



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)

INTERIM REPORT

2017

* for identification only

The board of directors (the “Board”) of Shanghai Fudan Microelectronics Group Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the half-year ended 30 June 2017 together with the comparative figures for the corresponding period in 2016 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	<i>Notes</i>	Half-year ended 30 June	
		2017	2016
		<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	2	589,379	483,105
Cost of sales		<u>(304,696)</u>	<u>(223,107)</u>
Gross profit		284,683	259,998
Other income and gains	2	52,046	41,964
Selling and distribution costs		(32,157)	(30,534)
Administrative expenses		(40,301)	(37,060)
Other expenses		<u>(136,259)</u>	<u>(133,651)</u>
PROFIT BEFORE TAX	4	128,012	100,717
Income tax expense	5	<u>(17,276)</u>	<u>(8,604)</u>
PROFIT FOR THE PERIOD		<u>110,736</u>	<u>92,113</u>
Profit attributable to:			
Owners of the parent		104,159	84,706
Non-controlling interests		<u>6,577</u>	<u>7,407</u>
		<u>110,736</u>	<u>92,113</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the period	6	<u>16.87 cents</u>	<u>13.72 cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year ended 30 June	
	2017	2016
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>110,736</u>	<u>92,113</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(317)</u>	<u>242</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>(317)</u>	<u>242</u>
Other comprehensive income for the period, net after tax	<u>(317)</u>	<u>242</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>110,419</u>	<u>92,355</u>
Total comprehensive income attributable to:		
Owners of the parent	<u>103,842</u>	<u>84,948</u>
Non-controlling interests	<u>6,577</u>	<u>7,407</u>
	<u>110,419</u>	<u>92,355</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	313,190	308,702
Intangible assets	8	149,944	139,547
Deferred tax assets		<u>32,508</u>	<u>42,972</u>
Total non-current assets		<u>495,642</u>	<u>491,221</u>
CURRENT ASSETS			
Inventories		341,040	280,612
Trade and bills receivables	9	456,484	466,616
Prepayments, deposits and other receivables		29,306	24,195
Tax recoverable		16,244	-
Cash and bank balances	14	<u>468,601</u>	<u>540,224</u>
Total current assets		<u>1,311,675</u>	<u>1,311,647</u>
CURRENT LIABILITIES			
Trade and bills payables	10	129,486	113,922
Other payables, accruals and deferred income		198,237	286,665
Tax payable		<u>4,273</u>	<u>15,771</u>
Total current liabilities		<u>331,996</u>	<u>416,358</u>
NET CURRENT ASSETS		<u>979,679</u>	<u>895,289</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,475,321	1,386,510
NON-CURRENT LIABILITIES			
Deferred income		<u>2,996</u>	<u>12,078</u>
NET ASSETS		<u>1,472,325</u>	<u>1,374,432</u>
EQUITIES			
Equity attributable to equity holders of the parent			
Issued capital		61,733	61,733
Reserves	11	<u>1,263,875</u>	<u>1,160,033</u>
Non-controlling interests		<u>1,325,608</u>	<u>1,221,766</u>
		<u>146,717</u>	<u>152,666</u>
TOTAL EQUITY		<u>1,472,325</u>	<u>1,374,432</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent							Non- controlling interests	Total equity
	Issued share capital	Share premium	Statutory surplus reserve	Exchange fluctuation reserve	Other reserves	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2017	<u>61,733</u>	<u>168,486</u>	<u>47,768</u>	<u>(2,052)</u>	<u>14,743</u>	<u>931,088</u>	<u>1,221,766</u>	<u>152,666</u>	<u>1,374,432</u>
Profit for the period	-	-	-	-	-	104,159	104,159	6,577	110,736
Exchange differences on translation of foreign operations	-	-	-	(317)	-	-	(317)	-	(317)
Total comprehensive income for the period	-	-	-	(317)	-	104,159	103,842	6,577	110,419
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(12,526)	(12,526)
At 30 June 2017	<u>61,733</u>	<u>168,486*</u>	<u>47,768*</u>	<u>(2,369)*</u>	<u>14,743*</u>	<u>1,035,247*</u>	<u>1,325,608</u>	<u>146,717</u>	<u>1,472,325</u>
At 1 January 2016	<u>61,733</u>	<u>168,486</u>	<u>44,717</u>	<u>(2,808)</u>	<u>7,821</u>	<u>721,881</u>	<u>1,001,830</u>	<u>111,756</u>	<u>1,113,586</u>
Profit for the period	-	-	-	-	-	84,706	84,706	7,407	92,113
Exchange differences on translation of foreign operations	-	-	-	242	-	-	242	-	242
Total comprehensive income for the period	-	-	-	242	-	84,706	84,948	7,407	92,355
At 30 June 2016	<u>61,733</u>	<u>168,486</u>	<u>44,717</u>	<u>(2,566)</u>	<u>7,821</u>	<u>806,587</u>	<u>1,086,778</u>	<u>119,163</u>	<u>1,205,941</u>

* *These reserve accounts comprise the consolidated reserves of RMB1,263,875,000 (31 December 2016: RMB1,160,033,000) in the condensed consolidated statement of financial position.*

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Half-year ended 30 June	
	2017	2016
<i>Note</i>	RMB'000	RMB'000
Net cash flows (used in)/generated from operating activities	(111,158)	83,182
Net cash flows generated from investing activities	143,249	120,240
Net cash flows from financing activities	<u>—</u>	<u>—</u>
INCREASE IN CASH AND CASH EQUIVALENTS	32,091	203,422
Cash and cash equivalents at beginning of period	286,357	121,306
Effect of foreign exchange rate changes, net	<u>(317)</u>	<u>242</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>318,131</u>	<u>324,970</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	<i>14</i>	
Cash on hand and demand deposits	156,611	199,052
Non-pledged time deposits	<u>311,990</u>	<u>255,570</u>
Cash and bank balances as stated in the condensed consolidated statement of financial position	468,601	454,622
Time deposits with original maturity of over three months when acquired	<u>(150,470)</u>	<u>(129,652)</u>
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of cash flows	<u>318,131</u>	<u>324,970</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). 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.

The accounting policies adopted in preparing these unaudited consolidated financial statements are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2016. The Group has adopted the new and revised Hong Kong Financial Reporting Standards which are effective for the financial year beginning on or after 1 January 2017. The adoption of these new and revised standards did not have any significant impact on the operating results and financial position of the Group.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2. REVENUE, OTHER INCOME AND GAINS

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

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

	Half-year ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB’000	RMB’000
Revenue		
Sale of goods	554,027	452,984
Services rendered	35,352	30,121
	<u>589,379</u>	<u>483,105</u>
Other income and gains		
Interest income	5,200	3,002
Government grants received for research activities	19,160	26,450
Other government grants	23,820	10,117
Others	3,866	2,395
	<u>52,046</u>	<u>41,964</u>

3. 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”).

For the half year ended 30 June 2017	Design, development and selling of IC products (Unaudited) RMB’000	Testing services of IC products (Unaudited) RMB’000	Total (Unaudited) RMB’000
Segment revenue			
Sales to external customers	554,027	35,352	589,379
Intersegment sales	–	20,113	20,113
	554,027	55,465	609,492
<i>Reconciliation:</i>			
Elimination of intersegment sales			(20,113)
Revenue			<u>589,379</u>
Segment results	82,558	17,885	100,443
<i>Reconciliation:</i>			
Elimination of segment results			(1,451)
Interest income			5,200
Unallocated gains			23,820
Profit before tax			<u>128,012</u>
Segment assets	1,444,935	341,900	1,786,835
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(12,026)
Corporate and other unallocated assets			32,508
Total assets			<u>1,807,317</u>
Segment liabilities	262,871	84,147	347,018
<i>Reconciliation:</i>			
Elimination of intersegment payables			(12,026)
Total liabilities			<u>334,992</u>
Other segment information			
Impairment loss recognised in the statement of profit and loss	3,343	258	3,601
Depreciation	9,922	18,356	28,278
Amortisation of intangible assets	18,787	–	18,787
Capital expenditure*	44,354	17,979	62,333

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

For the half year ended 30 June 2016	Design, development and selling of IC products (Unaudited) <i>RMB'000</i>	Testing services of IC products (Unaudited) <i>RMB'000</i>	Total (Unaudited) <i>RMB'000</i>
Segment revenue			
Sales to external customers	452,984	30,121	483,105
Intersegment sales	<u>–</u>	<u>17,045</u>	<u>17,045</u>
	452,984	47,166	500,150
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(17,045)</u>
Revenue			<u><u>483,105</u></u>
Segment results	80,000	17,050	97,050
<i>Reconciliation:</i>			
Elimination of segment results			(1,730)
Interest income			3,010
Unallocated gains			<u>2,387</u>
Profit before tax			<u><u>100,717</u></u>
Segment assets	1,091,500	443,388	1,534,888
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(6,673)
Corporate and other unallocated assets			<u>37,325</u>
Total assets			<u><u>1,565,540</u></u>
Segment liabilities	228,011	138,261	366,272
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(6,673)</u>
Total liabilities			<u><u>359,599</u></u>
Other segment information			
Impairment loss recognised/(recovered) in the statement of profit and loss	5,316	(107)	5,209
Depreciation	11,668	15,292	26,960
Amortisation of intangible assets	22,843	–	22,843
Capital expenditure*	<u>35,433</u>	<u>4,217</u>	<u>39,650</u>

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

Geographical information

a) Revenue from external customers

	Half-year ended 30 June	
	2017	2016
	(Unaudited) RMB'000	(Unaudited) RMB'000
Mainland China	557,426	449,163
Asia Pacific (excluding Mainland China)	24,780	27,744
Others	7,173	6,198
	<u>589,379</u>	<u>483,105</u>

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

b) Non-current assets

	Half-year ended 30 June	
	2017	2016
	(Unaudited) RMB'000	(Unaudited) RMB'000
Mainland China	463,088	462,563
Asia Pacific (excluding Mainland China)	46	4
	<u>463,134</u>	<u>462,567</u>

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

Information about a major customer

No customer was individually accounted for more than 10% of the Group's total revenue during the six months ended 30 June 2017 (2016: Revenue of approximately RMB73,080,000 was derived from sales by design, development and selling of IC products segment to a single customer).

4. PROFIT BEFORE TAX

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

	Half-year ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation	28,278	27,351
Provision/(reversal) for doubtful debts	3,133	(8,925)
Payments under operating leases in respect of land and buildings	5,294	4,009
Amortisation of deferred development costs*	18,787	22,843
Provision for impairment of inventories	469	2,760
Interest income	(5,200)	(3,002)
Other government grants	(23,820)	(10,117)
Government grants received for research activities**	(19,160)	(26,450)

Note: * The amortisation of deferred development costs for the period is included in "Other expenses" on the face of the unaudited condensed consolidated income statement.

** The government grants received for certain research and development activities have been recognised as other income if there are no unfulfilled conditions or contingencies relating to these grants and they are not matched with the related costs which they are intended to compensate. Government grants received for which related expenditure has not yet been undertaken are included in "Other payables, accruals and deferred income" in the condensed consolidated statement of financial position.

5. INCOME TAX EXPENSES

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 2016, the Company's income tax has been provided at the preferential tax rate of 15% on the assessable income. 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 Policies on Enterprise Income Tax for Further Encouraging the Development of Software and Integrated Circuit Industries" (Cai Shui (2016) No. 49) issued by the Ministry of Finance of the PRC, the Company was qualified as "key software enterprise falling within the State's planned arrangement" for enjoying the preferential income tax rate of 10%. With consent of the relevant tax bureau, income tax filing of the Company for the financial year ending 31 December 2017 has been provided and prepaid at the preferential tax rate of 10% on the assessable income (2016: 15%).

Under the CIT Law, the Company's subsidiary, Sino IC Technology Co., Ltd. ("Sino IC") is subject to income tax at a base rate of 25%. Sino IC is entitled to a preferential income tax rate of 15% as a HNT Enterprise. For the financial year ending 31 December 2017, income taxes on assessable income of Sino IC has been provided at the rate of 15% (2016: 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%. The income taxes on assessable income of Fukong Hualong has been provided at the rate of 15% for the financial year ending 31 December 2017 (2016: 15%) as it is a HNT Enterprise.

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 ending 31 December 2017, income taxes on assessable income of these subsidiaries has been provided at the rate of 25% (2016: 25%).

No provision for Hong Kong Profits Tax has been provided as there was no assessable profit arising in Hong Kong during the period (2016: nil).

	Half-year ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC		
Charge for the period	11,377	11,732
Preferential tax rate adjustment for prior year	<u>(4,565)</u>	<u>(3,776)</u>
	<u>6,812</u>	<u>7,956</u>
Deferred		
Charge for the period	120	648
Preferential tax rate adjustment on deferred tax assets	<u>10,344</u>	<u>–</u>
	<u>10,464</u>	<u>648</u>
Total tax charge for the period	<u>17,276</u>	<u>8,604</u>

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

The calculation of the basic earnings per share for the half year ended 30 June 2017 is based on the unaudited net profit attributable to ordinary equity holders of the parent of approximately RMB104,159,000 (2016: RMB84,706,000) and the weighted average number of 617,330,000 (2016: 617,330,000) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the half years ended 30 June 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

7. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2017, the Group acquired machinery and office equipment amounted to approximately RMB33,149,000 (31 December 2016: RMB45,038,000).

8. INTANGIBLE ASSETS

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Cost at 1 January, net of accumulated amortisation and impairment	139,547	160,645
Additions – internal development	29,184	72,822
Write-off – internal development	–	(13,377)
Impairment	–	(36,126)
Amortisation provided	(18,787)	(44,417)
	<hr/>	<hr/>
Net carrying amount	<u>149,944</u>	<u>139,547</u>

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit and the credit period is generally up to 30 days to 90 days. An ageing analysis of trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 3 months	328,953	379,442
3 to 6 months	55,282	74,466
6 to 12 months	71,678	10,488
Over 12 months	571	2,260
	<hr/>	<hr/>
	<u>456,484</u>	<u>466,616</u>

10. TRADE AND BILLS PAYABLES

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 3 months	115,671	122,699
3 to 6 months	7,784	604
6 to 12 months	4,752	–
Over 12 months	<u>1,279</u>	<u>619</u>
	<u>129,486</u>	<u>113,922</u>

11. RESERVES

Other than the profit for the period and exchange fluctuation reserve for the periods ended 30 June 2017 and 2016 as disclosed in the unaudited consolidated statement of changes in equity, there were no significant movements in the reserves of the Group.

12. COMMITMENTS

The Group had the following commitments at the reporting date:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
(a) Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	3,640	1,631
Intangible assets	<u>8,282</u>	<u>6,006</u>
	<u>11,922</u>	<u>7,637</u>

(b) **Commitments under operating leases**

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within one year	13,405	9,777
In the second to fifth years, inclusive	8,484	12,228
	<u>21,889</u>	<u>22,005</u>

13. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with the related parties:

Name of related party	Relationship with the Group	Nature of transaction	Half-year ended 30 June	
			2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Fudan University	Owner of a substantial shareholder	Technical and equipment support fee	–	285
		Rental fee	–	142
			<u>–</u>	<u>427</u>
Fukong Hualong	A subsidiary and is connected with an enterprise controlled by a substantial shareholder	Purchases of raw materials	–	997
		Sales of finished goods	1,293	1,669
		Share of research income	189	–
		Profit distribution	314	–
		Technical services charges	–	1,500
			<u>–</u>	<u>1,500</u>

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

14. CASH AND BANK BALANCES

	Half-year ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash and cash equivalents		
Including: Time deposits with original maturity of less than 3 months when acquired	161,520	125,917
Cash on hand and demand deposits	<u>156,611</u>	<u>199,053</u>
	318,131	324,970
Time deposits with original maturity of over 3 months when acquired	<u>150,470</u>	<u>129,652</u>
Cash and bank balances	<u><u>468,601</u></u>	<u><u>454,622</u></u>

15. EVENTS AFTER THE REPORTING PERIOD

After the end of the current reporting period, there is no event that has material impact to the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the half-year ended 30 June 2017 (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2017, the PRC's economic growth was decelerated, the domestic market of IC products still kept a high demand, however, the competition was getting fierce. During the period, as sales of some products were satisfactory which brought the Group with an approximately 22.00% increase in sales and service income. Suffered from price competition within the industry and price cut by overseas suppliers fighting for market share, the Group's profit margin decreased from 53.82% of corresponding period in last year to 48.30% as a result of price adjustments in the Group's products. The Security and Identification IC Chips, which represents the largest proportion of the Group's sales, still maintained a satisfactory sales growth. The smart card chips with applications under old projects like public transportation cards, citizen cards and residential cards have recorded a reduction in sales due to market saturation, however, sales will be continuing. The financial card chips have been widely adopted by numerous banks with very satisfactory rate of winning bids, the sales during the period have rapidly increased and made a good contribution to the total sales growth. Taking the advantage of the upsurge of electronic payments, the sales of contactless write and readable chips were considerably. The sales of Smart Meter ASIC Chips continued to drop not only because of violent competition and market saturation, but also suffered from the decreases in tenders of the State Grid and procurement quantity. Because of the sales of electrically erasable programmable read-only memory ("EEPROM") and NOR flash memory products have greatly increased during the period, the Non-volatile Memory Chips product category has recorded a satisfactorily increase in sales. The sales of Specific Analog Circuits have recorded a slightly decrease; since it shares a small portion of the total sales, there was small impact to the overall results. Certain products under application-specific projects that the Group has been putting substantial research and development resources, have been launched in the market during the period and recorded with times increase in sales over the same period in previous year. Moreover, testing services for IC products maintained growth at around 17.60%, and revenue from both internal and external testing services increased accordingly.

Financial Review

For the half-year ended 30 June 2017, the Group recorded a turnover of approximately RMB589,379,000 (30 June 2016: RMB483,105,000), an increase of approximately 22.00% as compared to the same period last year. Profit attributable to owners of the parent amounted to approximately RMB104,159,000 (30 June 2016: RMB84,706,000), an increase of approximately 22.97% over the same period of last year. The gross profit margin of overall products decreased from 53.82% of the same period in last year to 48.30%.

As compared to the same period in last year, other income and gains for the period have a significant increase of approximately RMB10,082,000 or 24.03%, it is because more interest income was received due to increase in bank deposits. In addition, the sharp increase in other government grants amounted to approximately RMB13,703,000 has setting off the drop in government grants received for research activities of RMB7,290,000.

Selling and distribution costs, administrative expenses and other expenses have increased during period in accordance with increase in sales. The provision for doubtful debts during the period amounted to approximately RMB3,133,000 and there was a reversal of approximately RMB8,925,000 in the corresponding period of last year. Payments under operating leases in respect of land and buildings increase as more working spaces were needed.

The tax charge for the period increased substantially by approximately RMB8,672,000 as the Company, with consent of the relevant tax bureau during the period, was allowed to file its income tax for the financial year ending 31 December 2017 at the preferential tax rate of 10% on its assessable income. The related tax adjustment on deferred tax assets under the current tax rate amounted to approximately RMB10,344,000 was accounted for in the current period.

As at 30 June 2017, net assets of the Group amounted to approximately RMB1,472,325,000 (31 December 2016: RMB1,374,432,000), increased by approximately 7.12%. Non-current assets amounted to RMB495,642,000 (31 December 2016: RMB491,221,000), the increase was due to decreases in amortization and impairment of intangible assets over the last corresponding period and there was also an increase in acquisition of plant and equipment. Current assets amounted to approximately RMB1,311,675,000 (31 December 2016: RMB1,311,647,000), which was almost the same as last corresponding period. Out of which, inventories increased to cope with sales need; trade receivables dropped as recoveries were satisfactorily; as the Company was qualified as “key software enterprise falling within the State’s planned arrangement”, the difference between the income tax prepaid in prior year and the current period at income tax rate of 15% and the preferential rate of 10% will be refunded; cash and bank deposits dropped in accordance with business operations. The Group still keeps sufficient liquidity and is able to meet its daily operations and future development.

The Group’s current liabilities as at 30 June 2017 amounted to approximately RMB331,996,000 (31 December 2016: RMB416,358,000), a decrease of approximately 20.26% over the same period in last year. Trade payables increased as a result of increase in purchases, however, deferred income decreased due to completion of government projects and no tax provision was made because the Company will have tax refund as it was qualified for enjoying a preferential tax rate during the period. Non-current liabilities amounted to approximately RMB2,996,000 (31 December 2016: RMB12,078,000) and the substantial decrease over the last corresponding period was mainly because of some projects under government grants have completed and recognised during the period.

The net assets value per share was approximately RMB2.38 (31 December 2016: RMB2.23), an increase of 6.73%. The Group’s current ratio of total current liabilities over total current assets was approximately 25.31% (31 December 2016: 31.74%) and the gearing ratio was approximately 22.75% (31 December 2016: 31.17%) on the basis of total liabilities over net assets.

The Group manages its capital structure and makes adjustments to it in light of business development and changes in economic conditions. During the half year ended 30 June 2017, the Group had a net inflow of cash and cash equivalents of approximately RMB32,091,000 (30 June 2016: RMB203,422,000), a substantial decrease over the same period in last year. It was because of the increase in inventories and prepaid income tax, and also with the decreases in other payables, accruals and deferred income. The net cash and cash equivalents at the period end was approximately 318,131,000 (30 June 2016: RMB324,970,000), a decrease of RMB6,839,000. As at 30 June 2017, the Group had no bank or other borrowings (31 December 2016: nil).

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 arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group keeps monetary items in foreign currencies at a certain level in order to meet the needs of purchases that are denominated in the foreign currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place. During the reporting period, the fluctuations in foreign exchange have no material effect on the Group's operations and cash flows.

As the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. During the period, the Group has certain concentrations of credit risk as the Group's sales are made to several major customers. The Group seeks to maintain strict control over its outstanding receivables and closely monitor the collection to minimize credit risk. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

During the period, the Group did not have other significant investments, material acquisitions or disposals of subsidiaries.

During the period, the capital structure of the Company has no change and only comprises of ordinary shares. The Group relies on its internal resources and profits as a source of funding and keeps most of its cash in Renminbi in bank accounts as working capital.

As at 30 June 2017, the Group has capital commitments in respect of acquisition of property, plant, equipment and intangible assets amounted to RMB11,922,000 (31 December 2016: RMB7,637,000) and has operating leases commitments amounted to RMB21,889,000 (31 December 2016: RMB22,005,000) and did not have any material contingent liabilities (31 December 2016: nil). The Group has not pledged its assets to any third parties (31 December 2016: nil).

Employee Information

As at 30 June 2017, the Group employed approximately 1,045 (30 June 2016: 973) staff and the total staff costs reflected in the unaudited condensed consolidated statement of profit and loss amounted to RMB110,101,000 (30 June 2016: RMB107,564,000). The increase in staff costs was mainly due to increase in staff for business development and the increment of staff remuneration to be in line with salary level within the industry.

Prospects

As for the outlook of the second half year of 2017, it is expected that the sales of major products like Security and Identification IC chips and Non-volatile Memory products will maintain their steady sales. The testing services for IC products are expected to have a continuing growth as well. Due to increasing keen competition within the industry, it is expected that product prices will have an adverse impact and under severe pressure that will affect gross profit margin as well as the overall results performance. The Group will continue to strive for research and development and actively explore overseas markets. The Directors expect that the Group would achieve a steady growth in its results in the second half year.

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

At 30 June 2017, the interests or short positions of the directors and supervisors of the Company in the share capital and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange 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		
Directors					
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 of associate 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
Director						
Mr. Yu Jun	Doublepoint	Company's subsidiary	Ordinary shares	200,000	Directly beneficially owned	2.06
Supervisor						
Mr. Li Wei	Doublepoint	Company's subsidiary	Ordinary shares	100,000	Directly beneficially Owned	1.03
	Sino IC	Company's subsidiary	Ordinary shares	189,000	Directly beneficially owned	0.10

Save as disclosed above, as at 30 June 2017, none of the directors and supervisors had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period 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.

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

At 30 June 2017, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:—

Long positions 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 Assets Management Co., Ltd ("Fudan Assets Management")	(1)	Through a controlled corporation	106,730,000	Domestic shares	28.46	17.29
Fudan University	(1)	Through a controlled corporation	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)	Through a controlled corporation	109,620,000	Domestic shares	29.23	17.76
Bailian Group Company Limited ("Bailian Group")	(2)	Through a controlled corporation	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)	Through a controlled corporation	66,845,110	Domestic shares	17.83	10.83
Zhang Yong	(3)	Through a controlled corporation	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

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

Notes:

- (1) Fudan High Tech is a state-owned enterprise wholly owned by Fudan Assets Management which is wholly owned by Fudan University.
- (2) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Technology. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Technology's interest in the Company.
- (3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben. Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben's interest in the Company. Shanghai Yikun and Zhang Yong further held the Company's interest through another controlled corporation.
- (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. 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 30 June 2017, no person, other than the directors and supervisors of the Company, whose interests are set out in the section "Directors' and supervisors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the half-year ended 30 June 2017, none of the directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CORPORATE GOVERNANCE

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 half-year ended 30 June 2017, save and except the code provision A.6.7 of the CG Code which requires that independent non-executive directors and other non-executive directors should also attend general meetings.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the Listing Rules and Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. At the date of this report, the audit committee comprises three independent non-executive directors Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Lin Fujiang. The Group's unaudited financial statements for the half-year ended 30 June 2017 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all directors, the directors have complied with such code of conduct and the required standard of dealings throughout the half-year ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the half-year ended 30 June 2017, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

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

Shanghai, PRC, 22 August 2017

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

* *For identification purpose only*