



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)



2002 HALF-YEAR RESULTS REPORT

^{*} for identification only



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This report, for which the directors of Shanghai Fudan Microelectronics Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Shanghai Fudan Microelectronics Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HALF-YEAR RESULTS (UNAUDITED)

The Board of Directors (“Board”) of Shanghai Fudan Microelectronics Company Limited (“Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the half-year ended 30 June 2002, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Half-year ended 30 June		Three months ended 30 June	
		2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000	2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000
TURNOVER	3	19,808	19,427	12,852	11,358
Cost of sales		(14,961)	(13,083)	(9,247)	(7,369)
Gross profit		4,847	6,344	3,605	3,989
Other revenue and gains		779	1,961	495	721
Selling and distribution costs		(1,848)	(1,825)	(1,056)	(1,103)
Administrative expenses		(5,498)	(4,756)	(2,860)	(2,698)
Other operating expenses		(2,677)	(1,341)	(1,037)	(579)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(4,397)	383	(853)	330
Finance costs		(25)	(4)	(25)	(2)
Share of loss of an associate		(673)	—	(673)	—
PROFIT/(LOSS) BEFORE TAX		(5,095)	379	(1,551)	328
Tax	5	197	(278)	28	(261)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(4,898)	101	(1,523)	67
Minority interests		101	—	51	—
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(4,797)	101	(1,472)	67
		RMB	RMB	RMB	RMB
EARNINGS/(LOSS) PER SHARE					
- Basic	6	(0.81) cents	0.02 cents	(0.25) cents	0.01 cents

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Note	Half-year ended 30 June		Three months ended 30 June	
		2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000	2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000
Exchange differences on translation of the financial statements of an overseas subsidiary	11	7	—	1	—
Net profit/(loss) from ordinary activities attributable to shareholders		(4,797)	101	(1,472)	67
Total recognised gains and losses		<u>(4,790)</u>	<u>101</u>	<u>(1,471)</u>	<u>67</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	31 December
		2002	2001
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Fixed assets	7	14,969	14,007
Construction in progress		3,445	1,803
Intangible assets:			
Acquired know-how		19	47
Deferred development costs		10,489	8,812
Interest in an associate		11,027	—
Long term investment		4,000	4,000
		43,949	28,669
CURRENT ASSETS			
Inventories		19,372	19,610
Trade and bills receivables	8	19,845	22,447
Prepayments, deposits and other receivables		5,437	3,122
Cash and bank balances		149,591	59,533
		194,245	104,712
CURRENT LIABILITIES			
Trade payables	9	4,396	4,464
Other payables and accruals		5,094	6,224
		9,490	10,688
NET CURRENT ASSETS		184,755	94,024
TOTAL ASSETS LESS CURRENT LIABILITIES		228,704	122,693
Minority interests		303	404
		228,401	122,289
CAPITAL AND RESERVES			
Issued capital	10	62,435	51,875
Reserves	11	165,966	70,414
		228,401	122,289

CONSOLIDATED CASH FLOW STATEMENT

		For the half year ended 30 June	
		2002 (Unaudited) RMB'000	2001 (Unaudited) RMB'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	Note	(2,257)	(10,526)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		700	1,951
Interest paid		(25)	(4)
Net cash inflow from returns on investments and servicing of finance		675	1,947
TAX			
PRC profits tax paid		—	(94)
INVESTING ACTIVITIES			
Purchases of fixed assets		(2,453)	(488)
Purchases of construction in progress		(1,642)	(990)
Additions to deferred development costs		(3,467)	(6,557)
Investment in an associate		(11,700)	—
Net cash outflow from investing activities		(19,262)	(8,035)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(20,844)	(16,708)
FINANCING ACTIVITIES			
Capital contribution from minority shareholders of a subsidiary		—	500
Proceeds from issue of share capital		119,833	—
Share issue expenses		(8,931)	—
Net cash inflow from financing activities		110,902	500
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		90,058	(16,208)
Cash and cash equivalents at beginning of period		59,533	93,868
CASH AND CASH EQUIVALENTS AT END OF PERIOD		149,591	77,660
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		24,092	16,236
Time deposits with original maturity of less than three months when acquired		125,499	61,424
		149,591	77,660

Notes:

1. **Basis of presentation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAPs”) including SSAP 25: “Interim financial reporting”, 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.

2. **Principal accounting policies**

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2001.

3. **Turnover and segment information**

An analysis of the Group’s turnover for the half-year by business segments is as follows:

	Design, development and selling of		Testing services of		Eliminations		Consolidated	
	IC products		IC products					
	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment turnover:								
Sales to external customers	19,474	19,427	334	—	—	—	19,808	19,427
Sales to other segments	—	—	298	—	(298)	—	—	—
Total	<u>19,474</u>	<u>19,427</u>	<u>632</u>	<u>—</u>	<u>(298)</u>	<u>—</u>	<u>19,808</u>	<u>19,427</u>
Segment results	<u>(4,100)</u>	<u>(1,578)</u>	<u>(1,076)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(5,176)</u>	<u>(1,578)</u>
Other revenue and gains							779	1,961
Profit/(loss) from operating activities							(4,397)	383
Finance costs							(25)	(4)
Share of loss of an associate							(673)	—
Profit/(loss) before tax							(5,095)	379
Tax							197	(278)
Profit/(loss) before minority interests							(4,898)	101
Minority interests							101	—
Net profit/(loss) from ordinary activities attributable to shareholders							<u>(4,797)</u>	<u>101</u>

	Design, development and selling of IC products		Testing services of IC products		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets								
Segment assets	100,194	70,539	8,501	—	—	—	108,695	70,539
Unclassified assets	—	—	—	—	—	—	129,499	61,424
Total assets	<u>100,194</u>	<u>70,539</u>	<u>8,501</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>238,194</u>	<u>131,963</u>
Liabilities								
Segment and total liabilities	<u>9,286</u>	<u>8,209</u>	<u>204</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,490</u>	<u>8,209</u>
Other segment information								
Capital expenditure	5,005	7,611	281	—	—	—	5,286	7,611
Depreciation and amortisation	855	447	636	—	—	—	1,491	447
Other non-cash expenses	<u>860</u>	<u>186</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>860</u>	<u>186</u>

During the period, more than 90% of turnover and contribution to results from operating activities of the Group was derived from principal activities carried out in the PRC mainland. Accordingly, a further analysis by geographical area is not presented.

4. Profit/(loss) from operating activities

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

	Half-year ended 30 June		Three months ended 30 June	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	1,491	447	774	173
Provision for doubtful debts	860	186	615	38
Payments under operating leases in respect of land and buildings	857	706	411	353
Amortisation of research and development costs	1,818	1,156	1,025	614
Interest income	<u>(713)</u>	<u>(1,951)</u>	<u>(553)</u>	<u>(691)</u>

5. Tax

Under the Income Tax Law of the PRC, the Company is subject to income tax at a basic rate of 33%. On 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 group companies as they had not generated assessable profits during the period (30 June 2001: provision of RMB278,000). The amount of approximately RMB197,000 stated in the consolidated income statement for the period represents overprovision in prior year.

No deferred tax asset has been recognized as the directors consider it prudent not to recognize such benefit until it is recovered.

6. Earnings/(loss) per share

The calculation of the basic loss per share for the half-year and three months ended 30 June 2002 are based on net loss attributable to shareholders of approximately RMB4,797,000 and RMB1,472,000 respectively and the weighted average number of 594,598,000 shares in issue during the periods.

The calculation of the basic earnings per share for the half-year and three months ended 30 June 2001 are based on net profits attributable to shareholders of approximately RMB101,000 and RMB67,000 respectively and the weighted average number of 518,750,000 shares in issue during the periods.

Diluted loss per share for the half-year ended 30 June 2002 and the comparative diluted earnings per share have not been calculated because no diluting events existed during the two half-year ended 30 June 2002.

7. Fixed assets

During the half-year ended 30 June 2002, the Group acquired machinery and office equipment amounted to approximately RMB2,453,000 (31 December 2001: RMB4,930,000).

8. Trade and bills receivable

An ageing analysis of trade and bills receivables is as follows:

	30 June 2002	31 December 2001
	RMB'000	RMB'000
Within 3 months	13,562	14,523
More than 3 months to within 6 months	1,094	3,465
More than 6 months to within 12 months	3,997	3,793
More than 12 months	1,192	666
	19,845	22,447

9. Trade payables

An ageing analysis of trade payables is as follows:

	30 June 2002 RMB'000	31 December 2001 RMB'000
Within 3 months	<u>4,396</u>	<u>4,464</u>

10. Movements in equity

Issued capital

	Number of shares	Nominal value per share RMB	Registered capital RMB'000
As at 1 January 2002	518,750,000	0.10	51,875
Placing of new H shares for cash	<u>105,604,000</u>	0.10	<u>10,560</u>
As at 30 June 2002	<u>624,354,000</u>		<u>62,435</u>

During the period, the Company issued 105,604,000 new H shares of RMB0.10 each at HK\$1.07 each for cash. The excess over nominal value of the shares after deducting share issuance expenses was credited to the share premium account.

11. Reserves

Details of movements in the reserves of the Group during the half-year ended 30 June 2002 are set out below:

	Share premium RMB'000	Statutory common reserve RMB'000	Statutory public welfare fund RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2002	70,375	456	456	—	(873)	70,414
New shares issued	100,342	—	—	—	—	100,342
Net loss for the period	—	—	—	—	(4,797)	(4,797)
Foreign exchange adjustments	—	—	—	7	—	7
At 30 June 2002	<u>170,717</u>	<u>456</u>	<u>456</u>	<u>7</u>	<u>(5,670)</u>	<u>165,966</u>

For the half-year ended 30 June 2002, the share premium increased by approximately RMB100,342,000 as a result of placing of a total of 105,604,000 new H shares at HK\$1.07 each after deduction of placing expenses.

12. Notes to the consolidated cash flow statement

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

	Half-year ended 30 June	
	2002	2001
	RMB'000	RMB'000
Profit/(loss) from operating activities	(4,397)	383
Interest received	(700)	(1,951)
Depreciation	1,491	167
Amortisation of deferred development costs	1,818	1,156
Decrease/(increase) in trade and bills receivables	2,602	(2,285)
Increase in prepayments, deposits and other receivables	(2,118)	(924)
Decrease/(increase) in inventories	238	(6,393)
(Decrease)/increase in trade payables	(68)	175
Decrease in other payables and accruals	(1,130)	(854)
Adjustment of foreign exchange	7	—
	<hr/>	<hr/>
Net cash outflow from operating activities	(2,257)	(10,526)
	<hr/> <hr/>	<hr/> <hr/>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the half-year ended 30 June 2002 (30 June 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the half-year ended 30 June 2002, the Group recorded turnover of approximately RMB19,808,000 (30 June 2001: RMB19,427,000) representing approximately 2% increases as compared to the same period in last year. Loss attributable to shareholders amounted to approximately RMB4,797,000 (30 June 2001: profit of RMB101,000).

The slow growth in the turnover is altogether a result of the global economic stagnate, the decrease in demand of electronic products and the flooding of foreign products in the domestic market, causing keen competitions and driving down of the prices. In the second quarter, the sale of the Group's main product, 8K Bits memory card circuit increases sharply as compared with the first quarter, and with some new products of earth leakage current circuits launched in the market, therefore, a slight growth in turnover was still recorded.

Other operating expenses increased by a double as compared with same period in last year, it was mainly due to the deferral of payments from some of the Group's customers as a result of economic downturn. To be conservative, the Group had made a provision amounted to RMB860,000 (30 June 2001: RMB186,000) during the period against its doubtful debts. In addition, the increase in the number of research and development items also caused the amortisation of research and development costs to rise. The two subsidiaries established at the middle of last year and early this year respectively are still at the stages of initial development and market exploring, this also increased the consolidated operating costs and affected the revenue.

Out of the proceeds obtained from the successful placing of the new H shares in the first quarter, RMB11,700,000 has been invested in a 39%-owned associate, Shanghai Fudan Telecommunication Company Limited ("Fudan Telecommunication"). Through this, the Group has extended its business in System On Chip ("SOC") for telecommunication products.

SUBSIDIARY

During the period, the Group has incorporated a wholly-owned subsidiary in Hong Kong, namely Shanghai Fudan Microelectronics (HK) Limited. Its principal activities are to explore markets in overseas and to provide customer services and supports.

ASSOCIATE

As mentioned above, the Group had invested RMB11,700,000 in a 39%-owned Fudan Telecommunication during the period.

FINANCIAL REVIEW

The Group now has sufficient financial resources and will continue to allocate resources in accordance with the use of proceeds as disclosed in the business objectives of the prospectus issued on 31 July 2000 and the circular issued to the shareholders of the Company on 12 November 2001 (the "Circular"). With successful cost savings in various projects and the proceeds obtained from placing of new H shares early this year, the Group is able to meet its future development and expansion.

EMPLOYEE INFORMATION

As at 30 June 2002, the Group employed approximately 204 staff (30 June 2001: 170) and the total remuneration reflected in the income statement amounted to RMB3,364,000 (30 June 2001: RMB2,952,000). The increase in staff costs is mainly due to increase in number of staff.

PROSPECTS

In accordance with the use of proceeds stated in the Circular, the Group is actively seeking for opportunities to cooperate with domestic and overseas potential business partners and SOC companies. The Group expects to bring the plan to ground within this year and to transform its products from a single chip to SOC, and to extend its SOC business and widen products range in different aspects to cope with future expansion.

Meanwhile, the Group will continue its effort on improving and controlling costs and expenditure, increasing the productivity and enhancing the quality of the products so as to strengthen the Group's leading position in ASIC design and SOC markets.

Other than as disclosed, no current information which has changed materially from the information disclosed in the Company's latest annual report for the year ended 31 December 2001 in relation to those matters set out in Rule 18.41 of the GEM Listing Rules.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Actual business progress for the half-year ended 30 June 2002

Product development

In the light of market demand and technological developments, to upgrade the Company's IC products.

To satisfy the market needs, the Group's IC products have been developed into series. Among the IC products, development in the SIM card, the CPU card and the untouchable card have already been completed, while the development of the other IC products are still under progress.

To seek opportunities for co-operation with other leading IC design and system integration companies or IC manufacturers in the United States, Japan and Taiwan in the development of IC products (and through such co-operation, to enhance the Company's technical capabilities.)

The Group has been in close contact with overseas IC design and system integration companies and is seeking for cooperation opportunities for the rapidly developing domestic market in PRC in relation to minimize production costs. For the time being, some of the projects are being discussed and are under progress. It is expected that these cooperations can improve the Group's technical capabilities and expand the market for its products.

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

Marketing

To focus on developing the overseas markets including promotion through advertisements and the internet.

Revenue

To increase revenue through the sales of newly upgraded IC products such as telecommunication IC and ignition controller IC.

Actual business progress for the half-year ended 30 June 2002

Exploring the domestic market on one hand, the Group is concerned about the overseas market. Through the operation of associates and subsidiaries in recent years, we have now maintained a good relation and channel with overseas corporate; some products have already entered the overseas market through direct sales and retailers.

The Group will carry out further promotion through advertisements, internet and some other channels to maximize its influence.

Targeting at the need of the market, the Group capitalize on its competitive strength and improve the developed products from time to time by utilizing its built-up expertise and market advantage. Digital ignition controller was developed in response to the market demand and telecommunication ICs have been regulated according to the changing standard.

Currently, improved digital ignition controller has been launched into overseas market while the telecommunication ICs were on trial.

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

Actual business progress for the half-year ended 30 June 2002

Cost

As the Company's scale of operation grows, to place increasing focus on cost control, ensuring that the Company remains cost competitive in both the PRC and overseas markets.

Product development costs are estimated to amount to approximately HK\$9 million (primarily for upgrading existing products.)

Research and development costs are estimated to amount to approximately HK\$6 million (primarily for strengthening the researching and development capabilities of the representative office in Silicon Valley and researching advanced IC technology.)

Marketing costs are estimated to amount to approximately HK\$13 million.

Through the co-operation with suppliers, the Group was succeeded on reducing production costs. In the meantime, by strengthen internal control system, the Group was able to manipulate costs of all aspects effectively.

During the period, approximately RMB9,580,000 was invested on the research and development of new products, which is less than budgeted. As the researches are still in its infancy, no operating costs are expected to occur at this moment, and before the completion of existing researches, development of all further new products will be closely monitored. Moreover, the delay of operation of research institution in the United States resulted in lesser expenditure than anticipated.

During the period, promotion expenses amounted to approximately RMB 3,800,000, which is lesser than estimation. This is mainly due to delay in operating of overseas office and efficient internal cost control.

USE OF PROCEEDS

	Up to 30 June 2002		
	Business objectives		Actual
	HK\$'000	RMB'000	RMB'000
Product design and development	15,000	16,000	10,000
Marketing	13,000	14,000	4,000
	<u>28,000</u>	<u>30,000</u>	<u>14,000</u>

Use of proceeds is basically the same as disclosed in the Company's prospectus dated 31 July 2000. The reasons for differences between the actual and planned expenditure are that due to several researches are still in its infancy, no operating costs have been occurred; and as a result of delay in operating of overseas office and efficient internal cost control.

In accordance with the circular date 12 November 2001 issued to the Company's shareholders, out of the proceeds obtained from placing of new H shares in early this period, RMB11,700,000 has been invested in a 39%-owned Fudan Telecommunication.

The balance of net proceeds of approximately RMB150,000,000 have been placed with licensed banks as working capital and future development. The directors are not aware of any material adverse changes in the financial position or prospect of the Group that may alter the proposed use of proceeds.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30 June 2002, 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 GEM or the Company as required by Chapter 5.40 of the GEM Listing Rules were as follows:

	Number of shares held and nature of interests				Total
	Personal	Family	Corporate	Other (note)	
Directors					
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>
Supervisors					
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 ("SSAC") which is constituted by members consisting of the executive and non-executive directors, the supervisors, certain employees and ex-employees, various employees of ASIC System State-Key Laboratory of Shanghai Fudan University ("University Laboratory") and Shanghai Commerce Invest (Group) Corporation Limited ("SCI"), a substantial shareholder of the Company, as well as various individuals engaged in technological co-operation with the University Laboratory.

Save as disclosed above, at 30 June 2002, none of the directors and supervisors had any personal, family, corporate or other interests in the equity of the Company, as defined in the SDI Ordinance.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

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

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the following interests 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	Percentage of interests
SSAC	144,230,000	23.10
Shanghai Fudan High Tech Company (<i>note 1</i>)	106,730,000	17.09
SCI (<i>note 2</i>)	95,200,000	15.25

Notes:

- (1) Shanghai Fudan High Tech Company is a state-owned enterprise wholly-owned by Fudan University.
- (2) SCI is a state-owned enterprise wholly owned by Shanghai Municipal Government. Of the 95,200,000 domestic shares in which SCI is interested, 46,160,000 domestic shares are held in its own name, 34,620,000 domestic shares are held by a wholly-owned subsidiary of SCI, Shanghai Pacific Commercial Trust Company, and 14,420,000 domestic shares are held by a 74.3%-owned subsidiary, Ningbo Lirong Co., Limited. The 46,160,000 domestic shares held in its own name represent approximately 7.39% of the registered share capital of the Company.

Save as disclosed above, as of 30 June 2002, 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.

SPONSOR'S INTERESTS

Pursuant to the sponsor's agreement dated 28 July 2000 entered between BOCI Asia Limited ("BOCI Asia") and the Company, BOCI Asia 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 Asia, its directors, employees and associates, as of 30 June 2002, 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.

COMPETING INTERESTS

During the half-year ended 30 June 2002, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

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 period, except for the Rule GEM 5.29 which requires full board meetings to be held no less frequently than every three months.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company established an audit committee on 19 July 2000 with written terms of reference in compliance with Rules 5.24 and 5.25 of the GEM Listing Rules which deal clearly with its authority and duties. The members of the audit committee comprise three independent non-executive directors, Mr. David Yung, Mr. Leung Tin Pui and Mr. Xu Juyan. The principal duties of the audit committee are to review and supervise the Group's financial reporting process and internal control systems. The Group's consolidated financial statements for the half-year and three months ended 30 June 2002 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.

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

During the half-year ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Shi Lei
Director

Shanghai, PRC, 12 August 2002

* *for identification purpose only*