Identification IC Chips*

In the year ended 31 December 2016, sales of security and identification chips only recorded a growth of around 7% with gross margin decreased by 5.3% compared to last year; its sales still accounted for more than half of the Group's total turnover and taking up a relatively high weighting. The security and identification products include high-end products like public transit cards, resident cards, social security cards, citizen cards, financial IC cards, and electronic payments etc. Due to the high technical threshold and the Group has already entered the industry in a rather early stage, the sales was not affected by competition and has maintained a very steady growth. However, due to the start of keen competition, the prices and the sales of products with lower technical skills such as campus cards, consumer cards, access control systems and low memory public transit cards were greatly affected; moreover, the gradual market saturation has caused price deduction and decrease in sales, which have a negative impact on the gross profit margin. The sales of security chips has decreased by 13.7% due to market change in its applications. Other products such as contactless RF card chip and contactless chips have benefited from the weakened competition, thus, having satisfactory increases in sales.

#### *Smart Meter ASIC Chips*

The sales of the smart meter ASIC chips has decreased by 4.2% as compared to last year. The old products were at the final stage of their product life cycle and gradually replaced by new products, the old products suffered from a substantial decrease in the win rate from bidding and the sales of this year has decreased by 53%. Since the release of the follow-up products from last year, and because the new products could fulfill the technical specifications and functional requirements, the rate of winning bids has significantly increased and gained around 50% of the market share during the year. The gross margin of these products has a slightly increase due to the better profit usually generated from new products.

#### *Non-volatile Memory Chips*

The products of this category mainly comprises the EEPROM series and the NOR flash memory series, they are widely applied in consumer class and peripheral electronic products market. The Group's EEPROM and NOR flash memory products cover different memory storages together with very high reliability; due to market expansion, the sales has increased by 47.2%. Since the old products were replaced by the new ones, the gross margin benefited from technical upgrade with lower production costs and increased by 17%.

### ***Specific Analog Circuits***

Specific Analog Circuits mainly consist of leakage protection chips, motor vehicle specific chips, communication chips and lighting chips; they are widely applied in leakage protection devices, home appliances, telecommunication equipment and lighting adjusting system etc. The sales of these products has increased by approximately 11.3% during the year, but the gross margin has decreased by around 1.9%; the reason behind was that there was an increase in market share of leakage protection chips, however, gross margin was adversely affected by price deduction due to change in market condition. This type of products contributes only a small portion in the total sales and it does not have a material impact on the Group's performance.

### ***Other Chips***

Due to satisfactory performance in the trial stage and benefited from the increasing market demand, the sales of specific proprietary products has increased by approximately 114.9%. As a result of special specifications that required extremely high technological skills and the substantial research and development expenses incurred during the developing stage, the gross margin of these products was higher than other products and has a good contribution to the overall gross margin of the Group.

### ***IC Testing Services***

During the year, the IC testing services provided to external customers achieved a growth of approximately 24.1%. The IC market has continued to grow rapidly which helped the growth of the Group's IC testing services. Moreover, other than adding testing equipment in order to expand the capacity of testing services, this business segment has paid more attention on the research and development of high-end testing platform. The internal transactions on testing services have decreased to about one-third of this segment revenue. Gross margin of IC testing services decreased by 22.9% compared to last year due to price drop for expanding market share.

## **FINANCE REVIEW**

For the year ended 31 December 2016, the Group recorded a total revenue of approximately RMB1,187,490,000 (2015: RMB1,039,725,000), has increased by 14.2% as compared to last year; gross margin has kept at the 50% level and slightly increased over last year to 53.2%. In addition, substantial increase in other income and gains has neutralized the increases in operating and research and development expenses, thus, this year's profit was RMB240,090,000 (2015: RMB177,990,000) and has increased by 34.9%. The audited net profit attributable to owners of the parent was approximately RMB212,258,000 (2015: RMB158,898,000), with basic earnings per share of RMB34.38 cents (2015: RMB25.74 cents), representing an increase of approximately 33.6% year-on-year. The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2016 (2015: nil).

For the year ended 31 December 2016, the Group recorded an overall sales growth due to both increases in sales of IC chips and IC testing services income. The gross margin was close to last year's and slightly increased from 52.9% to 53.2%. Other income and gains substantially increased by approximately 96.2% compared with last year, for an increased earnings of approximately RMB 79,905,000 caused by the conditions or contingencies related to more government grants being fulfilled and provision of external research and development services, and bank interest income increased as a result of timely collection of trade debts.

The sales and distribution expenses have increased by approximately 10.6% as a result of the increases in sales and marketing activities during the year. Administrative expenses have increased by approximately 8.3%, this is because of the increase in staff members to overcome business expansion and adjustment in salary affected by the industry level. Other expenses during the year has increased by approximately RMB 81,094,000 or 27.2% as compared to last year; as a result of substantial resources applied to research and development projects in recent years, research and development costs as well as written off, impairment and amortisation provided on intangible assets during the year have increased significantly.



With reference to income tax expense, the Group's tax expense for the year increased by approximately RMB4,432,000 over the year and the tax expense provided mainly due to the increased profit before tax amounted to approximately RMB6,458,000. The Company was qualified under "key software enterprise falling within the State's planned arrangement" in its 2015 annual tax return, thus, enjoyed a preferential tax rate of 10%. The adjustment of tax overprovision for prior year has partly set-off the tax expense due to increase in profit.

The Group's non-current assets decreased by approximately RMB39,699,000 over last year, it is because the amount of acquisition of property, plant and equipment was less than the depreciation; in addition, the deferred development costs of intangible assets during the year amounted to approximately RMB72,822,000, which was less than the total of written off, impairment and amortisation provided in respect of the intangible assets of approximately RMB93,920,000; the deferred tax assets has increased by RMB4,708,000. Current assets increased substantially by approximately RMB324,104,000 than last year, where inventories has greatly increased by RMB66,502,000 in order to cope with increasing seasonal sales. Balance of trade and bills receivables was approximately RMB466,616,000, increased by approximately RMB100,599,000 as compared with last year, it was mainly attributable to the increasing sales in the fourth quarter of the year, and most of them are within the normal credit period. Cash and bank deposits increased by approximately RMB154,191,000 than last year due to timely collection of payments. Due to increase in tax and other payables, current liabilities has increased by RMB17,219,000 as compared to last year. Non-current liabilities has increased by RMB6,340,000 due to increase in deferred income.

Equity of non-controlling interests has increased by RMB40,910,000 or 36.6%, this is because the IC testing services provided by the 50.3%-owned Sino IC has achieved a good performance and attributed more profit to the non-controlling interests.

## **MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

Fukong Hualong, which is a non wholly-owned subsidiary of the Group, entered into an agreement to issue new shares and the transaction contemplated under the agreement was deemed as a disposal under the Listing Rules. Upon completion of the share allotment, the Company's equity holding in Fukong Hualong was decreased from 51% to 38.25%, and the new shareholder of Fukong Hualong held a 25% equity interest in Fukong Hualong. However, this new shareholder has agreed to act in concert with the Company in respect of the operation, investment and financing policies of Fukong Hualong, therefore, Fukong Hualong is regarded as a subsidiary.

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

## **FUTURE PLANS FOR MATERIAL INVESTMENTS**

The Group will focus on its core business development and has no material investment plan at present.

## **FINANCIAL RESOURCES AND LIQUIDITY**

As at 31 December 2016, net assets of the Group amounted to approximately RMB1,374,432,000 (2015: RMB1,113,586,000), an increase of approximately 23.4% over the year; of which current assets amounted to approximately RMB1,311,647,000 (2015: RMB987,543,000), a rise of approximately 32.8% year-on-year, and including cash and bank deposits of approximately RMB540,224,000 (2015: RMB386,033,000), an increase of approximately 39.9% over last year.

As the Group keeps profiting for the past years, profit and internal cash generated have been used to meet the operations and business development needs.

The net cash flows from operating activities for the year was approximately RMB249,660,000 (2015: RMB199,610,000), increased by approximately RMB 50,050,000. The net cash flows used in investing activities was approximately RMB105,249,000, a decrease of RMB134,760,000 over the previous year. Besides, deposits with maturity over 3 months decreased by approximately RMB10,860,000, the cash and cash equivalents as at the reporting date was increased by RMB165,051,000.

As at 31 December 2016, the Group has not pledged any of its assets to any third parties (2015: nil).

## **CAPITAL STRUCTURE**

The Company's capital structure has no change during the year and only comprises ordinary shares.

In 2016, Sino IC, a non wholly-owned subsidiary, increased its share capital from 84,000,000 shares to 126,000,000 shares by transferring RMB42,000,000 out of the retained earnings to the share capital.

During the year, Fukong Hualong entered into an agreement for the allotment of 10,000,000 new shares and increased its share capital from 30,000,000 shares to 40,000,000 shares.

## **GEARING RATIO**

As at 31 December 2016, the Group's current liabilities amounted to approximately RMB416,358,000 (2015: RMB399,139,000), an increase of approximately 4.3% year-on-year. Non-current liabilities amounted to approximately RMB12,078,000 (2015: RMB5,738,000), an increase of approximately 110.5% over the year. Net asset value per share was approximately RMB2.23 (2015: RMB1.80), a growth of approximately 23.4% over last year. The Group's ratio of current liabilities over current assets was approximately 31.7% (2015: 40.4%) and the gearing ratio was approximately 31.2% (2015: 36.4%) on the basis of total liabilities over net assets.

As at 31 December 2016, the Company and the Group had no bank or other borrowings (2015: nil).

## **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk.

### ***Interest and Foreign Exchange Risk***

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

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 6% (2015: 8%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 61% (2015: 70%) of costs are denominated in the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place. During the reporting period, the fluctuations in foreign exchange had no material influence on the Group's operations and cash flows.

### ***Credit Risk***

The Group trades only with recognised and creditworthy third parties and, therefore, no collaterals are required. At the end of the reporting period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. 27% (2015: 27%) of the Group's total trade and bills receivables were due from the Group's five largest customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection of receivables to minimise credit risk.

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

### ***Liquidity Risk***

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

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

## **CAPITAL COMMITMENTS**

As at 31 December 2016, the Group had capital commitments contracted but not provided for in the amount of approximately RMB7,637,000 (2015: RMB15,950,000), which were related to the acquisition of property, plant and equipment.

## **CONTINGENT LIABILITIES**

As at 31 December 2016, the Group had no contingent liabilities (2015: nil).

## **USE OF CAPITAL AND FUNDING**

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

## **EMPLOYEES**

As at 31 December 2016, the Group has approximately 1,040 (2015: 958) employees. The increase in the number of employees was due to recruitments to meet increasing research and development projects, and this division engages more than half of the total employees. The remuneration of employees was determined in accordance with their performance, qualifications, experience and contribution to the Group with reference to the latest market trend in the industry.

As at 31 December 2016, the employee benefit expense (including directors' remuneration) as recorded in the consolidated statement of profit or loss and comprehensive income was RMB203,670,000 (2015: RMB164,256,000). The significant increase in employee benefit expense was due to the rise in number of employees and salaries resulted from shortage of experienced experts in the industry; in addition, due to the expansion of research and development projects, the employee benefit expense of RMB55,601,000 (2015: RMB58,072,000) was capitalized as development costs during the year.

## **PROSPECTS**

Looking into 2017, the United States will enter into the rate hike cycle and the fiscal policy will boost the economic growth. Eurozone and Asian emerging markets are still suffered by geopolitics; thus, the economies are expected to have slightly increases. The growth of China's economy is expected to slow down as it is adversely affected by factors like adjustments in industrial structure. Products of the Group are well diversified, covering from basic living needs and consumption to high-end government projects. The Group believes focusing in the core business not only can gain advantages in competition, also the upcoming development in other aspects will gain long-term benefits. Marketing strategy has been focused on the development of social and people's livelihood consumption products with commitments to meet consumer needs. With aggressive attitude in technology researches, more resources will be put into different applications in order to expedite the business development. Due to the fact that the businesses of the Group are concentrated in the domestic market, its products are focusing on basic living needs, and with the participation in various government projects for years, the Board expected its stable income can confront with economic slowdown and remains optimistic for a healthy growth in the Group's business in the year to come.

## **DIVIDEND**

The Board does not recommend the payment of final dividend in respect of the year.

## **EVENTS AFTER THE REPORTING PERIOD**

On 15 March 2017, the shareholders of Doublepoint passed a resolution for the dissolution of Doublepoint.

## **CLOSURE OF REGISTER OF MEMBERS OF H SHARES**

The Register of Members of the Company will be closed from 3 May 2017 to 2 June 2017 (both dates inclusive) during which period no transfer of H shares will be registered. To be eligible to attend the annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with Tricor Tengis Limited, the Company's Share Registrar in Hong Kong, at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on 2 May 2017.

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

At 31 December 2016, the interests of the directors and supervisors of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the 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 the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in domestic shares of the Company:-

	Number of issued shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
<b>Directors</b>					
Mr. Jiang Guoxing	7,210,000	-	-	7,210,000	1.17
Mr. Shi Lei	7,210,000	-	-	7,210,000	1.17
	<u>14,420,000</u>	<u>-</u>	<u>-</u>	<u>14,420,000</u>	

Long positions in shares and underlying shares of associated corporations:

	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
<b>Director</b>						
Mr. Yu Jun	Doublepoint	The Company's subsidiary	Ordinary shares	200,000	Directly beneficially owned	2.062
<b>Supervisor</b>						
Mr. Li Wei	Doublepoint	The Company's subsidiary	Ordinary Shares	100,000	Directly beneficially owned	1.031
Mr. Li Wei	Sino IC	The Company's subsidiary	Ordinary shares	126,000	Directly beneficially owned	0.100

Save as disclosed above, as at 31 December 2016, none of the directors, supervisors or chief executive of the Company 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 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.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of standards and code of conduct regarding Directors' securities transactions on terms no less exacting than those set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors and confirmed that they had all complied with such standards and code of conduct throughout the year ended 31 December 2016.

## 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.

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

At 31 December 2016, the following interests of 5% or more of the share capital of the Company were recorded in the register of interests required to be kept pursuant to Section 336 of the SFO:-

Long positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Fudan High Tech Company ("Fudan High Tech")	(1)	Directly beneficially Owned	106,730,000	Domestic shares	28.46	17.29
Shanghai Fudan Asset Management Co., Ltd.	(1)	Interest of corporation controlled	106,730,000	Domestic shares	28.46	17.29
Fudan University	(1)	Interest of corporation controlled	106,730,000	Domestic shares	28.46	17.29
Shanghai Fudan Technology Enterprise Holdings Limited ("Fudan Technology")	(2)	Directly beneficially Owned	109,620,000	Domestic shares	29.23	17.76
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	Domestic shares	29.23	17.76
Bailian (Group) Co., Ltd. ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	Domestic shares	29.23	17.76
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	Domestic shares	13.91	8.45
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	66,845,110	Domestic shares	17.83	10.83
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	Domestic shares	17.83	10.83

Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise (“Shanghai Zhenghua”)	(4)	Directly beneficially owned	47,443,420	Domestic shares	12.65	7.68
Shanghai Shanyao Industrial Limited (“Shanghai Shanyao”)	(4)	Interest of corporation controlled	47,443,420	Domestic shares	12.65	7.68
Zhou Yufeng	(4)	Interest of corporation controlled	47,443,420	Domestic shares	12.65	7.68
Shanghai Guonian Management Consultant Partnership Enterprise (“Shanghai Danruo”)	(5)	Directly beneficially owned	29,941,470	Domestic shares	7.98	4.85
Shanghai Danruo Investment Management Partnership Enterprise (“Shanghai Danruo”)	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.98	4.85
Zhongrong Yicheng Asset Management Limited (“Zhongrong Yicheng”)	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.98	4.85
Beijing Zhongrong Dingxin Investment Management Limited (“Zhongrong Dingxin”)	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.98	4.85
Zhongrong International Trust Limited (“Zhongrong International”)	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.98	4.85
Jingwei Textile Machinery Co., Ltd. (“Jingwei Textile”)	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.98	4.85
Springs China Opportunities Master Fund (“Springs China”)	(6)	Directly beneficially owned	19,224,000	H shares	7.93	3.11
Springs China Limited	(6)	Interest of corporation controlled	19,224,000	H shares	7.93	3.11
Zhao Jun	(6)	Interest of corporation controlled	19,224,000	H shares	7.93	3.11
Chi Rui	(6)	Interest of corporation controlled	19,224,000	H shares	7.93	3.11

Notes:

- (1) Shanghai Fudan High Tech Company is a state-owned enterprise wholly owned by Shanghai Fudan Asset Management Co., Ltd, and Shanghai Fudan Asset Management Co., Ltd is wholly owned by Fudan University.
- (2) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Technology. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Technology’s interest in the Company.

- (3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben (formerly known as “Shanghai Zhengben Investment Consultant Partnership Enterprise”). Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben’s interest in the Company. Shanghai Yikun and Zhang Yong further held the Company’s interest through another controlled corporation.
- (4) Zhou Yufeng held 99% of the equity interest in Shanghai Shanyao, and Shanghai Shanyao held 99.79% of the equity interest in Shanghai Zhenghua. Accordingly, each of Shanghai Shanyao and Zhou Yufeng is deemed to be interested in Shanghai Zhenghua’s interest in the Company.
- (5) Jingwei Textile held 37.47% of the equity interest in Zhongrong International; Zhongrong International wholly owned Zhongrong Dingxin; Zhongrong Dingxin held 80% of the equity interest in Zhongrong Yicheng; Zhongrong Yicheng held 0.01% of the equity interest in Shanghai Danruo and is the general partner; and Shanghai Danruo held 72.69% of the equity interest in Shanghai Guonian (formerly known as Shanghai Guonian Investment Consultant Partnership Enterprise). Accordingly, each of Shanghai Danruo, Zhongrong Yicheng, Zhongrong Dingxin, Zhongrong International and Jingwei Textile is deemed to be interested in Shanghai Guonian’s interest in the Company.
- (6) Spring China is beneficially owned by Spring China Limited, which is beneficially owned by Zhao Jun and Chi Rui. Accordingly, each of Spring China Limited, Zhao Jun and Chi Rui is deemed to be interested in Spring China’s interest in the Company.

Save as disclosed above, as at 31 December 2016, no person, other than the directors and supervisors of the Company, whose interests are set out in the section “Directors’ and Supervisors’ Interests in Shares and Underlying Shares and Debentures” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

#### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company’s 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**

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 announcement, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

#### **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 announcement.

#### **CORPORATE GOVERNANCE CODE**

In the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules throughout the year, save and except the code provision A.6.7 of the CG Code.



## **AUDIT COMMITTEE**

The Company has an audit committee which was established with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control and risk management system of the Group. The audit committee comprises three independent non-executive directors, Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Lin Fujiang. The Group's financial statements for the year ended 31 December 2016 have been reviewed by the committee, who were of the opinion that these statements complied with the applicable accounting standards, the requirements as set out by the Stock Exchange and the relevant legal provisions, and that adequate disclosures had been made.

By Order of the Board  
**Shanghai Fudan Microelectronics Group Company Limited\***  
**Jiang Guoxing**  
Chairman

Shanghai, the PRC, 28 March 2017

As at the date of this announcement, the Company's executive directors are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun and Ms. Cheng Junxia; non-executive directors are Ms. Zhang Qianling, Mr. Ma Zhicheng, Mr. Yao Fuli and Ms. Zhang Huajing and independent non-executive directors are Mr. Cheung Wing Keung, Mr. Guo Li, Mr. Chen Baoying and Mr. Lin Fujiang.

\* *For identification purpose only*