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 2019

FINANCIAL HIGHLIGHTS

The turnover of the Group for the year ended 31 December 2019 was approximately RMB1,454,772,000 (2018: RMB1,409,630,000), slightly increased by approximately 3.2% as compared to the previous year.

The Group recorded a net loss attributable to owners of the parent for the year ended 31 December 2019 of approximately RMB161,936,000 (2018: profit of RMB107,482,000) and the basic loss per share was RMB23.32 cents (2018: earnings per share of RMB16.27 cents).

The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: 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 2019, along with the comparative audited figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
REVENUE	3	**1,454,772**	1,409,630
Cost of sales		**(937,993)**	(766,461)
Gross profit		**516,779**	643,169
Other income and gains	3	**161,882**	149,171
Selling and distribution expenses		**(85,198)**	(86,696)
Administration expenses		**(148,772)**	(118,712)
Impairment losses on financial assets		**(5,075)**	(702)
Other expenses		**(582,022)**	(426,534)
Finance costs		**(2,599)**	-
Share of profits and losses of:			
Associates		**(1,023)**	-
(LOSS)/PROFIT BEFORE TAX	4	**(146,028)**	159,696
Income tax expense	5	**(2,933)**	(30,344)
(LOSS)/PROFIT FOR THE YEAR		**(148,961)**	129,352
(Loss)/profit attributable to:			
Owners of the parent	6	**(161,936)**	107,482
Non-controlling interests		**12,975**	21,870
		(148,961)	129,352
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
- For (loss)/profit for the year	6	**RMB(23.32)cents**	RMB16.27cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019 **RMB'000**	2018 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(148,961)**	129,352
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of a foreign operation	**543**	1,488
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**543**	1,488
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	**2,525**	2,002
Income tax effect	**(379)**	(200)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**2,146**	1,802
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,689**	3,290
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(146,272)**	132,642
Total comprehensive (loss)/ income attributable to:		
Owners of the parent	**(159,247)**	110,772
Non-controlling interests	**12,975**	21,870
	(146,272)	132,642

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**423,120**	395,163
Right-of-use assets		**41,590**	-
Prepayments for equipment		**3,076**	8,946
Other intangible assets		**176,520**	191,068
Investments in associates		**55,943**	3,000
Equity investments designated at fair value through other comprehensive income		**31,119**	28,475
Financial assets at fair value through profit and loss		**1,395**	1,373
Deferred tax assets		**7,679**	6,249
Total non-current assets		**740,442**	634,274
CURRENT ASSETS			
Inventories		**588,078**	606,048
Trade and bills receivables	7	**643,942**	562,491
Prepayments, other receivables and other assets		**20,500**	37,367
Tax recoverable		**-**	11,264
Cash and bank balances		**465,410**	695,350
Total current assets		**1,717,930**	1,912,520
CURRENT LIABILITIES			
Trade payables	8	**136,531**	147,317
Other payables, accruals and deferred income		**289,066**	267,895
Other borrowings		**10,702**	-
Tax payable		**657**	1,944
Total current liabilities		**436,956**	417,156
NET CURRENT ASSETS		**1,280,974**	1,495,364
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,021,416**	2,129,638
NON-CURRENT LIABILITIES			
Other borrowings		**32,860**	-
Deferred income		**47,763**	20,070
Deferred tax liabilities		**2,507**	2,128
Total non-current liabilities		**83,130**	22,198
Net assets		**1,938,286**	2,107,440

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital		**69,450**	69,450
Other reserves	9	**1,715,146**	1,873,156
		1,784,596	1,942,606
Non-controlling interests		**153,690**	164,834
Total equity		**1,938,286**	2,107,440

Notes to Financial Statements
For the year ended 31 December 2019

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial instruments and equity investments which have been measured at fair value. 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 new and revised standards for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle,* which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16
The Group has lease contracts for various items of plant and office. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition
Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) RMB$'000
Assets	
Increase in right-of-use assets	36,615
Increase in total assets	36,615
Liabilities	
Increase in other borrowings	36,615
Increase in total liabilities	36,615

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

		RMB$'000
Operating lease commitments as at 31 December 2018		**18,040**
Less:	Commitments relating to short-term leases and those leases with a remaining lease term	(3,455)
	Commitments relating to leases of low-value assets	(14)
Add:	Payments for optional extension periods not recognised as at 31 December 2018	28,152
		42,723
	Weighted average incremental borrowing rate as at 1 January 2019	4.75%-4.90%
	Discounted operating lease commitments as at 1 January 2019	36,615
	Lease liabilities as at 1 January 2019	**36,615**

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

1.2 ISSUED BUT NOT YET EFFECTIVE HKFRs

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	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

These amendments are not expected to have any significant impact on the Group's financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- the design, development and sale of IC products segment ("design, development and sale of IC products"); and

- the provision of testing services for IC products segment ("testing services for IC products").

Year ended 31 December 2019	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	**1,336,140**	**118,632**	**1,454,772**
Intersegment sales	**-**	**27,222**	**27,222**
	1,336,140	**145,854**	**1,481,994**
Reconciliation:			
Elimination of intersegment sales			**(27,222)**
Revenue			**1,454,772**
Segment results	**(198,529)**	**38,167**	**(160,362)**
Reconciliation:			
Elimination of intersegment results			**(14,197)**
Interest income			**8,042**
Unallocated other income and gains			**20,805**
Finance costs (other than interest on lease liabilities)			**(316)**
Loss before tax			**(146,028)**
Segment assets	**2,038,319**	**416,045**	**2,454,364**
Reconciliation:			
Elimination of intersegment receivables			**(3,671)**
Corporate and other unallocated assets			**7,679**
Total assets			**2,458,372**
Segment liabilities	**409,042**	**112,208**	**521,250**
Reconciliation:			
Eliminating of intersegment payables			**(3,671)**
Corporate and other unallocated liabilities			**2,507**
Total liabilities			**520,086**
Other segment information			
Share of profits and losses of associates	**1,023**	**-**	**1,023**
Gain on loss of controls of a subsidiary	**(24,845)**	**-**	**(24,845)**
Impairment loss recognised in the statement of profit or loss, net	**51,237**	**224**	**51,461**
Depreciation	**38,316**	**44,338**	**82,654**
Depreciation of right-of-use assets	**5,392**	**5,203**	**10,595**
Amortisation of intangible assets	**56,558**	**-**	**56,558**
Investments in associates	**55,943**	**-**	**55,943**
Capital expenditure*	**113,673**	**74,310**	**187,983**

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

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
	1,312,821	130,703	1,443,524
Reconciliation:			
Elimination of intersegment sales			(33,894)
Revenue			1,409,630
Segment results	92,822	32,127	124,949
Reconciliation:			
Elimination of intersegment results			(14,520)
Interest income			10,600
Unallocated other income and gains			38,667
Profit before tax			159,696
Segment assets	2,171,207	373,098	2,544,305
Reconciliation:			
Elimination of intersegment receivables			(3,760)
Corporate and other unallocated assets			6,249
Total assets			2,546,794
Segment liabilities	353,039	87,947	440,986
Reconciliation:			
Eliminating of intersegment payables			(3,760)
Corporate and other unallocated liabilities			2,128
Total liabilities			439,354
Other segment information			
Impairment loss recognized 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
Investments in associates	3,000	-	3,000
Capital expenditure*	136,826	52,720	189,546

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

Geographical information

(a) Revenue from external customers

	2019	2018
	RMB'000	RMB'000
Mainland China	**1,356,188**	1,329,633
Asia Pacific (excluding Mainland China)	**84,499**	74,018
Others	**14,085**	5,979
	1,454,772	1,409,630

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

(b) Non-current assets

	2019	2018
	RMB'000	RMB'000
Mainland China	**699,724**	598,138
Asia Pacific (excluding Mainland China)	**506**	15
Others	**19**	24
	700,249	598,177

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 2019 and 2018, 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:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**1,450,635**	1,405,367
Revenue from other sources		
Other lease payments, including fixed payments	**4,137**	4,263
	1,454,772	1,409,630

	Notes	2019 RMB'000	2018 RMB'000
Other income and gains			
Bank interest income	4	**8,042**	10,600
Government grants received for research activities	4	**89,811**	83,020
Other government grants	4	**20,805**	38,667
Gain on disposal of a subsidiary	4	**24,845**	-
Others		**18,379**	16,884
		161,882	149,171

4. (LOSS)/PROFIT BEFORE TAX

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

	2019 **RMB'000**	2018 RMB'000
Cost of inventories sold	**883,626**	729,590
Cost of services provided	**54,367**	36,871
Depreciation of property, plant and equipment	**82,654**	81,825
Depreciation of right-of-use assets	**10,595**	-
Research and development costs:		
Deferred development costs amortised*	**51,863**	29,473
Current year expenditure	**513,935**	394,180
Less: Government grants received for research activities**	**(89,811)**	(83,020)
	475,987	340,633
Minimum lease payments under operation leases:		
Land and buildings	**-**	14,319
Lease payments not included in the measurement of lease liabilities	**1,334**	-
Auditors' remuneration	**1,627**	1,613
Employee benefit expense (excluding Directors' and chief executive's remuneration):		
Wages and salaries	**380,992**	345,914
Pension scheme contributions	**40,979**	38,425
Less: Amounts capitalised as development costs	**(36,601)**	(56,068)
	385,370	328,271
Foreign exchange differences, net	**2,522**	810
Impairment of intangible assets	**9,832**	-
Impairment of financial and contract assets, net:		
Impairment of trade receivables, net	**5,075**	702
Write-down of inventories to net realisable value	**36,554**	14,010
Loss on disposal of items of property, plant and equipment and intangible assets	**11,614**	19,474
Gain on disposal of a subsidiary	**(24,845)**	-
Bank interest income	**(8,042)**	(10,600)
Other government grants	**(20,805)**	(38,667)
Government grants received for research activities**	**(89,811)**	(83,020)

* 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 "Other payables, accruals, 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"). In addition, 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 is qualified as a "key integrated circuit design enterprise falling within the State's planned arrangement". For the year ended 31 December 2018, income tax provision on assessable income of the Company was made at the rate of 10% applied to key integrated circuit design enterprises falling within the State's planned arrangement. For the year ended 31 December 2019, the Company is no longer subject to the tax rate of 10% for not meeting the underlying profit condition required by key integrated circuit design enterprises. The preferential income tax rate of 15% as a High New Technology Enterprise (HNT Enterprise) remain applicable.

Under the CIT Law, the Company's subsidiaries, Sino IC and 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 2019, income tax on assessable income of Sino IC and Fukong Hualong has been provided at the rate of 15% (2018: 15%).

Under the CIT Law, two of the Company's subsidiaries, SZFM and BJFM, are subject to income tax at a base rate of 25%. For the year ended 31 December 2019, income tax on assessable income of these subsidiaries has been provided at the rate of 25% (2018: 25%).

The Hong Kong subsidiary of the Group is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK$2,000,000 (2018:nil) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The Company's subsidiary incorporated and operating in the United States of America was subject to federal corporation income tax at a rate of 21% during the year (2018: 21%), as well as state tax at a rate of 8.84% (2018: 8.84%).

	2019	2018
	RMB'000	RMB'000
Current – Hong Kong		
Charge for the year	**-**	495
Over provision in prior years	**-**	(35)
Current – United States		
Charge for the year	**6**	5
Current – Mainland China		
Charge for the year	**4,357**	5,067
Underprovision in prior years	**-**	644
Deferred	**(1,430)**	24,168
Total tax charge for the year	**2,933**	30,344

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

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 694,502,000 (2018: 660,583,000) in issue during the year.

The calculation of basic and diluted (loss)/earnings per share is based on:

	2019	2018
	RMB'000	RMB'000
(Loss)/earnings		
(Loss)/earnings attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per share calculation	**(161,936)**	107,482

	Number of shares '000	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**694,502**	660,583

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2019 and 2018.

7. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables	**468,502**	455,166
Bills receivables	**199,141**	126,115
Impairment	**(23,701)**	(18,790)
	643,942	562,491

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally between 30 and 90 days. The Group's sales are made to several major customers and there is a 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 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:

	2019	2018
	RMB'000	RMB'000
Within 3 months	**343,818**	361,119
3 to 6 months	**145,856**	113,995
6 to 12 months	**67,687**	44,719
Over 12 months	**86,581**	42,658
	643,942	562,491

8. TRADE PAYABLES

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

	2019	2018
	RMB'000	RMB'000
Within 3 months	**120,993**	144,873
3 to 6 months	**5,451**	964
6 to 12 months	**10,057**	1,440
Over 12 months	**30**	40
	136,531	147,317

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

9. RESERVES

	Share premium RMB'000	Statutory surplus reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Exchange fluctuation reserve RMB'000	Other Reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	545,756	52,003	10,643	(1,613)	14,743	1,251,624	1,873,156
Loss for the year	-	-	-	-	-	(161,936)	(161,936)
Total comprehensive income for the year							
Change in fair value of equity investment at fair value through other comprehenive income, net of tax	-	-	2,146	-	-	-	2,146
Exchange differences related to foreign operations	-	-	-	543	-	-	543
Total comprehensive loss for the year	-	-	2,146	543	-	(161,936)	(159,247)
Disposal of a subsidiary	-	(997)	-	-	-	914	(83)
Equity-settled share-based expenses	1,320	-	-	-	-	-	1,320
Transfer from retained profits	-	1,960	-	-	-	(1,960)	-
At 31 December 2019	**547,076**	**52,966**	**12,789**	**(1,070)**	**14,743**	**1,088,642**	**1,715,146**

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 has more than 20 years of business development, creating a series of diversified products including security and identification IC chips, smart meters ASIC chips, non-volatile memory chips, special analog circuits, other specified chips and application solutions. The products are applied in a wide variety of fields such as sectors in business and society, and mainly include city one-cards, financial IC cards, social security and citizen cards, smart meters, electronic 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 3.2% compared to the previous year, of which the sales for non-volatile memory chips recorded a slight decrease while other series of products recorded different levels of growth. Two categories of products namely security and identification IC chips and non-volatile memory chips which accounted for a relative high proportion in sales of the Group faced a keen market competition, resulting in a dramatic decrease in price. Inventories also substantially depreciated due to change in market and price, which led to a decline in the overall gross margin from 45.6% of the last year to 35.5%.

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 2019, sales of security and identification chips recorded a slight increase of around 1.9% with gross margin decreased by approximately 10.7% compared to last year. The sales of products recorded a remarkable growth, however the market prices of smart cards and financial IC cards decreased thanks to the demand saturation and extraordinarily keen competition in the market, resulting in a certain degree of decline in gross margin. Some products appeared to be overstocked so as to decrease greatly due to the market change and reduction in price. Products such as contactless RF card chips and contactless logic security chips recorded stable in the market, making a good contribution to the growth of sales.

Non-volatile Memory Chips

The products of this category mainly comprises the EEPROM series, NOR flash memory products and NAND flash memory products. Being affected by the periodic fluctuations in the memory chips industry, the supply of the main series of products appeared to be greater than its demand in the market in the first three seasons but was stabilized in the fourth season. The market price during the year was greatly declined while the risk of stocks was relatively high, resulting in the reduction in price for clearance. The sales decreased by 18.5% compared to last year and the gross margin recorded a decline approximately by 10.8%.

Smart Meter ASIC Chips

The sales of the smart meter ASIC chips for the year significantly increased by approximately 70.4%. During the year, the bid rate of State Grid Corporation of China was 60% while the market share of China Southern Power Grid Company Limited was over 60% which helped with the maintenance of market share and the leading position in the market. Because of keen market competition, the profit margin was dropped by approximately 9.8% as compared with last year.

Smart Electrical Appliances

Products of Smart electrical appliances consist of Type AC, Type A of electricity leakage protection chips, Type B electricity leakage protection chips and module, GFCI/ALCI professional control chips, specific chips for detecting malfunction of electric arc and its module, which are widely applied in circuit breakers for low-voltage electrical appliances and home appliances. The sales of this category of products recorded a rise by approximately 6.7% during the year. The main product Type AC electricity leakage protection chips had a remarkable sales result thanks to renewal and change of equipment from customers. Specific product such as Type A electricity leakage protection chips which are applied in new energy of activating charging stations, has entered the emerging market and gradually acquired market shares. The sales of this category of product had a small proportion of the total sales of the Group, making a slight contribution to the Group's business performance.

Other Chips

Other chips include specified products and solutions. The sales of this category of product was approximate to that of last year while the gross margin decreased by 2.3% compared to last year. In last year, the business performance of this category included the business of Fukong Hualong. In current year, the subsidiary Fukong Hualong has turned to be an associate so its business performance was not yet combined, leading to a deviation in comparative figures. Due to great investment of the product industry, high standards of skills and techniques and the special nature of product cycle of these products, causing lower competitiveness yet higher gross margin compared with other products, it helped with the overall business performance of the Group.

IC Testing Services

During the year, the total revenue of the IC testing services which included the services provided within the Group recorded a growth by approximately 11.6% over last year. The income from external customers recorded a growth by approximately 22.5%. Attributable to the rapid development of the IC industry, this segment has established various high-end testing platforms in recent years and fostered the development and application of techniques in new product fields, leading rises of service-testing customers and demands, however market competitions led to a reduction in service charge, eventuating in a decrease in gross margin.

FINANCE REVIEW

For the year ended 31 December 2019, the Group recorded a total revenue of approximately RMB1,454,772,000 (2018: RMB1,409,630,000), representing a slight increase of approximately 3.2% as compared to last year; gross margin decreased from 45.6% of last year to 35.5%. Compared with last year, other income and gains increased approximately by 8.5%, and selling and distribution costs decreased approximately by 1.7% as compared to last year, and administrative expenses and other expenses went up by 25.3% and 36.5% respectively. The impairment of financial assets during the year increased by approximately RMB4,373,000 or 623% as compared to last year. The business performance was changed from profit of last year to loss, which recorded a loss of RMB148,961,000 (2018: profit of RMB129,352,000). The audited loss attributable to owners of the parent was approximately RMB161,936,000 (2018: profit of RMB107,482,000). The loss per share was approximately RMB23.32 cents (2018: earnings per share of RMB16.27 cents). The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2019 (2018: nil).

For the year ended 31 December 2019 under review, the Group recorded an overall sales increase approximately by RMB45,142,000 as compared to last year. Due to keen competition in the main product of security and identification chips as well as the rapid evolution of the market, it led to decline in price and write-down of inventories, which reduced the overall gross profit margin. Other income and gains increased approximately by RMB12,711,000 compared with last year. As one of the shareholders of Fukong Hualong terminated the acting in concert agreement with the Company, and therefore Fukong Hualong was no longer included in the consolidated financial statements of the Group and was accounted for under the equity method. It was deemed as a disposal of subsidiary with an income of RMB24,845,000.

The sales and distribution expenses reduced by approximately RMB1,498,000. Due to the adoption of cost saving solutions by the Group, the expenses slightly decreased as compared to last year. Administrative expenses increased by approximately RMB30,060,000 over last year due to the increase of office space and equipment in line with the growing number of employees, and the growth in employee expenses as a result of the increases in staff members and the salary level in the industry. Other expenses during the year greatly increased by approximately RMB155,488,000, and the research and development costs through profit and loss increased by approximately RMB119,755,000 as compared to last year, while the amortisation of research and development costs also increased by approximately RMB22,390,000.

In respect of taxation, the tax expenses during the year considerably declined approximately by RMB27,411,000 compared to last year as a main result of the credit of deferred tax which recorded RMB1,430,000. Deferred tax relating to impairment of assets, depreciation and amortisation, government grants and temporary differences related to accruals and other payables amounted to approximately RMB24,168,000 was charged to profit and loss in last year.

The Group’s non-current assets increased by approximately RMB106,168,000 over last year because of (i) the increase in decoration of new office as well as the acquisition of improvements and equipment; (ii) included in right-of-use of assets under new accounting standards; and (iii) Fukong Hualong was changed from a subsidiary into an associate and there was a new investment in an associate.

Current assets decreased substantially by approximately RMB194,590,000 than last year, where inventories recorded a decline of RMB17,970,000 as compared with last year due to written down and clearance. Trade and bills receivable recorded an increase approximately by RMB81,451,000 as compared with last year due to the delay of debt recovery. There was no prepaid profits tax receivables during the year while the amount in last year was RMB11,264,000. The Group's cash and bank balances substantially decreased by approximately RMB229,940,000.

Current liabilities increased by approximately RMB19,800,000 as compared to last year as a result of the inclusion of liabilities of right-of-use of assets during the year as well as the payable of new investment in an associate.

Non-current liabilities significantly increased by approximately RMB60,932,000 as compared to last year. Long-term lease liability in respect of right-of-use of assets was accounted for during the year and the accumulation of projects which were not being certified yet resulted in the increase in deferred income.

The non-controlling interests decreased by approximately RMB11,144,000 as compared with last year, mainly because Fukong Hualong was changed into an associate from a subsidiary that offsetted the entire equity of non-controlling interests. Sino IC Technology Co., Ltd distributed dividends during the year which also led to a decrease in non-controlling interests.

MATERIAL INVESMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

In the year, the Company invested approximately RMB20,000,000 in Shanghai Fudan Sci-Tech Park Venture Investment Co., Ltd., for an equity interest of 20% and accounted for as an investment in an associate. This investment project could make better use of the funds of the Group and increase source of income.

Fukong Hualong that the Company held a 38.25% equity interest has a fund raising plan to increase its issued capital during the year, and one of the equity holders which held 25% equity interest has terminated the acting in concert agreement with the Company, and therefore Fukong Hualong was no longer under the unilateral control of the Group. Starting from 1 October 2019, the results of Fukong Hualong was no longer consolidated into the consolidated financial statements of the Group and would be accounted for under equity method.

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 still 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 2019, net assets of the Group amounted to approximately RMB1,938,286,000 (2018: RMB2,107,440,000), a decrease of approximately 8% over last year; of which current assets amounted to approximately RMB1,717,930,000 (2018: RMB1,912,520,000), a reduction of approximately 10% over last year, and including cash and bank deposits of approximately RMB465,410,000 (2018: RMB695,350,000), a decline of approximately 33.1% 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. The Company has engaged in the placement of shares in recent years in order to provide 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 outflow from operating activities for the year was approximately RMB12,772,000 (2018: net cash inflow of RMB62,863,000). Cash outflow was substantial mainly because of the increase in trade and bills receivables. The net cash inflows generated from investing activities was approximately RMB51,157,000 (2018: net cash outflow of RMB258,817,000). Net cash inflow was caused by the transfer from deposits with maturity over 3 months of approximately RMB250,618,000. The net cash outflows from financing activities amounted to approximately RMB20,616,000 (2018: RMB189,317,000 of net inflow). The cash outflow in current year was mainly due to the principal portion of lease payments accounted for and the payment of dividend to non-controlling interest, and as compared with last year, there was fund raising activity with cash inflow. The total cash and cash equivalents as at the settlement date was approximately RMB323,055,000 (2018: RMB304,878,000), which increased by approximately RMB18,177,000 while the deposits with maturity over 3 months were greatly decreased as previously mentioned.

As at 31 December 2019, the Group has not pledged any of its assets to any third parties (2018: nil).

CAPITAL STRUCTURE

During the year, the Company made a capital injection of RMB4,000,000 to Beijing Fudan Microelectronics Technology Co., Ltd, a wholly-owned subsidiary of the Company, to increase its issued capital from RMB6,000,000 to RMB10,000,000, 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 2019, the Group's current liabilities amounted to approximately RMB436,956,000 (2018: RMB417,156,000), an increase of approximately 4.7% over last year. Non-current liabilities amounted to approximately RMB83,130,000 (2018: RMB22,198,000), a significant increase of approximately 2.7 times over the previous year. Net asset value per share was approximately RMB2.79 (2018: RMB3.19), a decline of approximately 7.9% over last year. The Group's ratio of current liabilities over current assets was approximately 25.4% (2018: 21.8%), indicating that the Group's short-term debt paying ability was ideal and the asset realisation capacity still remained at a healthy level, and the gearing ratio was approximately 26.8% (2018: 20.8%) 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 remained relatively low.

As at 31 December 2019, other than the amount of RMB43,562,000 (2018: nil) of the lease liabilities which was accounted for in other borrowings in accordance with new accounting standards, the Company and the Group had no bank or other borrowings (2018: 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 7% (2018: 10%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 34% (2018: 40%) 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. 4% (2018: 19%) 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 lease liabilities.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted but not provided for in the amount of approximately RMB29,360,000 (2018: RMB8,523,000), which were related to the acquisition of property, plant and equipment.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no contingent liabilities (2018: nil).

USE OF CAPITAL AND FUNDING

Proceeds from placing of shares

On 16 October 2017, the Company completed placing of an aggregate of 42,000,000 new H shares at the placing price of HK$5.33 per placing share. The net proceeds (after deduction of the fees, commissions and expenses) from the placing amounted to approximately RMB184,203,000.

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 2019 are as follows:

	Unutilised net proceeds as at 1 January 2018	**Net proceeds from placement in 2018**	**Utilised amount in 2018**	**Unutilised amount as at 31 December 2018**	**Utilised amount in 2019**	**Unutilised amount as at 31 December 2019**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
H shares placement	143,316	-	(98,284)	45,032	(45,032)	-
Domestic shares placement	-	200,715	(71,844)	128,871	(128,871)	-
	143,316	200,715	(170,128)	173,903	(173,903)	-

Details of utilisation of operational funds are as follows:

	Utilised amount in 2019	Utilised amount in 2018
	RMB'000	RMB'000
<u>H shares placement</u>		
Purchase and processing fees	**43,370**	97,511
Administrative expenses	**475**	773
Exchange loss	**1,187**	-
	45,032	98,284
<u>Domestic shares placement</u>		
Purchase and processing fees	**82,093**	61,177
Wages	**6,804**	1,876
Research and development expenses	**7,321**	3,728
Tax expense	**32,653**	5,063
	128,871	71,844
Total	**173,903**	170,128

EMPLOYEES

As at 31 December 2019, the Group has approximately 1,350 (2018: 1,240) employees. Due to the continual investment in research and development projects, the number of employees of this division engaged more than a half of the total employees and had the highest growth in members. The remuneration of employees was determined in accordance with their performance, qualifications, experience and contribution to the Group with reference to the latest market trend in the industry.

As at 31 December 2019, the employee benefit expense (including directors' remuneration) as recorded in the consolidated statement of profit or loss was approximately RMB393,455,000 (2018: RMB336,258,000). The increase in employee expenses was due to an increase of 110 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 RMB36,601,000 (2018: RMB56,068,000) was capitalized as development costs during the year.

PROSPECTS

Looking forward into 2020 that the whole world has been suffering from the novel coronavirus while the number of infection cases endlessly increase, leading countries to adopt stringent measures to prevent transmission of infection. It poses a devastating impact to global business industries due to this severe epidemic, causing an economic downturn as well as the gradual occurrence of recession. The Directors believe that the global multilateral trade frictions may remain over a certain period of time, and then the novel coronavirus causes an unfavorable influence to the world, yet both of these problems cannot be eliminated shortly, and therefore the Directors maintain an attitude of cautious in the respect of the business prospect in 2020. The Group will adopt relevant measures to strictly control over business, credit and different types of risk, expecting challenges and great pressure from business during the year. The Directors consider that focusing on core business and the continuous development investment are the keys of maintaining competitiveness in the electronic industry. With the constant investment on research and development as well as the accumulation of experience and professional techniques, the Directors hope to smoothly pass the difficult days during the economic downturn.

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 from 6 May 2020 to 5 June 2020 (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 6 May 2020 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 5 May 2020.

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

At 31 December 2019, 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				
	Directly beneficially owned	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
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	
Supervisor					
Ms. Zhang Yanfeng	-	-	294,000	294,000	0.04

Long positions in H shares of the Company:-

	Number of issued shares held, capacity and nature of interest				
	Directly beneficially owned	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Supervisor					
Ms. Zhang Yanfeng	-	277,800	-	277,800	0.04

Save as disclosed above, as at 31 December 2019, none of the directors or supervisors had registered an interest or short position 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 Hong Kong 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 2019.

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 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 Fukong Fudan 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 ("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 ("Shanghai Zhenghua")	(4)	Directly beneficially owned	47,443,420	Domestic shares	11.57	6.83
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 (“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
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, Zhongrong Dingxin and Dingcheng Capital holds 99.9% and 0.01% respectively of the equity interest in Shanghai Danruo and Dingcheng capital is the general partner thereof. 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 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 31 December 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the People's Republic of China 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 report, 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 report.

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 accounting period covered by the annual report, save and except the code provision A.6.7 of the CG Code.

A report on the principal corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of the annual report.

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. Wang Pin (Chaiman), Mr. Guo Li and Mr. Cai Minyong.

The Group's audited financial statements for the year ended 31 December 2019 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 wide spread of the novel coronavirus in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of the situation and make timely response and adjustments in the future.

The Group does not have other significant subsequent events.

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 2019 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, 25 March 2020

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, 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*