



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: 8102)

**RESULTS ANNOUNCEMENT
FOR THE HALF-YEAR ENDED 30 JUNE 2011**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE
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This announcement, for which the directors (the “Directors”) of Shanghai Fudan Microelectronics Group Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

** For identification purpose only*

HALF-YEAR RESULTS (UNAUDITED)

The board of directors ("Board") of Shanghai Fudan Microelectronics Group Company Limited ("Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the half-year ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Half-year ended 30 June | | Three months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 2011 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2011 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 |
| REVENUE | 2 | 261,880 | 241,629 | 137,185 | 146,792 |
| Cost of sales | | <u>(157,842)</u> | <u>(138,114)</u> | <u>(80,950)</u> | <u>(83,158)</u> |
| Gross profit | | 104,038 | 103,515 | 56,235 | 63,634 |
| Other income and gains | 2 | 12,656 | 17,383 | 6,809 | 16,147 |
| Selling and distribution costs | | (13,448) | (8,629) | (6,398) | (3,836) |
| Administrative expenses | | (19,040) | (20,045) | (7,589) | (10,317) |
| Other expenses | | <u>(52,083)</u> | <u>(40,525)</u> | <u>(27,856)</u> | <u>(25,680)</u> |
| PROFIT BEFORE TAX | 4 | 32,123 | 51,699 | 21,201 | 39,948 |
| Income tax expense | 5 | <u>(2,685)</u> | <u>(5,676)</u> | <u>(1,670)</u> | <u>(5,205)</u> |
| PROFIT FOR THE PERIOD | | 29,438 | 46,023 | 19,531 | 34,743 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Exchange differences on translation of foreign operations | | <u>(166)</u> | <u>(8)</u> | <u>(91)</u> | <u>8</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u>29,272</u> | <u>46,015</u> | <u>19,440</u> | <u>34,751</u> |
| Profit attributable to: | | | | | |
| Owners of the parent | | 28,468 | 44,434 | 18,706 | 33,272 |
| Non-controlling interests | | 970 | 1,589 | 825 | 1,471 |
| | | <u>29,438</u> | <u>46,023</u> | <u>19,531</u> | <u>34,743</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

| | Half-year ended | | Three months ended | |
|---|----------------------------|-------------------|---------------------------|-------------------|
| | 30 June | | 30 June | |
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Notes | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent | 28,302 | 44,426 | 18,615 | 33,280 |
| Non-controlling interests | 970 | 1,589 | 825 | 1,471 |
| | <u>29,272</u> | <u>46,015</u> | <u>19,440</u> | <u>34,751</u> |
| | RMB | RMB | RMB | RMB |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | | |
| Basic | | | | |
| - For profit for the period | 6 <u>4.61 cents</u> | <u>7.20 cents</u> | <u>3.03 cents</u> | <u>5.39 cents</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 June 2011 (Unaudited) RMB'000 | 31 December 2010 (Audited) RMB'000 |
|--|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 99,586 | 87,096 |
| Intangible assets | | 29,880 | 24,980 |
| Available-for-sale investments | 8 | - | - |
| Deferred tax assets | | <u>8,326</u> | <u>8,166</u> |
| Total non-current assets | | <u>137,792</u> | <u>120,242</u> |
| CURRENT ASSETS | | | |
| Inventories | | 138,749 | 127,152 |
| Trade and bills receivables | 9 | 109,701 | 95,355 |
| Prepayments, deposits and other receivables | | 18,895 | 27,845 |
| Pledged deposits | 14 | 84 | - |
| Cash and cash equivalents | 14 | <u>263,273</u> | <u>267,200</u> |
| Total current assets | | <u>530,702</u> | <u>517,552</u> |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 10 | 84,988 | 56,971 |
| Other payables and accruals | | 105,005 | 87,174 |
| Tax payable | | <u>5,422</u> | <u>17,303</u> |
| Total current liabilities | | <u>195,415</u> | <u>161,448</u> |
| NET CURRENT ASSETS | | <u>335,287</u> | <u>356,104</u> |
| TOTAL ASSETS LESS CURRENT LIABILITES | | <u>473,079</u> | <u>476,346</u> |
| NON-CURRENT LIABILITES | | | |
| Long term payables | | - | 1,672 |
| Deferred tax liabilities | | <u>427</u> | <u>427</u> |
| Total non-current liabilities | | <u>427</u> | <u>2,099</u> |
| NET ASSETS | | <u>472,652</u> | <u>474,247</u> |
| EQUITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | | 61,733 | 61,733 |
| Reserves | 11 | 375,958 | 347,656 |
| Proposed final dividend | | - | 30,867 |
| | | <u>437,691</u> | <u>440,256</u> |
| Non-controlling interests | | <u>34,961</u> | <u>33,991</u> |
| TOTAL EQUITY | | <u>472,652</u> | <u>474,247</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | | |
|---|---------------------------------------|-----------------------------|--|---|--------------------------------|--|-----------------------|---|----------------------------|
| | Issued share capital RMB'000 | Share premium RMB'000 | Statutory surplus reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non- controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2011 | 61,733 | 168,486 | 27,016 | (2,887) | 155,041 | 30,867 | 440,256 | 33,991 | 474,247 |
| Total comprehensive income for the period | - | - | - | (166) | 28,468 | - | 28,302 | 970 | 29,272 |
| 2010 final dividend paid | - | - | - | - | - | (30,867) | (30,867) | - | (30,867) |
| Transfer from retained profits | - | - | 2,726 | - | (2,726) | - | - | - | - |
| At 30 June 2011 | <u>61,733</u> | <u>168,486</u> | <u>29,742</u> | <u>(3,053)</u> | <u>180,783</u> | <u>-</u> | <u>437,691</u> | <u>34,961</u> | <u>472,652</u> |
| At 1 January 2010 | 61,733 | 168,486 | 17,086 | (2,665) | 78,799 | 30,867 | 354,306 | 29,443 | 383,749 |
| Total comprehensive income for the period | - | - | - | (8) | 44,434 | - | 44,426 | 1,589 | 46,015 |
| Capital contribution from non-controlling interests of a subsidiary | - | - | - | - | - | - | - | 1,053 | 1,053 |
| Transfer from retained profits | - | - | 4,030 | - | (4,030) | - | - | - | - |
| At 30 June 2010 | <u>61,733</u> | <u>168,486</u> | <u>21,116</u> | <u>(2,673)</u> | <u>119,203</u> | <u>30,867</u> | <u>398,732</u> | <u>32,085</u> | <u>430,817</u> |

* These reserve accounts comprise the consolidated reserves of RMB375,958,000 (31 December 2010: RMB347,656,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | | For the half-year ended 30 June | |
|--|------|--|------------------|
| | | 2011 | 2010 |
| | Note | (Unaudited) | (Unaudited) |
| | | RMB'000 | RMB'000 |
| Net cash flows from/(used in) operating activities | | 50,743 | (16,623) |
| Net cash flows (used in)/from investing activities | | (25,359) | 19,372 |
| Net cash flows (used in)/from financing activities | | (30,867) | 3,000 |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (5,483) | 5,749 |
| Cash and cash equivalents at beginning of period | | 120,887 | 98,096 |
| Effect of foreign exchange rate changes, net | | (166) | (8) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | <u>115,238</u> | <u>103,837</u> |
| | | | |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 102,154 | 77,668 |
| Non-pledged time deposits | 14 | <u>161,119</u> | <u>145,255</u> |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | 14 | 263,273 | 222,923 |
| Time deposits with original maturity of less than three months when acquired, pledged for banking facilities | 14 | 84 | 8 |
| Time deposits with original maturity of over three months when acquired | 14 | <u>(148,119)</u> | <u>(119,094)</u> |
| | | <u>115,238</u> | <u>103,837</u> |

Notes:

1. Basis of presentation

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 in accordance with the applicable disclosure provision of the GEM Listing Rules on the Stock Exchange. They have been prepared under the historical cost convention.

The accounting policies adopted in preparing these unaudited consolidated results are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2010. The Group has adopted the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are effective for the financial year beginning on or after 1 January 2011. The adoption of these new and revised standards, amendments and interpretations did not have any significant impact on the operating results and financial position of the Group.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 | | Three months ended | |
|--|-----------------|----------------|--------------------|----------------|
| | 30 June | | 30 June | |
| | 2011 | 2010 | 2011 | 2010 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| Revenue | | | | |
| Sale of goods | 252,277 | 222,261 | 132,444 | 137,289 |
| Services rendered | 9,603 | 19,368 | 4,741 | 9,503 |
| | <u>261,880</u> | <u>241,629</u> | <u>137,185</u> | <u>146,792</u> |
| Other income and gains | | | | |
| Interest income | 1,516 | 1,938 | 741 | 974 |
| Government grants received | 10,319 | 12,669 | 5,926 | 12,546 |
| Gain on deemed partial disposal of a subsidiary | - | 1,947 | - | 1,947 |
| Others | 821 | 829 | 142 | 680 |
| | <u>12,656</u> | <u>17,383</u> | <u>6,809</u> | <u>16,147</u> |

3. Operating Segment information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments being 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 2011 | Design, development and selling of IC products RMB’000 | Testing services of IC products RMB’000 | Total RMB’000 |
|---|---|--|--------------------------|
| Segment revenue | | | |
| Sales to external customers | 252,317 | 9,563 | 261,880 |
| Intersegment sales | - | 9,752 | 9,752 |
| | <u>252,317</u> | <u>19,315</u> | <u>271,632</u> |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment sales | | | <u>(9,752)</u> |
| Revenue | | | <u><u>261,880</u></u> |
| Segment results | 27,534 | 2,797 | 30,331 |
| <i>Reconciliation:</i> | | | |
| Elimination of segment results | | | (17) |
| Interest income | | | 1,516 |
| Unallocated gains | | | <u>293</u> |
| Profit before tax | | | <u><u>32,123</u></u> |
| Segment assets | 562,984 | 102,234 | 665,218 |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment receivables | | | (5,050) |
| Corporate and other unallocated assets | | | <u>8,326</u> |
| Total assets | | | <u><u>668,494</u></u> |
| Segment liabilities | 147,837 | 52,628 | 200,465 |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment payables | | | (5,050) |
| Corporate and other unallocated liabilities | | | <u>427</u> |
| Total liabilities | | | <u><u>195,842</u></u> |
| Other segment information | | | |
| Impairment losses recognised in income statement | 497 | 24 | 521 |
| Depreciation | 2,820 | 3,257 | 6,077 |
| Amortisation of intangible assets | 1,602 | - | 1,602 |
| Capital expenditure | <u>7,587</u> | <u>17,482</u> | <u>25,069*</u> |

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

3. Operating Segment information *(continued)*

| For the half year ended 30 June 2010 | Design, development and selling of IC products RMB'000 | Testing services of IC products RMB'000 | Total RMB'000 |
|--|--|--|------------------|
| Segment revenue | | | |
| Sales to external customers | 222,261 | 19,368 | 241,629 |
| Intersegment sales | - | 10,637 | 10,637 |
| | 222,261 | 30,005 | 252,266 |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment sales | | | (10,637) |
| Revenue | | | <u>241,629</u> |
| Segment results | 44,881 | 6,292 | 51,173 |
| <i>Reconciliation:</i> | | | |
| Elimination of segment results | | | 608 |
| Interest income | | | 1,938 |
| Impairment loss of available-for-sale investments | | | (4,796) |
| Unallocated gains | | | <u>2,776</u> |
| Profit before tax | | | <u>51,699</u> |
| Segment assets | 487,264 | 62,419 | 549,683 |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment receivables | | | (2,965) |
| Corporate and other unallocated assets | | | <u>3,184</u> |
| Total assets | | | <u>549,902</u> |
| Segment liabilities | 116,851 | 5,199 | 122,050 |
| <i>Reconciliation:</i> | | | |
| Elimination of intersegment payables | | | <u>(2,965)</u> |
| Total liabilities | | | <u>119,085</u> |
| Other segment information | | | |
| Impairment losses recognised in income statement | 462 | 128 | 590 |
| Depreciation | 2,913 | 1,997 | 4,910 |
| Amortisation of intangible assets | 1,043 | - | 1,043 |
| Capital expenditure | <u>12,566</u> | <u>5,280</u> | <u>17,846*</u> |

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

3. Operating Segment information *(continued)*

Geographical information

a) Revenue from external customers

| | Half-year ended 30 June | |
|----------------|-------------------------|-----------------|
| | 2011 RMB'000 | 2010 RMB'000 |
| Mainland China | 240,310 | 185,346 |
| Asia Pacific | 12,588 | 52,378 |
| Others | 8,982 | 3,905 |
| | <u>261,880</u> | <u>241,629</u> |

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

b) Non-current assets

| | Half-year ended 30 June | |
|----------------|-------------------------|-----------------|
| | 2011 RMB'000 | 2010 RMB'000 |
| Mainland China | 129,439 | 93,498 |
| Asia Pacific | 27 | 26 |
| | <u>129,466</u> | <u>93,524</u> |

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

Information about a major customer

During the period, no revenue was derived from any single customer that was 10% or more of the Group's total sales revenue (2010: Revenue of approximately RMB35,653,000 was derived from sales by the design, development and sale of IC products segment to a single customer).

4. Profit before tax

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

| | Half-year ended | | Three months ended | |
|----------------------------------|-----------------|----------|--------------------|---------|
| | 30 June | | 30 June | |
| | 2011 | 2010 | 2011 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Depreciation | 6,077 | 4,910 | 3,360 | 2,641 |
| Impairment loss of | | | | |
| available-for-sale investments | - | 4,796 | - | 4,796 |
| Provision for doubtful debts | 463 | 521 | 293 | 174 |
| Payments under operating leases | | | | |
| in respect of land and buildings | 2,054 | 1,702 | 1,082 | 857 |
| Amortisation of deferred | | | | |
| development costs* | 1,602 | 1,043 | 801 | 521 |
| Provision for impairment of | | | | |
| inventories | 58 | 69 | 58 | 69 |
| Interest income | (1,516) | (1,938) | (741) | (974) |
| Gain on deemed partial disposal | | | | |
| of a subsidiary | - | (1,947) | - | (1,947) |
| Government grants received** | (10,847) | (12,669) | (5,926) | (9,648) |

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

** The government grants received for certain research 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 liabilities" in the condensed consolidated statement of financial position.

5. Income tax expenses

Under the PRC Corporate Income Tax Law (the “New CIT Law”), which became effective on 1 January 2008, the Company is subject to income tax at a base rate of 25%. The Company is eligible to a preferential income tax rate of 15% as a High New Technology Enterprise (“HNT Enterprise”). For the financial year ended 31 December 2011, income taxes on assessable income of the Company are provided at the rate of 15% (2010: 15%).

Under the New CIT Law, the Company’s subsidiary, Sino IC Technology Co., Ltd. (“Sino IC”) is subject to income tax at a base rate of 25%. Sino IC is entitled to a preferential income tax rate of 15% as a HNT Enterprise. For the financial year ended 31 December 2011, income taxes on assessable income of Sino IC are provided at the rate of 15% (2010: 15%).

Under the New CIT Law, the Company’s subsidiary, Shanghai Fukong Hualong Micro-system Technology Co., Ltd. (“Fukong Hualong”) is subject to income tax at a base rate of 25%. In the meantime, pursuant to an approval document dated 15 May 2009 issued by the Shanghai Pu Dong New Area Tax Bureau, with effect from 1 January 2008, Fukong Hualong is exempted from corporate income tax for its first two profit making years and is entitled to a 50% tax reduction for the succeeding three years. Fukong Hualong is in its fourth profit making year and is entitled to a 50% concession on income tax. For the financial year ended 31 December 2011, income taxes on assessable income of Fukong Hualong are provided at the rate of 12.5% (2010: 12.5%).

Under the New CIT Law, three of the Company’s subsidiaries, Shenzhen Fudan Microelectronics Company Limited, Beijing Fudan Microelectronics Technology Company Limited and Shanghai Doublepoint Information Technology Co., Ltd., are subject to income taxes at a base rate of 25%. For the financial year ended 31 December 2011, income taxes on assessable income of these subsidiaries are provided at the rate of 25% (2010: 25%).

No assessable profits were derived from Hong Kong during the period (2010: 16.5%).

| | Half-year ended | | Three months ended | |
|---------------------------------|-----------------|--------------|--------------------|--------------|
| | 30 June | | 30 June | |
| | 2011 | 2010 | 2011 | 2010 |
| | RMB’000 | RMB’000 | RMB’000 | RMB’000 |
| Current period | | | | |
| - PRC | 2,845 | 6,373 | 1,771 | 5,181 |
| - Hong Kong | - | 194 | (54) | 84 |
| Deferred | (160) | (891) | (47) | (60) |
| Total tax charge for the period | <u>2,685</u> | <u>5,676</u> | <u>1,670</u> | <u>5,205</u> |

6. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share for the half-year and three months ended 30 June 2011 are based on the unaudited net profit attributable to ordinary equity holders of the parent of approximately RMB28,468,000 and RMB18,706,000 respectively (half-year and three months ended 30 June 2010: RMB44,434,000 and RMB33,272,000 respectively) and the weighted average number of 617,330,000 (2010: 617,330,000) ordinary shares in issue during the periods.

No adjustment has been made to the basic earnings per share amounts presented for the half years ended 30 June 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

7. Property, plant and equipment

During the half-year ended 30 June 2011, the Group acquired machinery and office equipment amounted to approximately RMB18,567,000 (31 December 2010: RMB31,086,000).

8. Available-for-sale investments

| | 30 June 2011 RMB'000 | 31 December 2010 RMB'000 |
|--------------------------------------|--------------------------------|-----------------------------|
| Unlisted equity investments, at cost | 13,443 | 13,443 |
| Impairment provision | (13,443) | (13,443) |
| | <u><u>-</u></u> | <u><u>-</u></u> |

9. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit and the credit period is generally up to 90 days. An ageing analysis of trade and bills receivables at 30 June 2011 is as follows:

| | 30 June 2011 RMB'000 | 31 December 2010 RMB'000 |
|-----------------|--------------------------------|-----------------------------|
| Within 3 months | 80,894 | 73,890 |
| 3 to 6 months | 10,667 | 14,012 |
| 6 to 12 months | 14,799 | 6,886 |
| Over 12 months | 3,341 | 567 |
| | <u><u>109,701</u></u> | <u><u>95,355</u></u> |

10. Trade and bills payables

An ageing analysis of trade and bills payables at 30 June 2011 is as follows:

| | 30 June 2011 RMB'000 | 31 December 2010 RMB'000 |
|-----------------|--------------------------------|-----------------------------|
| Within 3 months | 81,954 | 56,412 |
| 3 to 6 months | 2,391 | 502 |
| 6 to 12 months | 143 | 4 |
| Over 12 months | 500 | 53 |
| | <u>84,988</u> | <u>56,971</u> |

11. Reserves

Other than the comprehensive income, statutory surplus reserve and exchange fluctuation reserve for the periods as disclosed in the condensed consolidated statement of changes in equity, there were no significant movements in the reserves of the Group for the relevant periods in 2011 and 2010.

12. Commitments

The Group had the following commitments at the reporting date:

| | 30 June 2011 RMB'000 | 31 December 2010 RMB'000 |
|-----------------------------------|--------------------------------|-----------------------------|
| (a) Capital commitments | | |
| Contracted, but not provided for: | | |
| Property, plant and equipment | <u>10,207</u> | <u>1,445</u> |

(b) Commitments under operating leases

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2011 | 31 December 2010 |
|---|---------------------|------------------|
| | RMB'000 | RMB'000 |
| Within one year | 4,429 | 3,896 |
| In the second to fifth years, inclusive | 7,160 | 5,577 |
| | 11,589 | 9,473 |

13. Related party transactions

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

| Name of related party | Relationship with the Group | Nature of transaction | Half-year ended 30 June | |
|---------------------------|--|-------------------------------------|-------------------------|---------|
| | | | 2011 | 2010 |
| | | | RMB'000 | RMB'000 |
| Shanghai Fudan University | Owner of a substantial shareholder | Technical and equipment support fee | 200 | 275 |
| Fukong Hualong | A subsidiary and is connected with a substantial shareholder | Purchases of raw materials | 1,130 | 419 |
| | | Sales of goods | 1,232 | 454 |

In the opinion of the independent non-executive directors, the above related party transactions were entered into in the ordinary and usual course of the Group's business on normal commercial terms and were in accordance with the terms of the arrangements governing the transactions that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

14. Cash and cash equivalents and pledged deposits

| | Half-year ended 30 June | |
|--|-------------------------|---------|
| | 2011 | 2010 |
| | RMB'000 | RMB'000 |
| Cash and bank balances | 102,238 | 77,676 |
| Time deposits with original maturity of less than 3 months when acquired | 13,000 | 26,161 |
| Time deposits with original maturity of over than 3 months when acquired | 148,119 | 119,094 |
| Cash and cash equivalents | 263,357 | 222,931 |
| Less: Pledged deposits for banking facilities | (84) | (8) |
| Cash and cash equivalents | 263,273 | 222,923 |

15. Comparative amounts

During the period, the presentation of certain items in the financial statements has been revised. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the half-year ended 30 June 2011 (30 June 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the half-year ended 30 June 2011, the Group recorded a turnover of approximately RMB261,880,000 (30 June 2010: RMB241,629,000), an increase of approximately 8% as compared to the same period in last year. Profit attributable to owners of the parent amounted to approximately RMB28,468,000 (30 June 2010: RMB44,434,000), a decrease of approximately 36% over the same period in prior year.

During the period, the Group's turnover has increased slightly as market demand of certain product categories has increased. The selling price of the major product, IC card chips, has dropped and also affected by factors like the termination of projects in Shanghai Expo that have caused the sales to slow down, however, sales were satisfactory in power and electricity electronics and consumer electronics products. The sales of the remaining product categories of communication electronics and motor electronics products that constituted a small portion of total sales have continuously slipped. The overall profit margin has decreased from 42.8% in last comparative period to 39.7% as a result of change in structure of product sales with products of lower profit margin having comparatively faster growth in sales.

During the period, other income and gains have decreased as some government projects have not been completed and accounted for, grants received decreased by RMB2,350,000 as compared with the same period in last year. In addition, bank interest income also has decreased slightly and there was a gain of RMB1,947,000 deemed partial disposal of a subsidiary in last year. Selling and distribution costs have increased significantly due to exploration of new markets and increase in market promotion. Administrative expenses have decreased as compared with last corresponding period due to the reason that the subsidiaries have cut certain related expenses. In order to keep a constant products research and development and continuation in business development, substantial research and development costs have been applied resulting with an increase of RMB11,558,000, approximately a 29% increase, in other operating expenses as compared with last corresponding period.

FINANCIAL REVIEW

As at 30 June 2011, net assets of the Group amounted to approximately RMB472,652,000 (31 December 2010: RMB474,247,000). Current assets amounted to approximately RMB530,702,000 (31 December 2010: RMB517,552,000), of which inventory increased as compared with that as at the end of reporting date of last year in accordance with sales increase, and approximately RMB263,357,000 (31 December 2010: RMB267,200,000) were cash and bank deposits. The Group keeps sufficient liquidity and is able to meet its daily operations and future development.

The Group's current liabilities as at 30 June 2011 amounted to approximately RMB195,415,000 (31 December 2010: RMB161,448,000) as accounts payable has increased due to increase in purchases as a result of increase in sales. Besides, in other payables were certain government grants received for projects that have not been completed and accounted for during the period. non-current liabilities amounted to approximately RMB427,000 (31 December 2010: RMB2,099,000).

The net assets value per share was approximately RMB0.77 (31 December 2010: RMB0.77). The Group's current ratio of total current liabilities over total current assets was approximately 36.8% (31 December 2010: 31.2%) and the gearing ratio was approximately 41.4% (31 December 2010: 34.5%) on the basis of total liabilities over net assets.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. During the half year ended 30 June 2011, the Group had a net outflow in cash and cash equivalents of approximately RMB5,483,000 (31 December 2010: inflow of RMB23,013,000). As at 30 June 2011, the Group had no bank or other borrowings (31 December 2010: 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.

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 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, with a maximum exposure equal to the carrying amounts of these instruments.

During the half-year ended 30 June 2011, the Group did not have any 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 as a source of funding and keeps most of its cash in Renminbi in bank accounts as working capital.

As at 30 June 2011, except the commitments of RMB10,207,000 in respect of acquisition of property, plant and equipment (31 December 2010: RMB1,445,000), the Group did not have any material contingent liabilities (31 December 2010: nil). Besides the deposit amounted to RMB84,000 (31 December 2010: nil) being pledged for project guarantee, the Group has not pledged its assets to any third parties (31 December 2010: nil).

EMPLOYEE INFORMATION

As at 30 June 2011, the Group employed approximately 615 (30 June 2010: 513) staff and the total staff costs reflected in the condensed consolidated statement of comprehensive income amounted to RMB39,146,000 (30 June 2010: RMB28,813,000). Increase in staff costs was mainly due to adjustment in salaries and increase in staff to meet project research and development and business expansion.

PROSPECTS

Sales of IC card chips will continue to be a major constitution of the Group's sales, however, sales of other categories like power and electricity electronics and consumer electronics have kept significant continuous growth, the Group will constantly adjust its market strategy with a view to expand its market share and to create beneficial results. The Group expects that following the seasonal factor that affects the first half year sales, with new products being launched into the market, the Group's results for the second half year will be further improved.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2011, the interests or short positions of the directors, supervisors and chief executive of the Company in the share capital and underlying shares 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 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 Rule 5.46 of the GEM Listing Rules, 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 | Beneficiary of a trust (Note) | Total | Percentage of the Company's issued share capital |
| Directors | | | | | | |
| Mr. Jiang Guoxing | 7,210,000 | - | - | 1,442,300 | 8,652,300 | 1.40 |
| Mr. Shi Lei | 7,210,000 | - | - | 12,980,000 | 20,190,000 | 3.27 |
| Mr. Yu Jun | - | - | - | 10,961,530 | 10,961,530 | 1.78 |
| Ms. Cheng Junxia | - | - | - | 8,076,920 | 8,076,920 | 1.31 |
| Mr. Wang Su | - | - | - | 7,211,530 | 7,211,530 | 1.17 |
| Ms. Zhang Qianling | - | - | - | 1,733,650 | 1,733,650 | 0.28 |
| Mr. He Lixing | - | - | - | 1,442,300 | 1,442,300 | 0.23 |
| Mr. Shen Xiaozu | - | - | - | 1,442,300 | 1,442,300 | 0.23 |
| | <u>14,420,000</u> | <u>-</u> | <u>-</u> | <u>45,290,530</u> | <u>59,710,530</u> | <u>9.67</u> |
| Supervisors | | | | | | |
| Mr. Li Wei | - | - | - | 6,057,690 | 6,057,690 | 0.98 |
| Mr. Wei Ran | - | - | - | 288,460 | 288,460 | 0.05 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,346,150</u> | <u>6,346,150</u> | <u>1.03</u> |

Note: These shares are held by the Staff Shareholding Association of the Company (the “SSAC”) which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University (“University Laboratory”) and Shanghai Commerce Invest (Group) Corporation Limited (“SCI”), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Save as disclosed above, as at 30 June 2011, none of the directors, supervisors or chief executive had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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 2011, 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 domestic shares of the Company:

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company’s issued share capital |
|---|--------------|--|---------------------------------------|---|
| SSAC | | Directly beneficially owned | 144,230,000 | 23.36 |
| Shanghai Fudan High Tech Company | (1) | Directly beneficially owned | 106,730,000 | 17.29 |
| Shanghai Fudan Technology Enterprise Holdings Limited | (2) | Directly beneficially owned | 109,620,000 | 17.76 |
| SCI | (2) | Through a controlled corporation | 109,620,000 | 17.76 |

Notes:

- (1) Shanghai Fudan High Tech Company is a state-owned enterprise wholly-owned by Fudan University.
- (2) The ordinary shares are directly held by Shanghai Fudan Technology Enterprise Holdings Limited, which is 90% owned by SCI. SCI is a state-owned enterprise wholly owned by the Shanghai Municipal Government.

Save as disclosed above, as at 30 June 2011, no person, other than the directors, supervisors and chief executive of the Company, whose interests are set out in the section “Directors’, supervisors’ and chief executive’s interests and short positions in shares and underlying shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

During the half-year ended 30 June 2011, 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 GEM Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the half-year ended 30 June 2011.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM 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. The audit committee comprises two independent non-executive directors Mr. Cheung Wing Keung and Mr. Guo Li and the non-executive director Mr. Shen Xiaozu. The Group’s unaudited financial statements for the half-year ended 30 June 2011 have been reviewed by the committee, who were of the opinion that such statements complied with the applicable accounting standards, the GEM 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 regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all directors, the directors have complied with such code of conduct and the required standard throughout the half-year ended 30 June 2011.

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

During the half-year ended 30 June 2011, 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, 8 August 2011

As at the date of this announcement, the Company's executive directors are Mr. Jiang Guoxing, Mr. Shi Lei, Mr. Yu Jun, Ms. Cheng Junxia and Mr. Wang Su; the non-executive directors are Ms. Zhang Qianling, Mr. He Lixing and Mr. Shen Xiaozu; the independent non-executive directors are Mr. Cheung Wing Keung, Mr. Guo Li and Mr. Chen Baoying.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcement" pages for at least 7 days from the day of its posting and on the Company's website at www.fmsh.com.

** For identification purpose only*