



**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)*

Fudan  
Microelectronics

Annual Report 2001

\* 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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During the year 2001, the global economy was still soft and the worldwide IC industry slowed down, it was no doubt a challenging year for most of the IC enterprises. Because there exists a huge room between the demand of IC products in the PRC domestic market and the supply from local manufacturers, as a result of the shrinking overseas markets, lots of foreign IC products dumped into the PRC market with a consequential desperate pricing amongst competitors. Facing these challenges, some of the Group's products experienced very keen competition thus resulting in declining sales, price and marginal profit. However, with flexibility in its marketing and sales strategy, and continuous development and research of new products, the Group maintained a steady growth in turnover.

The Company dispatched a circular on 12 November 2001 regarding a possible major transaction relating to proposed placing of new H shares and granting of a specific mandate and general mandate to issue new shares. Resolutions were passed in the Special General Meetings held on 28 December 2001 and the process of placing of new H shares was completed on 21 February 2002. A total of 105,604,000 new H shares were issued at HK\$1.07 and the new shares were listed and traded on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 22 February 2002. The net proceeds from the successful placing of new H shares amounted to approximately HK\$104,000,000, with the balance of unused proceeds brought forward from the Company's first initial public offering in 2000, the Group has sufficient working capital to meet its future development and expansion.

In 2002, the Group will actively seek for cooperation opportunities with potential business partners who may help provide new directions in the future growth and enhance the competitiveness of the Group. In addition, the Group will remain focus on its core business, besides exploring overseas markets, it will continue to concentrate on PRC domestic market in order to increase its market share and to consolidate its position in the PRC market. The Group's special "fabless" operation mode, the collaboration with ASIC & System State-Key Laboratory together with strong management team and design professionals, will continue to be crucial to the development of our long-term business.

It is the Group's overall business objectives to capture a significant share of the IC design and system integration business in the PRC and the mission of the Group is to become one of the leading ASIC design companies in the world.

## APPRECIATION

Finally, I would like to express my gratitude and appreciation to all my fellow directors, shareholders, customers and the staff members of the Group for their valuable contribution and support this previous year. Your continuous contribution and support to the future development of the Group will be highly appreciated.

**Jiang Guoxing**

*Chairman*

Shanghai, PRC, 25 March 2002

## BUSINESS REVIEW

For the year ended 31 December 2001, the Group recorded a turnover of approximately RMB44,133,000 (2000: the Company RMB35,845,000), an increase of approximately 23% as compared to last year. The audited loss from ordinary activities attributable to shareholders was approximately RMB1,362,000 (2000: the Company profit of RMB1,967,000).

During the year, the Group continued its development and research and launched new products to maintain a growth in turnover successfully. Due to strong market competition with consequential price declining, the Group had price reduction on certain products to maintain their market shares. At the same time, selling prices of certain products that have been launched into the market for a lengthy period were adjusted to remain competitive. In view of these adverse factors, overall profit margin was slightly dropped from approximately 27% of last year to approximately 24%. Besides, part of the Group's customers were affected by the economic decline and delayed in settlement of the Group's receivables. For sake of prudence, the Group had made a provision of RMB886,000 during the year against its doubtful debts (2000: the Company RMB145,000) which was included in other operating expenses. In addition, for further of its research and development and future growth, the Group had incurred substantial expenditure on research and development during the year. The research and development costs incurred by the Group during the year amounted to approximately RMB10,480,000 (2000: the Company RMB4,759,000) representing an increase of approximately RMB5,721,000 or approximately 120% as compared to the previous financial year. As the Group's 90%-owned subsidiary, Sino IC Technology Co., Limited ("Sino") commenced its business during the review period and is still in an infant stage, the interest in this subsidiary resulted in a net loss from ordinary activities of RMB960,000 which affected the Group's results for the year.

During the year under review, the Group's main product 8K Bits memory card circuit maintained satisfactory sales but the profit margin decreased slightly because of the decrease in selling price and the Group has gained considerable experience in production and design on this product and maintained stringent cost control from ordinary activities. Markets of products of smart card, earth leakage current detector circuit and multi-fee power control circuit resulted with considerable growth. The sales of automobile electronics products were also improved. However, telecommunication products were highly affected by intensive competition, resulted in decrease in turnover, selling prices and profit margin. The contactless card launched with satisfactory sales near the financial year end and is expected to contribute to the Group's turnover and profit in the coming year.

Since the entire turnover and contribution to profit from operating activities of the Group was derived from the principal activities carried out in the PRC mainland, the directors are of the opinion that the business segments are its primary reporting basis. The Group business contains two major segments that are (i) designing, developing and selling of integrated circuits (“IC”) products and (ii) provision of testing services for IC products. As the former contributed to 100% (2000: the Company 100%) and approximately 86% (2000: the Company 92%) of the Group’s turnover and the total turnover and other revenue and gains respectively, the Group will continue to focus on this core business in coming years.

With the Group’s competitive advantage of having a strong market presence in the PRC, it has from time to time, been approached by potential business partners, possessing advanced technical know-how and seeking for cooperation opportunities with the Group. Therefore, the Group had been discussing with certain business partners regarding possible cooperation opportunities for the interests of the Group.

## **SUBSIDIARY**

During the year, the Group has expanded its business and the major activity was the incorporation of Sino which is engaged in provision of IC testing software development, IC chips and IC products testing, production of probe card, research consultancy of IC technology. With the support of this subsidiary, the Group would further strengthen its ability in research, development and testing of IC products.

## **OTHER INVESTMENT**

The Group has invested this year RMB4,000,000 for a 10% interest in Zhejiang Jing Chang Electronics Co., Limited which is engaged in dual band telecommunication products, automobile electronics products, frequency converter, microwave circuits, power resource electronic products and design and production of other microelectronic products.

## **TECHNOLOGICAL COOPERATION**

During the year, the Group has set up an IC Engineering Technology Centre located in Shanghai Fudan University (“Fudan University”) jointly with Fudan University and co-operated with the University of Science & Technology of China (“USTC”) to set up an application specific integrated circuits (“ASIC”) system laboratory of USTC.

## FINANCIAL REVIEW

### Financial Resources and Liquidity

As at 31 December 2001, net assets of the Group amounted to approximately RMB122,289,000 (2000: the Company RMB123,651,000). Current assets amounted to approximately RMB104,712,000 (2000: the Company RMB124,947,000) of which approximately RMB59,533,000 (2000: the Company RMB93,868,000) were cash and bank deposits. The Group has sufficient financial resources and good liquidity to meet its future development and expansion.

As at 31 December 2001, the Group has not pledged its assets to any third parties (2000: the Company nil).

### Gearing Ratio

As at 31 December 2001, the Group's current liabilities amounted to approximately RMB10,688,000 (2000: the Company RMB9,170,000) and had no non-current liabilities. The net assets value per share of the Group was approximately RMB0.236 (2000: the Company RMB0.238). The Group's ratio of current liabilities over current assets was approximately 10.2% (2000: the Company 7.3%) and the gearing ratio was approximately 8.7% (2000: the Company 7.4%) on the basis of total liabilities over net assets. As at 31 December 2001, the Group had no bank or other borrowings (2000: the Company nil).

### Interest and Foreign Exchange Risk

As the Group has no bank or other borrowings, there were no risk in interest fluctuation. The Group has a slight foreign currency risk as part of the Group's purchases of equipment and raw materials are denominated in U.S. dollars. As the Group's sales are principally in Renminbi, fluctuation of the exchange rates of Renminbi against foreign currencies would not have a material effect to the operating results of the Group.

### Capital Commitments

As at 31 December 2001, the Group had capital commitments amounted to approximately RMB4,055,000, compared with approximately RMB12,414,000 of the Company as at 31 December 2000. The capital commitments relate to acquisitions of research equipment.

### Contingent Liabilities

As at 31 December 2001, the Group has no contingent liabilities (2000: the Company nil).



## Use of Capital and Funding

The Group has sufficient working capital and will duly utilise in enhancing business development in accordance with its business objectives as stated in the prospectus of the Company.

## STAFF

As at 31 December 2001, the Group employed approximately 198 (2000: the Company 138) staff. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend. In accordance with the Company Law of the PRC and the Group's Articles of Association, the Group had allocated its profits after taxation to the statutory common reserve and statutory public welfare fund as staff welfare.

The total staff costs of the Group charged to the income statement for the year ended 31 December 2001 amounted to approximately RMB4,748,000 (2000: the Company RMB 3,142,000).

## PROSPECTS

Recently, upon receipt of an approval from the relevant government authorities, the Group has incorporated a wholly owned subsidiary in Hong Kong and will actively explore overseas markets. In addition, the Group has reached an agreement with experts in telecommunication IC industry to set up an associate in the PRC with a shareholding of 39%. The associate will engage in development of System On Chip ("SOC") for telecommunication products and enables the Group to strengthen its position in overall IC design industry.

To cope with business development, the Group has successfully completed its placing of new H shares on 21 February 2002 and raised additional funds of net proceeds amounted to approximately HK\$104,000,000. The Group will allocate more resources in expanding the Group's sales force, recruiting professional IC designers, enhancing the Group's research and development capabilities and in marketing and promotion activities. The directors believe that the application of SOC will become increasingly popular in the future. The directors consider that the ability to combine a wide range of intellectual property to develop SOC is a critical factor in determining future success. Therefore, for the interests of the Group, the Group will apply resources to transform its products from a single chip to SOC as soon as possible to further consolidate its position in the PRC market.

For the future expansion and extension of its product range, the Group will continue to acquire fixed assets, recruit more overseas professionals and seek for strategic business partners, for the purpose of promoting the application of higher-end IC cards system, catering for future expansion in the sales of the Group and reducing the cost of testing.

The directors believe that following the admission of the PRC to the World Trade Organisation and the recovery of global economy, the Group will be benefited from huge rooms for development and exposed to lots of business opportunities.

The board of directors and staff of the Group will endeavour to exploit business and are optimistic of the Group's business in the 2002 and achievement of business objectives.

## Comparison of Business Objectives with Actual Business Progress

**Business objectives for the year as stated in the prospectus dated 31 July 2000**

### **Product development**

To develop a series of IC cards that can be used as stored value tickets on public transportation and for toll payment on toll roads and social security cards, on the basis of prior experience and technical know-how in developing IC cards.

To develop communication ICs for installation in intelligent household electrical appliances that can receive communication signals sent over electrical wiring in buildings (which enables the electrical appliance to respond to operation command sent, for example, by a computer when properly connected).

**Actual business progress for the year ended 31 December 2001**

IC cards developed by the Group are increasingly well-recognised by the market and aggregate sales augmented to 10 million pieces. The development stage of 1K to 16K CPU chips series have been completed and co-operation with System On Chip ("SOC") suppliers in system development is under progress. The design of contactless IC cards that can be used as stored value tickets on public transportation and for toll payment on toll roads has been completed and launched into market.

Because of the technical issues and the level of reliability in transmission of communication signals, the development of communication ICs for installation in intelligent household electrical appliances has been suspended. Resources have been shifted to multi-fee power control circuits and metre systems which have penetrated the market.

Screen Touch Controller for PDA is successfully launched. A series of electricity leakage products e.g. FM2145, FM2140 and FM2807 was developed to cope with the overseas intelligent household electrical appliances market and also suitable for overseas markets. With the competitive strength in EEPROM technology, products of FM2402, FM2404, FM2408 and FM2416 have been applied to household electrical appliances.

## Comparison of Business Objectives with Actual Business Progress

### Business objectives for the year as stated in the prospectus dated 31 July 2000

To complete the upgrading of the various ignition controller circuits (which will enable them to attain a higher level of pollution control during the ignition process).

To upgrade product design and testing software due to the increasing complexity of product design in order to raise the reliability of products.

To set up a representative office in the Silicon Valley in the United States primarily to monitor the latest technological developments and market trends of the IC industry worldwide (approximately 30 ex-staff of University Laboratory are currently working in the Silicon Valley and the Company has maintained close contact with them which would facilitate the establishment of the representative office).

### Human resources

To enter into formal arrangements with Fudan University jointly to establish training programmes for IC design engineers.

To establish scholarships for talented computer or electronic engineering students and IC engineers in the PRC which will help the Company secure their services after they complete their studies.

### Actual business progress for the year ended 31 December 2001

A digital automobile ignition controller circuit was developed to enhance product quality.

To raise the reliability of products and improve the quality of product design, the Group has acquired a series of advance EDA design software, testing equipment and other compact software and hardware.

To cope with the rapid development in global IC products, the Group will set up a representative office in the United States to search for strategic partners. Recently, preliminary contacts were carried out in Silicon Valley and Austin. Application for the setting up of a representative office in the United States is under progress.

An IC Engineering Technology Centre and an ASIC System Laboratory have been set up by the Group with Fudan University and the University of Science & Technology of China respectively. Besides the medium to longer term strategy on IC research and development, they are also responsible for the research and development of computing and application of SOC. A team of approximately 40 professionals has been recruited.

## Comparison of Business Objectives with Actual Business Progress

### Business objectives for the year as stated in the prospectus dated 31 July 2000

To recruit IC professionals (and in particular, computer or electronic engineering students from the PRC who completed their studies in the United States) through the representative office in the Silicon Valley.

### Marketing

To set up sales office in Shenzhen and a representative office in Hong Kong for the promotion of its products. To recruit 10 additional sales staff (some of whom are expected to be based in Shenzhen or Hong Kong).

To launch on-line sales of the Company's products through the Company's website.

To appoint distributors and sales agents for the Company's products overseas markets.

To start expanding into markets outside the PRC, initially focusing on the South East Asian and North American markets (the Company's IC products are technically compatible worldwide and the Company plans to use its representative offices in Hong Kong and in the Silicon Valley as initial bases for developing overseas sales).

### Actual business progress for the year ended 31 December 2001

The Group has close contact with students in the United States by means of invitation for seminars, visits and project research.

The Group's subsidiary in Hong Kong was approved by the PRC Government in December 2001 and has completed its incorporation and commenced business. The Shenzhen sales office also has completed its registration procedures during the year. The Group has hired 7 sales persons, out of which 2 are now based in Shenzhen and 1 in Hong Kong. Further sales forces will be recruited when required.

The Group has not commenced using of this sales mode.

The Group has expended its overseas markets, in addition to the agency agreement entered in Singapore, the Group has built up business relationship with more than 10 countries like Germany, Hong Kong, Taiwan and France. Business will be started shortly.

As mentioned above, the Hong Kong subsidiary has been incorporated and commenced its business.

The representative office in the United States is still under process.

## Comparison of Business Objectives with Actual Business Progress

**Business objectives for the year as stated in the prospectus dated 31 July 2000**

**Actual business progress for the year ended 31 December 2001**

### **Revenue**

To increase sales through the engagement of distributors and sales agents for the Company's products.

During the year, the Group has built up relationship with distributors and sales agents in Jiangsu, Zhejiang, Shenzhen, Shanghai and Singapore. Because of the duplication in the PRC market distribution and the new business relationships built up with overseas enterprises, total sales only accounted for 7% of the Group's turnover. With more and more products launched and development in sales activities, turnover for distribution and sales agents is anticipated to increase.

To continue focusing on IC cards and power supply IC products as principal products.

IC cards and power supply IC products attributed to approximately 57% and 19% respectively of the total turnover of the year under review. Following the promotion of Gold Card Project and improvements in electric power in cities and towns in the Mainland, these products have a brilliant market outlook and capacity. The Group has focused on these principal products; besides the completion of memory IC card chips and FM916 electric power metre chips, further development in CPU card chips series and contactless IC card design have been finalized. In addition, development work on FM946 multi-free power metre chips has been completed. With joint development with SOC System suppliers, these products are expected to be launched shortly.

To increase revenue through the sales of upgraded automotive IC products.

The market of automotive IC products is rather conservative. As the Group has been focused on IC cards and electric power electronics products, sales of the upgraded automotive IC products were still dissatisfactory.

## Comparison of Business Objectives with Actual Business Progress

**Business objectives for the year as stated in the prospectus dated 31 July 2000**

**Actual business progress for the year ended 31 December 2001**

### **Costs**

Product development costs are estimated to amount to approximately HK\$18 million (primarily for developing new products and upgrading existing products).

Research and development costs are estimated to amount to approximately HK\$6 million (primarily for meeting further establishment costs of the representative office in Silicon Valley and research costs for advanced technology).

Marketing costs are estimated to amount to approximately HK\$12 million which will be incurred mainly for developing overseas sales.

Product development costs incurred for the year amounted to approximately RMB10,480,000 before deducting grants received from the government. The reason for the lower than expected costs is mainly because some projects are still under research and development stage, while costs for the final stage of development have not yet incurred. In addition, improved cost controls and management has reduced the cost of product development accordingly. As the operation of the representative office in the United States has not yet commenced, the costs incurred are lower than expected.

Marketing costs incurred in the year amounted to approximately RMB3,600,000 which were lower than expected because overseas representative offices have not been fully operated.

## Board of Directors

### *Executive Directors*

Jiang Guoxing (*Chairman*)

Shi Lei (*Managing Director*)

Yu Jun (*Dputy Managing Director*)

Cheng Junxia

Wang Su

### *Non-executive Directors*

Cheng 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

Shanghai 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 48, 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). Mr. Jiang joined the Company at the time of its establishment in July 1998. 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.

Mr. Shi Lei, aged 35, 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 Pacific Business Trust Company.

Mr. Yu Jun, aged 34, 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 Fudan High Tech. He joined the Company in July 1998.

Ms. Cheng Junxia, aged 55, 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. She joined the Company in July 1998.

Mr. Wang Su, aged 48, is the financial controller of the Company. He is an accountant. He was previously a fund manager of Shanghai Commerce and Investment, the financial controller of Shanghai Pacific and the deputy manager of the Finance Department of Shanghai Commerce and Investment. He joined the company in July 1998.

### *Non-executive directors*

Mr. Chen Xiaohong, aged 44, is the general manager of Shanghai commerce and Investment. He is a senior economist and has a master degree in economics. 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.

Ms. Zhang Qianling, aged 65, 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. She joined the Company in July 1998.

Mr. He Lixing, aged 67, is the chief economist of Shanghai Commerce and Investment. 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 52, is the assistant to the general manager of Shanghai Commerce and Investment 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 70, he was appointed on 19 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. Recently, he founded the 3D-For-U Company Limited which has developed the technique of digital 3D printing on normal ink-jet printers.

Mr. Leung Tin Pui, aged 56, he was appointed on 19 July 2000. Mr. Leung has been appointed Vice-president of The Hong Kong Polytechnic University since January 1995. He was previously the Head and Professor of Department of Mechanical Engineering and Dean of Engineering of The Hong Kong Polytechnic University. Professor Leung is keen on public services, he was the President of the Hong Kong Institute of Engineers for the year from 1993 to 1994 and is now the Vice-president of the Hong Kong Academy of Engineering Sciences. Mr. Leung is also a member of several advisory boards of the Government of the Hong Kong Special Administrative Region.

## SUPERVISORS

Mr. Li Wei, aged 30, 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 joined the Company in July 1998.

Mr. Ding Shengbiao, aged 39, 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 50, is the chairman of Shanghai Pacific Business Trust Company, and the assistant to the general management of Shanghai Commerce and Investment. 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 45, 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).

Ms. Ji Lanhua, aged 51, 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 58, 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 joined the Company in January 1999.

Mr. Li Wing Sum Steven, aged 45, 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 of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting (the "AGM") 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 Tuesday, 28 May 2002 at 10:00 a.m. for the following purposes: -

1. To receive and consider the audited consolidated financial statements and the Reports of the Directors and the Auditors for the year ended 31 December 2001;
2. To appoint auditors and to authorise the Board of Directors to fix their remuneration;
3. As special business, to consider, if thought fit, pass the following resolutions as Ordinary Resolutions:

**"THAT:**

- (a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company during the Relevant Period (as defined in paragraph (f) below) of all the powers of the company separately or concurrently to allot, issue and deal with Domestic Shares and/or H Shares be and is hereby approved; and
- (b) the approval in paragraph (a) above shall authorise the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;
- (c) the aggregate nominal value of Domestic Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;

- (d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversion rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the H Shares then in issue at the date of the passing of this resolution;
- (e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory commission being obtained by the Company;
- (f) for the purpose of this ordinary resolution:

**“Relevant Period”** means the period from the passing of this special resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;
- (ii) the expiration of a period of twelve months following the passing of this special resolution; or
- (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

**“rights issue”** means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

## Notice of Annual General Meeting

- (g) the Board be and is hereby authorised to make such amendments to articles 15,16 and 19 of the articles of association of the Company as it thinks fit so as to increase the registered share capital and to reflect the new capital structure of the Company as a result of the allotment and issuance of shares of the Company pursuant to the approval granted under paragraph (a) above.”

By order of the Board

**Jiang Guoxing**

*Chairman*

Shanghai, PRC, 2 April 2002

*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 of the Company as at 28 April 2002 Sunday shall be entitled to attend the AGM after completing and delivering to the Company the enclosed confirmation slip by Tuesday, 7 May 2002. Further details are set out in the confirmation slip and explanation thereto.
2. Any member entitled to attend and vote at the AGM is entitled to appoint one or more person(s) 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 of attorney or authority must be deposited not less than 24 hours before the time appointed for the holding of the AGM 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 Sunday, 28 April 2002 to Monday, 27 May 2002 (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 the AGM attendance, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

The directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

## **INCORPORATION OF SUBSIDIARY**

On 28 April 2001, the Company incorporated a 90%-owned subsidiary, Sino IC Technology Co., Ltd. The subsidiary is established and principally operates in the People's Republic of China (the "PRC") with a registered capital of RMB10,000,000.

## **PRINCIPAL ACTIVITIES**

The Company's principal activity has not changed during the year and consists of designing, developing and selling products of application-specific integrated circuits. Details of the principal activities of the subsidiary are set out in note 17 to the financial statements.

## **SEGMENT INFORMATION**

An analysis of the Group's turnover and contribution to results by principal activity of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

## **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 62.

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

## **USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

The proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in August 2000, after deduction of related issuance expenses, amounted to approximately HK\$103,009,000. These proceeds were fully applied during the year ended 31 December 2001 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- approximately HK\$15,100,000 was used for the design, research and development of new products and upgrading of existing products;
- approximately HK\$10,600,000 was used for the expansion and upgrading of the Group's product design capabilities; and
- the balance of HK\$77,309,000 was applied as additional working capital of the Group.



# Report of the Directors

## SUMMARY FINANCIAL INFORMATION

A summary of the consolidated results for the year ended 31 December 2001 and of the consolidated assets, liabilities and minority interests of the Group for the year then ended and of the results and of the assets and liabilities of the Company for the last three years prepared on the basis set out in note below, are set out as follows. This summary does not form part of the audited financial statements.

	Group		Company	
	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000
<b>RESULTS</b>				
Turnover	<b>44,133</b>	35,845	14,083	2,637
Cost of sales	<b>(33,330)</b>	(26,319)	(8,404)	(1,557)
Gross profit	<b>10,803</b>	9,526	5,679	1,080
Other revenue and gains	<b>7,086</b>	2,982	57	36
Selling and distribution costs	<b>(3,608)</b>	(1,942)	(1,143)	(245)
Administrative expenses	<b>(10,361)</b>	(6,505)	(2,602)	(1,141)
Other operating expenses	<b>(4,976)</b>	(1,692)	(1,916)	(651)
Profit/(loss) from operating activities	<b>(1,056)</b>	2,369	75	(921)
Finance costs	—	(402)	(140)	(43)
Profit/(loss) before tax	<b>(1,056)</b>	1,967	(65)	(964)
Tax	<b>(402)</b>	—	—	—
Profit/(loss) before minority interests	<b>(1,458)</b>	1,967	(65)	(964)
Minority interests	<b>96</b>	—	—	—
Net profit/(loss) attributable to shareholders	<b>(1,362)</b>	1,967	(65)	(964)
<b>ASSETS, LIABILITIES AND MINORITY INTERESTS</b>				
Total assets	<b>133,381</b>	132,821	20,537	10,080
Total liabilities	<b>10,688</b>	9,170	8,043	548
Minority interests	<b>404</b>	—	—	—
Net assets	<b>122,289</b>	123,651	12,494	9,532

## **SUMMARY FINANCIAL INFORMATION (continued)**

### *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 and the basis of presentation have been extracted from the accountants' report included in the Company's prospectus dated 31 July 2000. The Company's results for the year ended 31 December 1998 was prepared on a basis to reflect the Company's Reorganisation, as if the Reorganisation had been completed as at 1 January 1998, details of which are set out in the Company's prospectus. The consolidated results of the Group for the year ended 31 December 2001, the Company's results for the year ended 31 December 2000 and the consolidated assets, liabilities and minority interests of the Group as at 31 December 2001 and the Company's assets and liabilities as at 31 December 2000 are extracted from the audited financial statements as set out on page 33 and page 34 respectively.

## **FIXED ASSETS**

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

## **CAPITAL COMMITMENTS**

Details of the capital commitments of the Company and the Group as at 31 December 2001 are set out in note 28 to the financial statements.

## **SHARE CAPITAL**

Details of the Company's share capital are set out in note 25 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**

Neither the Company, nor any of its subsidiary purchased, redeemed or sold any of the Company's listed securities during the year.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB99,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 40% of the total sales for the year and sales to the largest customer included therein amounted to 15%. Purchases from the Group's five largest suppliers accounted for 83% of the total purchases for the year and purchases from the largest supplier included therein amounted to 36%.

None of the directors of the Company or any of their associates or 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 Group'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  
Mr. Leung Tin Pui

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

## **DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHIES**

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

## **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 2001 to 18 July 2002.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No director had a material interest in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

# Report of the Directors

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors and supervisors in the share capital of the Company as recorded in the registers maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (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 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 and Invest (Group) Corporation ("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 2001, none of the directors and supervisors or their associates had any personal, family, corporate or other interest in the equity of the Company or any of its associated corporations, as defined in the SDI Ordinance.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, or of its subsidiary a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, 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
Shanghai Fudan High Tech Company ( <i>Note 1</i> )	106,730,000	20.57
SCI ( <i>Note 2</i> )	95,200,000	18.35

Notes:

- (1) Shanghai Fudan High Tech Company 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 represent 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 transactions of the Group are set out at note 30 to the financial statements.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 29 to the financial statements.

## SPONSOR'S 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 2001, 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.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the board practices and procedures requirements in GEM Listing Rules 5.28 to 5.39 throughout the accounting period covered by the annual report, except for the Rule GEM 5.29 which requires full board meetings to be held no less frequently than every three months. The Company's directors are resided and worked in Shanghai and Hong Kong respectively, in this connection, they were unable to convene together to hold a full board meeting during the year.

## 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 Group. The audit committee has two members comprising the two independent non-executive directors, Mr. David Yung and Mr. Leung Tin Pui. The Company's and Group's financial statements for the year ended 31 December 2001 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. The audit committee held one meeting during 2001.

## 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, PRC

25 March 2002





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 29 to 56 which have been prepared in accordance with 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 and the Group'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 and of the Group as at 31 December 2001 and of the loss and cash flows of the Group 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

25 March 2002

# Income Statement

Year ended 31 December 2001

	Notes	Group 2001 RMB'000	Company 2000 RMB'000
<b>TURNOVER</b>	6	<b>44,133</b>	35,845
Cost of sales		<b>(33,330)</b>	(26,319)
Gross profit		<b>10,803</b>	9,526
Other revenue and gains	6	<b>7,086</b>	2,982
Selling and distribution costs		<b>(3,608)</b>	(1,942)
Administrative expenses		<b>(10,361)</b>	(6,505)
Other operating expenses		<b>(4,976)</b>	(1,692)
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>	7	<b>(1,056)</b>	2,369
Finance costs	8	—	(402)
<b>PROFIT/(LOSS) BEFORE TAX</b>		<b>(1,056)</b>	1,967
Tax	11	<b>(402)</b>	—
<b>PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>(1,458)</b>	1,967
Minority interests		<b>96</b>	—
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b>(1,362)</b>	1,967
<b>EARNINGS/(LOSS) PER SHARE</b>	13		
Basic		<b>(0.26) cents</b>	0.45 cents

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

The accounting policies and explanatory notes on page 38 to 62 form an integral part of the financial statements.

# Balance Sheet

31 December 2001

	Notes	Group 2001 RMB'000	Company 2000 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	14,007	3,867
Construction in progress	15	1,803	—
Intangible assets:	16		
Acquired know-how		47	665
Deferred development costs		8,812	3,342
Long term investment	18	4,000	—
		<u>28,669</u>	<u>7,874</u>
<b>CURRENT ASSETS</b>			
Inventories	19	19,610	12,390
Trade and bills receivables	20	22,447	13,715
Prepayments, deposits and other receivables	21	3,122	4,974
Cash and bank balances	22	59,533	93,868
		<u>104,712</u>	<u>124,947</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	23	4,464	5,040
Other payables and accruals	24	6,224	4,130
		<u>10,688</u>	<u>9,170</u>
<b>NET CURRENT ASSETS</b>		<u>94,024</u>	<u>115,777</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>122,693</u>	<u>123,651</u>
Minority interests		404	—
		<u>122,289</u>	<u>123,651</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	25	51,875	51,875
Reserves	26	70,414	71,776
		<u>122,289</u>	<u>123,651</u>

Jiang Guoxing  
Director

Shi Lei  
Director

The accounting policies and explanatory notes on page 38 to 62 form an integral part of the financial statements.

# Cash Flow Statement

Year ended 31 December 2001

	Notes	Group 2001 RMB'000	Company 2000 RMB'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	27(a)	<b>(12,580)</b>	<b>(12,640)</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		2,895	706
Interest paid		—	(402)
Net cash inflow from returns on investments and servicing of finance		<u>2,895</u>	<u>304</u>
<b>TAX</b>			
PRC profits tax paid		<u>(1,542)</u>	—
<b>INVESTING ACTIVITIES</b>			
Decrease/(increase) in deposits with original maturities of over three months		84,591	(84,591)
Purchases of fixed assets		(11,263)	(2,692)
Purchases of construction in progress		(1,803)	—
Proceeds from disposal of fixed assets		5	18
Additions to deferred development costs		(6,842)	(3,235)
Acquisition of long term investment		<u>(4,000)</u>	—
Net cash inflow/(outflow) from investing activities		<u>60,688</u>	<u>(90,500)</u>
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES</b>		<b>49,461</b>	<b>(102,836)</b>
<b>FINANCING ACTIVITIES</b>	27 (b)		
New bank loans		—	10,000
Repayment of bank loans		—	(15,000)
Capital contribution from minority shareholders of a subsidiary		500	—
Proceeds from government grants		295	1,476
Proceeds from issue of share capital		—	121,980
Share issue expenses		—	(12,790)
Net cash inflow from financing activities		<u>795</u>	<u>105,666</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>50,256</b>	<b>2,830</b>
Cash and cash equivalents at beginning of year		<u>9,277</u>	<u>6,447</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>59,533</u></u>	<u><u>9,277</u></u>

# Cash Flow Statement

Year ended 31 December 2001

	<b>Group</b>	<b>Company</b>
	<b>2001</b>	<b>2000</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>11,806</b>	4,398
Time deposits with original maturity of less than three months when acquired	<b>47,727</b>	4,879
	<b>59,533</b>	9,277

The accounting policies and explanatory notes on page 38 to 62 form an integral part of the financial statements.

# Balance Sheet

31 December 2001

	Notes	Group 2001 RMB'000	Company 2000 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	7,603	3,867
Construction in progress	15	1,803	—
Intangible assets:	16		
Acquired know-how		47	665
Deferred development costs		8,812	3,342
Interest in a subsidiary	17	8,797	—
Long term investment	18	4,000	—
		<u>31,062</u>	<u>7,874</u>
<b>CURRENT ASSETS</b>			
Inventories	19	19,601	12,390
Trade and bills receivables	20	22,431	13,715
Prepayments, deposits and other receivables	21	3,157	4,974
Cash and bank balances	22	56,222	93,868
		<u>101,411</u>	<u>124,947</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	23	4,436	5,040
Other payables and accruals	24	4,776	4,130
		<u>9,212</u>	<u>9,170</u>
<b>NET CURRENT ASSETS</b>			
		<u>92,199</u>	<u>115,777</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>123,261</u>	<u>123,651</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	25	51,875	51,875
Reserves	26	71,386	71,776
		<u>123,261</u>	<u>123,651</u>
<b>Jiang Guoxing</b>			
<i>Director</i>			
		<b>Shi Lei</b>	
		<i>Director</i>	

The accounting policies and explanatory notes on page 38 to 62 form an integral part of the financial statements.

# Notes to Financial Statement

31 December 2001

## 1. INCORPORATION A SUBSIDIARY

On 28 April 2001, the Company incorporated a 90%-owned subsidiary, named Sino IC Technology Co., Ltd. The subsidiary is established and principally operates in the People's Republic of China (the "PRC") with a registered capital of RMB10,000,000.

## 2. CORPORATE INFORMATION

The registered address of Shanghai Fudan Microelectronics Company Limited is No.220 Handan Road, Shanghai, the People's Republic of China (the "PRC"). The Company has established a place of business in Hong Kong which is located at 2/F, K.C. Commercial Building, 19 Hennessy Road, Hong Kong.

The principal activities of the subsidiary are the provision of testing services for integrated circuits ("IC") products; designing, developing and selling of IC-testing software; production of probe card; as well as the provision of research and consultancy services of IC technology.

The principal activities of the Company have not been changed during the year and consist of designing, developing and selling products of application specific IC.

## 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretation are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"



### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have had no effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment is required. The disclosure changes under the SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 28(b) to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets be aggregated with the accumulated amortisation (see note 16), whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill to be amortised to the income statement over its estimated useful life. The adoption of the SSAP and Interpretation have no major impact on these financial statements and the subsidiary was incorporated by the Company with cash contribution.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year’s financial statements.

# Notes to Financial Statement

31 December 2001

## 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

In addition to the above new and revised SSAPs and related Interpretations, certain minor revision to SSAP 17: “Property, plant and equipment” effective for the first time for the current year’s financial statements. The adoption of SSAP 17 has no effect to the financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for long term equity investments, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year ended 31 December 2001. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use or its net selling price.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

# Notes to Financial Statements

31 December 2001

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of assets (continued)

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Fixed assets and depreciation

Fixed assets, other than construction in progress are stated at cost less accumulated depreciation and any impairment loss. 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 fixed asset, the expenditure is capitalised as an additional cost of that 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

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.

Construction in progress represents machinery and other fixed assets under construction or installation and is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### 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.

## 4. 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 and amortised 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.

Expenditure incurred on project to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is 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.

Deferred development costs are amortised using straight-line basis over the expected economic 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.

### **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, comprises direct materials, direct labour, subcontracting fees and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

# Notes to Financial Statements

31 December 2001

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair value, on an individual basis. The estimated fair value of unlisted investments are determined by the directors having regard to comparison of price/earnings ratio and investment yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

### Revenue recognition

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

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

### 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 terms.

### 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

### 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 consolidated 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 and bank balances represent assets similar in nature to cash, which are not restricted as to use.

# Notes to Financial Statements

31 December 2001

## 5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group was derived from the principal activities carried out in the PRC mainland. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented. The business segments are as follows:

- designing, developing and selling IC products
- provision of testing services for IC products

# Notes to Financial Statement

31 December 2001

## 5. SEGMENT INFORMATION (continued)

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Design, development and selling of IC products		Testing services of IC products		Eliminations		Consolidated	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Segment revenue:								
Sales to external customers	44,132	35,845	1	—	—	—	44,133	35,845
Sales to other segments	—	—	473	—	(473)	—	—	—
Total	<u>44,132</u>	<u>35,845</u>	<u>474</u>	<u>—</u>	<u>(473)</u>	<u>—</u>	<u>44,133</u>	<u>35,845</u>
Segment results	<u>(6,974)</u>	<u>(613)</u>	<u>(1,168)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,142)</u>	<u>(613)</u>
Other revenue and gains							7,086	2,982
Profit/(loss) from operating activities							(1,056)	2,369
Finance costs							—	(402)
Profit/(loss) before tax							(1,056)	1,967
Tax							(402)	—
Profit/(loss) before minority interests							(1,458)	1,967
Minority interests							96	—
Net profit/(loss) from ordinary activities attributable to shareholders							<u>(1,362)</u>	<u>1,967</u>
Segment assets	70,500	43,351	10,014	—	—	—	80,514	43,351
Income tax recoverable	—	—	—	—	—	—	1,140	—
Interest bearing time deposit	—	—	—	—	—	—	47,727	89,470
Long term investment	—	—	—	—	—	—	4,000	—
Total assets	<u>70,500</u>	<u>43,351</u>	<u>10,014</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>133,381</u>	<u>132,821</u>
Segment liabilities	9,212	9,170	1,476	—	—	—	10,688	9,170
Total liabilities	<u>9,212</u>	<u>9,170</u>	<u>1,476</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,688</u>	<u>9,170</u>
Other segment information								
Capital expenditure	13,280	5,345	6,829	—	—	—	20,109	5,345
Depreciation	1,190	230	425	—	—	—	1,615	230
Amortisation of deferred expenditure	1,459	1,057	—	—	—	—	1,459	1,057
Other non-cash expenses	1,339	230	—	—	—	—	1,339	230



# Notes to Financial Statements

31 December 2001

## 6. TURNOVER AND OTHER REVENUE AND GAINS

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

An analysis of turnover, other revenue and gains is as follows:

	<b>Group</b>	<b>Company</b>
	<b>2001</b>	<b>2000</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Turnover</b>		
Sale of goods	44,132	35,845
Services rendered	1	—
	<u>44,133</u>	<u>35,845</u>
<b>Other revenue</b>		
Interest income	2,895	2,416
Investment income	96	—
Value-added tax refunds	—	201
Subsidy of interest expenses from government	—	362
Service income	4,094	—
	<u>7,085</u>	<u>2,979</u>
<b>Gains</b>		
Gain on disposal of fixed assets	1	3
	<u>7,086</u>	<u>2,982</u>
	<u>51,219</u>	<u>38,827</u>

# Notes to Financial Statement

31 December 2001

## 7. PROFIT /(LOSS) FROM OPERATING ACTIVITIES

The Group's/Company's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group 2001 RMB'000	Company 2000 RMB'000
Cost of inventories sold	33,330	26,319
Depreciation	1,615	230
Provision for doubtful debts	886	145
Provision for inventories	217	85
Impairment loss on intangible assets	236	—
Minimum lease payments under operating leases:		
land and buildings	955	960
Research and development costs:		
Deferred expenditure amortised *	1,459	1,057
Current year expenditure	3,638	1,524
Auditors' remuneration	500	500
Exchange losses, net	63	23
Staff costs (excluding directors' remuneration (note 9)):		
Wages and salaries	6,739	3,859
Retirement benefits costs	902	459
	<u>7,641</u>	<u>4,318</u>
Less: amounts capitalised into development cost	<u>(2,893)</u>	<u>(1,176)</u>
	<u>4,748</u>	<u>3,142</u>
Gain on disposal of fixed assets	(1)	(3)
Investment income	(96)	—
Service income	(4,094)	—
Interest income	(2,895)	(2,416)
Value-added tax refunds	—	(201)
Subsidy of interest expenses from government	—	(362)
	<u>                    </u>	<u>                    </u>

\* The amortisation of deferred development expenditure for the year are included in "Cost of sales" on the face of the income statement.

# Notes to Financial Statements

31 December 2001

## 8. FINANCE COSTS

	Group 2001 RMB'000	Company 2000 RMB'000
Interest on a bank loan wholly repayable within five years	—	402

## 9. 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:

	2001 RMB'000	2000 RMB'000
Fees for an independent, non-executive director	128	53
Salaries and benefits	1,350	802
	<u>1,478</u>	<u>855</u>

In the year ended 31 December 2001, the salaries and benefits in kind paid to five executive directors were approximately RMB300,000 (2000: RMB135,000), RMB300,000 (2000: RMB202,000), RMB 250,000 (2000:RMB 158,000), RMB250,000 (2000: RMB153,000) and RMB250,000 (2000: RMB154,000). 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 RMB128,000 (2000: RMB53,000) and the other has waived the entire remuneration payable of HK\$240,000 covering the period from 19 July 2000 to 18 July 2002.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Company included 5 (2000:5) directors, details of whose remuneration are set out in note 9 above.

The remuneration of the two highest paid, non-director employees fell within the range of 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 Group, or as compensation for loss of office.

# Notes to Financial Statement

31 December 2001

## 11. TAX

	<b>Group</b>	<b>Company</b>
	<b>2001</b>	<b>2000</b>
	<b>RMB'000</b>	<b>RMB'000</b>
PRC income tax	<u><u>402</u></u>	<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%. 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 exempted from income tax for the period from 1 January 1999 to 31 December 2000. As of 14 June 2001, the Company obtained a notice from Shanghai High Technology Enterprise (Products) Identified Office. According to the notice, the Company is continued to be qualified as a high technology entity and is entitled to an income tax rate of 15% for the 2001.

No provision for income tax has been made for the Company's subsidiary as it has incurred losses during the period since its establishment.

The un-provided deferred tax asset for the year amounted to RMB410,000 (2000: RMB284,000) and related primarily to the accelerated amortisation of acquired know how.

## 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company RMB390,000 (2000: net profit of RMB1,967,000).

# Notes to Financial Statements

31 December 2001

## 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year ended 31 December 2001, is based on the following data:

	Group 2001 RMB'000	Company 2000 RMB'000
<b>Earnings/(loss)</b>		
Net profit/(loss) attributable to shareholders	<u>(1,362)</u>	<u>1,967</u>
<b>Shares</b>		
Weighted average number of shares in issue	<u>518,750,000</u>	<u>433,367,486</u>

Diluted loss per share for the year ended 31 December 2001 and the comparative diluted earnings per share have not been calculated because no diluting events existed during the two years ended 31 December 2001.

## 14. FIXED ASSETS

### Group

	Machinery and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At beginning of year	4,103	100	4,203
Additions	11,381	378	11,759
Disposals	(24)	—	(24)
<b>At 31 December 2001</b>	<u>15,460</u>	<u>478</u>	<u>15,938</u>
Accumulated depreciation:			
At beginning of year	293	43	336
Provided during the year	1,584	31	1,615
Disposals	(20)	—	(20)
<b>At 31 December 2001</b>	<u>1,857</u>	<u>74</u>	<u>1,931</u>
Net book value:			
<b>At 31 December 2001</b>	<u>13,603</u>	<u>404</u>	<u>14,007</u>
At 31 December 2000	<u>3,810</u>	<u>157</u>	<u>3,867</u>

# Notes to Financial Statement

31 December 2001

## 14. FIXED ASSETS (continued)

### Company

	<b>Machinery and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Cost:			
At beginning of year	4,103	100	4,203
Additions	4,748	182	4,930
Disposals	(24)	—	(24)
<b>At 31 December 2001</b>	<b>8,827</b>	<b>282</b>	<b>9,109</b>
Accumulated depreciation:			
At beginning of year	293	43	336
Provided during the year	1,171	19	1,190
Disposals	(20)	—	(20)
<b>At 31 December 2001</b>	<b>1,444</b>	<b>62</b>	<b>1,506</b>
Net book value:			
<b>At 31 December 2001</b>	<b>7,383</b>	<b>220</b>	<b>7,603</b>
At 31 December 2000	3,810	57	3,867

## 15. CONSTRUCTION IN PROGRESS

### Group and Company

RMB'000

Cost	
Addition and at end of year	<u>1,803</u>

# Notes to Financial Statements

31 December 2001

## 16. INTANGIBLE ASSETS

	Group and Company	
	Acquired know-how RMB'000	Deferred development costs RMB'000
Cost		
At beginning of year:		
As previously reported	2,380	3,711
Reclassified to accumulated amortisation and impairment ( <i>Note</i> )	—	440
As restated	2,380	4,151
Additions	—	6,547
<b>At 31 December 2001</b>	<b>2,380</b>	<b>10,698</b>
Accumulated amortisation and impairment:		
At beginning of year:		
As previously reported	1,715	369
Reclassified from cost ( <i>Note</i> )	—	440
As restated	1,715	809
Provided during the year	618	841
Impairment during the year recognised in the income statement	—	236
<b>At 31 December 2001</b>	<b>2,333</b>	<b>1,886</b>
Net book value:		
<b>At 31 December 2001</b>	<b>47</b>	<b>8,812</b>
At 31 December 2000	665	3,342

*Note:*

Accumulated impairment losses are aggregated with accumulated amortization under the disclosure requirements of SSAP 29, which was adopted during the year as detailed in note 2 to the financial statements, where as previously they were disclosed as an adjustment to the cost of the assets. This charge has been disclosed as a retrospective reclassification.

# Notes to Financial Statement

31 December 2001

## 16. INTANGIBLE ASSETS (continued)

During the year, the Group received cash grants from certain PRC government bodies totaling RMB295,000 (2000: RMB1,475,600). These cash grants were non-recurring and were for the Group's development of certain products. The cash grants received have been deducted from the deferred development costs.

## 17. INTEREST IN A SUBSIDIARY

	Company	
	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	9,000	—
Due to the subsidiary	(203)	—
At 31 December	<u>8,797</u>	<u>—</u>

The amount due to the subsidiary is unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiary is as follows:

Name	Place and date of incorporation/ registration land operations	Nominal value of registered capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
Sino IC Technology Co., Ltd.	PRC 28 April 2001	RMB10,000,000*	90%	—	Provision of testing services for IC products; designing, developing and selling IC testing software; production of probe card; provision of research and consultancy services of IC technology

\* The registered capital of the subsidiary has not been fully paid by the minority shareholders as at 31 December 2001. Of the paid-up capital of RMB9.5 million, RMB9 million was contributed by the Company in cash.



# Notes to Financial Statements

31 December 2001

## 18. LONG TERM INVESTMENT

	Group and Company	
	2001	2000
	RMB'000	RMB'000
Unlisted equity investment, at fair value	4,000	—
Provision for impairment in values	—	—
At 31 December	<u>4,000</u>	<u>—</u>

## 19. INVENTORIES

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Raw materials	6,931	6,924	5,651
Work in process	3,507	3,507	4,155
Finished goods	9,172	9,170	2,584
	<u>19,610</u>	<u>19,601</u>	<u>12,390</u>

The carrying amount of inventories carried at net realisable value included in the above balance was RMB2,004,000 (2000: Nil) as at the balance sheet date.

## 20. TRADE AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management.

An ageing analysis of trade receivables at 31 December are as follows:

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Within 3 months	14,523	14,507	11,273
More than 3 months to within 6 months	3,465	3,465	1,639
More than 6 months to within 12 months	3,793	3,793	652
More than 12 months	666	666	151
	<u>22,447</u>	<u>22,431</u>	<u>13,715</u>

# Notes to Financial Statement

31 December 2001

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Prepayments	891	864	946
Tax recoverable	1,140	1,140	—
Deposits and other receivables	1,091	1,153	4,028
	<u>3,122</u>	<u>3,157</u>	<u>4,974</u>

## 22. CASH AND BANK BALANCES

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Cash and bank balances	11,806	8,495	4,398
Time deposits	47,727	47,727	89,470
	<u>59,533</u>	<u>56,222</u>	<u>93,868</u>

## 23. TRADE PAYABLES

An ageing analysis of trade payables at 31 December is as follows:

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Within 3 months	<u>4,464</u>	<u>4,436</u>	<u>5,040</u>

## 24. OTHER PAYABLES AND ACCRUALS

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Accruals	2,298	2,298	1,737
Other payables	3,926	2,478	2,393
	<u>6,224</u>	<u>4,776</u>	<u>4,130</u>

# Notes to Financial Statements

31 December 2001

## 25. ISSUED CAPITAL

### Shares

	2001 RMB'000	2000 RMB'000
Registered, issued and fully paid:		
518,750,000 shares of RMB0.1 each	<u>51,875</u>	<u>51,875</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 over-allotted shares in connection to the public listing of H shares.

# Notes to Financial Statement

31 December 2001

## 26. RESERVES

### Group

	Statutory common reserve RMB'00	Statutory public welfare fund RMB'000	Share premium RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2000	271	271	60	(1,108)	(506)
Issue of shares	—	—	70,315	—	70,315
Profit for the year	—	—	—	1,967	1,967
Transferred from retained profits	53	53	—	(106)	—
At 31 December 2000 and beginning of year	324	324	70,375	753	71,776
Net loss for the year	—	—	—	(1,362)	(1,362)
Transferred from accumulated losses	132	132	—	(264)	—
<b>At 31 December 2001</b>	<b>456</b>	<b>456</b>	<b>70,375</b>	<b>(873)</b>	<b>70,414</b>

### Company

	Statutory common reserve RMB'00	Statutory public welfare fund RMB'000	Share premium RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2000	271	271	60	(1,108)	(506)
Issue of shares	—	—	70,315	—	70,315
Profit for the year	—	—	—	1,967	1,967
Transferred from retained profits	53	53	—	(106)	—
At 31 December 2000 and beginning of year	324	324	70,375	753	71,776
Net loss for the year	—	—	—	(390)	(390)
Transferred from retained profits	132	132	—	(264)	—
<b>At 31 December 2001</b>	<b>456</b>	<b>456</b>	<b>70,375</b>	<b>99</b>	<b>71,386</b>

# Notes to Financial Statements

31 December 2001

## 26. 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 tax, 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 2001, 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 RMB3,649,000 (2000: RMB2,593,000).

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 at 31 December 2001 was RMB99,000 (2000: RMB753,000).

# Notes to Financial Statement

31 December 2001

## 27. NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of profit/(loss) from operating activities to net cash outflow from operating activities

	Group 2001 RMB'000	Company 2000 RMB'000
Profit/(loss) from operating activities	(1,056)	2,369
Interest received	(2,895)	(706)
Depreciation	1,615	230
Amortisation of deferred development costs	1,459	1,057
Gain on disposal of fixed assets	(1)	(3)
Impairment loss on intangible assets	236	—
Increase in trade and bills receivables	(8,732)	(6,589)
Decrease/(increase) in prepayments, deposits and other receivables	2,992	(3,967)
Increase in inventories	(7,220)	(10,264)
Increase/(decrease) in trade payables	(576)	3,214
Increase in other payables and accruals	1,598	2,019
Net cash outflow from operating activities	<u>(12,580)</u>	<u>(12,640)</u>

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

	Minority interests RMB'000	Interest bearing loan RMB'000	Issued capital (including share premium) RMB'000
At 1 January 2000	—	5,000	13,060
Cash inflow/(outflow) from financing activities, net	<u>—</u>	<u>(5,000)</u>	<u>109,190</u>
At 31 December 2000 and beginning of year	—	—	122,250
Cash inflow from financing activities, net	<u>500</u>	<u>—</u>	<u>—</u>
<b>At 31 December 2001</b>	<u><b>500</b></u>	<u><b>—</b></u>	<u><b>122,250</b></u>

# Notes to Financial Statements

31 December 2001

## 28. COMMITMENTS

### (a) Capital commitments

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for	4,055	3,944	—
Authorised, but not contracted for	—	—	12,414
	<u>4,055</u>	<u>3,944</u>	<u>12,414</u>

### (b) Commitments under operating leases

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	Company	
	2001	2001	2000
	RMB'000	RMB'000	RMB'000
Within one year	1,200	945	741
In the second to fifth years, inclusive	1,857	1,811	2,959
	<u>3,057</u>	<u>2,756</u>	<u>3,700</u>

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

# Notes to Financial Statement

31 December 2001

## 29. POST BALANCE SHEET EVENTS

- (a) On 21 February 2002, the Company issued additional 105,604,000 new H shares of RMB0.10 each to investors at HK\$1.07 each through a private placement.
- (b) On 18 January 2002, the Company entered into an agreement to establish a 39%-owned associate in the PRC, which is engaged in developing, manufacturing and selling of high-technology products.
- (c) On 23 January 2002, the Company incorporated a wholly-owned subsidiary in Hong Kong, which is engaged in the development and sales of IC products.

## 30. 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	2001 RMB'000	2000 RMB'000
Shanghai Fudan University	Owner of Fudan High Tech	Technical and equipment support fee	800	800
Shanghai Fudan High Tech Company	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. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 March 2002.