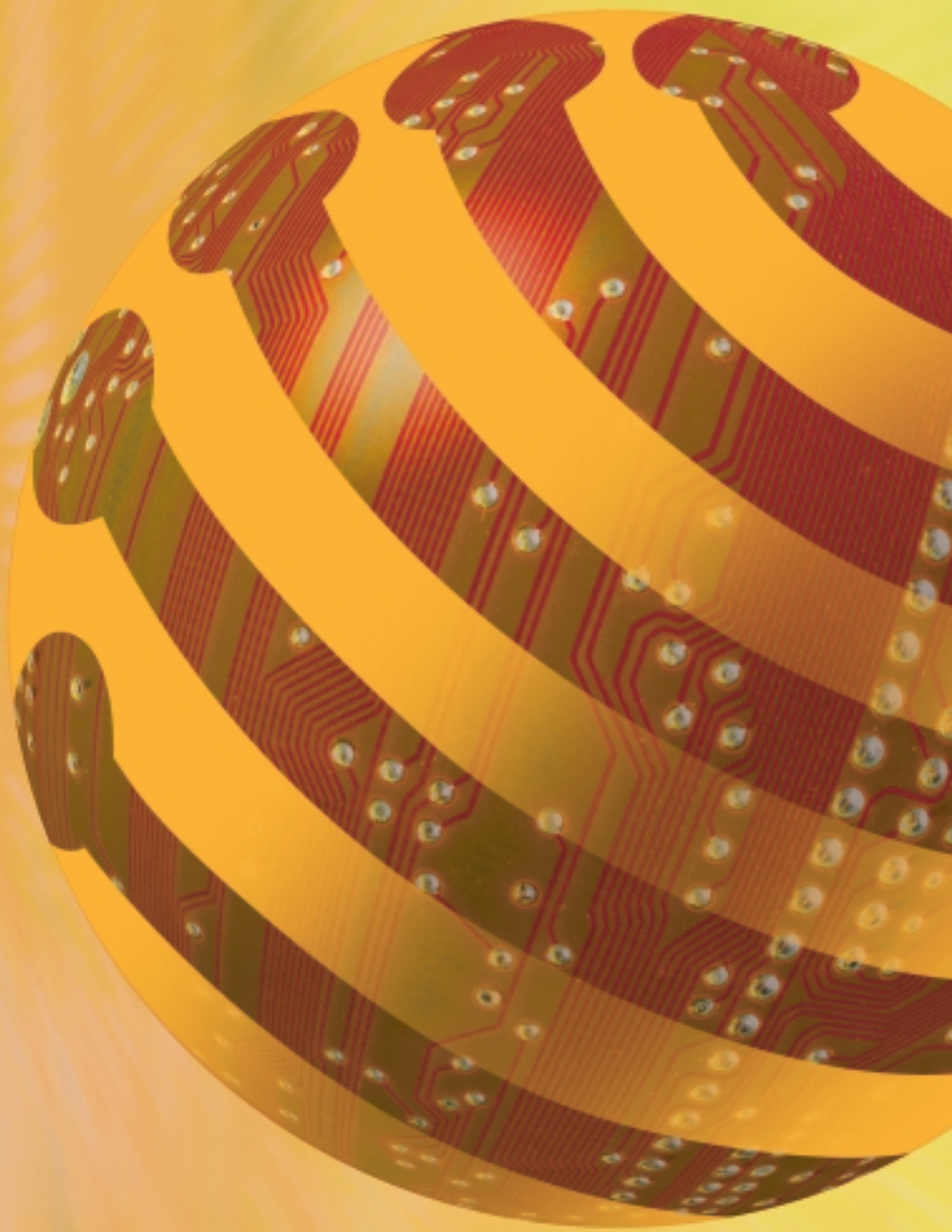




上海復旦微電子股份有限公司
Shanghai Fudan Microelectronics Company Limited*
(a joint stock limited company incorporated in the People's Republic of China)



Annual Report 2000

* for identification only

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising from the emerging nature of companies listed on GEM and the business sectors of countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website (<http://www.hkgem.com>) in order to obtain up-to-date information on GEM-listed issuers.

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I am pleased to present to the shareholders herewith the first annual report of Shanghai Fudan Microelectronics Company Limited (the "Company") following its listing on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 August 2000.



TURNOVER AND PROFITS

For the year ended 31 December 2000, the Company recorded a turnover of approximately RMB35,845,000 (1999: RMB14,083,000), a sharp increase of 155% as compared to last year. The audited profit attributable to shareholders was approximately RMB1,967,000 (1999: loss of RMB65,000).

LISTING ON THE GEM

The Company was successfully listed on the GEM of The Stock Exchange on 4 August 2000, and is the first Hi-tech enterprise which is listed in Hong Kong with the Shanghai Fudan University ("Fudan University") brand.

REVIEW OF OPERATIONS

The year under review was a year of rebound for the Company. The board has taken the following measures to achieve positive results:

- Focus on our valued and core business;
- Strong and full-line designing team with the highest calibre in the country;
- Management level is equipped with outstanding judgment, excellency of taking opportunities, learning and creativity;
- The Company's major shareholders, Fudan University and Shanghai Commercial Investment Company ("SCI"), have contributed their trust and full support.

The Company has about 40 professional designers equipped with advanced workstations, computers and most advanced EDA design software. A completed design process from VHDL or VERILOG HDL to layout and verification has been established to cope with its rapid growth.

During the year under review, the Company successfully launched 16 kinds of products, distributing in areas such as IC card chips, electric power electronics, telecommunication electronics, automobile electronics and consumer electronics etc. There had been a surge in the cost of chips in global markets and serious shortages have been experienced in certain countries, therefore, our business was slightly affected by such unfavourable market condition.

In a highly competitive environment, profit margin in the PRC domestic telecommunications and electric power electronic market has decreased. To survive in the market, certain manufacturers have continued to use lower price IC products or to use cheaper substitutes. Because these types of products consume relatively substantial amounts of chips, the Company has decreased sales price levels and offered a higher discount to sustain its market share. As a result of the adjustment in product prices, although there has been a marked increase in turnover, there has been a drop in profit margin from 40% to 27%.

The Company's financial position is further strengthened with the net cash inflow from the listing on GEM. The Company currently holds sufficient cash funds to meet its future development in the coming 2 years.

PROSPECTS

The Company will continue its collaboration with ASIC & System State-Key Laboratory which provides the Company access to valuable technical resources and talents. Together with the Company's strict quality control and "fables" operation mode, it will enable the Company to select the most advanced manufacturers to carry out production.

In the coming year, the Company will continue to engage in the development of System-On-chip (SOC). The Company has set up the automatic flowing of building standard-cell and macro-cell libraries, and has developed two kinds of micro-controllers IP with the self-owned intellectual property for different process technology, constructing a sound base for further development of SOC. In the process of the development, the Company has in addition set up a practical real time software simulation environment.

In addition, the Company has succeeded in the designing of 75MHZ and 100MHZ A/D converter, 455MHZ Phase-Lock-Logic (PLL) circuit, circuits used in the electric energy measurement and high-speed DSP in audio and video process.

The Company also joined the membership in the "Chinese Blue-Tooth Technology Special Committee" and appointed as Vice Directing Member, responsible for the development of Blue-Tooth chips in the Mainland.

With more and more projects completed in research and development, the Company will launch various kinds of products into the market and take such opportunity to develop overseas markets. The Company is optimistic about its prospects.

The Company has become one of the best IC design houses in respect of its design ability, industrialization and marketing. In Shanghai, it is one of the companies holding most authenticated certificates of Recognised Products of the Shanghai New and Advanced Technology Project. The Company's objective is to becoming a IC designing company which is the strongest in China and the first class in Asia.

APPRECIATION

Finally, I would like to express my gratitude and appreciation to all my fellow directors and the staff members of the Company for their valuable contribution and support during the year.

Jiang Guoxing

Chairman

Shanghai, PRC

16 March 2001

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 31 July 2000

Actual business progress up to 31 December 2000

Product development

To complete the research and development of ICs for use in energy saving lightings, high-speed CD-ROM driver for desk-top computers, and contactless IC cards for use in products such as CPU cards.

To continually develop CPU cards which are designed with high security features to replace memory IC card or memory card with security logic currently in use in electronic commerce cards and bank account cards.

To purchase new computer equipment and workstations to improve product development capability.

IC cards products have been developed into series and FM4428A memory card chips has been launched into market. ICs for 5 types of CPU cards and 1 energy saving lightings have completed development stage. A contactless IC card has reached its final stage of design and other IC products are also under development as scheduled.

Upon the listing and to improve the power of research and development, the Company invested approximately RMB3,586,000 in computers, workstations, digital simulation IC testing platform, simulation controller and electric-wave indicators etc. In the negotiation of purchase of design software, the Company will enjoy supports and rights to test before purchase and part purchase from suppliers, and hence, will reduce the cash outflow. In the meantime, some design software and equipments are still under negotiation.

Human resources

To strengthen human resources management by the implementation of a staff assessment system designed to assess staff performance regularly.

To recruit approximately 5 new staff from among computer and electronic engineering graduates of Shanghai Fudan University.

In order to conform with international practice and to improve human resources management, the Company has established an internal management system to reallocate work force, periodical staff assessment and performance valuation. During the period, the Company has hired 10 new staff from research institute and universities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (continued)

Business objectives as stated in the prospectus dated 31 July 2000

Actual business progress up to 31 December 2000

Marketing

To participate in government projects such as the development of IC cards that can be used to replace existing social security cards.

To expand customer base by promoting products to potential customers in the PRC currently using imported IC products.

To focus on the marketing and sales of the new CPU cards for use as electronic commerce cards and bank account cards, including by participating in IC product exhibitions and conferences in the PRC.

The market of Gold Cards project which is supported by the government, is being introduced in the Mainland. In order to participate in the government projects, in addition to expedite the development in chips and cooperation with Card Operation System supplier in domestic market, the Company also keeps close contact with the government.

Our early developed IC cards were well recognised with enhanced market share. By participating in IC product exhibitions and conferences, the Company has achieved its objectives in building up its product image, good relationship with domestic customers, and expanding its customer base.

Revenue

To increase the proportion of revenue generated from power supply IC products and IC cards. Type of products in production is expected to increase to 20 including products like FM916, FM911 and FM2140.

The sales of electric power electronics products and IC cards have increased to 11% and 39% respectively of the Company's total turnover. The products of FM916, FM911, FM930 and FM2140 were developed during the year. FM916 has been launched into market; FM911 was slightly affected and pending for certification, and FM2140 will be introduced into market soon upon completion of UL certification.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (continued)

Business objectives as stated in the prospectus dated 31 July 2000

Actual business progress up to 31 December 2000

Costs

Product development costs are estimated to amount to approximately HK\$9 million.

Actual product development cost amounted to approximately RMB4,759,000.

Costs of additional computer equipment (including ten additional workstations) and computer software are expected to amount to approximately HK\$16 million (HK\$11.5 million for IC design software, HK\$3 million for hardware equipment and the remainder for other related equipment).

As explained in product development, the Company has gained support from its suppliers and invested approximately RMB3,586,000 in computer equipment. Purchases of some design software and equipments are still under negotiation.

Marketing costs are expected to amount to approximately HK\$1 million which will primarily be used for the recruitment of additional marketing staff.

The Company has recruited 6 marketing staff and signed letters of intent with more than 10 university undergraduates.

In addition more than RMB400,000 has been spent on product promotion and application services around the country.

Board of Directors

Executive Directors

Jiang Guoxing (*Chairman*)

Shi Lei (*Managing Director*)

Yu Jun (*Dputy Managing Director*)

Cheng Junxia

Wang Su

Non-executive Directors

Chen Xiaohong

Zhang Qianling

He Lixing

Shen Xiaozu

Independent Non-executive Directors

David Yung

Leung Tin Pui

Company secretary

Li Wing Sum, Steven *FCCA, FHKSA, FTIHK*

Qualified accountant

Li Wing Sum, Steven *FCCA, FHKSA, FTIHK*

Compliance officer

Wang Su

Authorised representatives

Shi Lei

Wang Su

Sponsor

BOCI Asia Limited

Audit committee

David Yung

Leung Tin Pui

Supervisors' committee

Li Wei

Ding Shengbiao

Xu Lenian

Auditors

Ernst & Young

Certified Public Accountants

Registered office

No. 220, Handan Road,

Shanghai,

People's Republic of China.

Place of business

2/F., K.C. Commercial Building,

19 Hennessy Road,

Hong Kong.

Share registrar and transfer office

Tengis Limited

4/F., Hutchison House,

10 Harcourt Road,

Central,

Hong Kong.

Principal bankers

Everbright Bank of China

Shanghai branch.

Bank of China

Hong Kong branch.

Stock code

8102

Biographical details of the directors and the senior management of the Company are set out below:

DIRECTORS

Executive directors

Mr. Jiang Guoxing, aged 47, is the Chairman of the Company. He is primarily responsible for strategic planning and business development. Mr. Jiang is a senior economist and graduate with a degree in computer science from Shanghai Fudan University (“Fudan University”). He is the general manager of Fudan Enterprise Development Company Limited, a wholly-owned legal entity of Fudan University, and the deputy general manager of Shanghai Fuhwa Industrial Joint Stock Company Limited in the PRC. Mr. Jiang is also the managing director of Huayue Science and Technology Company Limited in Hong Kong. He is one of the founders of the Company.

Mr. Shi Lei, aged 34, is the general manager of the Company. He is an economist and graduated with a bachelor degree in management from China University of Technology and a master degree in management from Fudan University. Mr. Shi joined the Company at the time of its establishment in July 1998. Prior to that, Mr. Shi was the deputy manager in the Development Division of Shanghai Agricultural Investments Company and the general manager of Shanghai Pacific Commercial Trust Company. He is one of the founders of the Company.

Mr. Yu Jun, aged 33, is the deputy general manager of the Company. He has a master degree and is a senior engineer. Mr. Yu is the deputy director of the Research Institute for Integrated Circuit Designs of Fudan University, and has extensive knowledge and experience in the design of integrated circuits and systems. He was previously the chief engineer of Shanghai Fudan High Tech Company (“Fudan High Tech”), and was awarded “Second Class Honour on Technological Advancement” by the State and Shanghai. Mr. Yu participated in several pioneer IC development projects under the Seventh and Eighth five-year plans of the PRC government. He joined the Company in July 1998.

Ms. Cheng Junxia, aged 54, is the chief engineer of the Company. She is a professor at Fudan University and has extensive knowledge and experience in the design and manufacture of integrated circuits. She was previously the general manager of Fudan High Tech and the director of the Research Institute for Integrated Circuit Designs of Fudan University. Ms. Cheng participated in several pioneer IC development projects under the Sixth, Seventh and Eighth five-year plans of the PRC government. She was awarded the “Second Class Honour on Technological Advancement” by the State and Shanghai and the Honourary Certificate for her contribution in projects during the Seventh five-year plan period. She joined the Company in July 1998.

Mr. Wang Su, aged 47, is the financial controller of the Company. He is an accountant. He was previously a fund manager of Shanghai Commercial Investment Company (“SCI”), the financial controller of Shanghai Pacific Commercial Trust Company and the deputy manager of the Finance Department of SCI. He joined the Company in July 1998.

Non-executive directors

Mr. Chen Xiaohong, aged 43, is the general manager of SCl. He is a senior economist and has a master degree in economics. He was previously the deputy director of the Department of Corporate Finance of the Finance Bureau of Shanghai, and the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

Ms. Zhang Qianling, aged 64, is a principal professor and tutor to doctorate students at Fudan University. She is a distinguished academic on the study of integrated circuits and a promoter and first director of the Special National Laboratories Center for Integrated Circuits and Systems of Fudan University. During the 1980s, Ms. Zhang went to Massachusetts Institute of Technology in the United States to study electronic engineering, and participated in several pioneer IC development projects under the Sixth, Seventh and Eighth five-year plans of the PRC government. She was awarded "Second Class Honour on Technological Advancement" by the State and Shanghai and the Honourary Certificate for her contribution in IC development projects during the Seventh five-year plan period. She joined the Company in July 1998. She is a nominee of Fundan High Tech in the Company.

Mr. He Lixing, aged 66, is the chief economist of SCl. He is a senior economist. He was previously the director of the Finance Department of the Finance and Trade Office of the Shanghai Municipal Government. He joined the Company in July 1998.

Mr. Shen Xiaozu, aged 51, is the assistant to the general manager of SCl and the deputy general manager Shanghai Jianlian Real Estate Company. He is a senior economist. He was previously the deputy general manager of Shanghai General Electric Machinery Corporation and the headmaster of Shanghai Mechanical Engineering Industrial College. He joined the Company in July 1998.

Independent non-executive directors

Mr. David Yung, aged 68, he was appointed in July 2000. Mr. Yung has a bachelor of science degree in mechanical engineering from the Massachusetts Institute of Technology in the United States. He has over 40 years experience in the semiconductor industry. He is currently a director of Torex Semiconductor (Hong Kong) Limited, a company principally engaged in the trading of semiconductors, and Hong Kong Construction (Holdings) Limited.

Mr. Leung Tin Pui, aged 55, he was appointed in July 2000. Mr. Leung has been appointed Vice-president of The Hong Kong Polytechnic University since January 1995. He was previously Head and Professor of Mechanical Engineering and Dean of Engineering of The Hong Kong Polytechnic University. He was the President of the Hong Kong Institute of Engineers from 1993 to 1994 and is now Vice-president of the Hong Kong Academy of Engineering Sciences. Mr. Leung is also a member of several advisory boards to the Hong Kong government and a director of Hong Kong Plastic Technology Centre Limited.

Supervisors

Mr. Li Wei, aged 29, is the assistant to the general manager of the Company. He has a master degree. Mr. Li specializes in integrated circuit design, and has conducted in-depth research on the coding and integrated protocol bases. He was awarded "First Class Honour (Team Section)" in the national design competition for electronics graduates in the PRC in 1996. He joined the Company in July 1998.

Mr. Ding Shengbiao, aged 38, is the chief economist of the Company. He has a bachelor degree and is an economist. He was previously the manager of the Loans Department of the Shanghai Interbank Loan Centre of the People's Bank of China, and the division head of the Planning Department of the People's Bank of China, Shanghai Branch. He joined the Company in July 1998.

Mr. Xu Lenian, aged 49, is the chairman of Shanghai Pacific Commercial Trust Company, and the assistant to the general management of SCI. He has post-secondary qualification and is a senior economist. He was the head of the International Affairs Department and General Affairs Department of China Agricultural Bank Pudong branch. He joined the Company in July 1998.

Senior management

Mr. Shi Jin, aged 44, is the deputy general manager of the Company. He has a bachelor degree and is an assistant research fellow. He was previously the director of the Research Institute of Shanghai Planning Commission, the general manager of Shanghai Industrial Investment Consultation Company, the Chairman of Shanghai Industrial Investment Finance and Management Company and the deputy head of the Economics Department of Shanghai Municipal Research Institute. He joined the Company in November 1999.

Mr. Li Wei, (see personal details set out in the paragraph headed "Supervisors" above).

Mr. Ding Shengbiao, (see personal details set out in the paragraph headed "Supervisors" above).

Mr. Zhou Ting, aged 31, is the technical director of the Company. He is also the deputy director of ASIC System State-Key Laboratory of Fudan University, and the assistant secretarial-general to the ICCAD of China. He has a doctor degree from, and is an associate professor at, Fudan University. Mr. Zhou specializes in integrated circuits design, and has conducted in-depth research on the processing of digital video and audio signals, multimedia data compression and network communication. He received the "Outstanding Award (Individual Section)" and "First Class Honour (team Section)" in the national design competition for electronics graduates in the PRC in 1996, the "Research Award for Young Scientists" presented by Daizhong Circuits in 1997, and the Bell Scholarship in 1998. He joined the Company in October 1998.

Senior management (continued)

Ms. Ji Lanhua, aged 50, is the assistant to the general manager of the Company, and has a bachelor degree. She was engaged in the design and development of the Company's motorcycle ignition controller circuits and telephone transmission circuits. Ms. Ji is very experienced in the design and sales of integrated circuits. She was previously the sales manager of Fudan High Tech. She joined the Company in July 1998.

Ms. Zhao Meijin, aged 57, is the deputy chief engineer of the Company. She has a bachelor degree and was previously the chief engineer of Wuxi No. 8390 Factory. She has received various awards including "Second Class Honour for Technological and Scientific Achievements" presented by the Ministry of Electronic Engineering of the PRC, "Third Class Honour for Technological and Scientific Achievements" presented by Jiangsu Province and "Advanced Award (Individual Section) on Military and Industrial Projects under the Eighth five-years plan" presented by the Ministry of Electronics of the PRC. She joined the Company in January 1999.

Mr. Li Wing Sum, Steven, aged 44, Qualified Accountant and Company Secretary of the Company. He has over 20 years' experience in auditing, accounting and financial management. He has worked for international accounting firm, listed companies in Hong Kong and multi-national organization as group financial controller. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Taxation Institute of Hong Kong. He joined the Company in July 2000.

NOTICE IS HEREBY GIVEN that the annual general meeting of Shanghai Fudan Microelectronics Company Limited (“the Company”) will be held at 2/F, Shaw Lecture Hall of Shanghai Fudan University, No. 220 Handan Road, Shanghai, the People’s Republic of China on Friday, 18 May 2001 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the Reports of the Directors and the Auditors for the year ended 31 December 2000;
2. To elect Directors and to authorise the Board of Directors to fix the remuneration of Directors;
3. To appoint Auditors and to authorise the Board of Directors to fix their remuneration.

By order of the Board

Jiang Guoxing
Chairman

Shanghai, PRC
21 March 2001

Registered Office:
No. 220 Handan Road,
Shanghai,
The People’s Republic of China.

Principal place of business in Hong Kong:
2/F., K.C. Commercial Building,
19 Hennessy Road,
Hong Kong.

Notes:

1. Persons who hold shares of the Company and whose names appear on the Register of Members as at 23 March 2001 shall be entitled to attend the AGM after completing and delivering to the Company the attached confirmation slip by Friday, 27 April 2001. Further details are set out in the confirmation slip and explanation thereto.
2. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
3. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited not less than 24 hours before the time appointed for the holding of the meeting or any adjourned meeting at the Company's registered office or the Company's principal place of business in Hong Kong as stipulated in the proxy form.
4. The Register of Members of the Company will be closed from Wednesday, 18 April 2001 to Thursday, 17 May 2001 (both dates inclusive) during which period no transfer of shares will be registered.
5. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and has delivered a valid confirmation slip of AGM attendance, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

The directors herein present their first annual report and the audited financial statements of the Company for the year ended 31 December 2000.

Company reorganisation

The Company is a People's Republic of China (the "PRC") joint stock limited company established as part of the reorganisation (the "Reorganisation") of a state-owned enterprise known as Shanghai Fudan High Tech Company ("Fudan High Tech") on 10 July 1998 with an initial registered share capital of RMB10,000,000. On establishment, the Company took over the principal integrated circuits business undertakings and certain technology know-how from Fudan High Tech together with cash of RMB1,320,000 in consideration of which 3,700,000 domestic shares of RMB1.00 each were issued to Fudan High Tech. In addition, 6,300,000 domestic shares were issued at par to certain investors, management and the Staff Shareholding Association of the Company (the "SSAC") for a cash consideration of RMB6,300,000.

Pursuant to a shareholders' resolution passed on 16 August 1999, the registered share capital of the Company was increased from RMB10,000,000 to RMB13,000,000 by the creation of 3,000,000 additional domestic shares of RMB1.00 each. On the same date, 3,000,000 domestic shares of RMB1.00 each were issued at RMB1.02 each to the SSAC for cash. Pursuant to a shareholders' resolution passed on 19 July 2000, each domestic share in the Company of nominal value of RMB1.00 each was sub-divided into ten domestic shares of nominal value of RMB0.10 each. As a result, the Company's then existing 13,000,000 domestic shares of RMB1.00 each were divided into 130,000,000 domestic shares of RMB0.10 each.

The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM") on 4 August 2000 by the placing of 125,000,000 overseas listed foreign shares ("H shares") of RMB0.10 each at HK\$0.80 per share. Pursuant to a shareholders' resolution passed on 19 July 2000 and as set out in the Company's prospectus dated 31 July 2000:

- (i) RMB24,500,000 of the share premium arising from the H shares issued has been capitalised and applied by paying in full for the 245,000,000 domestic shares issued to certain shareholders; and
- (ii) 18,750,000 H shares of RMB0.10 each were issued at HK\$0.80 on 7 August 2000 for cash in respect of the overallocated shares in connection to the public listing of H shares.

Principal activities

The principal activity of the Company consists of designing, developing and selling products of application-specific integrated circuits. There were no changes in the nature of the Company's principal activities during the year.

Segmental information

All of the Company's turnover and contribution to the profit from operating activities was derived from the principal activities carried out in the PRC mainland.

Results and dividends

The Company's profit for the year ended 31 December 2000 and the state of affairs of the Company at that date are set out in the financial statements on pages 26 to 27.

The directors do not recommend the payment of dividend in respect of the year.

Summary financial information

A summary of the results and of the assets and liabilities of the Company for the last three financial years prepared on the basis set out in note below. This summary is not part of the audited financial statements.

RESULTS

	Year ended 31 December		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
TURNOVER	35,845	14,083	2,637
Cost of sales	(26,319)	(8,404)	(1,557)
Gross profit	9,526	5,679	1,080
Other revenue	2,982	57	36
Distribution costs	(1,942)	(1,143)	(245)
Administrative expenses	(6,505)	(2,602)	(1,141)
Other operating expenses	(1,692)	(1,916)	(651)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2,369	75	(921)
Finance costs	(402)	(140)	(43)
PROFIT/(LOSS) BEFORE TAX	1,967	(65)	(964)
Tax	—	—	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	1,967	(65)	(964)
ASSETS AND LIABILITIES			
TOTAL ASSETS	132,821	20,537	10,080
TOTAL LIABILITIES	9,170	8,043	548
NET ASSETS	123,651	12,494	9,532

Note:

The summary of the results and of the assets and liabilities of the Company for each of the two years ended 31 December 1999 have been extracted from the accountants' report included in the Company's prospectus dated 31 July 2000. Such summary was prepared on a basis to reflect the Reorganisation, as set out in note 1 to the financial statements, as if the Reorganisation had been completed as of 1 January 1998. The results of the Company for the year ended 31 December 2000 and the assets and liabilities as of 31 December 2000 are extracted from the audited financial statements as set out on page 26 and page 27, respectively, of the financial statements.

Fixed assets

Details of movements in the fixed assets of the Company are set out in note 11 to the financial statements.

Capital commitments

Details of the capital commitments of the Company as at 31 December 2000 are set out in note 21 to the financial statements.

Bank loans

Details of the bank loans of the Company are set out in note 17 to the financial statements.

Share capital

Details of movements in the Company's share capital, together with reasons therefor, are set out in note 18 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities

The Company did not purchase, redeem or sell any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company during the year are set out in note 19 to the financial statements.

Distributable reserves

At 31 December 2000, the Company's reserves available for distribution as dividends, calculated in accordance with the Hong Kong Statements of Standard Accounting Practice, amounted to RMB753,000.

Major customers and suppliers

In the year under review, sales to the Company's five largest customers accounted for 41% of the total sales for the year and sales to the largest customer included therein amounted to 17%. Purchases from the Company's five largest suppliers accounted for 72% of the total purchases for the year and purchases from the largest supplier included therein amounted to 27%.

Neither the directors nor any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Company's five largest customers or five largest suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Mr. Jiang Guoxing
Mr. Shi Lei
Mr. Yu Jun
Ms. Cheng Junxia
Mr. Wang Su

Non-executive directors:

* Mr. Chen Xiaohong
* Ms. Zhang Qianling
* Mr. He Lixing
* Mr. Shen Xiaozu

Independent non-executive directors:

Mr. David Yung (appointed on 19 July 2000)
Mr. Leung Tin Pui (appointed on 19 July 2000)

* On 19 July 2000, these directors were designated as non-executive directors.

In accordance with Article 87 of the Company's Articles of Association, executive directors shall be elected at the shareholders' general meeting each for a term of three years. Independent non-executive directors shall be elected at the shareholders' general meeting each for a term of one year. A director may serve consecutive terms if reelected upon the expiration of the terms.

Directors and senior management biographies

Biographical details of the directors of the Company and of the senior management of the Company are set out in the section “Directors and Senior Management Biographies” of the Annual Report.

Emoluments of directors and the five highest paid individuals

Details of the directors emoluments and of the five highest paid individuals in the Company are set out in notes 7 and 8 to the financial statements, respectively.

An independent non-executive director has waived the entire remuneration payable of HK\$120,000 covering the period from 19 July 2000 to 18 July 2001.

Directors’ service contracts

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 19 July 2000 which will continue thereafter unless terminated by three months’ prior written notice to be given by either party to the other without payment of compensation. Mr. David Yung and Mr. Leung Tin Pui, who are the independent non-executive directors, have signed a letter of appointment with the Company for a period of one year commencing from 19 July 2000 to 18 July 2001.

Directors’ interests in contracts

No director had a material interest, either direct or indirect, in any contract of significance to the business of the Company during the year.

Directors' and supervisors' interests in shares

At 31 December 2000, the interests of the directors and supervisors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the GEM or the Company as required by Chapter 5.40 of the GEM Listing Rules were as follows:-

	Number of issued shares held and nature of interests				Total
	Personal	Family	Corporate	Other ^(Note)	
<i>Directors</i>					
Mr. Jiang Guoxing	7,210,000	—	—	1,442,300	8,652,300
Mr. Shi Lei	7,210,000	—	—	12,980,000	20,190,000
Mr. Yu Jun	—	—	—	10,961,530	10,961,530
Ms. Cheng Junxia	—	—	—	8,076,920	8,076,920
Mr. Wang Su	—	—	—	7,211,530	7,211,530
Mr. Chen Xiaohong	—	—	—	7,211,530	7,211,530
Ms. Zhang Qianling	—	—	—	1,733,650	1,733,650
Mr. He Lixing	—	—	—	1,442,300	1,442,300
Mr. Shen Xiaozu	—	—	—	1,442,300	1,442,300
	<u>14,420,000</u>	<u>—</u>	<u>—</u>	<u>52,502,060</u>	<u>66,922,060</u>
<i>Supervisors</i>					
Mr. Li Wei	—	—	—	6,057,690	6,057,690
Mr. Ding Shengbiao	—	—	—	7,211,530	7,211,530
Mr. Xu Lenian	—	—	—	865,380	865,380
	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,134,600</u>	<u>14,134,600</u>

Note:

These shares are held by 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 Commercial Investment Company ("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, at 31 December 2000, none of the directors and supervisors had any personal, family, corporate or other interests in the equity of the Company, as defined in the SDI Ordinance.

Directors' rights to acquire shares

At no time during the year was the Company a party to any arrangement to enable any directors of the Company or their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in the Company.

Substantial shareholders

At 31 December 2000, the following interest of 10% or more of the share capital of the Company were recorded in the register of interests pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	%
SSAC	144,230,000	27.80
Fudan High Tech (Note 1)	106,730,000	20.57
SCI (Note 2)	95,200,000	18.35

Notes:

- (1) Fudan High Tech is a state-owned enterprise wholly owned by Shanghai Fudan University.
- (2) SCI is a state-owned enterprise wholly-owned by the Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 shares are held in its own name, 34,620,000 shares are held by a wholly-owned subsidiary of SCI, Shanghai Pacific Commercial Trust Company, and 14,420,000 shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Ltd. The 46,160,000 domestic shares held in its own name represents approximately 8.90% of the registered share capital of the Company.

Save as disclosed above, no persons, other than the directors and supervisors of the Company, whose interests are set out in the section "Directors' and supervisors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Connected transactions

Details of the connected party transactions of the Company are set out in note 22 to the financial statements.

Pension scheme

The Company participated in a defined contribution scheme organised by a local social security bureau for certain of its employees. The assets of the scheme are held separately from those of the Company. Under the scheme, contributions made are based on 25.5% of the eligible employees' salaries. The employers' contributions vest fully once they are made. Except as disclosed above, the Company does not have any other obligations in relation to retirement benefits of its employees.

Pension scheme (continued)

The pension contribution made by the Company for the year ended 31 December 2000 amounted to RMB308,000 (1999: RMB229,000).

Sponsors' interests

BOCI Asia Limited ("BOCI"), the Sponsor has agreed to provide advisory services to the Company for the purposes of the GEM Listing Rules at an agreed amount of fee for the period ending 31 December 2002. To the knowledge of BOCI, its directors, employees and associates, as at 31 December 2000, did not have any interests in the securities of the Company or any right to subscribe for or to nominate persons to subscribe for the securities of the Company.

Audit committee

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors and supervise the financial reporting process and internal control system of the Company. The audit committee has two members comprising the two independent non-executive directors, Mr. David Yung and Mr. Leung Tin Pui. The Company's financial statements for the year ended 31 December 2000 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.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Jiang Guoxing
Chairman

Shanghai
16 March 2001



To the members

Shanghai Fudan Microelectronics Company Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 26 to 45 which have been prepared in accordance with the accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view, of the state of affairs of the Company as at 31 December 2000 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

16 March 2001

Income Statement

Year ended 31 December 2000

	Notes	2000 RMB'000	1999 RMB'000
TURNOVER	4	35,845	14,083
Cost of sales		(26,319)	(8,404)
Gross profit		9,526	5,679
Other revenue	4	2,982	57
Distribution costs		(1,942)	(1,143)
Administrative expenses		(6,505)	(2,602)
Other operating expenses		(1,692)	(1,916)
PROFIT FROM OPERATING ACTIVITIES	5	2,369	75
Finance costs	6	(402)	(140)
PROFIT/(LOSS) BEFORE TAX		1,967	(65)
Tax	9	—	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS AND RETAINED PROFIT/(LOSSES) FOR THE YEAR		1,967	(65)
EARNINGS/(LOSS) PER SHARE	10		
Basic		0.45 cents	(0.02) cents

Other than the net profit for the year attributable to shareholders, the Company had no recognised gains and losses. Accordingly, a Statement of Recognised Gains and Losses is not presented in the financial statements.

The accounting policies and explanatory notes on pages 29 to 45 form an integral part of the financial statements.

Balance Sheet

31 December 2000

	Notes	2000 RMB'000	1999 RMB'000
NON-CURRENT ASSETS			
Fixed assets	11	3,867	526
Intangible assets	12		
Acquired know how		665	1,458
Deferred development costs		3,342	1,847
		7,874	3,831
CURRENT ASSETS			
Inventories	13	12,390	2,126
Trade and bills receivables		13,715	7,126
Prepayments, deposits and other receivables	14	4,974	1,007
Cash and cash equivalents	15	93,868	6,447
		124,947	16,706
CURRENT LIABILITIES			
Trade payables		5,040	1,826
Other payables and accruals	16	4,130	1,217
Interest-bearing bank loan, unsecured	17	—	5,000
		9,170	8,043
NET CURRENT ASSETS		115,777	8,663
TOTAL ASSETS LESS CURRENT LIABILITIES		123,651	12,494
CAPITAL AND RESERVES			
Issued capital	18	51,875	13,000
Reserves	19	71,776	(506)
		123,651	12,494

Jiang Guoxing
Director

Shi Lei
Director

The accounting policies and explanatory notes on pages 29 to 45 form an integral part of the financial statements.

Cash Flow Statement

Year ended 31 December 2000

	Notes	2000 RMB'000	1999 RMB'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	20(a)	(12,640)	(3,822)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		706	57
Interest paid		(402)	(136)
Net cash inflow/(outflow) from returns on investments and servicing of finance		304	(79)
INVESTING ACTIVITIES			
New time deposits with original maturities of over three months		(84,591)	—
Purchase of fixed assets		(2,692)	(324)
Proceeds from disposal of fixed assets		18	—
Addition to deferred development costs		(3,235)	(2,174)
Net cash outflow from investing activities		(90,500)	(2,498)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(102,836)	(6,399)
FINANCING ACTIVITIES	20(b)		
New bank loans		10,000	5,000
Repayment of bank loans		(15,000)	—
Proceeds from government grants		1,476	670
Proceeds from issue of share capital		121,980	3,060
Share issue expenses		(12,790)	—
Net cash inflow from financing activities		105,666	8,730
INCREASE IN CASH AND CASH EQUIVALENTS		2,830	2,331
Cash and cash equivalents at beginning of year		6,447	4,116
CASH AND CASH EQUIVALENTS AT END OF YEAR		9,277	6,447
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		4,398	6,447
Time deposits with original maturities of less than three months when acquired		4,879	—
		9,277	6,447

The accounting policies and explanatory notes on pages 29 to 45 form an integral part of the financial statements.

1. COMPANY REORGANISATION

The Company is a People's Republic of China (the "PRC") joint stock limited company established as part of the reorganisation (the "Reorganisation") of a state-owned enterprise known as Shanghai Fudan High Tech Company ("Fudan High Tech") on 10 July 1998 with an initial registered share capital of RMB10,000,000. On establishment, the Company took over the principal integrated circuits business undertakings and certain technology know-how from Fudan High Tech together with cash of RMB1,320,000 in consideration of which 3,700,000 domestic shares of RMB1.00 each were issued to Fudan High Tech. In addition, 6,300,000 domestic shares were issued at par to certain investors, management and the Staff Shareholding Association of the Company (the "SSAC") for a cash consideration of RMB6,300,000.

Pursuant to a shareholders' resolution passed on 16 August 1999, the registered share capital of the Company was increased from RMB10,000,000 to RMB13,000,000 by the creation of 3,000,000 additional domestic shares of RMB1.00 each. On the same date, 3,000,000 domestic shares of RMB1.00 each were issued at RMB1.02 each to the SSAC for cash. Pursuant to a shareholders' resolution passed on 19 July 2000, each domestic share in the Company of nominal value of RMB1.00 each was sub-divided into ten domestic shares of nominal value of RMB0.10 each. As a result, the Company's then existing 13,000,000 domestic shares of RMB1.00 each were divided into 130,000,000 domestic shares of RMB0.10 each.

The Company was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM") on 4 August 2000 by the placing of 125,000,000 overseas listed foreign shares ("H shares") of RMB0.10 each at HK\$0.80 per share. Pursuant to a shareholders' resolution passed on 19 July 2000 and as set out in the Company's prospectus dated 31 July 2000:

- (i) RMB24,500,000 of the share premium arising from the H shares issued has been capitalised and applied by paying in full for the 245,000,000 domestic shares issued to certain shareholders.
- (ii) 18,750,000 H shares of RMB0.10 each were issued at HK\$0.80 on 7 August 2000 for cash in respect of the overallocated shares in connection to the public listing of H shares.

2. CORPORATE INFORMATION

The registered address of Shanghai Fudan Microelectronics Company Limited is No.220 Handan Road, Shanghai, the PRC. The Company has established a place of business in Hong Kong at 2/F, K.C. Commercial Building, 19 Hennessy Road, Hong Kong.

The principal activities of the Company are the design, development and sale of application-specific integrated circuits products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”), 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.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amounts and the amount of the reduction is charged to the income statement.

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of fixed assets are as follows:

Machinery and office equipment	5 years
Motor vehicles	5 years

Foreign currency transactions

All foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi (“RMB”) at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Acquired know how

Acquired know how represents certain technology know-how acquired from Fudan High Tech at the time of the Reorganisation. It is stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been an impairment in value, when it is written down to a value determined by the directors.

Amortisation is calculated on the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of three years, commencing from the date when the products are put into commercial production.

Deferred development costs

All research costs are charged to the income statement as incurred.

Development costs are capitalised and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been an impairment in value when they are written down to a value determined by the directors. Amortisation is calculated on the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of three years, commencing from the date when the products are put into commercial production.

Government grants and subsidies

Grants and subsidies from the government are recognised at their fair values when there is reasonable assurance that the grant/subsidy will be received and all attached conditions are complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy, on a systematic basis, to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted in arriving at the carrying amount of the related asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, subcontracting fees and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less all further costs expected to be incurred to completion and disposal.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Retirement benefits costs

The retirement benefits costs charged to the income statement represent the contributions payable in respect of the year to the retirement funds scheme managed by a local social security bureau in accordance with PRC government regulations.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

An analysis of turnover and revenue is as follows:

	2000 RMB'000	1999 RMB'000
Sale of goods	35,845	14,083
Turnover	35,845	14,083
Interest income	2,416	57
Value-added tax refunds	201	—
Subsidy of interest expenses from government	362	—
Gain on disposal of fixed assets	3	—
	2,982	57
Revenue	38,827	14,140

5. PROFIT FROM OPERATING ACTIVITIES

The Company's profit from operating activities is arrived at after charging:

	2000 RMB'000	1999 RMB'000
Cost of inventories sold	26,319	8,404
Depreciation:		
Owned fixed assets	230	158
Provision for doubtful debts	145	726
Provision for slow-moving inventories	85	—
Leasehold improvements written off	—	185
Operating lease rentals in respect of land and buildings	960	50
Research and development costs:		
Deferred expenditure amortised	1,057	851
Current year expenditure	1,524	1,190
Auditors' remuneration	500	55
Exchange loss, net	23	—
Staff costs:		
Wages and salaries	2,834	1,406
Retirement benefits costs	308	229
and after crediting:		
Gain on disposal of fixed assets	3	—
Interest income	2,416	57
Value-added tax refunds	201	—
Subsidy of interest expenses from government	362	—
	<u> </u>	<u> </u>

6. FINANCE COSTS

	2000 RMB'000	1999 RMB'000
Interest on bank loan wholly repayable within five years	402	140
	<u> </u>	<u> </u>

7. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM and Section 161 of the Companies Ordinance, is as follows:

	2000 RMB'000	1999 RMB'000
Fees for an independent, non-executive director	53	—
Salaries and benefits	802	356
	<u>855</u>	<u>356</u>

In the year ended 31 December 2000, the salaries and benefits in kind paid to five executive directors were approximately RMB135,000 (1999: Nil), RMB202,000 (1999: RMB86,000), RMB158,000 (1999: RMB95,000), RMB153,000 (1999: RMB82,000) and RMB154,000 (1999: RMB93,000). None of the four non-executive directors received any fees or emoluments during the year. Of the two independent non-executive directors, one received fees of RMB53,000 (1999: Nil) and the other has waived the entire remuneration payable of HK\$120,000 covering the period from 19 July 2000 to 18 July 2001.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Company included 5 (1999: 2) directors, details of whose remuneration are set out in note 7 above.

In the prior year, the remuneration of the two highest paid, non-director employees fell within the range of HK\$ Nil to HK\$1,000,000.

During the year, no emoluments were paid by the Company to the directors or the other highest paid employees either as inducement to join the Company, or as compensation for loss of office.

9. TAX

	2000 RMB'000	1999 RMB'000
PRC income tax	<u>—</u>	<u>—</u>

Under the Income Tax Law of the PRC, the Company is subject to income tax at a basic rate of 33%. However, the Company has obtained a tax concession from the local municipal finance bureau and is exempted from paying income tax for the period from July 1998 to June 1999. Further, pursuant to an approval document dated 2 February 2000 issued jointly by the local municipal tax bureau and the finance bureau, the Company has been designated a high technology entity and is further exempted from income tax for the period from 1 January 1999 to 31 December 2000.

The unprovided deferred tax asset for the year amounted to RMB284,000 and related primarily to the accelerated amortisation of acquired know how and the writing-off of pre-operating expenses in previous years.

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year ended 31 December 2000, is based on the following data:

	2000 RMB'000	1999 RMB'000
Earnings/(loss)		
Net profit/(loss) attributable to shareholders	<u>1,967</u>	<u>(65)</u>
Shares		
Weighted average number of shares in issue	<u>433,367,486</u>	<u>320,913,462</u>

Diluted earnings per share for the year ended 31 December 2000 and the comparative diluted loss per share have not been calculated because no diluting events existed during the two years ended 31 December 2000.

31 December 2000

11. FIXED ASSETS

	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At beginning of year	535	100	635
Additions	3,586	—	3,586
Disposals	(18)	—	(18)
At 31 December 2000	4,103	100	4,203
Accumulated depreciation:			
At beginning of year	85	24	109
Provided during the year	211	19	230
Disposals	(3)	—	(3)
At 31 December 2000	293	43	336
Net book value:			
At 31 December 2000	3,810	57	3,867
At 31 December 1999	450	76	526

12. INTANGIBLE ASSETS

	Acquired know how RMB'000	Deferred development costs RMB'000
Cost:		
At beginning of year	2,380	1,952
Additions	—	1,759
At 31 December 2000	2,380	3,711
Accumulated amortisation:		
At beginning of year	922	105
Provided during the year	793	264
At 31 December 2000	1,715	369
Net book value:		
At 31 December 2000	665	3,342
At 31 December 1999	1,458	1,847

During the year, the Company received cash grants from certain PRC government bodies totalling RMB1,475,600 (1999:RMB670,000). These cash grants were non-recurring and were for the Company's development of certain products. The cash grants received have been deducted from the deferred development costs.

13. INVENTORIES

	2000 RMB'000	1999 RMB'000
Raw materials	5,651	315
Work in process	4,155	1,043
Finished goods	2,802	901
Total	12,608	2,259
Less: Provision for slow-moving inventories	(218)	(133)
	12,390	2,126

Notes to Financial Statements

31 December 2000

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2000 RMB'000	1999 RMB'000
Prepayments	946	120
Deposits and other receivables	4,028	887
	<u>4,974</u>	<u>1,007</u>

15. CASH AND CASH EQUIVALENTS

	2000 RMB'000	1999 RMB'000
Cash and bank balances	4,398	6,447
Time deposits	89,470	—
	<u>93,868</u>	<u>6,447</u>

16. OTHER PAYABLES AND ACCRUALS

	2000 RMB'000	1999 RMB'000
Accruals	1,737	439
Other payables	2,393	778
	<u>4,130</u>	<u>1,217</u>

17. INTEREST-BEARING BANK LOAN, UNSECURED

	2000 RMB'000	1999 RMB'000
Interest-bearing bank loan repayable:		
Within one year	—	5,000
	<u>—</u>	<u>5,000</u>

The loan was guaranteed by a PRC company not related to the Company. Such bank loan was subsequently repaid in 2000.

18. ISSUED CAPITAL

Shares

	2000 RMB'000	1999 RMB'000
Registered		
518,750,000 (1999: 13,000,000) shares of RMB0.10 (1999:RMB1.00) each	<u>51,875</u>	<u>13,000</u>
Issued and fully paid		
518,750,000 (1999: 13,000,000) shares of RMB0.10 (1999:RMB1.00) each	<u>51,875</u>	<u>13,000</u>

The following changes in the Company's registered and issued capital took place during the year ended 31 December 2000:

- (1) Pursuant to a shareholders' resolution passed on 19 July 2000, each domestic share in the Company of nominal value of RMB1.00 each was sub-divided into ten domestic shares of nominal value of RMB0.10 each.
- (2) The Company was listed on the GEM on 4 August 2000 by the placing of 125,000,000 H shares of RMB0.10 each at HK\$0.80 per share. Pursuant to a shareholders' resolution passed on 19 July 2000 and as set out in the Company's prospectus dated 31 July 2000:
 - (i) RMB24,500,000 of the share premium arising from the H shares issued has been capitalised and applied by paying in full for the 245,000,000 domestic shares issued to certain shareholders.
 - (ii) 18,750,000 H shares of RMB0.10 each were issued at HK\$0.80 on 7 August 2000 for cash in respect of the overallocated shares in connection to the public listing of H shares.

Notes to Financial Statements

31 December 2000

18. ISSUED CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements of the Company's issued capital is as follows:

	Carrying amounts RMB'000	Number of shares issued
At beginning of year	13,000	13,000,000
Sub-division of each domestic share of nominal value of RMB1.00 each into ten domestic shares of nominal value of RMB0.10 each	—	117,000,000
Shares issued at par by capitalisation of share premium	24,500	245,000,000
New issue of shares on public listing	14,375	143,750,000
At 31 December 2000	51,875	518,750,000

19. RESERVES

	Statutory common reserve RMB'000	Statutory public welfare fund RMB'000	Share premium RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 1999	30	30	—	(561)	(501)
Issue of shares	—	—	60	—	60
Loss for the year	—	—	—	(65)	(65)
Transferred from accumulated losses	241	241	—	(482)	—
At 31 December 1999 and beginning of year	271	271	60	(1,108)	(506)
Issue of shares	—	—	70,315	—	70,315
Retained profit for the year	—	—	—	1,967	1,967
Transferred from retained profits	53	53	—	(106)	—
At 31 December 2000	324	324	70,375	753	71,776

19. RESERVES (continued)

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company is required to allocate 10% of its profits after taxation, as determined in accordance with the PRC accounting standards and regulations applicable to the Company, to the statutory common reserve ("SCR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC and the Company's Articles of Association, the SCR may be capitalised as share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC, the Company is required to transfer 5% to 10% of its profit after taxation, as determined in accordance with the PRC accounting standards and regulations applicable to the Company, to the statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as the property of the Company.

At 31 December 2000, the amount of retained profits of the Company as determined in accordance with the PRC accounting standards and regulations applicable to the Company, amounted to approximately RMB2,593,000 (1999: RMB2,165,000).

According to the relevant regulations in the PRC, the reserve available for distribution is the lower of the amount determined under PRC accounting standards and the amount determined under SSAP. Accordingly, the Company's reserve available for distribution as of 31 December 2000 was RMB753,000 (1999: Nil).

20. NOTES TO THE CASH FLOW STATEMENT

- (a) Reconciliation of profit from operating activities to net cash outflow from operating activities

	2000 RMB'000	1999 RMB'000
Profit from operating activities	2,369	75
Interest received	(706)	(57)
Depreciation	230	158
Amortisation of deferred development costs	1,057	851
Gain on disposal of fixed assets	(3)	—
Leasehold improvements written off	—	185
Increase in trade and bills receivables	(6,589)	(5,519)
Increase in prepayments, deposits and other receivables	(3,967)	(641)
Increase in inventories	(10,264)	(1,335)
Increase in trade payables	3,214	1,402
Increase in other payables and accruals	2,019	1,059
Net cash outflow from operating activities	<u>(12,640)</u>	<u>(3,822)</u>

- (b) Analysis of changes in financing during the year

	Issued capital (including share premium) RMB'000	Proceeds from government grants RMB'000	Interest- bearing bank loans RMB'000
At 1 January 1999	10,000	—	—
Cash inflow from financing activities, net	<u>3,060</u>	<u>670</u>	<u>5,000</u>
At 31 December 1999 and beginning of year	13,060	670	5,000
Cash inflow/(outflow) from financing activities, net	<u>109,190</u>	<u>1,476</u>	<u>(5,000)</u>
At 31 December 2000	<u>122,250</u>	<u>2,146</u>	<u>—</u>

21. COMMITMENTS

(a) Capital commitments

	2000 RMB'000	1999 RMB'000
Contracted, but not provided for	—	—
Authorised, but not contracted for	12,414	—
	12,414	—

(b) Commitments under operating leases

	2000 RMB'000	1999 RMB'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of buildings expiring:		
Within one year	—	—
In the second to fifth years, inclusive	741	317
	741	317

22. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, during the year, the Company had the following material transactions with the following related parties:

Name of related party	Relationship with the Company	Nature of transaction	2000 RMB'000	1999 RMB'000
Shanghai Fudan University	Owner of Fudan High Tech	Technical and equipment support fee	800	800
Fudan High Tech	Major shareholder	Project quality analysis fee	58	—

In the opinion of the independent non-executive directors, the above related party transactions were entered into in the ordinary course of the Company's business and were in accordance with the terms of the arrangements governing the transactions.

31 December 2000

23. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year presentation.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 16 March 2001.