



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)



Third Quarterly Report 2002



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3RD QUARTERLY REPORT 2002

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “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 out of the emerging nature of companies listed on GEM and the business sectors or 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 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 in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

THIRD QUARTERLY 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 nine months and three months ended 30 September 2002, together with the comparative unaudited figures for the corresponding periods in 2001, as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	2	37,038	29,323	17,230	9,896
Cost of sales		(26,961)	(21,338)	(12,000)	(8,255)
Gross profit		10,077	7,985	5,230	1,641
Other revenue and gains		879	6,234	100	4,273
Selling and distribution costs		(3,006)	(2,735)	(1,158)	(910)
Administrative expenses		(8,448)	(7,117)	(2,950)	(2,361)
Other operating expenses		(3,713)	(2,464)	(1,036)	(1,123)
Profit/(loss) from operating activities		(4,211)	1,903	186	1,520
Finance costs		(29)	(6)	(4)	(2)
Share of loss of an associate		(2,294)	—	(1,621)	—
Profit/(loss) before tax		(6,534)	1,897	(1,439)	1,518
Tax	3	197	(738)	—	(460)
Profit/(loss) before minority interests		(6,337)	1,159	(1,439)	1,058
Minority interests		45	74	(56)	74
Net profit/(loss) from ordinary activities attributable to shareholders		(6,292)	1,233	(1,495)	1,132
		RMB	RMB	RMB	RMB
Earnings/(loss) per share					
- Basic	5	(1.04) cents	0.24 cents	(0.25) cents	0.22 cents

Notes:

1. Basis of presentation

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.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting standards issued by the Hong Kong Society of Accountants. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

2. Turnover

Turnover represents the invoiced value of goods sold, net of value-added tax, trade discounts and returns.

3. 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 September 2001: provision of RMB738,000). The amount of approximately RMB197,000 stated in the unaudited consolidated results for the period represents overprovision in prior year.

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

4. Reserves

Details of movements in the reserves of the Group during the nine months ended 30 September 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	—	—	—	—	(6,292)	(6,292)
Foreign exchange adjustments	—	—	—	8	—	8
At 30 September 2002	170,717	456	456	8	(7,165)	164,472

Share premium increased by approximately RMB100,342,000 as a result of placing of 105,604,000 new H shares at HK\$1.07 each after deduction of placing expenses.

5. **Earnings/(loss) per share**

The calculation of the basic earnings/(loss) per share for the nine months ended 30 September 2002 and the same period in 2001 are based on the unaudited consolidated net loss attributable to shareholders of approximately RMB6,292,000 and profit of approximately RMB1,233,000 respectively and the weighted average number of approximately 604,626,000 shares and 518,750,000 shares in issue respectively, during the periods.

Diluted earnings/(loss) per share were not presented because there were no dilutive potential shares in existence during the periods.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: Nil).

BUSINESS REVIEW

For the nine months and the three months ended 30 September 2002, the Group recorded turnover of approximately RMB37,038,000 and RMB17,230,000 respectively, representing approximately 26% and 74% increases as compared to the same periods in the previous financial year. Unaudited consolidated loss attributable to shareholders for the nine months and the three months ended 30 September 2002 amounted to approximately RMB6,292,000 and RMB1,495,000 respectively.

During the 3rd quarter ended 30 September 2002, the global economy was still in downturn, however, the supply of domestic IC products in the PRC market remained stable. Steady sale of the Group's main product 8K Bits memory card circuit together with anticipated sale performances in products of memory card circuits, contactless IC card, earth leakage current detector circuit and multi-fee power control circuit, resulted with considerable growth in overall turnover. The stability in the PRC domestic market enables the Group to maintain its product prices and profit margins at a satisfactory level.

During the period ended 30 September 2002, in other revenue and gains, due to continual decrease in interest rate, the interest income was far less than the same period in the previous financial year. Moreover, there was no technical transfer income during the period as compared to RMB4,000,000 derived in the corresponding period. Total expenditure amounted to approximately RMB15,167,000 compared with approximately RMB12,316,000 in the same period of last year. The increase was mainly due to expansion of the Group's businesses and increasing of research and development projects, and provision for doubtful debts arising from the increase in turnover constituted another reason for rises in various expenditure as compared with the corresponding period.

Because the Group's subsidiaries are still in an infant stage, the Group recorded a loss of approximately RMB779,000 attributed by the subsidiaries for the period ended 30 September 2002. In addition, as the Group's associated company just started up its business in the middle of the year, which requires set up period for its research and development and market promotion, the Group shared a loss of this associated company amounted to approximately RMB2,294,000 during the period.

During the quarter under review, the Group has commenced the research and development on system on chip ("SOC"). Upon completion of the acquisition mentioned below, the transformation of present products from a single chip to SOC would be expedited with a view to strengthen the Group's business in SOC applications. The directors believe that this project will contribute the Group with considerable revenue in the coming year.

FUTURE PROSPECTS

In accordance with the use of proceeds as disclosed in a circular of the Company issued to the shareholders on 12 November 2001 regarding a placing of new H shares, on 21 October 2002, the Company has entered into an acquisition agreement with 上海商投實業集團有限公司 (Shanghai Commercial Investment Enterprise Holdings Limited*) in relation to the acquisition of a 53.8% interest in 上海商業高新技術發展有限公司 (Shanghai Commercial High Technology Development Limited*) ("Shanghai Commercial High Technology") at a cash consideration of RMB15,720,000. As defined under the GEM Listing Rules, the acquisition constitutes a connected transaction of the Company and is subject to the independent shareholders' approval at the special general meeting. If the aforesaid connected transaction were approved, the Group would gain technological support from Shanghai Commercial High Technology by pooling its expertise into that of the Group in the research and development, manufacture and sales and marketing of the Group's IC products, in particular, the SOC. Furthermore, all of the investee companies of Shanghai Commercial High Technology are the downstream businesses of the Group's core IC card business, which are expected to deploy the IC products developed by the Group and to enlarge the Group's sales channels. Moreover, the directors expect that through the acquisition, the Group will greatly enhance its capability in integrating its chips and SOC and resulted with a positive impact.

Besides the above-mentioned connected transaction, the Group will continue to seek actively for other cooperation opportunities with potential business partners, with a view to possess advanced technical know-how and expand business opportunities for the best interest of the Group.

With the increasing demand of IC products in the PRC market and the expansion of rooms in supply by domestic manufacturers, the directors expect that the overall business scope of the Group will be more diversified and its market presence will continue to grow.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30 September 2002, the interests of the directors and supervisors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the GEM or the Company as required by Chapter 5.40 of the GEM Listing Rules were as follows:

	Number of shares held and nature of interests				
	Personal	Family	Corporate	Other (note)	Total
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 University Laboratory and Shanghai Commerce 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 30 September 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 subsidiary 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 September 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 September 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 September 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 nine months period ended 30 September 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.

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.

BUSINESS OBJECTIVES

The directors are not aware of any material adverse change in the financial position or prospects of the Group from the information provided in the statement of business objectives as set out in the prospectus dated 31 July 2000.

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

During the nine months ended 30 September 2002, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Jiang Guoxing
Chairman

Shanghai, the PRC, 13 November 2002

* *for identification purpose only*