



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 2018



* 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 2018 together with the comparative figures for the corresponding period in 2017 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	<i>Notes</i>	Half-year ended 30 June	
		2018	2017
		<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	2	671,586	589,379
Cost of sales		<u>(388,792)</u>	<u>(304,696)</u>
Gross profit		282,794	284,683
Other income and gains	2	82,588	52,046
Selling and distribution costs		(37,533)	(32,157)
Administrative expenses		(52,028)	(40,301)
Other expenses		<u>(172,410)</u>	<u>(136,259)</u>
PROFIT BEFORE TAX	4	103,411	128,012
Income tax expense	5	<u>(9,822)</u>	<u>(17,276)</u>
PROFIT FOR THE PERIOD		<u>93,589</u>	<u>110,736</u>
Profit attributable to:			
Owners of the parent		86,142	104,159
Non-controlling interests		<u>7,447</u>	<u>6,577</u>
		<u>93,589</u>	<u>110,736</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the period	6	<u>13.07 cents</u>	<u>16.87 cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year ended 30 June	
	2018	2017
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	<u>93,589</u>	<u>110,736</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>266</u>	<u>(317)</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>266</u>	<u>(317)</u>
Other comprehensive income for the period, net after tax	<u>266</u>	<u>(317)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>93,855</u>	<u>110,419</u>
Total comprehensive income attributable to:		
Owners of the parent	<u>86,408</u>	<u>103,842</u>
Non-controlling interests	<u>7,447</u>	<u>6,577</u>
	<u>93,855</u>	<u>110,419</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	374,473	367,034
Intangible assets	8	174,903	160,655
Available-for-sale investments		3,583	3,267
Deferred tax assets		27,163	30,049
		<hr/>	<hr/>
Total non-current assets		580,122	561,005
CURRENT ASSETS			
Inventories		455,148	367,106
Trade and bills receivables	9	524,177	566,434
Prepayments, deposits and other receivables		39,889	38,196
Tax recoverable		19,713	28,506
Cash and bank balances	14	613,102	646,109
		<hr/>	<hr/>
Total current assets		1,652,029	1,646,351
CURRENT LIABILITIES			
Trade and bills payables	10	124,258	131,149
Other payables, accruals and deferred income		229,758	292,376
Tax payable		2,194	522
		<hr/>	<hr/>
Total current liabilities		356,210	424,047
		<hr/>	<hr/>
NET CURRENT ASSETS		1,295,819	1,222,304
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,875,941	1,783,309
NON-CURRENT LIABILITIES			
Deferred income		10,810	12,033
		<hr/>	<hr/>
NET ASSETS		1,865,131	1,771,276
		<hr/> <hr/>	<hr/> <hr/>
EQUITIES			
Equity attributable to equity holders of the parent			
Issued capital		65,933	65,933
Reserves	11	1,637,517	1,551,109
		<hr/>	<hr/>
Non-controlling interests		1,703,450	1,617,042
		161,681	154,234
		<hr/>	<hr/>
TOTAL EQUITY		1,865,131	1,771,276
		<hr/> <hr/>	<hr/> <hr/>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent						Non-controlling interests	Total equity	
	Issued share capital	Share premium	Statutory reserve	Exchange fluctuation reserve	Other reserves	Retained profits			Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2018	<u>65,933</u>	<u>348,489</u>	<u>49,472</u>	<u>(3,101)</u>	<u>14,743</u>	<u>1,141,506</u>	<u>1,617,042</u>	<u>154,234</u>	<u>1,771,276</u>
Profit for the period	-	-	-	-	-	86,142	86,142	7,447	93,589
Exchange differences on translation of foreign operations	-	-	-	266	-	-	266	-	266
Total comprehensive income for the period	-	-	-	266	-	86,142	86,408	7,447	93,855
At 30 June 2018	<u>65,933</u>	<u>348,489*</u>	<u>49,472*</u>	<u>(2,835)*</u>	<u>14,743*</u>	<u>1,227,648*</u>	<u>1,703,450</u>	<u>161,681</u>	<u>1,865,131</u>
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>

* *These reserve accounts comprise the consolidated reserves of RMB1,637,517,000 (31 December 2017: RMB1,551,109,000) in the condensed consolidated statement of financial position.*

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Note</i>	Half-year ended 30 June	
		2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Net cash flows generated from/(used in) operating activities		42,088	(111,158)
Net cash flows generated from investing activities		21,433	143,249
Net cash flows from financing activities		<u>—</u>	<u>—</u>
INCREASE IN CASH AND CASH EQUIVALENTS		63,521	32,091
Cash and cash equivalents at beginning of period		310,193	286,357
Effect of foreign exchange rate changes, net		<u>266</u>	<u>(317)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>373,980</u>	<u>318,131</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and demand deposits	<i>14</i>	301,959	156,611
Non-pledged time deposits	<i>14</i>	<u>311,143</u>	<u>311,990</u>
Cash and bank balances as stated in the condensed consolidated statement of financial position	<i>14</i>	613,102	468,601
Time deposits with original maturity of over three months when acquired	<i>14</i>	<u>(239,122)</u>	<u>(150,470)</u>
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of cash flows		<u>373,980</u>	<u>318,131</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 2017. 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 2018. 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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB’000	RMB’000
Revenue		
Sale of goods	629,017	554,027
Services rendered	42,569	35,352
	671,586	589,379
Other income and gains		
Interest income	5,049	5,200
Government grants received for research activities	49,412	19,160
Other government grants	26,069	23,820
Others	2,058	3,866
	82,588	52,046

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 2018	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	629,017	42,569	671,586
Intersegment sales	–	15,679	15,679
	<u>629,017</u>	<u>58,248</u>	<u>687,265</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(15,679)</u>
Revenue			<u><u>671,586</u></u>
Segment results	57,454	15,582	73,036
<i>Reconciliation:</i>			
Elimination of segment results			(743)
Interest income			5,049
Unallocated gains			<u>26,069</u>
Profit before tax			<u><u>103,411</u></u>
Segment assets	1,826,349	382,582	2,208,931
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(3,943)
Corporate and other unallocated assets			<u>27,163</u>
Total assets			<u><u>2,232,151</u></u>
Segment liabilities	282,386	88,577	370,963
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(3,943)</u>
Total liabilities			<u><u>367,020</u></u>
Other segment information			
Impairment loss recognised in the statement of profit and loss	3,721	35	3,756
Depreciation	18,810	24,716	43,526
Amortisation of intangible assets	14,881	–	14,881
Capital expenditure*	<u>70,034</u>	<u>15,968</u>	<u>86,002</u>

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

For the half year ended 30 June 2017	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	554,027	35,352	589,379
Intersegment sales	<u>–</u>	<u>20,113</u>	<u>20,113</u>
	554,027	55,465	609,492
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(20,113)</u>
Revenue			<u><u>589,379</u></u>
Segment results	82,558	17,885	100,443
<i>Reconciliation:</i>			
Elimination of segment results			(1,451)
Interest income			5,200
Unallocated gains			<u>23,820</u>
Profit before tax			<u><u>128,012</u></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			<u>32,508</u>
Total assets			<u><u>1,807,317</u></u>
Segment liabilities	262,871	84,147	347,018
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(12,026)</u>
Total liabilities			<u><u>334,992</u></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*	<u>44,354</u>	<u>17,979</u>	<u>62,333</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	
	2018	2017
	(Unaudited) RMB'000	(Unaudited) RMB'000
Mainland China	566,893	557,426
Asia Pacific (excluding Mainland China)	97,774	24,780
Others	6,919	7,173
	<u>671,586</u>	<u>589,379</u>

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

b) Non-current assets

	Half-year ended 30 June	
	2018	2017
	(Unaudited) RMB'000	(Unaudited) RMB'000
Mainland China	549,338	463,088
United States of America	26	–
Asia Pacific (excluding Mainland China)	12	46
	<u>549,376</u>	<u>463,134</u>

The non-current assets information above is based on the location of assets and excludes available-for-sale investments and 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 2018 (2017: nil).

4. PROFIT BEFORE TAX

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

	Half-year ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Depreciation	43,526	28,278
Provision for doubtful debts	1,469	3,133
Payments under operating leases in respect of land and buildings	5,410	5,294
Amortisation of deferred development costs*	14,881	18,787
Provision for impairment of inventories	2,287	469
Interest income	(5,049)	(5,200)
Other government grants	(26,069)	(23,820)
Government grants received for research activities**	(47,413)	(19,160)

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"). 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. For the financial year ending 31 December 2018, income taxes on assessable income of the Company has been provided at the rate of 10% (2017: 10%) as a key integrated circuit design enterprise falling within the State's planned arrangement.

Under the CIT Law, the Company's subsidiaries, Sino IC Technology Co., Ltd. ("Sino IC") and Shanghai Fukong Hualong Micro-system Technology Co., Ltd. ("Fukong Hualong") are subject to income tax at a base rate of 25%. Sino IC and Fukong Hualong are entitled to a preferential income tax rate of 15% as an HNT Enterprise. For the financial year ended 31 December 2018, income tax on assessable income of Sino IC and Fukong Hualong have been provided at the rate of 15% (2017: 15%).

Under the CIT Law, two of the Company's subsidiaries, Shenzhen Fudan Microelectronics Company Limited and Beijing Fudan Microelectronics Technology Company Limited are subject to income taxes at a base rate of 25%. For the financial year ending 31 December 2018, income taxes on assessable income of these subsidiaries has been provided at the rate of 25% (2017: 25%).

Hong Kong Profits Tax has been provided at the rate of 8.25% on the first HK\$2,000,000 and 16.5% on the remaining of the estimated assessable profit arising in Hong Kong during the period (2017: nil).

The Company's subsidiary incorporated and operating in the United States has no assessable profit subject to federal corporation income tax during the period (2017: nil).

	Half-year ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC		
Charge for the period	6,602	11,377
Preferential tax rate adjustment for prior year	<u>–</u>	<u>(4,565)</u>
	<u>6,602</u>	<u>6,812</u>
Current – Hong Kong		
Charge for the period	<u>335</u>	<u>–</u>
Deferred		
Charge for the period	2,885	120
Preferential tax rate adjustment on deferred tax assets	<u>–</u>	<u>10,344</u>
	<u>2,885</u>	<u>10,464</u>
Total tax charge for the period	<u><u>9,822</u></u>	<u><u>17,276</u></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 2018 is based on the unaudited net profit attributable to ordinary equity holders of the parent of approximately RMB86,142,000 (2017: RMB104,159,000) and the weighted average number of 659,330,000 (2017: 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 2018 and 2017 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 2018, the Group acquired machinery and office equipment amounted to approximately RMB51,025,000 (31 December 2017: RMB121,840,000).

8. INTANGIBLE ASSETS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cost at 1 January, net of accumulated amortisation and impairment	160,655	139,547
Additions – internal development	34,977	92,908
Write-off – internal development	(5,848)	(36,413)
Impairment	–	(1,064)
Amortisation provided	(14,881)	(34,323)
Net carrying amount	<u>174,903</u>	<u>160,655</u>

9. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade and bills receivables	540,076	580,863
Impairment	(15,899)	(14,429)
	<u>524,177</u>	<u>566,434</u>

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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 3 months	307,065	359,758
3 to 6 months	87,614	133,428
6 to 12 months	84,882	61,198
Over 12 months	44,616	12,050
	<u>524,177</u>	<u>566,434</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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 3 months	117,051	130,465
3 to 6 months	5,208	195
6 to 12 months	1,142	37
Over 12 months	857	452
	<u>124,258</u>	<u>131,149</u>

11. RESERVES

Other than the profit for the period and exchange fluctuation reserve for the periods ended 30 June 2018 and 2017 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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
(a) Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	<u>8,991</u>	<u>12,318</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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	12,100	12,537
In the second to fifth years, inclusive	8,981	8,062
Over five years	<u>–</u>	<u>3,413</u>
	<u>21,081</u>	<u>24,012</u>

13. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship with the Group	Nature of transaction	Half-year ended 30 June	
			2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Fukong Hualong	A subsidiary and is connected with an enterprise controlled by a substantial shareholder	Sales of finished goods	1,429	1,293
		Share of research income	–	189
		Profit distribution	–	314
		Technical services charges	<u>117</u>	<u>–</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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash and cash equivalents		
Including: Time deposits with original maturity of less than 3 months when acquired	72,021	161,520
Cash on hand and demand deposits	<u>301,959</u>	<u>156,611</u>
	373,980	318,131
Time deposits with original maturity of over 3 months when acquired	<u>239,122</u>	<u>150,470</u>
Cash and bank balances	<u><u>613,102</u></u>	<u><u>468,601</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 2018 (2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the half year ended 30 June 2018, the pace of economic growth of the PRC continued to slow down; however, the domestic market of IC products was still vigorously developed with increasing demand and resulted with fierce competition within the industry. During the period, the Group recorded an approximately 13.9% increase in revenue as compared with same period last year as sales of some products were satisfactory, nevertheless, the gross profit margins of several product categories have decreased as a majority of products had prices cut for sales to cope with keen market competition. Facing a price war in the market, the prices of financial card chips have been reduced substantially in order to maintain market share and also the high-end chips were suffered from market saturation with decrease in sales. As a result, the Security and Identification IC Chips, which represents the largest proportion of the Group's sales, only recorded a slightly sales growth during the period and the profit margin significantly dropped by approximately 7%. Benefited by the hot consumer trend in electronics products and the Group's enriched product lines, the sales of Non-volatile Memory Chips have recorded a continuous and satisfactory growth but due to gradually increasing competition in the market, profit margin has dropped remarkably. The sales of Smart Meter ASIC Chips were almost the same as last corresponding period and because of severe competition and market saturation, profit margin has dropped when compared with same period last year. The sales of Specific Analog Circuits have recorded a slightly increase and as it shared only a very small portion of the total sales, there was immaterial impact to the overall results. Products of application-specific projects have recorded a satisfactory growth in sales and the profit margin has increased because of the very high technology threshold for market participation. Moreover, the testing services for IC products still maintained a steady growth with increasing revenue from external testing services but profit margin has dropped due to competition. Participations in government projects during the period were far more than last corresponding period and have resulted with a substantial increase in government grants received.

Financial Review

For the half-year ended 30 June 2018, the Group recorded a total income of approximately RMB671,586,000 (30 June 2017: RMB589,379,000), an increase of approximately RMB82,207,000 or 13.9% as compared to the same period last year. Profit attributable to owners of the parent amounted to approximately RMB86,142,000 (30 June 2017: RMB104,159,000), a decrease of approximately RMB18,017,000 or 17.3% over the same period of last year. The gross profit margin of overall products decreased to 42.1% from 48.3% of the same period in last year.

As compared to the same period in last year, other income and gains for the period have a significant increase of approximately RMB30,542,000 or 58.7%, it is because of the increased participations of government projects during the period with work completion certified in time for revenue recognition. In addition, other government grants received also increased during the period.

Selling and distribution costs, administrative expenses and other expenses during the period have increased in accordance with sales growth. Administrative expenses increased by approximately 29% over the corresponding period last year due to additional depreciation provided on new office building, plant and equipment and warehouse as well as their related operating overheads. Other expenses also increased as more resources have been applied to research and development activities.

The tax charge for the period decreased significantly by approximately RMB7,453,000, as in the same period last year, the Company was qualified as “key software enterprise falling within the State’s planned arrangement” for enjoying the preferential income tax rate of 10% on its assessable income, and the related taxation adjustment on deferred tax assets amounted to approximately RMB10,344,000 was accounted for. On the other hand, deferred tax amounted to approximately RMB2,885,000 was recorded due to increases in property, plant and machinery during the period.

As at 30 June 2018, the Group had net assets of approximately RMB1,865,131,000 (31 December 2017: RMB1,771,276,000), increased by approximately 5.3%. Non-current assets amounted to RMB580,122,000 (31 December 2017: RMB561,005,000) and the increase was due to increases in property, plant and machinery as well as intangible assets when compared with the last corresponding period. Current assets amounted to approximately RMB1,652,029,000 (31 December 2017: RMB1,646,351,000), which was nearly the same as last corresponding period. Out of which, inventories have increased to cope with sales for the coming half year; trade receivables dropped due to effective recoveries; and cash and bank deposits dropped because of business operation needs. 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 2018 amounted to approximately RMB356,210,000 (31 December 2017: RMB424,047,000) and non-current liabilities amounted to approximately RMB10,810,000 (31 December 2017: RMB12,033,000), decreased by 16.0% and 10.2% respectively over the last corresponding period as deferred income decreased due to more projects under government grants were completed and recognised during the period.

The Group’s net assets value per share as at 30 June 2018 was approximately RMB2.82 (31 December 2017: RMB2.69), an increase of approximately 4.8%. The Group’s current ratio of total current liabilities over total current assets was approximately 21.6% (31 December 2017: 25.8%) and the gearing ratio was approximately 19.7% (31 December 2017: 24.6%) 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 2018, the Group had a net inflow of cash and cash equivalents of approximately RMB63,521,000 (30 June 2017: RMB32,091,000), a substantial increase over the same period in last year. It was because of the significant decrease in trade receivables and also the decrease in deferred income in the current period was far less than the last corresponding period. The net cash and cash equivalents at the period end was approximately RMB373,980,000 (30 June 2017: RMB318,131,000), an increase of RMB55,849,000. As at 30 June 2018, the Group had no bank or other borrowings (31 December 2017: 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 2018, the Group has capital commitments in respect of acquisition of property, plant, equipment amounted to RMB8,991,000 (31 December 2017: RMB12,318,000) and has operating leases commitments amounted to RMB21,081,000 (31 December 2017: RMB24,012,000) and did not have any material contingent liabilities (31 December 2017: nil). The Group has not pledged any of its assets to any third parties (31 December 2017: nil).

Use of Capital and Funding

Proceeds from placing of new H shares

On 16 October 2017, the Company completed placing of an aggregate of 42,000,000 new H shares at the placing price of HK\$5.33 per placing share. The net proceeds (after deduction of the fees, commissions and expenses) from the placing amounted to approximately RMB184,203,000 and would be used in the way as disclosed in the announcement of the Company dated 29 September 2017. The proceeds utilised as at 30 June 2018 are as follows:

	Net proceeds <i>RMB'000</i>	Utilised amount <i>RMB'000</i>	Unutilised amount <i>RMB'000</i>
Supplement the general working capital of the Company	184,203	140,345	43,858

The proceeds currently unutilised are deposited in the special account with a domestic bank in the PRC and will be used as general working capital in the future. The Group has sufficient working capital and a stable financial position, which will be continuously applied to the research and development of high-tech and diversified products.

Employee Information

As at 30 June 2018, the Group employed approximately 1,149 (30 June 2017: 1,045) staff and the total staff costs reflected in the unaudited condensed consolidated statement of profit and loss amounted to RMB139,958,000 (30 June 2017: RMB110,101,000). 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

The trade disputes between the United States and the other countries are expected to be ongoing and unsolved in the second half of 2018. As the Group's business are concentrated in the domestic market of the PRC, it is expected that the impact to its sales is not material, however, there will be undue delay in its overseas business development. Because of certain raw materials have to be imported from overseas, the Group has taken measures to stock up sufficient inventories and believes that the event has no material impact to the Group's business. Looking forward to the Group's results in the second half of 2018, because of keen market competition affecting several major products and pressure on prices reduction suffered from prices cut for better sales within the industry, the Directors expect that there will be a stable growth in overall sales, however, the products' profit margins are rather difficult to maintain at previous levels, and there will be challenges to the annual results. The Group will continue to research and develop new products with a view to improve its performance.

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

At 30 June 2018, 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				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Total	
Directors					
Mr. Jiang Guoxing	7,210,000	–	–	7,210,000	1.09
Mr. Shi Lei	7,210,000	–	–	7,210,000	1.09
	<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
Supervisor						
Mr. Li Wei	Sino IC	Company's subsidiary	Ordinary shares	189,000	Directly beneficially owned	0.10

Save as disclosed above, as at 30 June 2018, 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 2018, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:—

Long positions and short positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Long Positions (L)/Short Positions (S)	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Fudan High Tech Company ("Fudan High Tech")	(1)	Directly beneficially owned	106,730,000	(L)	Domestic shares	28.46	16.19
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(1)	Interest of corporation controlled	106,730,000	(L)	Domestic shares	28.46	16.19
Fudan University	(1)	Interest of corporation controlled	106,730,000	(L)	Domestic shares	28.46	16.19
Shanghai Fudan Technology Enterprise Holdings Limited ("Fudan Technology")	(2)	Directly beneficially owned	109,620,000	(L)	Domestic shares	29.23	16.63
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	(L)	Domestic shares	29.23	16.63
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	(L)	Domestic shares	29.23	16.63
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	(L)	Domestic shares	13.91	7.91

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Long Positions (L)/Short Positions (S)	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	66,845,110	(L)	Domestic shares	17.83	10.14
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	(L)	Domestic shares	17.83	10.14
Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise ("Shanghai Zhenghua")	(4)	Directly beneficially owned	47,443,420	(L)	Domestic shares	12.65	7.20
Shanghai Shanyao Industrial Limited ("Shanghai Shanyao")	(4)	Interest of corporation controlled	47,443,420	(L)	Domestic shares	12.65	7.20
Zhou Yufeng	(4)	Interest of corporation controlled	47,443,420	(L)	Domestic shares	12.65	7.20
Shanghai Guonian Corporate Management Consultant Partnership Enterprise ("Shanghai Guonian")	(5)	Directly beneficially owned	29,941,470	(L)	Domestic shares	7.98	4.54
Shanghai Danruo Investment Management Partnership Enterprise ("Shanghai Danruo")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54
Dazi Country Dingcheng Capital Investment Limited ("Dingcheng Capital")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54
Beijing Zhongrong Dingxin Investment Management Limited ("Zhongrong Dingxin")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54
Zhongrong International Trust Limited ("Zhongrong International")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54
Jingwei Textile Machinery Co., Ltd. ("Jingwei Textile")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Long Positions (L)/Short Positions (S)	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Beijing Huacheng Lihe Investment Limited ("Huacheng Lihe")	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54
Wang Shumin and Wang Jizhuo	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.98	4.54
Springs China Opportunities Master Fund ("Spring China")	(6)	Directly beneficially owned	17,088,000	(L)	H shares	6.01	2.59
Springs China Limited	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.59
Zhao Jun	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.59
Haitong International Financial Solutions Limited ("Haitong International Financial")	(7)	Directly beneficially owned	37,522,000 (37,522,000)	(L) (S)	H shares H shares	13.2 (13.2)	5.69 (5.69)
Haitong International Finance Company Limited ("Haitong International Finance")	(7)	Interest of corporation controlled	37,522,000 (37,522,000)	(L) (S)	H shares H shares	13.2 (13.2)	5.69 (5.69)
Haitong International (BVI) Limited. ("Haitong International")	(7)	Interest of corporation controlled	37,522,000 (37,522,000)	(L) (S)	H shares H shares	13.2 (13.2)	5.69 (5.69)
Haitong International Securities Group Limited ("Haitong International Securities")	(7)	Interest of corporation controlled	37,522,000 (37,522,000)	(L) (S)	H shares H shares	13.2 (13.2)	5.69 (5.69)
Haitong International Holdings Limited ("Haitong International Holdings")	(7)	Interest of corporation controlled	37,522,000 (37,522,000)	(L) (S)	H shares H shares	13.2 (13.2)	5.69 (5.69)
Haitong Securities Co., Ltd. ("Haitong Securities")	(7)	Interest of corporation controlled	37,522,000 (37,522,000)	(L) (S)	H shares H shares	13.2 (13.2)	5.69 (5.69)

Notes:

- (1) Fudan High Tech is a state-owned enterprise wholly owned by Fudan Asset and Fudan Asset is wholly owned by Fudan University.
- (2) Bailian Group is a state-owned enterprise wholly owned by the Shanghai Municipal Government and wholly owned SCI, and SCI held 70.2% of the equity interest of Fudan Technology. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Technology's interest in the Company.
- (3) Zhang Yong held 95% of the equity interest in Shanghai Yikun, and Shanghai Yikun held 99.81% of the equity interest in Shanghai Zhengben. Accordingly, each of Shanghai Yikun and Zhang Yong is deemed to be interested in Shanghai Zhengben's interest in the Company. Shanghai Yikun and Zhang Yong further held the Company's interest through another controlled corporation.
- (4) Zhou Yufeng held 99% of the equity interest in Shanghai Shanyao, and Shanghai Shanyao held 99.79% of the equity interest in Shanghai Zhenghua. Accordingly, each of Shanghai Shanyao and Zhou Yufeng is deemed to be interested in Shanghai Zhenghua's interest in the Company.
- (5) Jingwei Textile holds 37.47% of the equity interest in Zhongrong International, Zhongrong International holds the entire equity interest in Zhongrong Dingxin, Zhongrong Dingxin holds the entire equity interest in Dingcheng Capital, Dingcheng Capital holds 0.01% of the equity interest in Shanghai Danruo and is the general partner thereof. Wang Shumin and Wang Jizhuo together wholly and beneficially owns Huacheng Lihe which holds the remaining 99.99% of the equity interest in Shanghai Danruo. Shanghai Danruo and Dingcheng holds 72.69% and 0.33% of the equity interest in Shanghai Guonian, respectively. Accordingly, each of Shanghai Danruo, Dingcheng Capital, Zhongrong Dingxin, Zhongrong International, Jingwei Textile Huacheng Lihe, Wang Shumin and Wang Jizhuo is deemed to be interested in Shanghai Guonian's interest in the Company.
- (6) Spring China is beneficially owned by Spring China Limited, which is beneficially owned by Zhao Jun. Accordingly, each of Spring China Limited and Zhao Jun is deemed to be interested in Spring China's interest in the Company.
- (7) Haitong Securities holds the entire equity interest in Haitong International Holdings, Haitong International Holdings holds 61.74% of the equity interest in Haitong International Securities, Haitong International Securities holds the entire equity interest in Haitong International, Haitong International holds the entire equity interest in Haitong International Finance, Haitong International Finance holds the entire equity interest in Haitong International Financial. Accordingly, each of Haitong International Finance, Haitong International, Haitong International Securities, Haitong International Holdings and Haitong Securities is deemed to be interested in Haitong International Financial's interest in the Company.

Save as disclosed above, as at 30 June 2018, no person, other than the directors and supervisors of the Company, whose interests are set out in the section headed "Directors' and supervisors' interests in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the half-year ended 30 June 2018, 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 2018, 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 announcement, 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 2018 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 2018.

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

During the half-year ended 30 June 2018, 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, 28 August 2018

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*