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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 2018**

FINANCIAL HIGHLIGHTS

The turnover of the Group for the year ended 31 December 2018 was approximately RMB1,409,630,000 (2017: RMB1,398,230,000), slightly increased by approximately 0.8% as compared to the previous year.

The Group recorded a net profit attributable to owners of the parent for the year ended 31 December 2018 of approximately RMB107,482,000 (2017: RMB212,122,000) and the basic earnings per share was RMB16.27 cents (2017: RMB33.88 cents), representing a decrease of approximately 52.0% over last year.

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: 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 2018, along with the comparative audited figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	3	1,409,630	1,398,230
Cost of sales		<u>(766,461)</u>	<u>(706,174)</u>
Gross profit		643,169	692,056
Other income and gains	3	149,171	144,433
Selling and distribution expenses		(86,696)	(77,098)
Administration expenses		(118,712)	(98,057)
Impairment losses on financial assets		(702)	-
Other expenses		<u>(426,534)</u>	<u>(415,807)</u>
PROFIT BEFORE TAX	4	159,696	245,527
Income tax expense	5	<u>(30,344)</u>	<u>(17,458)</u>
PROFIT FOR THE YEAR		<u>129,352</u>	<u>228,069</u>
Profit attributable to:			
Owners of the parent	6	107,482	212,122
Non-controlling interests		<u>21,870</u>	<u>15,947</u>
		<u>129,352</u>	<u>228,069</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
- For profit for the year	6	<u>RMB16.27cents</u>	<u>RMB33.88cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	129,352	228,069
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange difference:		
Exchange differences on translation of a foreign operation	1,488	(1,049)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	1,488	(1,049)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	6,190	-
Income tax effect	(619)	-
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	5,571	-
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	7,059	(1,049)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	136,411	227,020
Total comprehensive income attributable to:		
Owners of the parent	114,541	211,073
Non-controlling interests	21,870	15,947
	136,411	227,020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		395,163	367,034
Prepayments for equipment		8,946	-
Intangible assets		191,068	160,655
Equity investments designated at fair value through other comprehensive income		28,475	-
Available-for-sale investments		-	3,267
Financial assets at fair value through profit and loss		1,373	-
Deferred tax assets		6,249	30,049
Investments in an associate		3,000	-
Total non-current assets		634,274	561,005
CURRENT ASSETS			
Inventories		606,048	367,106
Trade and bills receivables	7	562,491	566,434
Prepayments, other receivables and other assets		37,367	38,196
Tax recoverable		11,264	28,506
Cash and bank balances		695,350	646,109
Total current assets		1,912,520	1,646,351
CURRENT LIABILITIES			
Trade and bills payables	8	147,317	131,149
Accruals, other payables and deferred income		267,895	292,376
Tax payable		1,944	522
Total current liabilities		417,156	424,047
NET CURRENT ASSETS		1,495,364	1,222,304
TOTAL ASSETS LESS CURRENT LIABILITIES		2,129,638	1,783,309
NON-CURRENT LIABILITIES			
Deferred income		20,070	12,033
Deferred tax liabilities		2,128	-
		22,198	12,033
Net assets		2,107,440	1,771,276
EQUITY			
Equity attributable to owners of the parent			
Issued capital		69,450	65,933
Reserves	9	1,873,156	1,551,109
		1,942,606	1,617,042
Non-controlling interests		164,834	154,234
Total equity		2,107,440	1,771,276

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, 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 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Annual Improvements to HKFRSs 2014-2016 Cycle	<i>Amendments to HKFRS 1 and HKAS 28</i>

1.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 3	<i>Definition of a Business²</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 16	<i>Leases¹</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material²</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement¹</i>

Amendments to HKAS 28

Long-term Interests in Associates and Joint Ventures¹

HK(IFRIC)-Int 23

Uncertainty over Income Tax Treatments¹

Annual Improvements 2015-2017 Cycle

Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23¹

- 1 Effective for annual periods beginning on or after 1 January 2019
- 2 Effective for annual periods beginning on or after 1 January 2020
- 3 Effective for annual periods beginning on or after 1 January 2021
- 4 No mandatory effective date yet determined but available for adoption

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 2018	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,312,821	96,809	1,409,630
Intersegment sales	-	33,894	33,894
	<u>1,312,821</u>	<u>130,703</u>	<u>1,443,524</u>
<i><u>Reconciliation:</u></i>			
Elimination of intersegment sales			<u>(33,894)</u>
Revenue			<u>1,409,630</u>
Segment results	92,822	32,127	124,949
<i><u>Reconciliation:</u></i>			
Elimination of intersegment results			(14,520)
Interest income			10,600
Unallocated other income and gains			<u>38,667</u>
Profit before tax			<u>159,696</u>
Segment assets	2,171,207	373,098	2,544,305
<i><u>Reconciliation:</u></i>			
Elimination of intersegment receivables			(3,760)
Corporate and other unallocated assets			<u>6,249</u>
Total assets			<u>2,546,794</u>
Segment liabilities	353,039	87,947	440,986
<i><u>Reconciliation:</u></i>			
Eliminating of intersegment payables			(3,760)
Corporate and other unallocated liabilities			<u>2,128</u>
Total liabilities			<u>439,354</u>
Other segment information			
Impairment loss recognised in the statement of profit or loss	14,473	239	14,712
Depreciation	38,103	43,722	81,825
Amortisation of intangible assets	29,473	-	29,473
Capital expenditure*	<u>136,826</u>	<u>52,720</u>	<u>189,546</u>

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

Year ended 31 December 2017	Design, development and sale of IC products RMB'000	Testing services for IC products RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,321,651	76,579	1,398,230
Intersegment sales	-	46,132	46,132
	<u>1,321,651</u>	<u>122,711</u>	<u>1,444,362</u>
<u>Reconciliation:</u>			
Elimination of intersegment sales			<u>(46,132)</u>
Revenue			<u>1,398,230</u>
Segment results	185,896	33,525	219,421
<u>Reconciliation:</u>			
Elimination of intersegment results			(9,355)
Interest income			9,087
Unallocated other income and gains			<u>26,374</u>
Profit before tax			<u>245,527</u>
Segment assets	1,829,411	351,899	2,181,310
<u>Reconciliation:</u>			
Elimination of intersegment receivables			(4,003)
Corporate and other unallocated assets			<u>30,049</u>
Total assets			<u>2,207,356</u>
Segment liabilities	364,615	75,468	440,083
<u>Reconciliation:</u>			
Eliminating of intersegment payables			<u>(4,003)</u>
Total liabilities			<u>436,080</u>
Other segment information			
Impairment loss recognised in the statement of profit or loss	6,677	86	6,763
Impairment loss reversed in the statement of profit or loss	(17)	-	(17)
Depreciation	22,268	40,689	62,957
Amortisation of intangible assets	34,323	-	34,323
Capital expenditure*	<u>142,783</u>	<u>71,965</u>	<u>214,748</u>

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

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
Mainland China	1,329,633	1,325,679
Asia Pacific (excluding Mainland China)	74,018	54,056
Others	5,979	18,495
	<u>1,409,630</u>	<u>1,398,230</u>

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

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
Mainland China	598,138	527,650
United States of America	24	27
Asia Pacific (excluding Mainland China)	15	12
	<u>598,177</u>	<u>527,689</u>

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

Information about a major customer

In 2018 and 2017, no single customer 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:

	2018 RMB'000	2017 RMB'000
<i>Revenue from contracts with customers</i>		
Sale of goods	1,313,867	1,321,651
Rendering of services	91,500	76,579
<i>Revenue from other sources</i>		
Gross rental income	4,263	-
	1,409,630	1,398,230
<i>Other income and gains</i>		
Bank interest income	10,600	9,087
Government grants received for research activities	83,020	67,995
Other government grants	38,667	26,374
Others	16,884	40,977
	149,171	144,433

4. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of inventories sold	729,590	665,600
Cost of services provided	36,871	40,574
Depreciation	81,825	62,957
Research and development costs:		
Deferred development costs amortised*	29,473	34,323
Current year expenditure	394,180	373,663
Less: Government grants received for research activities**	(83,020)	(67,995)
	<u>340,633</u>	<u>339,991</u>
Minimum lease payments under operation leases:		
Land and buildings	14,319	13,929
Auditors' remuneration	1,613	1,613
Employee benefit expense (excluding Directors' and chief executive's remuneration):		
Wages and salaries	345,914	292,229
Pension scheme contributions	38,425	32,615
Less: Amounts capitalised as development costs	(56,068)	(58,546)
	<u>328,271</u>	<u>266,298</u>
Foreign exchange differences, net	810	3,969
Impairment of intangible assets	-	1,064
Impairment of trade and bills receivables	702	991
Provision for inventories to net realisable value	14,010	4,691
Write off/loss on disposal of items of property, plant and equipment and intangible assets	24,193	35,549
Bank interest income	(10,600)	(9,087)
Other government grants	(38,667)	(26,374)
Government grants received for research activities**	<u>(83,020)</u>	<u>(67,995)</u>

* 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”), 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”). And 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 integrated circuit design enterprise falling within the State’s planned arrangement”. For the year ended 31 December 2017 and 2018, income tax provision on assessable income of the Company was made at the rate of 10% as 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 these two subsidiaries 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 year ended 31 December 2018, income taxes on assessable income of these subsidiaries have been provided at the rate of 25% (2017: 25%).

Hong Kong profits tax has been provided at the rate of 8.25% on assessable profits up to HK\$2,000,000; and 16.5% on any part of assessable profits over HK\$2,000,000 (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The Company’s subsidiary incorporated and operating in the United States is subject to federal corporation income tax at a rate of 21% during the year (2017: 21%), as well as state tax at a rate of 8.84% (2017: 8.84%).

	2018	2017
	RMB’000	RMB’000
Current – Hong Kong		
Charge for the year	495	219
Over provision in prior years	(35)	-
Current – United States		
Charge for the year	5	5
Current – Mainland China		
Charge for the year	5,067	8,696
Underprovision/(overprovision) in prior years	644	(4,385)
Deferred	24,168	12,923
Total tax charge for the year	30,344	17,458

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 660,583,000 (2017: 626,075,000) in issue during the year.

The calculation of basic earnings per share is based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>107,482</u>	<u>212,122</u>
	Number of shares '000	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>660,583</u>	<u>626,075</u>

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2018 and 2017. The diluted earnings per share amount is the same as the basic earnings per share amount.

7. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade and bills receivables	581,281	580,863
Impairment	<u>(18,790)</u>	<u>(14,429)</u>
	<u>562,491</u>	<u>566,434</u>

The Group's trading terms with its customers are mainly on credit, except for some 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:

	2018 RMB'000	2017 RMB'000
Within 3 months	361,119	359,758
3 to 6 months	113,995	133,428
6 to 12 months	44,719	61,198
Over 12 months	42,658	12,050
	<u>562,491</u>	<u>566,434</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:

	2018 RMB'000	2017 RMB'000
Within 3 months	144,873	130,465
3 to 6 months	964	195
6 to 12 months	1,440	37
Over 12 months	40	452
	<u>147,317</u>	<u>131,149</u>

The trade and bills payables are non-interest-bearing and are normally settled on 30 to 90-day terms.

9. RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Available- for-sale investment revaluation/ Fair value reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	168,486	47,768	-	(2,052)	14,743	931,088	1,160,033
Profit for the year	-	-	-	-	-	212,122	212,122
Exchange differences related to foreign operations	-	-	-	(1,049)	-	-	(1,049)
Total comprehensive income for the year	-	-	-	(1,049)	-	212,122	211,073
Issue of shares	184,595	-	-	-	-	-	184,595
Share issue expenses	(4,592)	-	-	-	-	-	(4,592)
Transfer from retained profits	-	1,704	-	-	-	(1,704)	-
At 31 December 2017	348,489	49,472	-	(3,101)	14,743	1,141,506	1,551,109
At 1 January 2018	348,489	49,472	-	(3,101)	14,743	1,141,506	1,551,109
Effect of adoption of HKFRS 9	-	-	8,841	-	-	5,167	14,008
At 1 January 2018 (restated)	348,489	49,472	8,841	(3,101)	14,743	1,146,673	1,565,117
Profit for the year	-	-	-	-	-	107,482	107,482
comprehensive income for the year::							
Change in fair value of equity investment at fair value through other comprehensive income, net of tax	-	-	1,802	-	-	-	1,802
Exchange differences related to foreign operations	-	-	-	1,488	-	-	1,488
Total comprehensive income for the year	-	-	1,802	1,488	-	107,482	110,772
Issue of shares	198,019	-	-	-	-	-	198,019
Share issue expenses	(821)	-	-	-	-	-	(821)
Equity-settled share-based expenses	69	-	-	-	-	-	69
Transfer from retained profits	-	2,531	-	-	-	(2,531)	-
At 31 December 2018	545,756	52,003	10,643	(1,613)	14,743	1,251,624	1,873,156

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the year, the principal activities of the Group remained design, development and sales of specific application integrated circuit product and provision of testing services. The Group's products are applied in all fields mainly including city one-cards, financial IC cards, social security and citizen cards, smart meters, electronics payment, memory chips and Internet of Things and maintain a leading position in the industry. The Group's overall revenue for this year recorded an increase by approximately 0.82% compared to the previous year, of which the sales for smart meter ASIC chips recorded a slight increase and the sales for non-volatile memory chips was satisfactory and recorded a considerable increase, except that the sales for security and identification chips accounting for a relative higher proportion declined, which was due to the fierce competition forced us to lower the price so as to maintain the market share, resulting in a decrease in the overall gross margin from 49.5% of the last year to 45.6%.

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

Security and Identification IC Chips

For the year ended 31 December 2018, sales of security and identification chips recorded a decline of around 9.2% with gross margin decreased by approximately 7.9% compared to last year. The smart card chips of the existing projects saw a decrease in sales due to the demand saturation in the market. High-end chip products applied in fields including financial IC cards, city one-cards, social security and citizen cards, electronics payment and identification saw a significant increase in sales due to the rising demand for domestic chips in recent years, and made a good contribution to the growth of revenue. However, due to the extremely keen competition and the decrease in price, the gross margin dropped due to the adjustment to chip's price by the Group in order to maintain the market share.

Other products such as contactless RF card chips and contactless logic security chips which are mainly applied in fields including door lock, entrance guard, financial POS, metro gate machine, public bicycle system, with ideal increase in sales volume, provided that the sales amount declined due to adjusting the price strategy for capturing the market share under the fierce market competition.

Smart Meter ASIC Chips

The sales of the smart meter ASIC chips for the year were slightly up by approximately 4.7% as compared to last year. After the new generation of products put into the market, as they can satisfy functional demands. Both of the market share and sales volume also increased.

Non-volatile Memory Chips

The products of this category mainly comprises the EEPROM series and the NOR flash memory products, which are widely applied in the field of consumer electronics and computer interface unit market. The Group's EEPROM and NOR flash memory products currently cover different memory storages together with remarkably high reliability. As the sales amount and profit of this product depend on the market prosperity, the sales amount and gross margin are exposed to great fluctuations. The sales increased by approximately 19.6% in the year, and as relevant high fluctuation occurred in the market in the second half of 2018, the market price plummeted in the second half of the year, resulting in a decrease of 7.3% in the gross margin.

Specific Analog Circuits

Specific Analog Circuits mainly consist of leakage protection chips, motor vehicle specific chips and communication chips; they are widely applied in leakage protection devices, home appliances and telecommunication equipment, etc. The sales amount and the gross margin of the product of this type slightly increased by approximately 7.9% and 1.1% respectively during the year. 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 as a whole.

Other Chips

The sales of specific proprietary products was approximate to that of last year. As a result of high requirements on process and technology and the substantial research and development expenses incurred at the early stage, the gross margin of these products is higher than other products and has a good contribution to the overall gross margin of the Group.

IC Testing Services

During the year, the total segment revenue of the IC testing services provided to external customers increased by approximately 26.4%. Benefiting from application of the high-end testing platform in the technology development of new product fields, the number of customers of testing service and the demands increased, and the gross margin also increased significantly.

FINANCE REVIEW

For the year ended 31 December 2018, the Group recorded a total revenue of approximately RMB1,409,630,000 (2017: RMB1,398,230,000), representing a slight increase of approximately 0.8% as compared to last year; gross margin decreased from 49.5% of last year to 45.6%. Compared with the last year, other income and gains increased by approximately RMB149,171,000 or 3.3%, and selling and distribution costs, administrative expenses and other expenses went up by 12.4%, 21.1% and 2.8%, respectively. The profit for the year was approximately RMB129,352,000 (2017: RMB228,069,000), representing a significant decrease of approximately 43.3% over last year. The audited profit attributable to owners of the parent was approximately RMB107,482,000 (2017: RMB212,122,000), representing a significant decrease of approximately 49.3% as compared to last year. The earnings per share was RMB16.27 cents, representing a decrease of approximately RMB17.3 cents from last year of RMB33.88 cents. The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2018 (2017: nil).

For the year under review ended 31 December 2018, the Group recorded an overall sales close to that of the last year. Due to keen competition in sales of security and identification chips and prices cut for better sales within the industry, the Group also shall lower the price of chip to occupy the market, which reduced the overall gross profit margin. Other income and gains increased by approximately RMB4,738,000 compared with last year, as the government grants received for research activities and other government grants during the year increased by approximately RMB27,318,000 in total over the last year, which is offset by the decrease in other technical services charges of approximately RMB24,093,000.

The sales and distribution expenses increased by approximately RMB9,598,000 as compared to the last year because the Group increased sales personnel to maintain market share so as to cope with the fierce competition in chip market. Administrative expenses increased by approximately RMB20,655,000 over last year due to the increase of office space in recent years in line with business expansion, the increase in depreciation expenses of office equipment, and the increase in employee expense as a result of the increase in staff members and up-regulation of industry level. Other expenses during the year increased by approximately RMB11,718,000 as compared to last year, as a result of continuous updating products in market, as well as the increase in investment in research and development project for research of new products.

In respect of taxation, pursuant to Cai Shui [2018] No.99 “Notice on Increasing the Ratio of Pre-tax Super Deduction of Research and Development (“R&D”) Expenses” jointly released by the State Administration of Taxation, the Ministry of Finance and the Ministry of Science and Technology of the PRC in September 2018, during the period from 1 January 2018 to 31 December 2020, the Company can now enjoy an extra 75% accelerated deduction on its R&D expenses instead of 50% previously allowed. The Group expects to increase its application of resource in R&D continuously for the coming 5 years and having considered the tax effect of this policy on the accelerated deduction for R&D expenses, the conditions for recognition of deferred tax assets arising from deductible temporary differences will not be satisfied. Thus, the impact was an increase in the tax expense of the Company for the year by approximately RMB24,579,000. The tax expense for the year recorded a substantial increase of approximately RMB12,886,000, or approximately 73.8%, despite the decrease in income tax due to the decrease in profit and the difference arising from income tax deduction in research and development expenses and the utilisation of the previous tax losses.

The Group's non-current assets increased by approximately RMB73,269,000 over last year because of (i) the increase in decoration, auxiliary office equipment and acquisition of assets, prepayments for purchasing of equipment in respect of new office; (ii) increase in the deferred development costs of intangible assets; (iii) the increase in equity investments designated at fair value through other comprehensive income; and (iv) the decrease in deferred tax assets put through profit or loss arising from derecognition.

Current assets increased substantially by approximately RMB266,169,000 than last year, where inventories has greatly increased by approximately RMB238,942,000 or 65% as compared with last year, mainly attributable to the supply of financial IC cards and storage products in order to cope with seasonal sales at the end of the year. Trade and bills receivables decreased by approximately RMB3,943,000 as compared with last year, and most of them were still within the normal credit period. As the prepaid tax exceeded the actual tax amount due to the factor of tax rate for the previous period, there was refundable tax in last year, provide that there was no change in tax rate this year, the recoverable excessive prepaid tax significantly decreased by approximately RMB17,242,000. In the year, the Company conducted placement of new domestic shares and raised net proceeds of approximately RMB200,715,000, certain of which has been used as daily working capital. The Group's cash and bank balances increased by approximately RMB49,241,000.

Current liabilities increased by approximately RMB10,165,000 over the last year mainly due to the increase in assets related projects having certified and recognised during the year and related government grants could be deferred in long term.

The non-controlling interests increased by RMB10,600,000 as compared with last year, mainly attributable to the profit net of dividends paid of Sino IC Technology Co., Ltd. for the year attributable to non-controlling interests.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

In the year, the Company invested approximately RMB10,206,000 in four technology companies, whose businesses are all related to the existing business of the Group, whereby the Group could conduct strategic business cooperation.

Save as 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 apart from orderly increase in research and development projects.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2018, net assets of the Group amounted to approximately RMB2,107,440,000 (2017: RMB1,771,276,000), an increase of approximately 19% over last year; of which current assets amounted to approximately RMB1,912,520,000 (2017: RMB1,646,351,000), a rise of approximately 16.2% over last year, and including cash and bank deposits of approximately RMB695,350,000 (2017: RMB646,109,000), an increase of approximately 7.6% over last year.

As the Group keeps profiting for the past years, profit and internal cash flows generated have been used to meet the operations and business development needs. In addition, the placement of new H shares in the previous year and from the placement of domestic shares for the year provided additional funds for the Group. Furthermore, the Group has adopted a cautious monetary policy which is sufficient to cope with daily operation and future development.

The net cash flows from operating activities for the year was approximately RMB62,863,000 (2017: RMB158,809,000), representing a significant decline as compared with last year, which was mainly due to decrease in profit and increase in inventories. The net cash outflows used in investing activities was approximately RMB258,817,000 (2017: RMB305,415,000), due to the decrease in growth of deposits with maturity over 3 months of approximately RMB27,493,000. Due to the placement of new domestic shares, the net cash inflows from financing activities amounted to approximately RMB189,317,000, representing an increase of approximately RMB17,826,000 as compared with last year. The total cash and cash equivalents as at the balance sheet date decreased by approximately RMB5,315,000 to approximately RMB304,878,000 (2017: RMB310,193,000).

As at 31 December 2018, the Group has not pledged any of its assets to any third parties (2017: nil).

CAPITAL STRUCTURE

The Company published an announcement on 29 October 2018 in relation to placing a total of 35,172,000 domestic shares with a nominal value of RMB0.10 per share under general mandate. The proceeds from the Placing were received before the end of 2018 and the procedures for the Placing were subsequently completed in early 2019. With the issuance of 35,172,000 domestic shares, together with the issued 375,000,000 domestic shares, the total issued domestic shares have increased to 410,172,000 shares; together with the issued 284,330,000 H shares, the total number of issued shares amounted to 694,502,000 shares; the share capital increased from RMB 65,933,000 to RMB 69,450,200.

During the year, the Company made a capital injection of RMB3,000,000 to Beijing Fudan Microelectronics Technology Co., Ltd, a wholly-owned subsidiary of the Company, to increase its issued capital from RMB3,000,000 to RMB6,000,000, so as to strengthen its business expansion capabilities.

Except the above disclosures, there was no other change in the capital structure of the Group in the year.

GEARING RATIO

As at 31 December 2018, the Group's current liabilities amounted to approximately RMB417,156,000 (2017: RMB424,047,000), a decrease of approximately 1.6% over last year. Non-current liabilities amounted to approximately RMB22,198,000 (2017: RMB12,033,000), an increase of approximately 84.5% over the previous year. Net asset value per share was approximately RMB3.03 (2017: RMB2.69), a growth of approximately 12.6% over last year. The Group's ratio of current liabilities over current assets was approximately 21.8% (2017: 25.8%), indicating that the Group's short-term debt paying ability was ideal and the asset realisation capacity was further enhanced, and the gearing ratio was approximately 20.8% (2017: 24.6%) on the basis of total liabilities over net assets, indicating that the Group's capital was mainly from shareholders and the credit risk in relation to provision of financing to the Group further decreased.

As at 31 December 2018, the Company and the Group had no bank or other borrowings (2017: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors believe that developing and implementing rigorous risk management practices can efficiently and effectively reduce operational risks. The Board has delegated the responsibilities to relevant departments and will monitor, review and improve the practices from time to time.

The Directors believe that the Group is not exposed to risks associated with business regulations in view that there is no specific legislative control over the design, development and sales of integrated circuit where Group focuses its business on at present, and national policies are all advantageous to the development of the industry. In addition, the Group's business maintained a stable and healthy growth over the years. With the Group's existing customers and suppliers are all long-term partners, and business of the industry is still in the growth phase driven by national policies and huge market demands in most of its products, the Directors believe there will be no uncertainties.

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.

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 10% (2017: 7%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 40% (2017: 62%) 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 Group was exposed to no material difficulties or no material influence was arisen on the Group's operations and cash flows due to the fluctuations in foreign exchange.

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. 19% (2017: 28%) 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 2018, the Group had capital commitments contracted but not provided for in the amount of approximately RMB8,523,000 (2017: RMB12,318,000), which were related to the acquisition of property, plant and equipment.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liabilities (2017: nil).

USE OF CAPITAL AND FUNDING

Proceeds from placing of shares

1. 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.
2. The Company has entered into a share subscription agreement on 12 December 2018, in relation to placing a total of 35,172,000 new domestic shares at a placing price of RMB5.73 per share. The proceeds from the Placing were received before the end of 2018 and the net proceeds from the Placing after deducting relevant fee is approximately RMB200,715,000.

The above proceeds have been utilised in the way disclosed by the Company in the relevant announcements. The proceeds utilised as at 31 December 2018 are as follows:

	Note	Net proceeds RMB'000	Utilised amount RMB'000	Unutilised amount RMB'000
1. <u>H shares placement</u> Supplement the general working capital of the Company	(a)	184,203	139,171	45,032
2. <u>Domestic shares placement</u> Supplement the general working capital of the Company	(b)	200,715	71,844	128,871

Note:

- (a) It is expected that the unutilized proceeds of approximately RMB45,032,000 will be fully utilized in the first half of 2019.
- (b) It is expected that the unutilized proceeds of approximately RMB128,871,000 will be fully utilized in the first half of 2019.

The proceeds currently unutilised are deposited in the designated accounts with domestic banks in the PRC and will be used as general working capital in the future.

EMPLOYEES

As at 31 December 2018, the Group has approximately 1,240 (2017: 1,100) 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 market trend recently or from time to time in the industry.

As at 31 December 2018, the employee benefit expense (including directors' remuneration) as recorded in the consolidated statement of profit or loss was approximately RMB336,258,000 (2017: RMB273,561,000). The increase in employee expenses was due to an increase of 140 employees in the year, as well as the increase in wages in the industry due to continued industry development and talent hunger. The employee benefit expense of RMB56,068,000 (2017: RMB58,546,000) was capitalized as development costs during the year.

PROSPECTS

Looking forward into 2019, driven by the national policy support, technological advancement and innovation, enhancement of market share in the domestic chip market, the steady and improving growth of Chinese economy, and the easement of international trade frictions and other factors, the IC design industry of the PRC is expected to maintain stable growth. The Group has nearly twenty years of experience in fundamental research, technological development, professional talents cultivation, cooperation with national laboratories and laboratories of reputable universities as well as favorable conditions for setting up packaging and testing services, and has formed a certain industrial scale and certain advantages in market competition. The Directors are convinced that, riding on the recovery of the industry, the product sales of the Group may also maintain stable growth. However, the increasing entrants in the industry have caused cutthroat competition, posing certain challenges over maintenance of product price and market share. The Directors are optimistic and confident in the business growth in the coming year and expect that the results will see ideal growth.

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of the annual general meeting of the Company (the "AGM"), the register of members of the Company will be closed from 1 May 2019 to 31 May 2019 (both days inclusive), during which period no transfer of Shares will be effected.

Persons who hold Shares and whose names appear on the Register of Members of the Company as at 1 May 2019 shall be entitled to attend the AGM. In order to be qualified to attend and vote at the AGM, all transfers documents accompanied by the relevant Share certificates must be lodged with the Company's principal place of business in the PRC at Building 4, Lane 127, Guotai Road, Shanghai, the PRC (for holders of Domestic Shares) or the Company's H share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H Shares) no later than 4:30 p.m. on 30 April 2019.

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

At 31 December 2018, 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			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	1.04
Mr. Shi Lei	7,210,000	-	-	7,210,000	1.04
	14,420,000	-	-	14,420,000	

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
Supervisor						
Mr. Li Wei	Sino IC	The Company's subsidiary	Ordinary shares	189,000	Directly beneficially owned	0.10

Save as disclosed above, as at 31 December 2018, 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 2018.

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 2018, 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 and short positons 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	26.02	15.37
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(1)	Interest of corporation controlled	106,730,000	(L)	Domestic shares	26.02	15.37
Fudan University	(1)	Interest of corporation controlled	106,730,000	(L)	Domestic shares	26.02	15.37
Shanghai Fudan Technology Enterprise Holdings Limited ("Fudan Technology")	(2)	Directly beneficially owned	109,620,000	(L)	Domestic shares	26.73	15.78
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	(L)	Domestic shares	26.73	15.78
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	(L)	Domestic shares	26.73	15.78
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	(L)	Domestic shares	12.72	7.51
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	66,845,110	(L)	Domestic shares	16.29	9.62
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	(L)	Domestic shares	16.29	9.62
Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise ("Shanghai Zhenghua")	(4)	Directly beneficially owned	47,443,420	(L)	Domestic shares	11.57	6.83
Shanghai Shanyao Industrial Limited ("Shanghai Shanyao")	(4)	Interest of corporation controlled	47,443,420	(L)	Domestic shares	11.57	6.83
Zhou Yufeng	(4)	Interest of corporation controlled	47,443,420	(L)	Domestic shares	11.57	6.83
Shanghai Guonian Corporate Management Consultant Partnership Enterprise ("Shanghai Guonian")	(5)	Directly beneficially owned	29,941,470	(L)	Domestic shares	7.30	4.31

Shanghai Danruo Investment Management Partnership Enterprise (“Shanghai Danruo”)	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Dazi Country Dingcheng Capital Investment Limited (“Dingcheng Capital”)	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Beijing Zhongrong Dingxin Investment Management Limited (“Zhongrong Dingxin”)	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Zhongrong International Trust Limited (“Zhongrong International”)	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Jingwei Textile Machinery Co., Ltd. (“Jingwei Textile”)	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Beijing Huacheng Lihe Investment Limited (“Huacheng Lihe”)	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Wang Shumin and Wang Jizhuo	(5)	Interest of corporation controlled	29,941,470	(L)	Domestic shares	7.30	4.31
Springs China Opportunities Master Fund (“Spring China”)	(6)	Directly beneficially owned	17,088,000	(L)	H shares	6.01	2.46
Springs China Limited	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.46
Zhao Jun	(6)	Interest of corporation controlled	17,088,000	(L)	H shares	6.01	2.46
Haitong International Securities Company Limited (“Haitong International Securities ”)	(7)	Directly beneficially owned	17,128,349 (17,128,349)	(L) (S)	H shares H shares	6.02 (6.02)	2.47 (2.47)
Haitong International Finance Company Limited (“Haitong International Finance”)	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong International (BVI) Limited. (“Haitong International”)	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong International Securities Group Limited (“Haitong International Securities Group”)	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong International Holdings Limited (“Haitong International Holdings”)	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)
Haitong Securities Co., Ltd. (“Haitong Securities”)	(7)	Interest of corporation controlled	19,022,000 (19,022,000)	(L) (S)	H shares H shares	6.69 (6.69)	2.74 (2.74)

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 63.08% of the equity interest in Haitong International Securities Group, Haitong International Securities Group 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 Securities. Accordingly, each of Haitong International Finance, Haitong International, Haitong International Securities Group, Haitong International Holdings and Haitong Securities is deemed to be interested in Haitong International Securities' interest in the Company. Haitong International Finance also holds an indirect interest of 1,893,651 H Shares through a controlled enterprise.

Save as disclosed above, as at 31 December 2018, 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 audited financial statements for the year ended 31 December 2018 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.

EVENTS AFTER THE REPORTING PERIOD

The board of directors, at the Board meeting held on 28 February 2019, approved and resolved to convene the Extra-ordinary General Meeting and Class Meetings to submit a special resolution in relation to the proposed A Share Offering.

Assuming that there are no changes to the total issued share capital of the Company prior to the completion of the A Share Offering, the maximum number of new A Shares to be issued will not be more than 231,500,000 A Shares representing approximately 33.33% of the total existing issued share capital of the Company before the issue of A Shares, and 25% of total enlarged issued share capital of the Company after the issue of A Shares. All A Shares will be issued as new shares and no transfer arrangement will be made for the old Shares.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed with by the Group's auditor, Ernst & Young, Certified Public Accountants ("Ernst & Young") to the amounts set out in the Group's audited financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary Announcement.

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

Shanghai, the PRC, 30 March 2019

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*