



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
2019

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 2019 together with the comparative figures for the corresponding period in 2018 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

		Half-year ended 30 June	
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	2	639,151	671,586
Cost of sales		<u>(397,932)</u>	<u>(388,792)</u>
Gross profit		241,219	282,794
Other income and gains	2	47,180	82,588
Selling and distribution costs		(39,715)	(37,533)
Administrative expenses		(48,134)	(52,028)
Impairment losses on financial assets		(2,809)	–
Other expenses		<u>(286,049)</u>	<u>(172,410)</u>
(LOSS)/PROFIT BEFORE TAX	4	(88,308)	103,411
Income tax expense	5	<u>(3,255)</u>	<u>(9,822)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(91,563)</u>	<u>93,589</u>
(Loss)/profit attributable to:			
Owners of the parent		(97,311)	86,142
Non-controlling interests		<u>5,748</u>	<u>7,447</u>
		<u>(91,563)</u>	<u>93,589</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For (loss)/profit for the period	6	<u>(14.01) cents</u>	<u>13.07 cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Half-year ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
(LOSS)/PROFIT FOR THE PERIOD	<u>(91,563)</u>	<u>93,589</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>82</u>	<u>266</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated at fair value through other comprehensive income	<u>2,233</u>	<u>–</u>
Other comprehensive income for the period, net after tax	<u>2,315</u>	<u>266</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	<u>(89,248)</u>	<u>93,855</u>
Total comprehensive (loss)/income attributable to:		
Owners of the parent	(94,996)	86,408
Non-controlling interests	<u>5,748</u>	<u>7,447</u>
	<u>(89,248)</u>	<u>93,855</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	414,156	395,163
Prepayments for equipment		1,678	8,946
Intangible assets	8	166,903	191,068
Investments in an associate		2,718	3,000
Equity investments designated at fair value through other comprehensive income		30,708	28,475
Financial assets at fair value through profit and loss		1,375	1,373
Deferred tax assets		6,374	6,249
		623,912	634,274
Total non-current assets			
CURRENT ASSETS			
Inventories		697,473	606,048
Trade and bills receivables	9	584,148	562,491
Prepayments, deposits and other receivables		48,628	37,367
Tax recoverable		13,675	11,264
Cash and bank balances	13	470,383	695,350
		1,814,307	1,912,520
Total current assets			
CURRENT LIABILITIES			
Trade and bills payables	10	151,529	147,317
Other payables, accruals and deferred income		257,260	267,895
Tax payable		2,523	1,944
		411,312	417,156
Total current liabilities			
NET CURRENT ASSETS			
		1,402,995	1,495,364
TOTAL ASSETS LESS CURRENT LIABILITES			
		2,026,907	2,129,638
NON-CURRENT LIABILITES			
Lease liabilities		1,638	–
Deferred income		13,689	20,070
Deferred tax liabilities		2,128	2,128
		17,455	22,198
Total non-current liabilities			
NET ASSETS			
		2,009,452	2,107,440
EQUITIES			
Equity attributable to equity holders of the parent			
Issued capital		69,450	69,450
Reserves		1,778,814	1,873,156
		1,848,264	1,942,606
Non-controlling interests		161,188	164,834
		2,009,452	2,107,440
TOTAL EQUITY		2,009,452	2,107,440

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent										
	Issued share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Available for sale investment		Exchange fluctuation reserve <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
				revaluation/ Fair value reserve <i>RMB'000</i>	Fair value reserve <i>RMB'000</i>						
At 1 January 2019	69,450	545,756	52,003	10,643	(1,613)	14,743	1,251,624	1,942,606	164,834	2,107,440	
(Loss)/profit for the period	-	-	-	-	-	-	(97,311)	(97,311)	5,748	(91,563)	
Other comprehensive (loss)/income for the period:											
Change in fair value of equity investments at fair value through comprehensive income, net of tax	-	-	-	2,233	-	-	-	2,233	-	2,233	
Exchange differences on translation of foreign operations	-	-	-	-	82	-	-	82	-	82	
Total comprehensive (loss)/income for the period	-	-	-	2,233	82	-	(97,311)	(94,996)	5,748	(89,248)	
Equity-settled share-based expenses	-	654	-	-	-	-	-	654	-	654	
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(9,394)	(9,394)	
At 30 June 2019	69,450	546,410*	52,003*	12,876*	(1,531)*	14,743*	1,154,313*	1,848,264	161,188	2,009,452	
At 1 January 2018	65,933	348,489	49,472	-	(3,101)	14,743	1,141,506	1,617,042	154,234	1,771,276	
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	65,933	348,489*	49,472*	-	(2,835)*	14,743*	1,227,648*	1,703,450	161,681	1,865,131	

* These reserve accounts comprise the consolidated reserves of RMB1,778,814,000 (31 December 2018: RMB1,873,156,000) in the condensed consolidated statement of financial position.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<i>Note</i>	Half-year ended 30 June	
		2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Net cash flows (used in)/generated from operating activities		(161,146)	42,088
Net cash flows generated from investing activities		98,013	21,433
Net cash flows from financing activities		—	—
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		304,878	310,193
Effect of foreign exchange rate changes, net		4,715	266
CASH AND CASH EQUIVALENTS AT END OF PERIOD		246,460	373,980
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and demand deposits	13	182,599	301,959
Non-pledged time deposits	13	287,784	311,143
Cash and bank balances as stated in the condensed consolidated statement of financial position	13	470,383	613,102
Time deposits with original maturity of over three months when acquired	13	(223,923)	(239,122)
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of cash flows		246,460	373,980

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 2018. 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 2019. 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	
	2019	2018
	(Unaudited)	(Unaudited)
		(As restated)
	RMB’000	RMB’000
Revenue		
Sale of goods	587,403	630,439
Services rendered	49,648	39,143
Gross rental income	2,100	2,004
	639,151	671,586
Other income and gains		
Interest income	4,960	5,049
Government grants received for research activities	27,706	49,412
Other government grants	6,819	26,069
Others	7,695	2,058
	47,180	82,588

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 2019	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	586,975	52,176	639,151
Intersegment sales	—	15,615	15,615
	586,975	67,791	654,766
<i>Reconciliation:</i>			
Elimination of intersegment sales			(15,615)
Revenue			<u>639,151</u>
Segment results	(113,459)	18,269	(95,190)
<i>Reconciliation:</i>			
Elimination of segment results			(4,897)
Interest income			4,960
Unallocated gains			6,819
Loss before tax			<u>(88,308)</u>
Segment assets	2,086,721	381,114	2,467,835
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(35,990)
Corporate and other unallocated assets			6,374
Total assets			<u>2,438,219</u>
Segment liabilities	366,801	97,956	464,757
<i>Reconciliation:</i>			
Elimination of intersegment payables			(35,990)
Total liabilities			<u>428,767</u>
Other segment information			
Impairment loss recognised in the statement of profit and loss	19,915	153	20,068
Depreciation	18,964	20,615	39,579
Amortisation of intangible assets	28,458	—	28,458
Capital expenditure*	61,893	19,904	81,797

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

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	<u>–</u>	<u>15,679</u>	<u>15,679</u>
	629,017	58,248	687,265
<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.

Geographical information

a) Revenue from external customers

	Half-year ended 30 June	
	2019	2018
	(Unaudited) RMB'000	(Unaudited) RMB'000
Mainland China	577,597	566,893
Asia Pacific (excluding Mainland China)	57,614	97,774
Others	3,940	6,919
	<u>639,151</u>	<u>671,586</u>

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

b) Non-current assets

	Half-year ended 30 June	
	2019	2018
	(Unaudited) RMB'000	(Unaudited) RMB'000
Mainland China	576,838	549,338
United States of America	8,604	26
Asia Pacific (excluding Mainland China)	13	12
	<u>585,455</u>	<u>549,376</u>

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

Information about major customers

No customer was individually accounted for more than 10% of the Group's total revenue during the six months ended 30 June 2019 (2018: nil).

4. (LOSS)/PROFIT BEFORE TAX

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

	Half-year ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Depreciation	39,579	43,526
Provision for doubtful debts	2,809	1,469
Payments under operating leases in respect of land and buildings	7,295	5,410
Amortisation of deferred development costs*	28,458	14,881
Impairment of intangible assets	9,106	–
Provision for impairment of inventories	17,259	2,287
Interest income	(4,960)	(5,049)
Other government grants	(6,819)	(26,069)
Government grants received for research activities**	<u>(27,706)</u>	<u>(47,413)</u>

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"), 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 ending 31 December 2019, income tax provision on assessable income of the Company was made at the rate of 10% (2018: 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 ending 31 December 2019, income tax on assessable income of Sino IC and Fukong Hualong have been provided at the rate of 15% (2018: 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 2019, income taxes on assessable income of these subsidiaries has been provided at the rate of 25% (2018: 25%).

Hong Kong Profits Tax of the Hong Kong subsidiary 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. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The Company's subsidiary incorporated and operating in the United States has no assessable profit subject to federal corporation income tax during the period (2018: nil).

	Half-year ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC		
Charge for the period	3,230	6,602
Current – Hong Kong		
Charge for the period	150	335
Deferred		
(Credit)/charge for the period	<u>(125)</u>	<u>2,885</u>
Total tax charge for the period	<u>3,255</u>	<u>9,822</u>

6. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share for the half years ended 30 June 2019 and 30 June 2018 is based on the unaudited net loss attributable to ordinary equity holders of the parent of approximately RMB97,311,000 (2018: net profit RMB86,142,000) and the weighted average number of 694,502,000 (2018: 659,330,000) ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the half years ended 30 June 2019 and 30 June 2018. The diluted (loss)/earnings per share amount is the same as the basic (loss)/earnings per share amount.

7. PROPERTY, PLANT AND EQUIPMENT

During the half-year ended 30 June 2019, the Group acquired machinery and office equipment amounted to approximately RMB58,572,000 (31 December 2018: RMB110,134,000).

8. INTANGIBLE ASSETS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Cost at 1 January, net of accumulated amortisation and impairment	191,068	160,655
Additions – internal development	23,199	79,412
Write-off – internal development	(9,800)	(19,526)
Impairment	(9,106)	–
Amortisation provided	(28,458)	(29,473)
	<u>166,903</u>	<u>191,068</u>

9. TRADE AND BILLS RECEIVABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade receivables	478,882	455,166
Bills receivables	126,796	126,115
Impairment	(21,530)	(18,790)
	<u>584,148</u>	<u>562,491</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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 3 months	326,270	361,119
3 to 6 months	93,652	113,995
6 to 12 months	108,332	44,719
Over 12 months	55,894	42,658
	<u>584,148</u>	<u>562,491</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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 3 months	148,390	144,873
3 to 6 months	405	964
6 to 12 months	434	1,440
Over 12 months	<u>2,300</u>	<u>40</u>
	<u>151,529</u>	<u>147,317</u>

11. COMMITMENTS

The Group had the following commitments at the reporting date:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
(a) Capital commitments		
Contracted, but not provided for:		
Property, plant and equipment	<u>15,940</u>	<u>8,523</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:

As lessee

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within one year	15,869	13,043
In the second to fifth years, inclusive	2,266	4,997
Over five years	1,213	–
	<u>19,348</u>	<u>18,040</u>

(c) **The Group leases its equipment under operating lease arrangements, with leases negotiated for terms of three years.**

At 30 June 2019, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

As lessor

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within one year	3,833	3,833
In the second to fifth years, inclusive	319	2,556
	<u>4,152</u>	<u>6,389</u>

12. 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	
			2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Fukong Hualong	A subsidiary and is connected with an enterprise controlled by a substantial shareholder	Sales of finished goods Technical services charges	765 –	1,429 117

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.

13. CASH AND BANK BALANCES

	Half-year ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Cash and cash equivalents	566,893	557,426
Including: Time deposits with original maturity of less than 3 months when acquired	63,861	72,021
Cash on hand and demand deposits	182,599	301,959
	246,460	373,980
Time deposits with original maturity of over 3 months when acquired	223,923	239,122
Cash and bank balances	470,383	613,102

14. CHANGES IN DIRECTORS

During the half-year ended 30 June 2019, the Company had the following changes in Directors:

- a) Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin were appointed as independent non-executive directors on 3 June 2019;
- b) Mr. Cheung Wing Keung, Mr. Chen Baoying and Mr. Lin Fujiang were resigned as independent non-executive directors on 3 June 2019.

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 2019 (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the half-year ended 30 June 2019, the international situation was rather complex and changeable, the global market growth of the IC industry slowed down rapidly and brought with uncertainties in the industry development. During the period, having suffered from fierce competition and industry turnaround, sales of the Group's certain products were affected and the Group recorded an approximately 4.8% drop in revenue as compared with the same period last year.

Due to rapid market change, sales of the high-end security and encrypt chips and the smart and security and identification readers chips have dropped approximately 8.3% with decrease in profit margin when compared with the same period last year. Sales of Non-volatile Memory Chips have recorded a drop of approximately 14.4% as market slowed down and under the transition stage of change from old products to new products; profit margin also dropped significantly due to decrease in selling price. Smart meter ASIC chips recorded a satisfactory sales growth of approximately 77.8% over the same period last year after getting winning bids of its meter MCU chips in the State Grid tenders during the period. The electricity leak protection products of Specific Analog Circuits have completed the transition period of version upgrade and recorded an increase in sales of 15.3% as compared with the same period last year. As the application scopes of the Application-specific projects are rather specific and comparatively volatile to market demand, sales during the period dropped by approximately 24.2% over the corresponding period last year. Benefited from the introduction of high-end testing application platform, the revenue from IC testing services increased by approximately 16.4% with significant increase in profit margin as compared with the same period last year.

The other income and gains during the period have dropped significantly by approximately 42.9% over the same period last year as there were decreases in participation of government projects and other government grants received.

Financial Review

For the half-year ended 30 June 2019, the Group recorded a total revenue of approximately RMB639,151,000 (2018: RMB671,586,000), a decrease of approximately RMB32,435,000 as compared to the same period last year. Loss attributable to owners of the parent amounted to approximately RMB97,311,000 (2018: Profit of RMB86,142,000). The gross profit margin of overall products decreased to 37.7% from 42.1% of the same period in last year.

Selling and distribution costs increased by approximately 5.8% when compared with corresponding period in last year, mainly due to increases in employee expenses and market promotions. Administrative expenses slightly dropped over the same period last year. Other expenses recorded a significant increase of 65.9% as more resources have been applied to R&D activities and increase in R& D expenses. In addition, because of some projects faced market changes or unsatisfactory sales performance, the related R&D expenditures which were capitalised previously were expensed or impaired during the period.

The tax charge for the period decreased significantly by approximately RMB6,567,000 as the Company has recorded a loss during the period. In addition, the deferred tax also decreased by approximately RMB3,010,000 when compared with the same period last year.

As at 30 June 2019, the Group had net assets of approximately RMB2,009,452,000 (31 December 2018: RMB2,107,440,000), decreased by approximately 4.6%. Non-current assets amounted to approximately RMB623,912,000 (31 December 2018: RMB634,274,000) and the decrease was due to the increases both in amortisation and impairment of intangible assets over the last corresponding period, and these factors off-setting the increases in acquisition of property, plant and equipment and the addition of leased assets as a result of change in accounting standards. Current assets amounted to approximately RMB1,814,307,000 (31 December 2018: RMB1,912,520,000), the decrease over the same period last year was due to increase in inventories to cope with sales for the coming half year; trade receivables increased due to slow recoveries; and cash and bank deposits dropped significantly 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 2019 amounted to approximately RMB411,312,000 (31 December 2018: RMB417,156,000) and non-current liabilities amounted to approximately RMB17,455,000 (31 December 2018: RMB22,198,000), both decreased over the last corresponding period. Non-current liabilities decreased due to deferred income in respect of government grants dropped as a result of reduced participation in government projects.

The Group's net assets value per share as at 30 June 2019 was approximately RMB2.89 (31 December 2018: RMB3.03), a decrease of approximately 4.6%. The Group's current ratio of total current liabilities over total current assets was approximately 22.7% (31 December 2018: 21.8%) and the gearing ratio was approximately 21.3% (31 December 2018: 20.8%) 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 2019, the Group had a net outflow of cash and cash equivalents of approximately RMB63,133,000 (30 June 2018: inflow RMB63,521,000), a substantial decrease of RMB126,654,000 over the same period last year. The factors are the loss resulted during the period as well as the increases in inventories and trade receivables. The net cash and cash equivalents at the period end was approximately RMB246,460,000 (30 June 2018: RMB373,980,000), a decrease of RMB127,520,000. As at 30 June 2019, the Group had no bank or other borrowings (31 December 2018: 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 2019, the Group has capital commitments in respect of acquisition of property, plant, equipment amounted to RMB15,940,000 (31 December 2018: RMB8,523,000); the operating leases commitments as lessee amounted to RMB19,348,000 (31 December 2018: RMB18,040,000); the operating leases commitments as lessor amounted to RMB4,152,000 (31 December 2018: RMB6,389,000) and did not have any material contingent liabilities (31 December 2018: nil). The Group has not pledged any of its assets to any third parties (31 December 2018: nil).

Use of Capital and Funding

Proceeds from placing of new shares

- a) 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
- b) 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 fully utilised in the way as disclosed by the Company in the relevant announcements as follows:

	Net proceeds <i>RMB'000</i>	Utilised amount <i>RMB'000</i>	Unutilised amount <i>RMB'000</i>
a) H shares placement			
Supplement the general working capital of the Company	184,203	184,203	–
b) Domestic shares placement			
Supplement the general working capital of the Company	200,715	200,715	–

Employee Information

As at 30 June 2019, the Group employed approximately 1,238 (30 June 2018: 1,149) staff and the total staff costs reflected in the unaudited condensed consolidated statement of profit and loss amounted to RMB181,287,000 (30 June 2018: RMB139,958,000). The increase in staff costs were mainly due to increase in staff of the R&D department for future business development and the increment of staff remuneration to catch up salary level with the industry.

Prospects

In view of the trade war between China and the United States and the turndown of the market situation, it is expected that the global economy for the second half of 2019 will be slowed down. The Group has built a solid ground in the domestic market and believes that its sales performance will not be adversely affected by the event; however, it will be inevitably that the overseas market will face a tough time. As the domestic market of IC industry is suffering from keen market competition and price cut within the industry to gain market share, the selling price of the Group's products are under high pressure and affected by price reduction. The directors expect that the overall sales for the second half of 2019 will be stable, however, the product profit margin will be further dropped and the annual results can only be improved upon the turnabout of the market situation. The Group will strive to continue its resources application in R&D and with a hope that its results can be improved following launch of new products with market expansion.

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

At 30 June 2019, 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	1.04
Mr. Shi Lei	<u>7,210,000</u>	<u>–</u>	<u>–</u>	<u>7,210,000</u>	1.04
	<u>14,420,000</u>	<u>–</u>	<u>–</u>	<u>14,420,000</u>	

Save as disclosed above, as at 30 June 2019, 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 2019, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:–

Long positions in shares of the Company:

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Fudan High Tech Company ("Fudan High Tech")	(1)	Directly beneficially owned	106,730,000	Domestic shares	26.02	15.37
Shanghai Fudan Asset Management Co., Ltd. ("Fudan Asset")	(1)	Interest of corporation controlled	106,730,000	Domestic shares	26.02	15.37
Fudan University	(1)	Interest of corporation controlled	106,730,000	Domestic shares	26.02	15.37
Shanghai Fudan Fukong Technology Enterprise Holdings Limited ("Fudan Fukong")	(2)	Directly beneficially owned	109,620,000	Domestic shares	26.73	15.78
Shanghai Commerce and Invest (Group) Corporation ("SCI")	(2)	Interest of corporation controlled	109,620,000	Domestic shares	26.73	15.78
Bailian Group Company Limited ("Bailian Group")	(2)	Interest of corporation controlled	109,620,000	Domestic shares	26.73	15.78
Shanghai Zhengben Corporate Management Consultant Partnership Enterprise (limited partnership) ("Shanghai Zhengben")	(3)	Directly beneficially owned	52,167,270	Domestic shares	12.72	7.51
Shanghai Yikun Investment Consultant Partnership Enterprise ("Shanghai Yikun")	(3)	Interest of corporation controlled	66,845,110	Domestic shares	16.29	9.62
Zhang Yong	(3)	Interest of corporation controlled	66,845,110	Domestic shares	16.29	9.62
Shanghai Zhenghua Corporate Management Consultant Partnership Enterprise (limited partnership) ("Shanghai Zhenghua")	(4)	Directly beneficially owned	47,443,420	Domestic shares	11.57	6.83

Name	Notes	Capacity and nature of interest	Number of Ordinary shares held	Class of shares	Percentage of shareholding on relevant class of shares	Percentage of the Company's issued share capital
Shanghai Shanyao Industrial Limited ("Shanghai Shanyao")	(4)	Interest of corporation controlled	47,443,420	Domestic shares	11.57	6.83
Zhou Yufeng	(4)	Interest of corporation controlled	47,443,420	Domestic shares	11.57	6.83
Shanghai Guonian Corporate Management Consultant Partnership Enterprise (limited partnership) ("Shanghai Guonian")	(5)	Directly beneficially owned	29,941,470	Domestic shares	7.30	4.31
Shanghai Danruo Investment Management Partnership Enterprise ("Shanghai Danruo")	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Dazi Country Dingcheng Capital Investment Limited ("Dingcheng Capital")	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Beijing Zhongrong Dingxin Investment Management Limited ("Zhongrong Dingxin")	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Zhongrong International Trust Limited ("Zhongrong International")	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Jingwei Textile Machinery Co., Ltd. ("Jingwei Textile")	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Beijing Huacheng Lihe Investment Limited ("Huacheng Lihe")	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Wang Shumin and Wang Jizhuo	(5)	Interest of corporation controlled	29,941,470	Domestic shares	7.30	4.31
Springs China Opportunities Master Fund ("Spring China")	(6)	Directly beneficially owned	17,088,000	H shares	6.01	2.46
Springs China Limited	(6)	Interest of corporation controlled	17,088,000	H shares	6.01	2.46
Zhao Jun	(6)	Interest of corporation controlled	17,088,000	H shares	6.01	2.46

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 Fukong. Accordingly, each of SCI and Bailian Group is deemed to be interested in Fudan Fukong'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.

Save as disclosed above, as at 30 June 2019, 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 2019, 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 2019, save and except the code provision A.6.7 of the CG Code which requires that independent non-executive directors and other non-executive directors should also attend general meetings.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with the Listing Rules and Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. At the date of this report, the audit committee comprises three independent non-executive directors Mr. Guo Li, Mr. Cai Minyong and Mr. Wang Pin. The Group's unaudited financial statements for the half-year ended 30 June 2019 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 2019.

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

During the half-year ended 30 June 2019, 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, 16 August 2019

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; non-executive directors are Ms. Zhang Qianling, Mr. Ma Zhicheng, Ms. Zhang Huajing and Mr. Wu Ping and independent non-executive directors are Mr. Guo Li, Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin.

* *For identification purpose only*